Annual Report and Resource and Product Accounts 2009–10

National Savings and Investments Annual Report and Resource and Product Accounts 2009–10
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National Savings and Investments Annual Report and Resource and Product Accounts 2009–10

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Who we are

NS&I (National Savings and Investments) is one of the largest savings organisations in the UK with more than £98 billion invested on behalf of almost 27 million customers. NS&I is both a government department and an Executive Agency of the Chancellor of the Exchequer. Its origins can be traced back to the Post Office Savings Bank, established in 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 vision

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

Our mission

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

Our values

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 Chairman's statement

2009–10 has proved to be a good time to pick up the reins as Chairman of NS&I. Not only is the business in very good shape, as this report shows, but the more stable market conditions we have seen over the year have also enabled us to progress our strategy significantly.

We have made major steps in the programme to modernise both the way we work and the products and services we offer our customers. At the same time, we successfully met our Net Financing target of £0 with a range of £2 billion either side of this – a more challenging task than may be immediately apparent after the growth the previous year.

Achieving our target meant dealing with large volumes of transactions both in and out of the business, and careful and responsible management. At all times, we had to balance the interests of our customers, the need to deliver cost-effective finance for government and supporting the stability of the wider financial services sector: meeting this Net Financing target helps show that we have done that.

The importance of partnership

Throughout the year we maintained our high customer service standards and met our Service Delivery Measures which is a credit both to NS&I and those colleagues employed by our delivery partner, Siemens. This year saw the 10th anniversary of our partnership, which continues to deliver and is recognised as a good example of a Public Private Partnership. The awards received by the call centre team provide ample evidence of the quality of the frontline service, but from my perspective the joint work at management level to deliver complex change projects is equally important.

Taking our strategy forward

That gave us the platform to continue with our essential programme of strategic change, the benefits of which are now becoming apparent to our customers. It also enabled us, with the backing of our Minister and HM Treasury, to extend our **NS&I adding value** strategy for a further two years, for sound business reasons which are explained in 'Our strategy' on pages 8–11.

Experienced leadership

As well as saying goodbye to Paul Spencer CBE, my predecessor as Chairman, this year also saw the departure of another long-serving board member, Michael Medlicott. Both had served the maximum two terms as NS&I Non-executive board members and presided over an important period of change in this near 150-year-old organisation. On behalf of all at NS&I, I would like to extend my thanks to both for the dedication and diligence they showed throughout their tenure.

I am delighted to welcome to our board David Hulf, an authority on governance and risk, and Sir John de Trafford, who brings considerable financial service experience and a real insight into customer needs.

The Executive Management Team remains unchanged and I would also like to thank them for their efforts over the last year. They run a large organisation exceptionally efficiently and effectively, and I look forward to working with them, my fellow Non-executive Directors and the wider NS&I team in the coming year.

Martin Gray
Chairman
NS&I

Our Chief Executive's review

It would be an exaggeration to say that this year developed entirely as we expected – but only a slight exaggeration. After two consecutive years dominated by unpredictable and extreme market events, 2009–10 offered a more settled environment for financial services.

As the markets stabilised and investor focus returned to interest rates, we correctly anticipated a high volume of customer withdrawals following the exceptionally high inflows we had seen in the previous year. We recognised that to meet our Net Financing target, we would need to generate around £12 billion of sales – and took decisive action to make sure we met that target. We also forecast that this was the year when the impact of our modernisation programme, one of the core strands of our **NS&I adding value** strategy, would start to become apparent to our customers.

But the fact that the year proceeded largely as expected should not hide the fact that, in a difficult and unusual savings landscape, we have successfully achieved all of our targets. Furthermore, we have done so while continuing to balance the interests of our customers, taxpayers and the stability of the wider financial services marketplace.

Achieving Net Financing targets

That balance was of course implicit in our Net Financing target for 2009–10 of £0 with a range of £2 billion either side. This effectively meant that our financial goal for the year was to broadly maintain our existing level of customer deposits (our 'stock') – no mean feat given the unprecedented low interest rates which persisted throughout the year. Over the first few months, we experienced the expected drop in stock as some customers moved money elsewhere in pursuit of market-leading rates, or in some cases because they needed to dip into their savings. Midway through the year we adjusted the rates on several products to ensure that we were still delivering a fair return to our customers, in line with our pricing policy, and also launched new Issues of Guaranteed Growth Bonds and Guaranteed Income Bonds.

These were issued in October and proved highly popular, enabling us to meet our sales target quickly and efficiently. Importantly, as soon as the sales target was reached, we removed them from sale and as the figures on page 30 show, we ended up within our published Net Financing target range for the year – delivering £1.6 billion of Net Financing. We see it as an important part of our role that we are transparent about targets and our progress towards them, particularly as financial markets are recovering.

Progressing our strategy

Another important aspect of the new Issues of Guaranteed Bonds was that, for the first time, they were only available directly from NS&I, by post, telephone and internet. This was the result of a mutual decision between the Post Office® and ourselves and was, in part, a reflection of the ongoing development of the Post Office's® own brand range of savings products and the need to ensure – for customers' sake – a clear distinction between the two different ranges. It was also firmly in line with our ongoing strategy of modernisation, simplification and diversification.

This was one of several significant steps in our **NS&I adding value** strategy over the last year. I'm delighted that many of the early milestones, as we intended, passed unnoticed by our customers. They were internal changes to our systems and processes such as significant database changes and the transfer of our Direct ISA onto our new infrastructure. Our other products will also transfer over the next few years. In March 2010 we launched our first new product for some time – Direct Saver – on the new infrastructure.

What makes this significant is that once a product is on the new infrastructure, customers are better able to manage their account online for themselves. We know this is something many customers want to be able to do, and it is what they expect from a modern, efficient and customer-driven financial services organisation.

In a difficult and unusual savings landscape, we have successfully achieved all of our targets. Furthermore, we have done so while continuing to balance the interests of our customers, taxpayers and the stability of the wider financial services marketplace.

Maintaining service excellence

While we foresee an increase in online interactions, we remain committed to providing a choice of ways for customers to invest with us. In fact, we know that one of the things that our customers value is the way they can do business with us over the telephone and by post. We are committed to delivering excellent customer service and once again our call centres delivered just that, as performance against our customer service targets indicates.

On my regular visits to each of our operational sites – in Durham, Blackpool and Glasgow – this year, I was again struck by the commitment of the people working there – our customer-facing team is an enormous asset to our business. That was particularly evident during the snowy periods in the winter, when staff did everything possible to make it in to work to serve our customers.

Of course, snow is less of an issue at Siemens' sites in Chennai, India. It was 18 months since my previous visit, and the increased size, scope and complexity of the operation was immediately apparent. The Chennai team performs an important role in back office processing, delivering to a very high standard and helping to increase the efficiency of our operations – vital given the volume of stock we are now managing.

The Post Office® has continued to provide an important high street presence for us and for many of our customers. We are of course continuing to work closely with the Post Office® to ensure clarity about the products available both from us and from them, as is explained in 'Our partners' on pages 16–17. We are also pleased with our partnership with WHSmith where we are pioneering a wider approach to financial education.

Succeeding through people

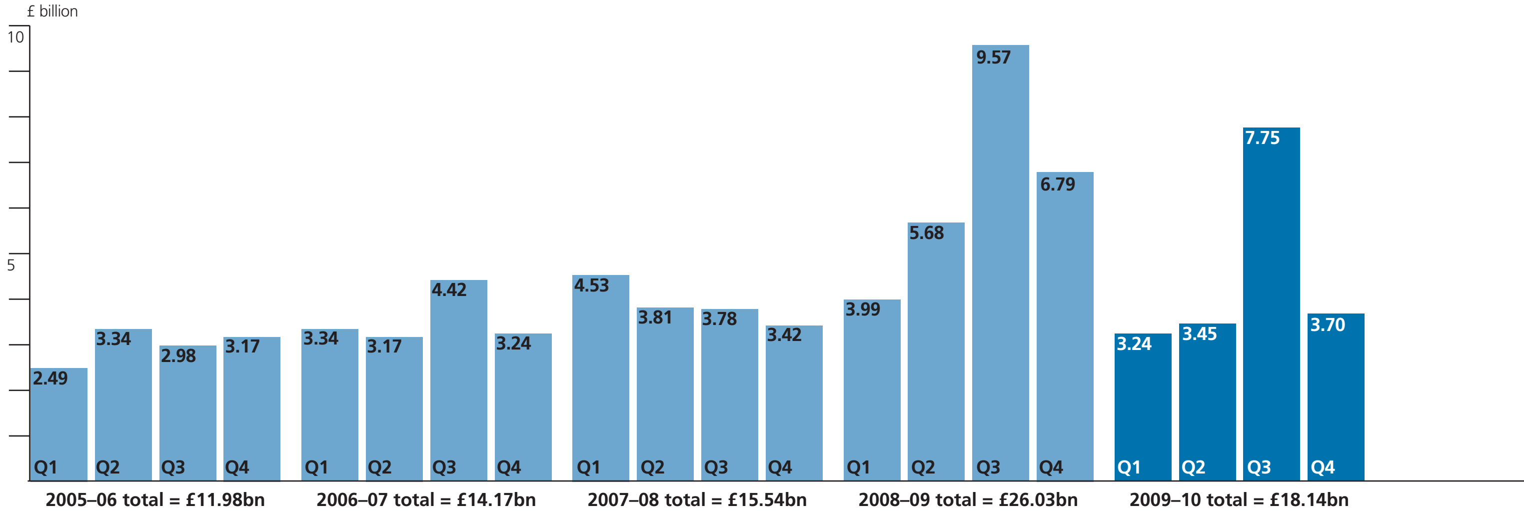
Of course, the other critical element of delivering customer satisfaction and meeting our targets is our own people. I am deeply grateful for the way they have led the consolidation of activities in the last year, as well as embracing the modernisation projects. There is a sense of increasing pace within the organisation, which stands us in good stead for the changes that we expect in the coming year.

I was naturally delighted that NS&I performed extremely well in the cross-government staff survey. We came in well above the benchmarks for high-performing organisations and led the way in a number of categories. I am particularly pleased that NS&I came overall first, of all participating agencies and departments, in the area of people feeling that it is safe to challenge the way things are done in their organisation. To me, this demonstrates the strength and maturity of my management team and the open way in which we manage the business. It also gives us the confidence that when issues arise they will be quickly escalated so we can tackle them effectively. While we are aware that there is always room for improvement, it was a very positive endorsement of our culture and values. There is more detail on the survey in 'Our people' on pages 18–21.

It was also NS&I people who led our response to the small number of operational issues that we faced this year. Such issues inevitably happen in an organisation with almost 27 million customers, so the important thing is that we deal with them correctly and promptly. While I am sorry that these issues occurred, I'm pleased with the way we responded to them, and believe it reflects our ongoing approach of honesty and transparency – something demonstrated by the fact that our complaint numbers, as ever, are relatively small. The first comparative survey by the Financial Ombudsman Service of complaint levels within financial services showed just how few complaints we receive. Of course, our goal is to prevent mistakes in the first place by constantly refining our processes: when there are issues, we seek to resolve them promptly and properly.

As part of that, we have taken a fresh look at risk management across NS&I, reinforcing our risk standards and policies and in particular seeking to anticipate and mitigate potential risks in the migration of all of our products onto the new infrastructure. That way we can make sure that our **NS&I adding value** strategy achieves our goals, without compromising customer satisfaction.

Gross inflows to NS&I (including reinvestments)



Revising our strategy

The ‘flight to safety’, in autumn 2008, had a significant impact on our underlying cost base. Effectively, as a direct result of the decision to stay ‘open for business’ throughout autumn 2008, we had achieved and exceeded our five-year financial target much earlier than planned. That meant we had to review our strategy and address the financial implications of managing a larger amount of money. At the same time, the market conditions – and particularly low base rates – meant that one of our key measures, Value Add, was suspended, as it was no longer an accurate or meaningful way of assessing our cost-effectiveness in raising money for government.

Given these circumstances, we worked closely with HM Treasury to revise our financial strategy and targets, both for this year and beyond. We decided to focus on gaining the maximum impact from our **NS&I adding value** strategy by extending it for two years, which takes us up to the point where our current Public Private Partnership contract with Siemens ends. This provides consistency and stability throughout the tender process, and will also give us more opportunity to maximise the benefits that our new infrastructure offers. For 2009–10, we have also added *leverage* as a key theme to the strategy to sit alongside *simplify*, *modernise* and *diversify*. This is explored in more detail in ‘Our strategy’ on pages 8–11, but it broadly reflects the fact that we believe our industry-leading infrastructure, partnerships and processes can provide the basis for delivering more value for the taxpayer.

Measuring progress

We have worked to create a suitable alternative to Value Add, so that we can continue to demonstrate our cost-effectiveness, and have developed the Value Indicator. A full explanation of how this is calculated can be found on page 30; it provides a way of demonstrating how much we have reduced the cost of public borrowing. The Value Indicator measure shows that, in 2009–10, we delivered £1.4 billion of savings to the taxpayer. Over the coming year, our forecast is that NS&I will deliver a Value Indicator figure of £750 million. Our Net Financing target for the coming year is again £0 with a range of £2 billion either side of this – enabling us to continue to focus on delivering our broader strategy and also to maintain a stable position within the financial services marketplace as banks and building societies look to recover. To deliver our £0 Net Financing target we will need to deliver gross inflows of some £14 billion in 2010–11 to balance inflows with outflows.

Whichever way we are measured, I am confident that we can continue to deliver more value to government and the taxpayer in the future, as we become more efficient in the way we operate and realise the full potential of our new IT systems and the strong partnerships we have. I am pleased that our efficiency ratio at 18.5 basis points demonstrates how cost-effective we already are.

This year we have proved our ability to meet stretching targets in a challenging market; next year, I look forward to building on that.

Jane Platt

Jane Platt
Chief Executive
NS&I

Management commentary

Our strategy

Our strategy, NS&I adding value, aims to deliver sustainable long-term value to stakeholders and customers by simplifying, modernising and diversifying the business. This year saw significant and visible progress towards our strategic goals, but we also took two important decisions: to extend the strategy by two more years up to 2013–14 and to add a fourth strategic aim – leveraging NS&I's broader capabilities, such as the infrastructure we are building.

Simplify

The simplification strand of our strategy focuses not only on removing unnecessary complexity from our operations but also on making it simpler for customers to understand our offer and do business with us.

Much of the work here remains rightly invisible to customers. Behind the scenes, we are actively identifying many areas where we can simplify operations to reduce risk, increase efficiency and deliver better service. In particular, as part of the preparation for migrating products onto our new infrastructure – discussed in the 'Modernise' section below – we are re-examining the way our products work. Some of these have been operating for decades in a largely unchanged way, often meaning that processes – though reliable – could be more efficient.

As we take each product forward, we anticipate removing complexities and inefficiencies to simplify our operations. The lessons we learn also feed into the development of new products in the future, which we can design in a more simple way from the start.

As part of the process of simplification, we are also looking to simplify the information we give customers. For example, we are working towards delivering a consistent approach to statements for all of our investments. This is a longer-term goal, which will follow from the technology changes that are at the core of the modernisation process.

Modernise

2009–10 was the year when the impact of the modernisation strand of our strategy really became visible to customers, with the launch of our new Direct Saver account. This product and our Direct ISA account are the first two NS&I products to run on our new infrastructure, where customers can log in online and manage their accounts fully. To accompany this, knowing how important security is to our customers, we have also introduced a new, industry-leading authentication security system for both online and telephone transactions.

Our website is underpinned by our new infrastructure, which was discussed in last year's report. Now fully operational, the new system makes it easier to manage transactions swiftly and offers us significant potential to improve service and efficiency. Our call centre staff now use the new system for any transactions on Direct ISA and Direct Saver, and are finding it easier and more intuitive to use.

We plan to move more products across to this system throughout 2010–11, giving customers the modern service they increasingly expect. This will improve the customer experience, for example by allowing people to log in and purchase more products without having to re-enter all their details every time.

In the last year, our two new modern data centres were completed. They ensure that we have both enhanced security for customer information and a high level of business continuity protection.

2009–10 was the year when the impact of the modernisation strand of our strategy really became visible to our customers.

Diversify

Figures for the year show that 2009–10 saw a significant shift to customers purchasing our products via direct channels – whether by telephone, post or online. This is in line with our expectation of an ongoing shift in customer behaviour: more and more people are choosing to manage their finances online or by phone.

Our strategic goal here is to continue to give customers the choice to interact with us in the ways that suit them best. While our improved internet platform and behind-the-scenes transfer of products onto our new infrastructure will help people manage investments online more easily, we remain committed to all channels, including maintaining the presence of a range of NS&I products in Post Office® branches.

Leverage

In the 10 years since we outsourced our back office operations to Siemens, NS&I has proven itself to be a robust provider of modern banking services. Over that time, we have also developed our systems and infrastructure to the extent that we now believe we can achieve much more with our banking platform than we currently offer. That is why our strategy now includes the goal of leveraging our own areas of expertise to share the benefits with other areas of government. For example, we are pleased that the Financial Services Bill 2010, which received Royal Assent in April, allows NS&I to undertake the operational processing work of the Court Funds Office. This will result in considerable savings for government.

Extending our strategy

As mentioned at the start, this year we took the important decision to extend our strategy from five to seven years. This was a direct consequence of the events of the previous year: having taken the decision to stay open for business during the market shocks of autumn 2008, we exceeded our initial Net Financing target (of £13 billion over five years) by delivering £19.9 billion within three years.

This meant we had to revise our financial strategy, which we did in partnership with HM Treasury at the start of the year. It also had an effect on other aspects of the strategy, in particular our plan to launch the first phase of our new infrastructure in 2009–10, which we acknowledged in last year's Annual Report. With the business absorbing the impact of servicing a larger deposit base and increased transaction volumes, we decided to extend the strategy to 2013–14.

To reap the full benefits of our **NS&I adding value** strategy it makes sense to extend the programme for two more years – particularly in terms of the way it will help us drive down costs and improve service once the projects are complete. Extending the programme now also gives us two years to leverage the strong platform we have developed and take NS&I forward in new ways.

Importantly, this also aligns the strategy cycle with the end of the existing Public Private Partnership contract. We are about to enter the tender process for the new outsourcing contract, starting in 2014. A stable strategy will not only help those tendering to assess costs accurately and understand our business, but it will also give us the ideal opportunity to refine and develop our strategy from the start of a new contract.

Our performance in 2009–10

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	Performance 2008–09	Target 2009–10	Performance 2009–10	Target 2010–11
1. Net Finance To raise an amount of Net Financing within an agreed range	Absolute amount of Net Financing from all NS&I products	£12.5 billion	£0.0 billion (+/– £2 billion)	Met £1.6 billion	£0.0 billion (+/– £2 billion)
2. Value Indicator* To create at least an agreed minimum of value, measured using the Value Indicator	Absolute amount of value from NS&I products	Previous Value Add target suspended at the end of Q3 2008–09 as a result of exceptional market conditions	No Value Add target was set for 2009–10. The Value Indicator measure was developed in summer 2009 for use while the Value Add measure is suspended	NS&I delivered £1.4 billion of value measured by the Value Indicator	Forecast £750 million
3. Customer satisfaction To exceed a threshold level of customer satisfaction with NS&I	Average level of satisfaction against question 'How satisfied are you overall in terms of savings and investments with NS&I?'	92.2%	At least 87%	Met 91.5%	At least 87%
4. Customer service – timeliness To meet a consistently high timeliness target	Average performance against timeliness key performance indicator (KPI) targets	98.3%	At least 97%	Met 99.5%	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%	Met 99.4%	At least 98.5%
6. Efficient administration of funds To improve the efficiency of administering total funds	Ratio of total NS&I administrative costs to average funds invested by customers	20 basis points	Less than 20 basis points	Met 18.5 basis points	Less than 20 basis points
7. Banking Code To ensure compliance with the Banking Code	Self-assessment of compliance checked by Banking Code Standards Board	NS&I maintained green status with the Banking Code	Compliance with the Banking Code	Met Confirmation from the Banking Code Standards Board was received in May 2009 that NS&I remained compliant with the Code	This SDM was replaced with a new measure for 2010–11 following the Code being incorporated into the Financial Services Authority (FSA) rulebook – see page 11
8. Financial Ombudsman Service (FOS) To ensure compliance with the FOS	Percentage of complaints escalated to FOS adjudicated in our favour	Met 100%	At least 98.0%	Met 98.6%	This SDM was replaced with a new measure for 2010–11 to reflect the new FOS performance tables – see page 11
9. Fraud To improve the effectiveness of fraud management	Ratio of net fraud losses to total customer repayments	£27 per £1 million repayments	Less than £35 per £1 million repayments	Met £31 per £1 million repayments	Less than £35 per £1 million repayments

* The previous Economic Secretary to the Treasury and NS&I formally agreed to suspend the Value Add target for 2008–09 at the end of Q3 2008–09 as a result of exceptional market conditions. As an alternative, NS&I has developed the Value Indicator – see page 30 for more information.

Customer service: two new Service Delivery Measures (SDMs)

Good customer service is at the heart of how we operate and, as well as assessing our service against our own targets and performance in previous years, we benchmark it against the wider financial services sector. This helps to put some of the SDM figures into a broader context and gives us a clear insight into our overall performance.

As part of our survey for the customer satisfaction SDM, we ask customers to rate service in relation to a number of factors, including staff knowledge, overall quality of service and how effectively issues are resolved. During 2009–10, NS&I was rated at 92%, compared with the average score for respondents' other main financial services providers of 81%.

As in previous years, in 2009–10 we have had an SDM in relation to compliance with the Banking Code. On 1 November 2009, the Code was incorporated into the FSA Banking Conduct of Business sourcebook. We will continue to comply with these requirements but these will no longer be assessed by the Banking Code Standards Board, as it has ceased to exist. Our SDM will change to accreditation of the new Customer Service Excellence award. The accreditation follows a successful assessment of NS&I by an approved external body.

In 2009 the Financial Ombudsman Service (FOS), in consultation with the Financial Services Authority (FSA), decided to publish complaint league tables for the first time. These tables show the number of complaints escalated to the FOS and also how many are subsequently upheld in favour of the customer.

The tables showed that the number of complaints about NS&I escalated to the FOS is exceptionally low, particularly compared with our transaction volumes: between April 2009 and January 2010, the number of complaints overall equated to just 0.015% of transaction volumes, and of these only a fraction were escalated. Where these were escalated, the percentage of NS&I complaints upheld by the FOS in favour of the customer was 17%. The average across all banking and credit services was 47%.[1]

While we are pleased to see that our complaints-handling process is effective – an essential part of Treating Customers Fairly – we are committed to reducing these numbers still further.

Now that the benchmarking data is available, we have changed our FOS SDM. The objective of our new FOS SDM is 'To minimise the incidence where FOS intervention is justified' and the measure is 'The relative performance of NS&I in the FOS performance tables, based on the percentage of complaints resolved in favour of the customer (from lowest to highest)'. Our agreed target for 2010–11 is to be 'Within the top 25% in the published FOS performance tables' for financial businesses (banking and credit).

[1] It is important to highlight the difference between the FOS figure and our current SDM on complaints. Any complaint unresolved after 40 days must be automatically referred to the FOS, even if we have not finished our investigation. When the FOS calculates its figure, it includes these as complaints upheld in favour of the customer. Our measure does not: instead, the current SDM reflects only those complaints where the FOS overturns our decision.

Our customers

As our Service Delivery Measures show, throughout 2009–10 we continued to provide our customers with high-quality service. But what the measures don't show is a distinct shift in customer behaviour, with more and more customers choosing to interact with us directly.

This year, 65% of all sales by value took place through our direct channels: online, on the telephone and by post. This shows that customers are more confident in dealing with us directly, and are benefiting from the extra control they have over their investments either through our call centre or online. It is also a continuing testimony to the quality of service delivered through our call centres and our operational delivery centres.

While we attracted new customers, many more chose to remain as NS&I investors – seeing us as a dependable home for their money in what remains a difficult financial environment. We were able to raise the interest rates on key products during the year and increase the prize fund rate for Premium Bonds as part of our goal to deliver fair rates, even while the base rate remained very low.

Treating Customers Fairly

Firms regulated by the Financial Services Authority (FSA) '*must be able to demonstrate that they are consistently delivering fair outcomes to consumers and that senior management are taking responsibility for ensuring that the firm and staff, at all levels, deliver the consumer outcomes relevant to their business through establishing an appropriate culture*'.[2]

Though NS&I is not formally regulated by the FSA (see page 33 for more details), we have identified Treating Customers Fairly (TCF) as an important principle for us to adhere to – and a way of demonstrating our commitment to customers. TCF has been at the heart of our business for a number of years and we have reviewed products and processes across NS&I to ensure that we continue to treat customers fairly in all our operations.

An internal audit review carried out during 2009–10 showed that we have embedded TCF within the business and are monitoring it with success. It confirmed that there is a consistent approach across all business areas, with senior management setting a good tone and a positive approach.

We hold monthly directorate meetings, where comprehensive management information is reviewed and challenged, with effective and robust processes for any issues to be escalated appropriately and on a timely basis. There is periodic reporting to relevant NS&I governance forums, which allow for additional oversight and challenge, giving the board confidence that we are conducting our business in a manner which ensures the fair treatment of our customers.

Our TCF plan is continually evolving and developing, and while the audit has confirmed that the controls in place over TCF are appropriate and operating as intended, there are areas where improvements to the current control environment can be made, particularly with our partner Siemens. We have worked closely with senior managers from Siemens to identify areas for improvement, and will be making further changes throughout the coming year.

As an ongoing measure of our customer service, we have for a number of years held Charter Mark accreditation – an independent award for service quality within the public sector. This year, the Charter Mark has been replaced by a new Customer Service Excellence award, which we achieved at the first assessment.

Responding to service issues

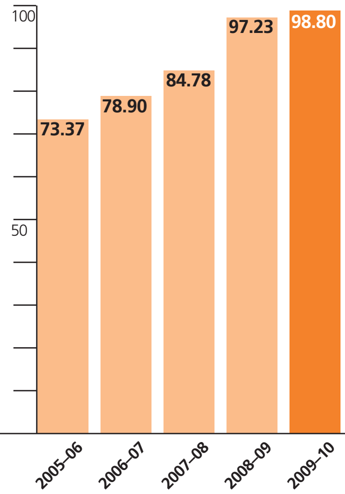
Regrettably, there were two customer service issues of note during the year. The first, involving Inflation-Beating Savings, came about as a result of a sustained period of deflation – something we had not experienced since the product was launched in the mid-1970s. Having investigated the issue, we recognised that this meant that some customers who cashed in their investment early had received lower returns than they should have expected. We wrote to all customers affected, the majority of whom had not realised there was an issue, to explain how we would resolve it, and ensured that everyone

[2] Source: Financial Services Authority website,
www.fsa.gov.uk/Pages/Doing/Regulated/tcf/index.shtml

While we attracted new customers, many more chose to remain as NS&I investors – seeing us as a dependable home for their money in what remains a difficult financial environment.

Total amount invested by customers at the end of the year

£ billion



received both the correct returns and a discretionary payment to ensure that no customers suffered any financial loss. We also took action to correct our systems so that the problem could not happen again.

The second issue we experienced concerned Income Bonds, where we realised that a relatively small percentage of customers (but still 8,000 out of more than 250,000) had not received a monthly interest payment. This was an operational error which was the unintended consequence of a contingency plan to ensure that customers were not affected by the threatened postal strikes last autumn. Again, we recognised the issue swiftly, informed all customers affected, corrected the system and provided financial compensation.

Understanding and responding to customer needs

We believe that understanding our customers is an essential part of ensuring that we meet their needs and can make decisions in their interest. As a result, we continue to run focus groups and formal surveys to assess satisfaction with our services and understand consumer savings habits. Our Quarterly Savings Survey (QSS) is a major part of this and is regularly cited in the media as an important indicator of saving behaviour.

We continued to support the Royal Horticultural Society's Grow Your Own campaign and our sponsorship of Classic FM, the Classical BRIT Awards, the Science Museum and – for the final time – BBC Proms in the Park. All five relationships help support our brand, raise the profile of our direct sales channels and provide a cost-effective way to engage with our customers.

Reuniting savers with their assets

We continue to do all we can to reunite unclaimed monies with their rightful owners. The key method we use is the website **mylostaccount.org.uk**, which was set up by NS&I in partnership with the British Bankers' Association and the Building Societies Association.

Now into its third year of operation, My Lost Account has helped NS&I reunite people with more than £200 million of savings. In 2009–10, NS&I conducted some 47,000 traces and reunited just under £80 million.

In addition, we actively promote information about unclaimed Premium Bond prizes on a regular basis – indicating where the owners of unclaimed prizes might live to encourage people to check their Bond numbers and come forward to claim their prizes.

Helping customers make better financial decisions

This year saw further content added to **youandyourmoney.info**, our website dedicated to providing practical, impartial financial information about important life events. We introduced a new section on later life – covering things such as planning for long-term care – and also made sure that there were links with Moneymadeclear, the service established by the FSA and now run by the Consumer Financial Education Body.

We also began to offer the information available through You and your money as a series of printed booklets. These are now available free from over 315 WHSmith stores across the UK. The launch of the six personal finance guides was welcomed by a number of independent organisations including *Which?* and the Society of Later Life Advisers. Customer feedback on the guides has also been very positive.

Unclaimed assets

	Held at 1 January 2010 £ million	Held at 1 January 2009 £ million
Accounts	490	481
Certificates	546	531
Bonds	2	21
Other closed products	28	30
Unclaimed Premium Bond prizes	9	9
Total	**1,075**	**1,072**

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

Our products

Product evolution is at the core of our NS&I adding value strategy, as we seek to simplify and modernise our product range in line with customer needs. Though this year saw only one new product launch, other aspects of the product strategy accelerated. Customer Offer Director Peter Cornish, Change and Strategy Support Director Julian Hynd, and Customer Sales and Retention Director John Prout discuss the progress.

Firstly, how do you decide what products you offer?

Peter: Our product range is designed to offer a range of options that meet customers' different savings needs. Some want regular returns, some want fixed term savings, some want easy access and so forth.

So what changes have you made to the range this year?

Peter: The most significant was the launch of Direct Saver in March 2010. It's exactly what it says it is: an easy access savings account that can be managed online and by telephone. It's still quite new but customer demand has been very strong.

John: We also changed the way we sell our Guaranteed Growth Bonds and Guaranteed Income Bonds. We mutually agreed with the Post Office® that, from October 2009, we would make them available only from NS&I. This partly reflected the development of the Post Office's® own brand of savings products – which included some that were very similar to some NS&I products. In line with our commitment to treat customers fairly, we wanted to ensure that we minimised potential customer confusion.

Julian: Together these changes mean that for the first time we can now offer customers a range of products covering three of the major savings product classes solely through our call centres and website: an ISA, a savings account and fixed rate bonds. Strategically, that's a big step and it reflects the fact that we've got an internet platform we can depend on.

Why do you need to simplify and modernise your product range?

John: Above all to reflect customer needs. We do a lot of research and analysis to understand how customers want to save, both in terms of what type of accounts they want and how they want to manage them – which more and more involves direct access. That means in some cases developing new products, such as Direct Saver, but also closing older ones.

Julian: We closed a couple of products in the first year of our strategy, but simplification also involves looking at the products that are still relevant and improving them. Many of these have been established for a long time and could be managed more efficiently. A good example is Income Bonds, where the monthly income has historically been based on paying a dividend. This effectively means that the systems formally 'shut' for a period each month to allow the dividend to be calculated. Though this doesn't affect customer transactions or returns in any way, it is an unnecessary complexity when the product could be managed as a monthly income account instead. Moving Income Bonds onto the new infrastructure in the future will change this.

Peter: The other aspect of simplification is that we want to make sure that customers understand our products and so can pick the ones that are right for them. In all our product brochures – as well as online and in call centre scripts – we include some standard information on who the product might suit. This typically covers the sort of returns available and whether customers will have instant access to their money, or if it is invested for a fixed term. It's an important part of our customer offer.

Perhaps the biggest product story of the year was the new Issues of Guaranteed Growth Bonds and Guaranteed Income Bonds. Was the response what you expected?

John: Largely, yes – although the speed of take-up was ahead of our expectations. We knew we were offering an attractive rate, and we were clear about the financial targets we wanted to reach. As soon as we achieved those targets, we took the products off sale. I was very pleased with the response we received and the controlled and responsible way

We want to make sure that customers understand our products and so can pick the ones that are right for them.

Funds invested by product type

	Invested at 31 March 2010 £ million	Invested at 31 March 2009 £ million
Premium Bonds	41,572	40,793
Fixed rate bonds	17,508	12,985
Variable rate products	37,759	40,558
Products no longer on sale	1,965	2,895
Total	**98,804**	**97,231**

we managed it. For me, this is a clear indication of the sort of thing NS&I could potentially do more of – that is, opening products for a fixed time-span to meet specific funding targets.

There was criticism from some quarters that the Bonds were priced too competitively. How do you price products and was anything different in this instance?

John: In a normal savings environment, we set interest rates using two key benchmarks: the Bank of England base rate for our variable rate products and the yield on gilts for our fixed rate products. However, we are not in a normal savings environment: the base rate has been at a historically low level for over a year. So, as we explained in last year's Annual Report, we now set rates to balance the interests of three groups: our customers – offering them a fair rate; taxpayers – with our remit to raise cost-effective finance for government; and supporting stability in the wider financial services marketplace by maintaining an appropriate competitive position. The pricing and management of the Guaranteed Growth Bonds and Guaranteed Income Bonds Issues were in line with this approach.

So where next for your products? Will there be major changes in 2010–11?

Julian: I think the big change will be in the way customers manage their savings and investments with us. As we transfer products onto our new infrastructure, we're able to give customers a full online capability – checking account balances, seeing previous transactions, making further deposits or withdrawals.

Peter: But even as we move products, and simplify our own processes, we'll continue to make sure that customers know what we're doing and how it might affect them. Remember, around a third of people in the UK own Premium Bonds: it's neither in our interests, nor theirs, to rush people into change. We want to make sure investors understand the products they pick, know how they're evolving and how they can manage them. That's a principle at the heart of our product range and strategy, and our customer service.

Products on offer to new investors

Children's Bonus Bonds
Tax-free investment for your children's future

Direct ISA
Tax-free savings online and by phone

Direct Saver
Everyday savings online and by phone

Easy Access Savings Account
A savings account with tiered interest rates, cash card and telephone service

Fixed Interest Savings Certificates
Guaranteed returns, tax-free

Guaranteed Equity Bonds*
Growth potential linked to the FTSE 100 index, with no risk to your capital

Guaranteed Growth Bonds*
Fixed rate bonds with a choice of terms

Guaranteed Income Bonds*
Fixed rate bonds that give monthly income

Income Bonds
Regular monthly income at variable rates

Inflation-Beating Savings (also known as Index-linked Savings Certificates)
Tax-free returns guaranteed to beat inflation, as measured by the Retail Prices Index, when held for at least a year

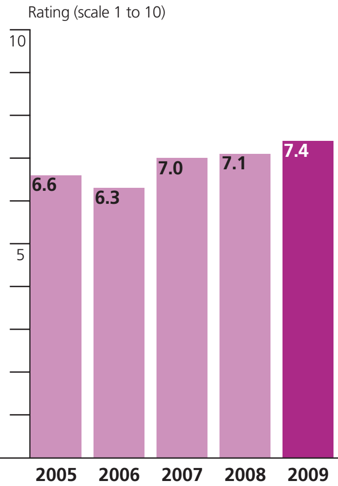
Investment Account
Passbook savings with easy access to your money

Premium Bonds
Monthly prize draw with a tax-free £1 million jackpot

*Not currently on sale as at 31 March 2010.

Our partners

NS&I and Siemens partnership scores



Once again, our partners have been integral to enabling us to deliver our customer service targets in the face of high transaction volumes and a shift in sales channels, with more customers coming to us directly to invest with NS&I.

Our delivery partner: Siemens

In achieving our Net Financing target this year, we delivered over £15 billion of sales. This meant another year of high transaction volumes and, once again, the Siemens team handled these high volumes in an exemplary fashion, ensuring that all Service Delivery Measures (SDMs) were met (see page 10). The 'virtualisation' of our operation, where incoming customer calls and emails are now handled across all UK sites to maximise our resources, has been key to managing the workload, as have the back office sites in Chennai, India.

As well as our SDMs, we also have a number of key performance indicators relating to service performance. One of the most telling statistics is that 94% of telephone queries were successfully handled by the person who answered the call, at the first time of asking. This is a key factor in maintaining high customer satisfaction levels, and reflects well on the call centre teams and the training, systems and information resources available to them.

That has been particularly important during a year which has seen significant change within the call centre environment with the introduction of the new infrastructure. Because we have decided to transfer products to the new system in phases, call centre staff must currently operate two systems alongside each other, switching between them depending on which product they are discussing. Call centre staff have been exceptionally responsive to the new system and we have had significant feedback from them praising its simplicity and usability.

Naturally, we worked closely with Siemens to ensure that the relevant people were trained on the new system and had appropriate call guides and other resources available. Even so, the responsiveness to change has been impressive – as has the response to the increased use of direct channels. There is a much greater demand for processing and managing online transactions, for instance, which has been fulfilled positively by the teams in our call centres.

After 10 years our partnership with Siemens is stronger than ever. This year the annual partnership survey indicated that together NS&I and Siemens have improved the way we prepare for change: the score for handling operational change increased from 6.8 out of 10 to 7.3.[3] This is just one of several significantly positive responses from the survey, which asks the same 22 questions each year to members of both organisations. Other significant improvements this year include:

- a score of 7.7 for 'NS&I involves Siemens fully in strategic decisions & work' – up from 7.4
- an increase from 7.1 to 8.1 for 'Communications are constructive during operational problem resolution'
- an overall partnership score of 7.4 – the highest level ever.

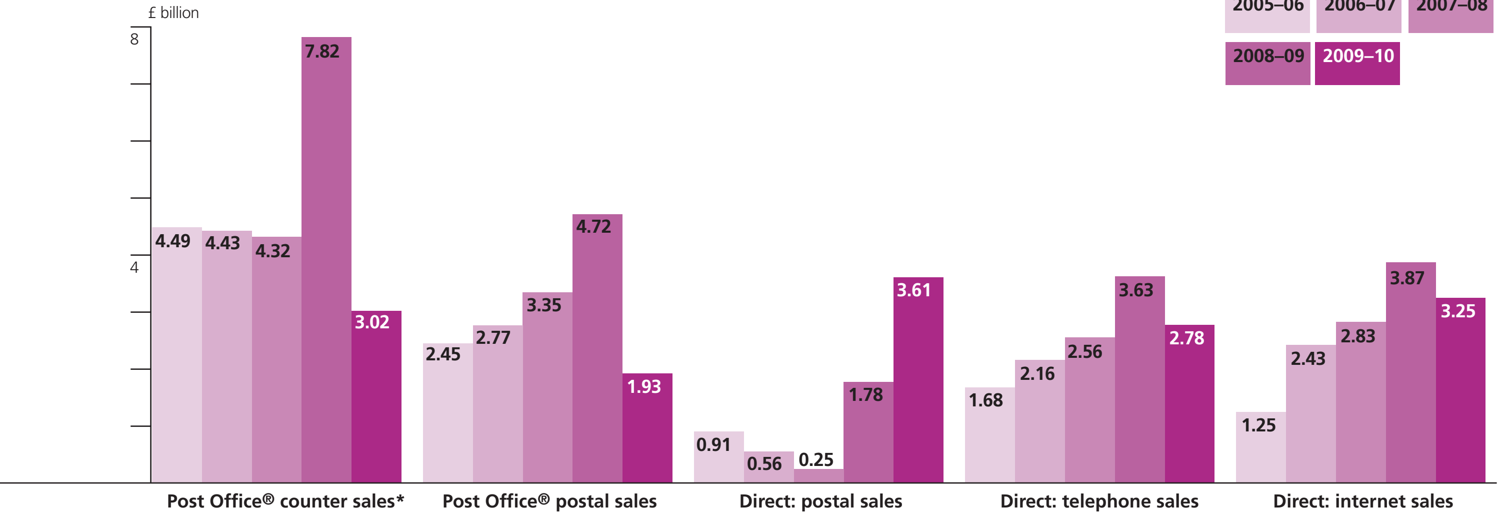
Service Matters – an independent third party who specialise in this area and ran the partnership survey – commented: '*An overall score of 7.4 for the NS&I and Siemens partnership is outstanding and demonstrates how consistently well they work together. The very high partnership score goes a long way to explaining why they are proving so successful at delivering beneficial change for customers and maintaining excellent levels of customer service.*'

These kinds of responses – as well as the performance figures – underline the strength of the partnership, which is now recognised as a best practice example of Public Private Partnership working. It involves not only the commitment of the people on the frontline, but also the management team and the investment of the whole organisation. For example, in developing our new data centres we were able to call on the technical expertise of Siemens to ensure that we have industry-leading standards of business continuity, disaster recovery and security.

The contract with Siemens ends in 2013–14, and during the coming year we will commence the tender process. We have been transparent with Siemens throughout about what this means and both parties are committed to maintaining the service standards and partnership right through to the end of the contract, but of course we will put in place processes to ensure that the tender is conducted properly and attracts a range of strong bidders, meeting NS&I's aims.

[3] Respondents are asked for their view on whether 'NS&I & Siemens collectively handle operational changes very well'.

Sales performance by principal channels



As part of communicating our strategy and modernisation programme to Siemens staff, throughout the year we held a number of roadshow events at each of the Siemens sites (Blackpool, Durham, Glasgow and Chennai). These were led by NS&I's Chief Executive and members of the senior management team from both NS&I and Siemens, and provided an insight into our overall strategy and how the modernisation programme would affect individuals' roles and workload. They were highly successful, particularly in enabling staff to understand the timetable for transition and how they would be supported, and we plan to hold similar events next year.

Our distribution partners

The Post Office®

The Post Office® continues to provide an important distribution channel for our products and this year accounted for 35% of all sales by value. Many of our customers use the Post Office® network to help them invest in NS&I products. We value the support provided by the Post Office® to our customers.

In autumn 2008–09, customer numbers at Post Office® branches rose sharply due to the 'flight to safety'. This year, the underlying trend of a gradual reduction in sales through the Post Office® returned, with a corresponding increase in NS&I's direct sales.

During the last 12 months, the Post Office® has embarked on a major refurbishment of many of its larger offices, and as a part of this initiative we were pleased to collaborate on modernising NS&I's 'point of sale' display. As a result, the Post Office® has recently introduced new displays of NS&I products in over 1,000 Post Office® branches. These help to ensure that the NS&I range becomes increasingly distinct from the emerging Post Office® financial services range and help customers to understand the key features and any important differences between the two offers. A further – and related – initiative has involved the development of new NS&I training modules for Post Office® employees.

In recent years the Post Office® has developed its own range of financial service products, particularly in partnership with the Bank of Ireland. Some Post Office® and NS&I products have significant similarities, which is why it is so important – in line with our shared commitment to Treating Customers Fairly – that we seek to avoid overlaps and confusion between our respective product ranges.

This is also in line with the different strategies that the Post Office® and NS&I have for our respective financial services businesses, which reflect changing consumer behaviour. While for some of our customers the Post Office® is, and will remain, an important channel, others increasingly seek to manage their finances online, by phone and by post.

WHSmith

This year saw a significant change in our relationship with WHSmith as we moved from providing product literature only, to now providing financial education materials alongside details of our range. In most of WHSmith's prime high street locations, customers can now pick up NS&I guides providing practical, impartial financial information about important life events. These are based on the content from our You and your money website, and have proved very popular, as discussed in 'Our customers' (page 13).

Intermediaries

With more and more of our customers using Independent Financial Advisers (IFAs) to help them manage their money, we recognise that it is important to provide IFAs with accurate and timely information about our products. Although we maintain no commercial relationship with IFAs, we send regular communications about rates and product changes to nearly 35,000 registered recipients in the IFA community. We also work closely with relevant professional bodies including the Institute of Financial Planning and the Personal Finance Society.

* Figures differ slightly from those in the Product Accounts note 16: 'Related party transactions' due to timing differences (see page 99).

Our people

This year saw a shift from managing the pressures of high operational volumes to focusing on the successful delivery of our modernisation strategy.

This is not only important for the business, but is also satisfying for our teams. In a comparatively small organisation like NS&I, where promotion opportunities can be limited, taking responsibility for projects and workstreams is an important aspect of individual development. Throughout the year, it has been clear that people have grasped the opportunities available and there is a clear sense of accelerating pace – one of our core values – in the way we work.

Survey results

The impact of this was apparent in the annual staff survey. NS&I had an overall employee engagement index of 69% – a high figure against Civil Service and industry benchmarks – and 'leadership and managing change' was identified as the main driver of that engagement.

This year's survey differed from previous years as it was conducted as part of a cross-government staff survey. We were very pleased with the results which saw us positioned well above both the Civil Service average and the High Performance benchmark. In the category of leadership and managing change, we came second overall and in two aspects we were ranked top. These were:

- 'I believe NS&I as a whole is managed well' – 82% positive
- 'I think it is safe to challenge the way things are done in NS&I' – 69% positive.

These are factors which are important not only within government, but also within the financial services sector, so it was gratifying to see these results.

The cross-government survey was carried out by the same organisation that has managed our own survey of NS&I staff for several years, using broadly the same structure. This enables us to compare progress year on year and identify learnings. As is to be expected, there are some categories where we didn't perform as well as we should, including the regularity of feedback on performance and opportunities for career development. We are studying the report in detail, including the individual comments and feedback, which can provide the most telling insights.

We also seek to benchmark staff satisfaction against other financial services organisations. We're pleased with two areas where NS&I outperforms its peers: 90% of our people believe NS&I is committed to customer satisfaction – against an average of 78% in the wider financial services sector; and 81% of NS&I employees believe that the management team has a clear vision for the future of the organisation – against a financial services sector average of 46%.

Investing in learning and development

After reviewing and refining our learning and development programme, this year we invested in a number of new initiatives to increase the effectiveness of corporate learning. We have expanded our use of e-learning which, as well as being cost-effective, enables people to increase their knowledge at their own pace, and made a significant commitment to putting compliance training at the heart of every role in the organisation.

Because of the diversity of roles in our business, many of which are quite technical or specialist, we place a great value on individual development planning. We encourage our people to think more broadly about how they can develop, given our organisational size and structure.

We have continued to focus on our leadership development programme and it is pleasing to see such strong performances in the category 'leadership and managing change' in the most recent staff survey.

We are committed to providing and maintaining a learning and development framework to Investors in People standards, which encourages a 'learning culture' and strives for continuous improvement. In May 2009 we successfully retained our Investors in People accreditation which we have held for 10 years.

81% of NS&I employees believe that the management team has a clear vision for the future of the organisation – against a financial services sector average of 46%.

Our Executive Management Team and senior managers fully support the training and development of employees by:

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

Improving internal communications

In spring 2010 we introduced a new employee intranet and an online HR system, the latter to simplify some of our people processes and to give our people greater control over aspects of their working life.

The year saw a number of steps to strengthen communications between NS&I and Siemens. The benefits in terms of the partnership are clear: this year in particular there has been positive feedback about communication to help to solve operational problems.

Pay and reward

Pay and performance-related pay are under closer scrutiny than ever in both the public and private sector. At NS&I, we are committed to being wholly transparent about executive rewards and details of these can be seen in the remuneration report on pages 37–42. Details of our board directors' expenses can also be found online at **nsandi.com**. Reward for all Senior Civil Service members is approved by our Appointments and Remuneration Committee within guidelines set by the Cabinet Office. For the rest of our employees, we have an agreed salary budget from HM Treasury which we allocate in line with our reward principles (available on request) and within Civil Service guidelines.

Preparing for our office move

In May 2010 we relocated our head office within London as the lease on our previous building is ending and the site is due to be redeveloped. We have found a tenancy in a vacant, government-owned building.

The move gives us the opportunity to review working practices. We are ensuring that the technology infrastructure supports flexible working and what is best for the business.

Sick absence data

The average number of sick days per person in the 12 months ending 31 March 2010 was 5.02 days (2008–09: 5.18). This figure includes all absences including long-term absence. Short-term absences were 2.5 days (2008–09: 2.7).

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 place of work that is both safe and without risk to their health. We comply with current health and safety legislation, approved codes of practice, guidance documentation and British Standards, and we satisfy the spirit as well as the legal requirements of the Health and Safety at Work Act 1974 and other relevant statutory provisions. We are committed to continuous assessment and improvement of the health and safety culture of the organisation.

Pension liabilities

The majority of our current and previous employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS). The PCSPS is a defined benefit scheme which, in the main, provides benefits based upon length of service and final salary. The scheme is non-contributory and unfunded. Liability for payment of future benefits lies with the PCSPS. There is a separate scheme statement for the PCSPS as a whole. We meet the cost of pension cover provided for our employees by payment of charges calculated on an accruing basis. The rate of the employer's contribution is determined from time to time by the Government Actuary and advised by HM Treasury. For 2009–10 the rates were between 16.7% and 24.3% (2008–09: 17.1% and 25.5%) of pensionable pay, depending on salary.

We are required to meet the additional cost of benefits beyond the normal PCSPS benefits in respect of employees who retire early, unless the retirement is on approved medical grounds. We provide for this cost when we have entered into contractual arrangements with the early retirees, and create a corresponding provision for its future payments in our balance sheet.

Equal opportunities

We are committed to equality of opportunity in all our employment practices, policies and procedures. No employee or potential employee will therefore receive less favourable treatment due to their ethnic origin; age; language; religion; political or other affiliation; gender; sexual orientation; marital status; connections with a national minority; property, birth or other status; family connections; working pattern; membership or non-membership of a trade union; or, unless justifiable, disability. Equal opportunities monitoring is undertaken for each recruitment campaign, and candidates are sent an equal opportunities statement with an equal opportunities form to complete.

Disabled employees

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

Recruitment monitoring

We operate fair and open competition for all recruitment principles, in line with the Civil Service Commissioners' principles. Appointments are made against robust criteria, which are applied throughout the recruitment and assessment process.

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 Rail Regulation (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 review by the Civil Service Commissioners, and campaign files are kept for 12 months to comply with this requirement.

During 2009–10, there were a total of 24 permanent and fixed term appointments, and these are summarised in the table on page 21. There were 15 permitted exceptions to the recruitment principle of fair and open competition, which were short-term appointments to meet short-term business needs (i.e. maternity covers or roles to cover a short-term resource requirement).

Permanent and fixed term appointments in 2009–10

	Non-executive Directors	Senior civil servants*	Range A	Range B	Range C	Range D
Male	2	0	4	3	0	0
Female	0	0	1	10	3	1
White	2	0	4	11	3	1
Non-white	0	0	1	2	0	0
Disabled	0	0	0	0	0	0

* Includes Executive Directors

Our commitment to corporate social responsibility

NS&I aims to act in a way that is socially and environmentally responsible. This year, we decided to embody this in a new corporate social responsibility (CSR) policy which includes and builds upon the commitments we have previously made in our Sustainable Development Action Plan (SDAP).

The new CSR policy was devised as we had already met, or were on course to meet, key goals such as the Sustainable Operations on the Government Estate (SOGE) target for waste recycling. In other areas, we were unable to fully assess our progress because of our tenant status in our old head office building.

The SDAP focused on engaging and harnessing the enthusiasm of colleagues. Instead, we decided to adopt a policy that better recognised the broader impact we have on customers, communities and our people and how, through our status and activities, we can work towards important social and environmental goals. The CSR policy goal is to ensure that we deliver long-term value to our stakeholders in a way that is financially viable and socially and environmentally responsible.

The full CSR policy is available at **nsandi.com**. It covers three core areas:

- our estate
- working with others
- our people.

We have also published our first CSR report, incorporating the final report against our SDAP. This is also available at **nsandi.com**

Our estate

Our CSR policy commits us to measuring and actively managing and reducing the environmental impacts of our buildings where economically viable. During the last year, we conducted a thorough review of the way we collect data to calculate our carbon footprint and other environmental indicators. Based on that, we now have baseline figures for the whole estate whereas previously we had just collected data for the space operated and managed by NS&I. This will now allow us to measure progress against key criteria such as:

- energy consumption
- CO_2 emissions
- waste recycling
- water consumption.

We are confident that with our move into our new London head office in May 2010, we will see significant improvements in our emissions and energy consumption figures. We vacated our previous London offices as the building is being demolished prior to redevelopment of the site. Full details of the baseline figures, and our targets for 2015, can be found in the CSR report at **nsandi.com**

We are now working with the Carbon Trust on their 2010–11 pilot programme for the central government estate carbon management service. The service is designed to help participants to embed carbon management across their organisation and cut carbon emissions year on year. This includes continuing to work with Siemens to manage the environmental impacts of the sites they lease from NS&I in Blackpool, Durham and Glasgow, and seeking to reduce energy usage. As part of this, we are improving reporting processes and continuing to invest in more efficient technologies. During the last year, we retained ISO 14001 accreditation for our environmental management systems for our London office.

The CSR policy goal is to ensure that we deliver long-term value to our stakeholders in a way that is financially viable and socially and environmentally responsible.

In improving standards on existing premises, we will ensure that any new premises are also sustainable. For example, the extension to the Moorland building at our Blackpool site meets the Building Research Establishment Environmental Assessment Method (BREEAM) 'Excellent' standard for its sustainable design and construction best practice.

Sustainable Mail

In May 2009, NS&I became the first government organisation to meet Sustainable Mail™ environmental standards for direct mail. The standards cover not only the materials used in mailings – which should be environmentally friendly and recyclable – but also avoiding waste, by improving data. By achieving the standards, we are able to carry out mailings at a lower price tariff – creating valuable savings.

Working with others

In addition to our partnership with Siemens, our CSR policy also involves working closely with other partners, suppliers and customers. For example, the personal finance guides we offer through WHSmith stores are a key part of our commitment to financial education – an important task for all financial services providers. These of course build on our website **youandyourmoney.info**, which we have continued to develop over the last year.

We also recognise the importance of using our influence in procurement and with our customers. For example, across all our communication channels we actively encourage customers to deal with us online or by phone – promoting these channels clearly in advertising and literature – which reduces the amount of printed materials we have to produce.

Our people

We continue to support a corporate charity both through fundraising events and giving our people volunteering opportunities. This year, the charity chosen by staff is the National Literacy Trust. In addition, staff have the opportunity to sign up for Payroll Giving to this and other charities, as well as volunteering in different areas, particularly those where their skills are most valuable.

Key accountabilities

Responsibility for our CSR policy rests with our Chief Executive and Executive Management Team.

Our governance and board

Ministerial responsibility

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

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

The Chancellor may delegate these responsibilities to another Minister within HM Treasury. The Minister with the portfolio for NS&I was the Economic Secretary to the Treasury (EST), Ian Pearson MP, until 16 June 2009. On 16 June 2009, the Minister responsible for NS&I changed to the Financial Services Secretary and Minister for the City, Paul Myners CBE. Following the general election in May 2010, Lord Sassoon was appointed Commercial Secretary to the Treasury with responsibility for NS&I. Details of the Ministers' salary and pension entitlements are shown in HM Treasury's 2009–10 Resource Accounts.

Code of Good Practice for Corporate Governance for Central Government Departments

The NS&I board reviewed its composition and practices against the Code of Good Practice for Corporate Governance for Central Government Departments and has concluded that it is compliant with the Code's provisions.

Senior Independent Director

One area where it was decided not to follow the Code was in the appointment of a Senior Independent Director. The board has identified HM Treasury as NS&I's main stakeholder and considers that HM Treasury representation on the board, together with agreement that the Non-executive Directors can meet the responsible Minister annually, means that there is no need for a Senior Independent Director other than the Chairman.

Independence of Non-executive Directors

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

The HM Treasury board members are also considered to be independent. Full board meetings are held every two months, and additional board workshops are held to discuss specific issues, such as strategy and planning.

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

Operating within instructions and guidance from HM Treasury, and in support of the Chief Executive in the achievement of the Agency's objectives, the board operates within terms of reference that are available at **nsandi.com**

To ensure good governance practice, individual board members act as if they have full corporate legal responsibilities, accepting the consequences of their actions, recommendations and decisions.

Board appointments

All Executive board members, including the Chief Executive, were appointed in accordance with the Civil Service Commissioners' Recruitment Code. Each member of the board has a personal contract, which stipulates the procedures for termination in accordance with the NS&I Management Code. Non-executive members of the board are appointed by the Chancellor of the Exchequer and contracted by the Director of Savings. Non-executive Directors have fixed term appointments not exceeding three years. Normally they can serve for two terms of office.

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

Board member performance and effectiveness review

In addition to its normal meetings, the board meets to review the way in which it operates in discharging its responsibilities once every two years, now moving to an annual cycle. The board Chairman discusses performance with board members on an individual basis, feeding back comments both individually and to the board as a whole. The board Chairman's performance review is co-ordinated and led by a different Non-executive Director.

New board members are encouraged to attend relevant government and private sector training programmes as part of their Continuing Professional Development programmes.

Terms of reference

We make available our board's responsibilities and Terms of Reference on our website at
nsandi.com/files/asset/pdf/board_termsofref.pdf

Changes to our board

2009–10 saw no changes to our Executive Management Team, but some significant changes to the Non-executive Directors. Martin Gray became Chairman of NS&I in September 2009; he had previously been a Non-executive Director since 2005 and chair of the Audit Committee. Paul Spencer CBE, our outgoing Chairman, and Michael Medlicott both stepped down at the end of their maximum two terms as Non-executive Directors, and in January 2010 David Hulf and Sir John de Trafford Bt. joined the board and now chair the Audit Committee and Appointments and Remuneration Committee respectively.

Board members

Executive members of the board who served during the year

Jane Platt (Chief Executive, Accounting Officer and Director of Savings), appointed in September 2006.
Mike Chilton (Finance and Risk Director), appointed in January 2007.
Peter Cornish (Customer Offer Director), appointed in April 2006.
Julian Hynd (Change and Strategy Support Director), appointed in April 2007.
Gillian McGrattan (People and Environment Director), appointed in September 2008.
Steve Owen (Channel Delivery Director), appointed in February 2002.
John Prout (Customer Sales and Retention Director), appointed in August 2003.

Representatives of HM Treasury

Sam Beckett (Director of Fiscal Policy), appointed in April 2008.
Sarah Tebbutt (Debt and Reserves Management Team Leader). Sarah rejoined the board in April 2009 after being on maternity leave from February 2008.

Non-executive members of the board

Martin Gray, joined in January 2005 as Non-executive Director and was appointed Chairman effective from September 2009 to run until December 2010.
David Hulf, appointed in January 2010 for a three-year term.
Michael Medlicott, joined in September 2003 as a Non-executive Director. He was contracted until September 2009 and, for continuity, agreed to stay on until December 2009 while two new Non-executive Directors were recruited.

Simon Ricketts, appointed in July 2007 for a three-year term, now extended for a further three years.
Paul Spencer CBE, appointed in September 2003, became Chairman of the board in January 2005 and served as Chairman until August 2009.
Sir John de Trafford Bt., appointed in January 2010 for a three-year term.

Board activities

The board has three key subsidiary committees:

- Audit Committee
- Appointments and Remuneration Committee
- Executive Management Team.

Audit Committee

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

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

The Audit Committee of NS&I meets quarterly. Membership of the Audit Committee during 2009–10 comprised Martin Gray as Chair until May 2010 when he was succeeded by David Hulf, Simon Ricketts and a member of HM Treasury's Debt and Reserves Management team, usually Sarah Tebbutt. Executive Directors have a standing invitation to attend for appropriate matters, as do NS&I's Head of Internal Audit, the National Audit Office (NAO) and PricewaterhouseCoopers LLP, who are the NAO's framework partners for the NS&I Product Accounts. Siemens also has a standing invitation for appropriate matters.

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

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

Other risks to the business assessed by the Audit Committee are detailed in 'How we operate' on pages 34–35. Our Audit Committee's Terms of Reference can be found on our website at
nsandi.com/files/asset/pdf/auditcommittee_terms.pdf

Appointments and Remuneration Committee

This Committee's role relates to the pay and performance of NS&I staff. It determines NS&I pay strategy for Senior Civil Service (SCS) members. This includes reviewing the Chief Executive's recommendations on pay and performance-related pay within the parameters set by the Cabinet Office for the SCS following recommendations by the Senior Salaries Review Body. The Cabinet Office gives overall approval to the pay and performance-related awards for the NS&I SCS members. The Committee also advises on the role and appointment of Executive NS&I board members. It also reviews succession planning arrangements for senior staff within NS&I.

Further details of the Committee's membership and role and full details of senior staff salary entitlements are given in the remuneration report on pages 37–42.

Our Appointments and Remuneration Committee's Terms of Reference can be found on our website at **nsandi.com/files/asset/pdf/aap_renum_committee.pdf**

Executive Management Team (EMT)
The EMT consists of the Executive Directors of NS&I and the Siemens Account Director, supported by the board secretary. The EMT met twice monthly to discuss issues relating to strategy, people, risk and financial results. This is in the process of being revised as appropriate for the Public Private Partnership contract re-tender period.

Directors' interests
The Company Secretary maintains a record of directors' interests. The board has concluded that these do not give rise to any conflicts of interest.

Auditors

The Comptroller and Auditor General is responsible for the audit of the Resource Accounts and Product Accounts, in accordance with section 7 of the Government Resources and Accounts Act 2000. The notional charges for audit of both the Resource Accounts and the Product Accounts are £78,000 (2008–09: £76,000) and £690,000 (2008–09: £658,000) respectively. There was no auditors' remuneration (actual or notional) for non-audit work. The Accounting Officer has taken all the steps that ought to have been taken to make herself aware of any relevant audit information and to establish that NS&I's auditors are aware of that information. So far as she is aware, there is no relevant audit information of which NS&I's auditors are unaware.

NS&I's internal audit service provides an independent appraisal service for management by measuring and evaluating the adequacy, reliability and effectiveness of management and financial control systems. Internal audit makes recommendations based on the appraisal of each area reviewed. An annual assurance report is provided to the Accounting Officer. NS&I chose to outsource the provision of internal audit services to ensure independent and professional analysis, insight and recommendations. Deloitte was NS&I's provider of the internal audit function to June 2009. Following a re-tender, KPMG became NS&I's new internal auditors from July 2009.

Meet our Non-executive Directors

1 Martin Gray

Martin Gray joined NS&I as a Non-executive Director in January 2005 and was appointed Chairman of the board from September 2009. He is also Non-executive Chairman of The Evolution Group plc. He was Chief Executive of NatWest UK between 1992 and 1999, and has held a number of board-level appointments within the financial services industry, including NatWest Bank Group, MasterCard Inc Global board and Visa European board.

2 David Hulf

David Hulf was appointed a Non-executive Director from 1 January 2010. Until recently he held senior financial positions at BP, including responsibilities for finance, strategy and business development, on a regional and global basis and 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 Services Authority's Audit and Risk Committee.

3 Simon Ricketts

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

4 Sir John de Trafford Bt.

Sir John de Trafford became a Non-executive Director from 1 January 2010. His early career was spent in Unilever and at 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 four years ago and currently has a portfolio of not-for-profit and commercial activities, including Chair of the Pension, Disability and Carers Service.

5 Sam Beckett

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

6 Sarah Tebbutt

Sarah Tebbutt has been Head of the Debt and Reserves Management Team at HM Treasury since 2005 and a member of the NS&I board as HM Treasury representative during this period. She has worked in the Treasury on trade, European and expenditure policy since 1992. She has a Masters in Business Administration.

Our Executive Directors

7 Jane Platt, Chief Executive

8 Mike Chilton, Finance and Risk Director

9 Peter Cornish, Customer Offer Director

10 Julian Hynd, Change and Strategy Support Director

11 Gillian McGrattan, People and Environment Director

12 Steve Owen, Channel Delivery Director

13 John Prout, Customer Sales and Retention Director

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Board attendance

Name	Board (seven meetings)		Audit Committee (four meetings)		Appointments and Remuneration Committee (three meetings)	
	Possible	Actual	Possible	Actual	Possible	Actual
Martin Gray	7	7	4	4	3	3
David Hulf	1	0	1	1		
Simon Ricketts	7	7	4	3		
Sir John de Trafford Bt.	1	1			1	1
Paul Spencer CBE	3	2			3	3
Michael Medlicott	6	5			2	2
Sam Beckett (HM Treasury)	7	3				
Sarah Tebbutt (HM Treasury)	7	4	4	2		
Dan Dorner (HM Treasury)			1	1		
Rodney Norman (HM Treasury)			1	1		
Jane Platt	7	7			3	3
Mike Chilton	7	7				
Peter Cornish	7	6				
Julian Hynd	7	7				
Gillian McGrattan	7	7			3	3
Steve Owen	7	7				
John Prout	7	7				

HM Treasury representatives attend all board and Audit Committee meetings. Attendance was shared between the Treasury officials named above.

Jane Platt

Jane Platt
Chief Executive
National Savings and Investments
30 June 2010

How we operate

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

NS&I is one of the largest savings organisations in the UK, with just under 27 million customers and more than £98 billion of investors' money at the end of March 2010. This represents just under 8% of the UK savings market. In 2009–10, our annual cash flows were in excess of £27 billion.

But unlike other financial services organisations, when customers invest in our products they are lending to the Government. In return the Government pays interest, stock market linked returns or prizes for Premium Bonds.

How we are measured

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

- Net Financing
- Value Indicator
- efficiency.

Net Financing

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

For 2009–10, our Net Financing target was £0 with a range of £2 billion either side of this and will remain the same for 2010–11. In 2009–10 we delivered £1.6 billion of Net Financing, within our target range.

Value Indicator

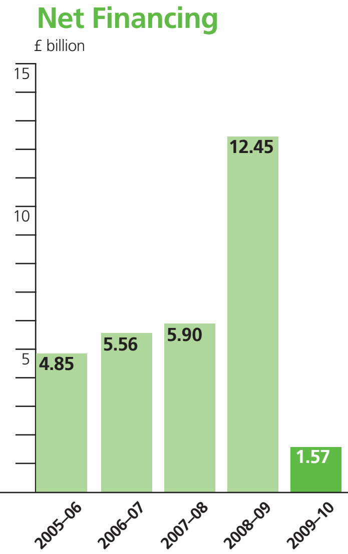
The Value Indicator is a measure of the total cost to deliver NS&I's Net Financing target and to service existing customers' deposits, compared with the cost to the Government of raising and servicing finance through equivalent maturity gilts.

For our fixed rate products the Value Indicator is calculated by looking at the cost of raising funds in the wholesale market of an equivalent term to the product. For our variable rate products it takes into account the average number of years that our customers hold their variable products for. This is then compared with current gilt yields with equivalent maturity dates – which equates to the potential cost to the Debt Management Office (DMO) if they had to raise these funds via gilts for this maturity at the time of calculation. Together these figures enable us to compare the relative efficiency of raising money through NS&I with the efficiency of raising it through gilt sales. A positive Value Indicator figure shows that NS&I is more efficient.

In 2009–10 we delivered a Value Indicator figure of £1.4 billion. Our forecast for 2010–11 is a Value Indicator figure of £750 million. The lower figure for 2010–11 reflects the unpredictability of market conditions in an election year.

Efficiency

Another useful measure of our efficiency is the ratio of total NS&I administrative costs to average funds invested by customers. In 2009–10 this ratio remained below our target of less than 20 basis points.



NS&I's budget is provided by Parliament and is used to deliver the products and customer service discussed throughout this report.

How we set interest rates

In the current low base rate environment, we set our rates to balance the interests of three groups: our customers – offering them a fair rate; taxpayers – with our remit to raise cost-effective finance for government; and supporting stability in the wider financial services marketplace by maintaining an appropriate competitive position.

What we spend our money on

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

The basic payment for services to Siemens (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. Siemens also receives variable payments based on transaction volumes, new product and service channel developments, and its performance.

Our project costs were comparatively high in 2009–10, and are expected to be high again in 2010–11, as we complete some of the critical projects within our **NS&I adding value** strategy. These costs are entirely within the scope of the original strategy.

Full details of our finances and expenditure are in the following sections of this report, covering both:

- **Resource Accounts**, which show the costs of running NS&I in full, and
- **Product Accounts**, which show customer transactions and balances.

This year, we have moved to International Financial Reporting Standards (IFRS) for producing our accounts. Not only does this better enable comparison with other organisations globally, but it is also a cross-government requirement. The Resource Account opening balance sheet has been restated for this along with relevant 2008–09 comparatives.

Expenditure

The NS&I Vote is approved by Parliament. For 2009–10, Parliament approved a resource budget of £191.55 million, which included £7.80 million of annually managed expenditure (AME) (2008–09: £185.20 million), and a capital budget of £3.17 million (2008–09: £1.44 million). The voted net cash requirement was £184.03 million (2008–09: £183.63 million).

The resource outturn was £159.53 million, including £5.61 million AME (2008–09 restated: £173.33 million, including £3.40 million AME), and the capital outturn was £34.08 million, including £4.99 million capital departmental expenditure limit (DEL) (2008–09 restated: capital outturn £20.86 million, including capital DEL £0.93 million). The net cash requirement outturn was £174.16 million (2008–09: £181.40 million).

The 2009–10 voted administrative budget was £183.75 million (2008–09: £185.20 million). Net outturn against the administrative budget was £179.31 million (2008–09: £184.07 million). The underspend was £4.44 million (2008–09: £1.13 million). Part of the underspend (£1.82 million) was transferred to capital. Most of the remaining £2.62 million resulted from lower than expected depreciation and capital charges.

The difference between the resource budget (£191.55 million) and the resource outturn (£159.53 million) was £32.02 million. The following table shows the key differences between the resource budget and outturn during 2009–10.

Difference between resource budget and resource outturn 2009–10

	Difference between estimate and outturn £ million
Overspend/(underspend) category	
Increase in volume changes not in budgets	5.47
Project costs transferred to capital under IFRIC 12	(29.09)
Lower Post Office® costs due to customer shift to direct channels	(3.47)
Lower operational change costs	(0.97)
Lower than expected downward revaluation charge to Blackpool building	(2.19)
Lower depreciation and capital charges	(2.28)
Reduction in professional fees, marketing and research	(1.63)
Transfer to capital DEL to cover capital expenditure, including Moorland extension	1.82
Other differences	0.32
	(32.02)

The difference between the net cash requirement and the net cash outturn was £9.87 million (2008–09: £2.24 million). This was mainly due to the increase in trade payables to Siemens.

Reconciliation of resource expenditure between estimates, accounts and budgets

	2009–10 £000	Restated 2008–09 £000
Net resource outturn (against estimates)	**159,531**	**173,325**
Adjustments to remove:		
Provision voted for earlier years	–	–
Adjustments to additionally include:		
Non-voted expenditure in the operating cost statement (OCS)	–	–
Consolidated Fund extra receipts in the OCS	–	–
Other adjustments	–	–
Net operating costs (accounts)	**159,531**	**173,325**
Adjustments to remove:		
Capital grants to local authorities	–	–
Capital grants finance from the Capital Modernisation Fund	–	–
European Union income and related adjustments	–	–
Voted expenditure outside the budget	–	–
Adjustments to additionally include:		
Other Consolidated Fund extra receipts	–	–
Resource consumption of non-departmental bodies	–	–
Unallocated resource provision	–	–
Other adjustments	25,397	14,141
Resource budget outturn (against budget)	**184,928**	**187,466**
of which:		
Departmental expenditure limit (DEL) – net outturn against administration budget	179,314	184,069
Annually managed expenditure (AME)	5,614	3,397

The differences between net operating costs (accounts) and resource budget outturn (budget) result from the implementation of International Financial Reporting Standards (IFRS). The implementation of IFRIC 12 as interpreted by the *Government Financial Reporting Manual* (FReM) caused the main difference.

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

As part of the 2007 Comprehensive Spending Review (CSR), NS&I agreed a settlement with HM Treasury that requires average annual real reductions of 5% on its 2007–08 baseline costs for the period from 2008–09 to 2010–11, despite a planned rise in liabilities to investors over that period. NS&I was also permitted access to end-year flexibility and modernisation funds. The Resource Accounts demonstrate that NS&I's spending was within its remit.

In 2009–10, NS&I's resource departmental expenditure limit (DEL) was £183.7 million. In 2010–11, NS&I's resource DEL will be £157.4 million. Around 80% of NS&I's DEL is spent on the Public Private Partnership with Siemens and on the Post Office® distribution contract.

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

The unforecast and unsolicited 'flight to safety' has meant that NS&I is now substantially larger than envisaged at the time that the 2007 CSR was agreed and the financial strategy has been replanned and agreed to account for this material increase in base costs.

Meeting Financial Services Authority requirements

NS&I is governed by specific legislation that regulates the way in which our products are managed and because all strategic decisions require Ministerial consent, the Financial Services Authority (FSA) has formally stated that '*… it is difficult to see how FSA regulation would (materially) enhance consumer protection*'. However, we are expected by HM Treasury to comply fully with FSA requirements where appropriate on a voluntary basis.

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

Up to and including 2009–10, we have had a Service Delivery Measure (SDM) in relation to compliance with the Banking Code. Confirmation from the Banking Code Standards Board was received in May 2009 that we remained compliant with the Code. On 1 November 2009, the Code was incorporated into the FSA Banking Conduct of Business sourcebook. We will continue to comply with these requirements, although our SDM will change to accreditation of the new Customer Service Excellence award.

Some of the ways in which NS&I has enhanced the levels of compliance with FSA and other regulations in 2009–10 include the following. We:

- reviewed our risk frameworks, introducing new methodologies for tracking risk indicators to build on our existing policies and risk register
- further embedded Treating Customers Fairly within our culture (see 'Our customers' on page 12)
- introduced a new customer authentication security system for online and telephone transactions
- developed new e-learning modules to provide more effective compliance training for staff
- continued to embed compliance more deeply into our delivery partner Siemens and continued to work with Post Office® Limited (NS&I's key high street distributor) to formalise the NS&I compliance framework designed to support a network of over 11,000 branches
- moved all customer data into our new purpose-built data centres, providing a more secure environment and enhanced business continuity.

How we manage risk

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

The Chief Executive, as Accounting Officer, has overall responsibility for risk and is advised by the board, the Audit Committee and the Executive Management Team. The Audit Committee meets quarterly and reviews a range of risk-related issues. The board formally considers all key risks twice a year.

We have considered the recommendations published in November 2009 by the Walker Review of Corporate Governance of the UK Banking Industry. We are mindful that HM Treasury is also undertaking a review of the corporate governance code in central government departments, and a revised code is due to be published in the second half of 2010. Once this revised code has been issued, we will review how best to comply with the relevant aspects of both sets of recommendations.

The principal risks and uncertainties facing NS&I which could cause our financial results or operational delivery to materially differ from expected results are set out below, along with a summary of how we managed these risks in 2009–10.

Net Financing results

Our ability to remain within the agreed Net Financing remit depends on a number of factors, including wider market conditions. This includes any potential impact of a changing deposit market or competition for retail deposits which may distort usual pricing patterns, market shocks that may impact on consumer confidence or material changes (and awareness of) depositor insurance arrangements. In 2009–10, our target was to reach Net Financing of £0 with a range of £2 billion either side of this. Following the anticipated high levels of outflows during the first half of the year, we increased our rates on some products and launched new Issues of Guaranteed Growth Bonds and Guaranteed Income Bonds. As soon as we reached our sales target, we took these Issues off sale. We ended the year within our Net Financing target range.

Availability of funding

In order to modernise our business through the **NS&I adding value** strategy, we require access to additional funding from end-year flexibility (EYF) and access to modernisation funds (as agreed in NS&I's 2007 CSR settlement) above the agreed level of NS&I's DEL. The 'flight to safety' in 2008–09 led to a material increase in our operational costs. This was funded through access to our EYF that was originally earmarked for our modernisation programme. HM Treasury approved access to EYF and modernisation funds in 2009–10 to contribute towards our modernisation programme, including the implementation of the IT strategy and modernisation of the Blackpool site.

Reliance on outsourced partners

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

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

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

Brand health
Any national 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, for whatever reason, are significant. NS&I is no different, but has additional responsibilities given its unique role in ensuring public confidence across the sector. Brand risks can arise from a multitude of sources – and can be either internally or externally driven. 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.

As a national financial services brand, we rely on a degree of marketing support to assist brand recognition and awareness to deliver our results. As is appropriate for a government agency, we operate within very tight financial parameters. Our marketing spend is very carefully targeted at those initiatives that best fit the profile of the target customer base.

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

Suppliers
Payment of suppliers, policy and performance
NS&I is committed to a policy of prompt payment and is a signatory to the Better Payment Practice Code. It endeavours to pay all suppliers within 30 days of acceptance of the relevant goods or services, or receipt of a legitimate invoice if that is later. For 2009–10, the average time taken to pay suppliers was 20 days.

In 2009–10 NS&I paid 94.4% (2008–09: 96.0%) of bills within this standard. The Government made a commitment to speed up the payment process for small or medium-sized enterprises (SMEs). HM Treasury's *Managing Public Money* guidance states that: *'Public sector organisations should aim to pay suppliers wherever possible within 10 days.'* NS&I has 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.

Summary of protected personal data-related incidents formally reported to the Information Commissioner's Office in 2009–10

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

Further action on information risk	Although no events are noted above, we will continue to proactively monitor and assess our information risks in order to identify and address any potential weaknesses and, in so doing, minimise the risk of personal data-related incidents and ensure continuous improvement of our systems and processes. A network of Information Asset Owners has been appointed to take responsibility for identifying and managing specific information risks and the overall risk is reviewed regularly by our Executive Management Team and board. We continue to regularly review our internal security policies and procedures, including those that specifically deal with the secure handling of information and protected personal data, and have ensured that these policies are compliant with the mandatory minimum standards of protection. All laptops are encrypted and encrypting is updated regularly to ensure that information remains secure. All current NS&I staff are security vetted, including financial and identity checks, and have received security training. Pre-employment checks are carried out on new starters and security training is included as part of the induction programme. This enhanced programme is being rolled out across Siemens during 2010–11. We continue to align policy and practices with Her Majesty's Government *Security Policy Framework* and best practice in the finance sector.

Remuneration report

Appointments and Remuneration Committee

The Appointments and Remuneration Committee comprised Non-executive Directors: Paul Spencer CBE and Michael Medlicott (as Chairman) until August 2009 and December 2009 respectively, and then Martin Gray and Sir John de Trafford Bt. (as Chairman) from September 2009 and January 2010 respectively. It also comprised two Executive Directors: the Chief Executive and the People and Environment Director, Gillian McGrattan. Support to the Committee is provided by Gerard Hutchinson (Director of Global Reward, Rolls-Royce plc) in an independent advisory capacity.

The Committee's role is to determine NS&I's reward strategy for Senior Civil Service (SCS) members. This includes reviewing the Chief Executive's recommendations on pay and performance-related pay awards within the parameters set by the Cabinet Office for the SCS following recommendations by the Senior Salaries Review Body. The Committee also advises on the role and appointment of Executive NS&I board members. The Cabinet Office gives overall approval to the pay and performance-related awards for the NS&I's SCS members. The Committee also reviews succession planning arrangements for senior staff within NS&I.

Service contracts

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

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

Under the Chief Executive's contract, provided performance is satisfactory, her salary is adjusted by HM Treasury, with reference to the annual increase in salary bands for the SCS laid down by the Cabinet Office in accordance with the Senior Salaries Review Body report. The position of Chief Executive could qualify for a performance 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. No Executive Directors hold any Non-executive directorships elsewhere.

Salary and pension entitlements

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

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

Audited

	2009–10 Salary £000	2009–10 Performance-related pay*** £000	2008–09 Salary £000	2008–09 Performance-related pay £000	2008–09 Total £000
Jane Platt *Chief Executive*	190–195		185–190	15–20**	200–205
Mike Chilton *Finance and Risk Director*	140–145		135–140	15–20	155–160
Peter Cornish *Customer Offer Director*	100–105		100–105	15–20	115–120
Julian Hynd *Change and Strategy Support Director*	100–105		95–100	15–20	110–115
Steve Owen *Channel Delivery Director*	115–120		110–115	15–20	130–135
Gillian McGrattan* *People and Environment Director*	105–110		60–65	5–10	65–70
John Prout *Customer Sales and Retention Director*	115–120		110–115	15–20	130–135

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

** In view of the economic background, the Chief Executive chose to limit her variable pay for 2008–09 to the maximum performance-related amount set for Senior Civil Servants, regardless of her contract entitlement.

*** As at 7 July 2010 performance-related payments for Executive board members in 2009–10 were not yet confirmed.

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

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

Audited

	Real increase in pension at age 60	Real increase in pension-related lump sum at age 60 at 31 March 2010	Total accrued pension at age 60 at 31 March 2010	Pension-related lump sum at age 60 at 31 March 2010	Cash equivalent transfer value (CETV) at 31 March 2009	Cash equivalent transfer value (CETV) at 31 March 2010	Employee contributions and transfers	Real increase in CETV after adjustment for inflation and changes in market investment factors
	£000	£000	£000	£000	£000	£000	£000	£000
Jane Platt *Chief Executive*	2.5–5	–	5–10	–	95	155	15–20	36
Mike Chilton *Finance and Risk Director*	2.5–5	–	5–10	–	60	99	0–5	31
Peter Cornish *Customer Offer Director*	0–2.5	2.5–5	10–15	40–45	219	261	0–5	27
Julian Hynd *Change and Strategy Support Director*	0–2.5	–	10–15	–	99	129	5–10	16
Steve Owen *Channel Delivery Director*	2.5–5	7.5–10	40–45	125–130	673	766	5–10	44
Gillian McGrattan *People and Environment Director*	0–2.5	–	0–5	–	16	48	0–5	27
John Prout *Customer Sales and Retention Director*	2.5–5	–	15–20	–	290	368	15–20	45

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

Table C: The remuneration of Non-executive Directors

Audited

	2009–10 £000	2008–09 £000
Martin Gray (Chairman from September 2009)	15–20	10–15
Michael Medlicott (left in December 2009)	10–15	10–15
Paul Spencer CBE (Chairman until August 2009)	5–10	15–20
Simon Ricketts	15–20	10–15
Sir John de Trafford Bt. (joined in January 2010)	0–5	–
David Hulf (joined in January 2010)	0–5	–

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

Salary

'Salary' includes: gross salary; overtime; and any other allowance to the extent that it is subject to UK taxation.

Civil Service pensions

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

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

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

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

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

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

For 2009–10, employers' contributions of £1,407,628 were payable to the PCSPS (2008–09: £1,366,721) at one of four rates in the range 16.7% to 24.3% (2008–09: 17.1% to 25.5%) of pensionable pay, based on salary bands. The scheme's actuary reviews employer contributions every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2009–10 to be paid when the member retires and not the benefits paid during this period to existing pensioners.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employers' contributions of £20,389 (2008–09: £19,008) were paid to one or more of a panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 3.0% to 12.5% (2008–09: 3.0% to 12.5%) of pensionable pay. Employers also match employee contributions up to 3.0% of pensionable pay. In addition, employer contributions of £1,240, 0.8% (2008–09: £1,170, 0.8%) of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees. Contributions due to the partnership pension providers at the balance sheet date were nil. Contributions prepaid at that date were nil.

There were no additional pension liabilities during 2009–10 payable by the Civil Service pension arrangements for individuals who retired early on health grounds.

Cash equivalent transfer values

Table B above shows each member's cash equivalent transfer value (CETV) accrued at the beginning and the end of the reporting period. The final column reflects the increase in CETV effectively funded by the employer.

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 individual has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their buying additional pension benefits at their own cost. CETVs are worked out within the guidelines and framework prescribed by the Institute and Faculty of Actuaries and do not take account of any actual or potential reduction to benefits from Lifetime Allowance Tax which may be due when pension benefits are taken.

Real increase in CETV in 2009–10

This reflects the increase in CETV effectively 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.

Jane Platt
Chief Executive
National Savings and Investments
30 June 2010

Statement of Accounting Officer's responsibilities

Resource Accounts

Under the Government Resources and Accounts Act 2000, HM Treasury has directed NS&I to prepare, for each financial year, Resource Accounts detailing the resources acquired, held or disposed of during the year and the use of resources by the Department during the year. The accounts are prepared on an accruals basis and must give a true and fair view of the state of the Department's affairs as at 31 March 2010 and of its net cash requirement, net resource outturn, net operating cost, net operating costs applied departmental strategic objective, changes in taxpayers' equity and cash flows for the year then ended.

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

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

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

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

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

Statement on internal control

1 Scope of responsibility

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

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

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

2 The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives. It can, therefore, only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of departmental policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in NS&I throughout the year ended 31 March 2010 and up to the date of approval of the accounts, and accords with HM Treasury guidance.

3 Capacity to handle risk

The board, Audit Committee and Executive Management Team (EMT) have primary responsibility for identifying and monitoring the key risks which NS&I faces. The board delegates the responsibility for overseeing the risk management process to the Audit Committee, with the Audit Committee reporting back to the board after each meeting. The Audit Committee, chaired by an independent Director, is responsible for providing assurance, in conjunction with internal and external auditors, to the board and myself as Accounting Officer on the existence and effectiveness of the overall processes for managing risk within NS&I and within those parts of Siemens concerned with NS&I business.

NS&I has a risk management strategy, a risk management framework and agreed risk management reporting protocols, based on government and financial services industry practice. The framework, along with NS&I's risk appetite, is reviewed and approved annually by the Audit Committee.

Every month the EMT considers whether there are any new risks to the business to be registered and discusses the key risks as part of its monthly risk review. The Audit Committee formally reviews the key risks at each meeting and the board bi-annually, to ensure that they remain valid and complete in the light of changing circumstances in the year and business plans for the coming year.

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

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

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

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

4 The risk and control framework

The management of risks is a key responsibility of the EMT, senior managers and risk policy owners. They are responsible for ensuring the proper management of risks and the implementation of the risk management strategy and framework within their respective directorates and teams.

Senior managers are responsible for the implementation of self-assessment processes and ensuring that line management understands and complies with these policies, and provide assurance back to the EMT that risks are being managed within agreed appetite. Assurance includes reviews of relevant management information, including key risk indicators, service issues and incidents, risk registers and progress on addressing internal and external audit issues.

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

Our organisational risk appetite is approved annually by the Audit Committee and each key risk and sub-risk identified is assessed both before and after controls using NS&I's risk appetite matrix. Reviews of risks and their risk scores are performed regularly by senior managers and the EMT. Where further action is necessary to reduce exposure, the action, and its intended effect on the status of the risk, is logged, responsibility allocated and a completion date agreed. This ensures that there is ongoing tracking of any risk where exposure remains unacceptably high despite the controls that are in place. These risks are flagged as red, reviewed monthly by the EMT and reported to the Audit Committee.

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

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

A programme management function ensures that all projects are subject to formal project management disciplines, including an assessment of inherent and residual risks, and regular reviews are undertaken of project and programme risks. The results are overseen by the relevant project board, the EMT, the Audit Committee and the NS&I board.

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

The risk management process continues to be enhanced.

The key achievements in 2009–10 include:

- the introduction of new methodologies for tracking risk indicators to build on our existing policies and risk register
- the further embedding of Treating Customers Fairly within our culture
- the continuing investment in our fraud controls, including introduction of a new customer authentication security system for online and phone transactions
- the development of new e-learning modules to provide more effective compliance training for staff
- the continued embedding of compliance more deeply into our delivery partner, Siemens
- the movement of all customer data into our new purpose-built data centres, providing a more secure environment and enhanced business continuity
- the refinement of the effectiveness of our governance committees to ensure that they are working effectively.

The key risks that NS&I faces – and how they are being managed – are noted on pages 34–35.

Plans for 2010–11 include the continued strengthening of our risk management and compliance assurance processes and increased investment in information security and fraud risk management capabilities.

5 Statement of information risk

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

In December 2008, following a review of data-handling in government, the Cabinet Office published Her Majesty's Government's (HMG) *Security Policy Framework*, which sets out mandatory requirements for government departments on protective security, covering physical, personnel and information security.

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

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

In 2009–10, all NS&I staff received training in data protection and information security through e-learning packages, supported by face-to-face training in protectively marking information. In 2010–11 this will be expanded to include Siemens staff working for NS&I.

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

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

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

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

NS&I has appointed a network of Information Asset Owners whose role is to understand what information is held, what is added and what is removed, how information is moved and who has access, so as to understand and address risks to the information they use. This role will be extended to Siemens during 2010–11. The Information Asset Owners will provide additional overall assurance quarterly on the use and security of the data for which they are responsible.

The enhanced programme of vetting for all NS&I staff will be extended during 2010–11 to include those in Siemens handling NS&I customer information.

In May 2010 NS&I Head Office moved to a new office with higher security specifications and controls. All information and IT was moved securely to the new location or storage without any incident.

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

6 Review of effectiveness

As Accounting Officer, I also have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by:

- the work of key governance committees: the board, Audit Committee and EMT
- those Executive Directors and senior managers within the Department and Siemens who have responsibility for the development and maintenance of the internal control framework. They provide me with assurances that they are satisfied either that their key risks are adequately controlled, or that plans are in place to provide that control
- the work of the internal auditors, which is based on management's assessment of risk throughout the business
- comments made by the external auditors in their management letter and other reports, and
- other external verifications, including: our performance in the Financial Ombudsman Service tables – see page 11; our accreditation by the new Customer Service Excellence award – see pages 11–12; Investors in People accreditation – see page 18; and the escalation and appropriate resolution of two isolated customer service issues – see pages 12–13.

I have been advised on the implications of the results of my review of the effectiveness of the system of internal control by the board and the Audit Committee, and a plan to address weaknesses and ensure continuous improvement of the system is in place. The board, via the Audit Committee, satisfies itself as to the adequacy of the risk management process and reviews the key risks of the Department and the effectiveness of mitigating actions, including the commitment and speed with which corrective actions are implemented. The board, via the Audit Committee, also reviews the internal and external risk profile for the coming year and considers if current internal control arrangements are likely to be effective. The Audit Committee also reviews annually the assurance on the overall system of internal control provided by the Head of Internal Audit, and advises the board of its assessment of the internal control system.

Internal Audit, led by KPMG from 1 July 2009 (Deloitte up to 30 June 2009), provide the Audit Committee with regular reports on internal audit activity throughout the year. They also provide an overall, independent opinion for the year on the adequacy and effectiveness of NS&I's risk management, control and governance processes. For 2009–10 the Head of Internal Audit concluded that, based on the work undertaken in 2009–10, these processes were adequate and effective to manage the achievement of NS&I's objectives and where work identified opportunities for improving controls and procedures, management responded positively.

In my opinion, there has been a continued improvement in the overall control environment during the year and there are no significant control weaknesses.

We will continue our ongoing process for assessing internal controls against best practice across all systems, processes and products. The approach to reviewing effectiveness and plans to ensure continuous improvement will be further refined in 2010–11.

Jane Platt

Jane Platt
Chief Executive
National Savings and Investments
30 June 2010

Resource Accounts 2009–10

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

I certify that I have audited the financial statements of National Savings and Investments (the Department) for the year ended 31 March 2010 under the Government Resources and Accounts Act 2000. These comprise the Statement of Parliamentary Supply, the Operating Cost Statement and the Statement of Financial Position, the Statement of Cash flows, the Statement of Changes in Taxpayers' Equity, the Statement of Net Operating Costs by Departmental Strategic Objective and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Accounting Officer and auditor

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit the financial statements in accordance with applicable law and 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 Department's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Department; and the overall presentation of the financial statements.

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

Opinion on regularity

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

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the Department's affairs as at 31 March 2010 and of its net cash requirement, net resource outturn, net operating cost, net operating costs applied to departmental strategic objective, changes in taxpayers' equity and cash flows 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 (excluding the tables headed 'Difference between resource budget and resource outturn 2009–10' and 'Reconciliation of resource expenditure between estimates, accounts and budgets') 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 or returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Statement on Internal Control 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

7 July 2010

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

Statement of parliamentary supply

Summary of resource outturn 2009–10

		Estimate			Outturn			Net total outturn compared with estimate: saving	Prior year outturn
		Gross expenditure	A in A (1)	Net total	Gross expenditure	A in A	Net total		Net total
	Note	£000	£000	£000	£000	£000	£000	£000	£000
Request for resources (RfR) Reducing the costs to the taxpayer of government borrowing now and in the future	3,4,7	197,645	(6,096)	**191,549**	165,363	(5,832)	**159,531**	**32,018**	**184,069**

(1) A in A – appropriations in aid. A full definition is provided in the Glossary.

Outturn and estimate are now restated on an International Financial Reporting Standards (IFRS) basis as outlined in note 3.

Net cash requirement 2009–10

				2009–10	2008–09
		Estimate	Outturn	Net total outturn compared with estimate: saving	Outturn
	Note	£000	£000	£000	£000
Net cash requirement	5(b)	184,030	174,156	9,874	181,395

Summary of income payable to the Consolidated Fund

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

			2009–10 Forecast		2009–10 Outturn		2008–09 Outturn
		Income	*Receipts*	Income	*Receipts*	Income	*Receipts*
	Note	£000	£000	£000	£000	£000	£000
Operating income and receipts – excess A in A		–	–	–	–	–	–
Other non-operating income and receipts not classified as A in A	6	–	–	72	*72*	62	*62*
Total		–	–	72	*72*	62	*62*

The notes on pages 58 to 80 form part of the Resource Accounts.

Operating cost statement

for the year ended 31 March 2010

	Note	2009–10 £000	Restated 2008–09 £000
Administration costs			
Staff costs	9	10,231	9,954
Other administration costs	10	155,132	169,119
Operating income	11	(5,832)	(5,748)
Net operating costs		**159,531**	**173,325**

All income and expenditure is derived from continuing operations.

The notes on pages 58 to 80 form part of the Resource Accounts.

Statement of financial position

as at 31 March 2010

	Note	31 March 2010 £000	31 March 2010 £000	Restated 31 March 2009 £000	Restated 31 March 2009 £000	Restated 1 April 2008 £000	Restated 1 April 2008 £000
Non-current assets							
Property, plant and equipment	12(b)	40,539		35,185		29,608	
Intangible assets	13(b)	38,371		16,637		1,897	
Total non-current assets			78,910		51,822		31,505
Current assets							
Trade and other receivables	15(a)	226		241		628	
Cash and cash equivalents	16	629		1,335		1,426	
Total current assets			855		1,576		2,054
Total assets			79,765		53,398		33,559
Current liabilities							
Trade and other payables	17(a)	(34,146)		(25,498)		(20,113)	
Total current liabilities			(34,146)		(25,498)		(20,113)
Total assets less current liabilities			45,619		27,900		13,446
Non-current liabilities							
Provisions	18(a)	(359)		(543)		(547)	
Trade and other payables	17(a)	(2,532)		–		–	
Total non-current liabilities			(2,891)		(543)		(547)
Assets less liabilities			**42,728**		**27,357**		**12,899**
Taxpayers' equity							
General Fund			27,584		10,963		1,468
Revaluation reserve			15,144		16,394		11,431
			42,728		**27,357**		**12,899**

The notes on pages 58 to 80 form part of the Resource Accounts.

Jane Platt

Jane Platt
Chief Executive
National Savings and Investments

30 June 2010

Statement of cash flows

for the year ended 31 March 2010

	Note	2009–10 £000	Restated 2008–09 £000
Cash flows from operating activities			
Net operating cost	2(b)	159,531	173,325
Adjustment for non-cash transactions	10	(7,831)	(7,131)
Decrease in trade and other receivables		(17)	(386)
Decrease/(increase) in trade payables		(8,023)	695
Use of provisions – losses	18(a)	76	–
Use of provisions – early retirements	18(a)	201	207
Net cash outflow from operating activities		**143,937**	**166,710**
Cash flows from investing activities			
Purchase of property, plant and equipment	12(b)	10,431	5,190
Purchase of intangible assets	13(b)	23,649	15,667
Increase in payables resulting from investing activity		(3,861)	(6,172)
Net cash flows from investing activities		**30,219**	**14,685**
Cash flows from financing activities			
From the Consolidation Fund (Supply) – current year		(174,785)	(182,730)
From the Consolidation Fund (Supply) – prior year		1,335	1,426
From the Consolidation Fund (non-Supply)		–	–
Net Financing		**(173,450)**	**(181,304)**
Net increase/(decrease) in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund		(706)	(91)
Receipts due to the Consolidated Fund which are outside the scope of the Department's activities	6	72	62
Payments of amounts due to the Consolidation Fund		(72)	(62)
Net increase/(decrease) in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund	16	(706)	(91)
Cash and cash equivalents at the beginning of the period	16	**1,335**	**1,426**
Cash and cash equivalents at the end of the period	16	**629**	**1,335**

The notes on pages 58 to 80 form part of the Resource Accounts.

Statement of changes in taxpayers' equity

for the year ended 31 March 2010

	Note	General Fund (1) £000	Revaluation reserve (2) £000	Total reserves £000
Balance at 31 March 2008		(1,580)	11,432	9,852
Changes in accounting policy	2(c)	3,048	(1)	3,047
Restated balance at 1 April 2008		**1,468**	**11,431**	**12,899**
Changes in taxpayers' equity 2008–09				
Net gain on revaluation of property, plant and equipment	19	–	4,963	4,963
Non-cash charges – cost of capital	10	691	–	691
Non-cash charges – auditor's remuneration	10	734	–	734
Net operating cost for the year		(173,325)	–	(173,325)
Total recognised income and expense for 2008–09		**(171,900)**	**4,963**	**(166,937)**
Net Parliamentary Funding – drawn down		182,730	–	182,730
Net Parliamentary Funding – deemed	16	(1,335)	–	(1,335)
		181,395	**–**	**181,395**
Restated balance at 31 March 2009		**10,963**	**16,394**	**27,357**
Changes in taxpayers' equity 2009–10				
Net loss on revaluation of property, plant and equipment	19	–	(1,250)	(1,250)
Non-cash charges – cost of capital	10	1,228	–	1,228
Non-cash charges – auditor's remuneration	10	768	–	768
Net operating cost for the year		(159,531)	–	(159,531)
Total recognised income and expense for 2009–10		**(157,535)**	**(1,250)**	**(158,785)**
Net Parliamentary Funding – drawn down		174,785	–	174,785
Net Parliamentary Funding – deemed	16	(629)	–	(629)
		174,156	**–**	**174,156**
Balance at 31 March 2010		**27,584**	**15,144**	**42,728**

(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 credited to the General Fund.

(2) Revaluation reserve: The revaluation reserve reflects the unrealised balance of the cumulative revaluation adjustments to assets.

The notes on pages 58 to 80 form part of the Resource Accounts.

Statement of operating costs by departmental strategic objective

for the year ended 31 March 2010

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

NS&I's strategic objective is to provide retail funds for the Government that are cost-effective in relation to funds raised on the wholesale market.

During 2009–10 NS&I incurred the following resource costs in pursuit of its objective:

	2009–10 £000	Restated 2008–09 £000
Gross expenditure	165,363	179,073
Operating income and receipts – excess A in A (1)	(5,832)	(5,748)
Net operating cost	**159,531**	**173,325**
Total assets	**79,765**	**53,398**

(1) A in A – appropriations in aid. A full definition is provided in the Glossary.

The notes on pages 58 to 80 form part of the Resource Accounts.

Notes to the accounts

1 Statement of accounting policies

These financial statements have been prepared in accordance with the 2009–10 *Government Financial Reporting Manual* (FReM) issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of NS&I for the purpose of giving a true and fair view has been selected. The particular policies adopted by NS&I for the Resource 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 two additional primary statements. The statement of operating costs by departmental strategic objective and supporting notes analyse the Department's income and expenditure by the objective agreed with Treasury Ministers.

NS&I also prepares the Product Accounts covering transactions and balances on all NS&I products, which are prepared under a separate direction issued by HM Treasury (disclosed in Annex 1).

1.1 New standards, interpretations and amendments to published standards including FReM changes that have not yet been early adopted

1.1.1 The removal of cost of capital charging from annual accounts (effective for annual periods beginning on or after 1 April 2010)

The 2010–11 annual accounts will not include the cost of capital charging. This change will have the effect of reducing non-cash costs.

1.1.2 The FReM adaptation of International Accounting Standards (IAS) 36: Impairment of Assets allows scoring of all impairments that are caused by a clear consumption of economic benefit charged to the operating cost statement

There has been no early adoption of this standard; however, if there had been early adoption there would have been no change to the 2009–10 costs. For 2010–11 and beyond, it is not possible to estimate the financial impact.

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 upon 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, estimation techniques, such as note 1.4 (service concession arrangements), note 1.6 (depreciation), note 1.8 (amortisation of intangible assets), note 1.9 (impairment) and note 1.14 (provisions).

1.4 Service concession arrangements (Public Private Partnership (PPP))

NS&I follows the principles provided in International Financial Reporting Interpretations Committee (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 PPP contract with Siemens 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.

Assets are recognised at an amount equal to the value of work performed by Siemens 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.

1.5 Property, plant and equipment (PPE)
Property, plant and equipment are initially recorded at cost. They are 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 property plant and equipment and stated at cost until construction or development is complete at which time it is classified as property.

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

Where appropriate, and where active markets exist for assets 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 operating cost statement. The revaluation surplus is not transferred to the General Fund until the asset's ultimate disposal.

Individual desks, chairs, computers, furniture and cabinets individually 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 property, plant and equipment is charged to the operating cost statement on a straight-line basis over their estimated useful economic lives. The depreciable amount is the cost or value of the assets less its residual value. The estimated useful economic lives are as follows:

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

1.7 Non-current assets held for sale
Non-current assets held for sale are removed from property, plant and equipment or from intangibles where NS&I is committed to selling an asset within twelve months of the date of the statement of financial position. When an asset is initially classified as held for sale it is revalued to fair value. Where fair value is lower than the carrying amount of the asset, the reduction in amount can be written off against reserves already established for this asset if the asset had been valued upwards previously. Where a reserve has not been established the reduction in fair value is charged against operating costs. Where a subsequent revaluation is carried out, any further reduction in value is written off against operating costs.

1.8 Intangible assets

1.8.1 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 that exceed its cost 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.

1.8.2 Website

Expenditure on NS&I's 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.

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

1.8.3 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 that exceed its cost will flow from its use over more than one year.

These are not amortised until the asset 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.

NS&I has not capitalised any historic developments prior to 2008–09 as the values are not considered to be material.

1.9 Impairments of PPE and intangible assets

At each balance sheet date, NS&I assesses whether there is any indication that its intangible assets, or property, plant and equipment 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 the HM Treasury discount rate, currently 3.5%.

Cash-generating units are assets that generate cash inflows which are largely independent of the cash inflows from other assets or group 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 an intangible or non-current asset is less than its carrying value, an impairment loss is recognised immediately in the operating cost statement 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 operating cost statement. A reversal of an impairment loss on intangible assets or property, plant and equipment is recognised in operating costs where a previous impairment loss had been recognised in operating costs.

Intangible assets that have an indefinite useful life, or are not yet ready for use, are tested for impairment annually.

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.

1.10 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. NS&I has no finance leases.

The total payments made under operating leases are charged to the operating cost statement 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.

When an operating lease is terminated before the lease period has expired, any payment required to be made by way of penalty is recognised as an expense in the period in which termination takes place.

1.11 Employee benefits

Short-term employee benefits (those payable within 12 months after service is rendered in a period such as wages, performance-related pay, paid leave 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.

1.12 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 balance sheet. 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 to the Paymaster General's account at the Bank of England for the credit of the Civil Superannuation Vote.

1.13 Pensions
Past and present employees are covered by the provisions of the Principal Civil Service Pension Service Pension Scheme (PCSPS). The defined benefit schemes are unfunded and are non-contributory except in respect of dependants' benefits. The Department 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.

1.14 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 balance sheet 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, these are discounted using the HM Treasury discount rate. Its carrying amount is the present value of those cash flows.

1.15 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.

1.16 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 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 operating cost statement.

1.17 Operating income
Operating income is income which relates directly to the operating activities of the Department. It comprises rent from external tenants including Siemens and loss recoveries due from Siemens for external fraud.

1.18 Capital charges
A charge, reflecting the cost of capital utilised by NS&I, is included in the operating costs. The charge is calculated at the HM Treasury discount rate, 3.5% for 2009–10, on the average carrying amount of all assets less liabilities except for:

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

1.19 Value Added Tax (VAT)

The activities of the Department are exempted under the terms of the 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.

1.20 Operating segments

IFRS 8 – Operating Segments as adapted for the Public Sector requires government departments to use agreed departmental strategic objectives as the basis for identifying separate reporting segments for IFRS 8 disclosures.

NS&I has a single strategic objective: to provide retail funds for the Government that are cost-effective in relation to funds raised on the wholesale market. In this regard NS&I's operations constitute a single strategic objective and as such there is no requirement for any disclosures to be made in respect of IFRS 8.

2 First-time adoption of IFRS

In line with HM Treasury advice, Prior Period Adjustments (PPAs) arising from the adoption of IFRS were not included in Spring Supplementary Estimates for 2009–10 on the basis that the PPA numbers could have been misleading, particularly where transactions may well have pre-dated the 2001–02 cut-off point for reporting PPAs, as only part of an obligation would have been included. PPAs arising from a change in accounting policy related to other than IFRS were included in the estimates in line with conventional arrangements.

Explanation of transition to IFRS

2009–10 is the first year that NS&I is presenting its financial statements under IFRS as modified by the directions of HM Treasury. The last financial statements presented under UK GAAP were for the year ended 31 March 2009. As IFRS comparatives must be prepared for the year ended 31 March 2009, the date of the transition to IFRS was 1 April 2008. Reconciliations of the operating cost statement and the statement of financial position from those reported previously are shown below.

The transition to IFRS has had no impact on the cash flows of NS&I.

The principal adjustments are explained below:

a. Under IFRS, and specifically IFRIC 12 as adapted for the public sector, NS&I had to identify and bring all assets that its outsourced provider uses for the NS&I business onto its statement of financial position. This has meant including over £4.6 million assets worth at 1 April 2008 and over £19.9 million for 2008–09.

b. The application of IFRIC 12 has had a significant impact on the operating cost statement. Costs under UK GAAP of £184.07 million reduced to £173.33 million. A considerable part of the reduction is attributed to asset purchases and developments which were previously accounted for as operating leases paid to Siemens.

c. Under IFRS, NS&I revalued its land and buildings to market value. This added a further £2.28 million to costs.

d. Under IAS 19 – Employee Benefits, deferred holiday costs were calculated and added to pay costs (£0.13 million).

e. Other changes to costs were the direct result of the application of IFRIC 12. These included increased depreciation, cost of capital and also, on the statement of financial position, additional payables for work completed but not paid for.

2(a) Reserves prior year (restated)

	General Fund £000	Revaluation reserve £000	Total £000
Taxpayers' equity at 31 March 2009 under UK GAAP	(3,214)	10,794	7,580
Adjustments for:			
IAS 16 – Property revaluation current year	(2,279)	5,600	3,321
IFRIC 12 – Assets recognised under PPP (net)			
IFRIC 12 – Property, plant and equipment 2007–08	2,779	–	2,779
IFRIC 12 – Software 2007–08	735	–	735
IFRIC 12 – Website 2007–08	1,073	–	1,073
IFRIC 12 – Property, plant and equipment 2008–09 additions	4,264	–	4,264
IFRIC 12 – Property, plant and equipment 2008–09 depreciation	(883)	–	(883)
IFRIC 12 – Intangible assets 2008–09 additions	15,667	–	15,667
IFRIC 12 – Software 2008–09 amortisation	(538)		(538)
IFRIC 12 – Website 2008–09 amortisation	(340)	–	(340)
Reduction in administration costs due to capitalisation under IFRIC 12	536	–	536
IAS 19 – Employee benefits	(125)	–	(125)
Assets recognised but still to be paid for	(6,712)	–	(6,712)
Taxpayers' equity at 1 April 2009 under IFRS	**10,963**	**16,394**	**27,357**

2(b) Operating cost prior year (restated)

	£000	£000
Net operating cost for 2008–09 under UK GAAP		184,069
Adjustments for:		
IFRIC 12 – Property, plant and equipment	(4,264)	
IFRIC 12 – Software	(3,260)	
IFRIC 12 – Other intangible assets	(12,407)	
IFRIC 12 – Property, plant and equipment depreciation	883	
IFRIC 12 – Intangible asset amortisation	878	
Reduction in administration costs due to capitalisation under IFRIC 12	(536)	
Reinstatement of prepayment on PPP provider	(1,539)	
Revaluation of land and building	2,279	
IAS 19 – Employee benefits	125	
Increased cost of capital due to increase in assets	385	
Assets recognised but still to be paid for	6,712	
Prior period adjustments		(10,744)
Net operating cost for 2008–09 under IFRS		**173,325**

2(c) Changes in accounting policy for reconciliation of 1 April 2008 position

	£000
Transfer of opening balances of Siemens property, plant and equipment assets to NS&I statement of financial position	2,779
Transfer of opening balances of Siemens intangible assets to NS&I statement of financial position	1,808
Prepayment of PPP assets removed from cost under IFRS	(1,539)
Changes in accounting policy	**3,048**

3 Analysis of net resource outturn by section

					2009–10 Outturn	2009–10 Estimate	2009–10	Restated 2008–09
	Admin	Other current	Gross resource expenditure	A in A (1)	Net total	Net total	Net total outturn compared with estimate	Prior year outturn
	£000	£000	£000	£000	£000	£000	£000	£000
RfR (2): Reducing the costs to the taxpayer of government borrowing now and in the future								
Spending in departmental expenditure limit (DEL)								
Central government spending	159,749	–	159,749	(5,832)	153,917	183,749	29,832	169,928
Spending in annually managed expenditure (AME)								
Central government spending	–	5,614	5,614	–	5,614	7,800	2,186	3,397
	159,749	**5,614**	**165,363**	**(5,832)**	**159,531**	**191,549**	**32,018**	**173,325**

(1) A in A – appropriations in aid. A full definition is provided in the Glossary.

(2) RfR – request for resources.

	2009–10 £000	2009–10 £000
Difference between resource outturn and estimate		
Increase in volume changes not in budgets	5,470	
Project costs capitalised under IFRIC 12	(29,089)	
Lower depreciation and capital charges	(2,278)	
Lower Post Office® costs due to customer shift to direct channels	(3,470)	
Lower operational change costs	(970)	
Transfer to capital DEL to cover capital expenditure, including Moorland building	1,815	
Reduction in professional fees, marketing and research	(1,630)	
Other differences	320	
Total DEL underspend		**(29,832)**
Lower than expected impairment charge for Blackpool building	(2,186)	
Total AME underspend		**(2,186)**
Total underspend against estimate		**(32,018)**

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

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

	2009–10 Outturn £000	2009–10 Supply Estimate £000	2009–10 Outturn compared with estimate £000	Restated 2008–09 Outturn £000
Net resource outturn	159,531	191,549	32,018	184,069
Prior period adjustments (1)	–	–	–	(10,744)
Net operating cost	**159,531**	**191,549**	**32,018**	**173,325**

(1) Adjustments due to implementation of IFRS as itemised in note 2(b).

4(b) Outturn against final administration budget

	Note	2009–10 Budget £000	2009–10 Outturn £000	2008–09 Outturn £000
Gross administration budget		189,845	185,146	189,817
Income allowable against final administration budget	7	(6,096)	(5,832)	(5,748)
Net outturn against administration budget		**183,749**	**179,314**	**184,069**

5 Reconciliation of net resource outturn to net cash requirement

5(a) Net cash requirement 2008–09

	Note	Estimate £000	Outturn £000	Net total outturn compared with estimate: saving/ (excess) £000
Resource outturn		185,199	184,069	1,130
Capital:				
• Addition of property, plant and equipment		1,438	926	512
Accruals adjustments:				
• Non-cash items		(4,607)	(4,246)	(361)
• Changes in working capital other than cash		1,600	439	1,161
Use of provision	18(a)	–	207	(207)
Net cash requirement		**183,630**	**181,395**	**2,235**

5(b) Net cash requirement 2009–10

	Note	Estimate £000	Outturn £000	Net total outturn compared with estimate: saving/ (excess) £000
Resource outturn		191,549	159,531	32,018
Capital:				
• Addition of property, plant and equipment	12(b)	3,176	10,431	(7,255)
• Addition of intangible assets	13(b)	–	23,649	(23,649)
Accruals adjustments:				
• Non-cash items	10	(12,295)	(7,831)	(4,464)
• Changes in working capital other than cash		1,600	(9,369)	10,969
• Changes in payables falling due after more than one year		–	(2,532)	2,532
Use of provision	18(a)	–	277	(277)
Net cash requirement		**184,030**	**174,156**	**9,874**

As discussed with HM Treasury the Parliamentary Supply Estimate was not revised due to the uncertainties surrounding the application of IFRIC 12 on the PPP contract at the time of the estimate submission process.

6 Analysis of income payable to the Consolidated Fund

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

	Note	Forecast 2009–10 Income £000	Forecast 2009–10 *Receipts* £000	Outturn 2009–10 Income £000	Outturn 2009–10 *Receipts* £000
Other non-operating income and receipts not classified as A in A	8	–	–	72	*72*
Total		**–**	**–**	**72**	***72***

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

	Note	2009–10 £000	2008–09 £000
Operating income	11	5,832	5,748
Income authorised to be appropriated in aid		(5,832)	(5,748)
Operating income payable to the Consolidated Fund		**–**	**–**

8 Non-operating income not classified as appropriations in aid

	2009–10 Income £000	2009–10 Receipts £000	2008–09 Income £000	2008–09 Receipts £000
Prior year fraud recoveries	72	72	62	62
Total non-operating income not classified as A in A	**72**	**72**	**62**	**62**

9 Staff numbers and related costs

	2009–10 Permanently employed UK staff £000	2009–10 Others £000	2009–10 Total £000	Restated 2008–09 Total £000
Staff costs comprise:				
Wages and salaries	7,455	717	8,172	7,954
Social security costs	611	–	611	614
Other pension costs	1,448	–	1,448	1,386
Total net costs	**9,514**	**717**	**10,231**	**9,954**

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

For 2009–10, employers' contributions of £1,407,628 were payable to the PCSPS (2008–09 £1,366,721) at one of four rates in the range 16.7% to 24.3% (2008–09: 17.1% to 25.5%) of pensionable pay, based on salary bands. The scheme's actuary reviews employer contributions every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2009–10 to be paid when the member retires and not the benefits paid during this period to existing pensioners.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employers' contributions of £20,389 (2008–09: £19,008) were paid to one or more of a panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 3.0% to 12.5% (2008–09: 3.0% to 12.5%) of pensionable pay. Employers also match employee contributions up to 3.0% of pensionable pay. In addition, employer contributions of £1,240, 0.8% (2008–09: £1,170, 0.8%) of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees. Contributions due to the partnership pension providers at the balance sheet date were nil. Contributions prepaid at that date were nil.

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

	2009–10 Permanently employed UK staff	2009–10 Others	2009–10 Total	2008–09 Total
Administration of NS&I	144	24	168	158
Total	**144**	**24**	**168**	**158**

10 Other administration costs

	Note	2009–10 £000	2009–10 £000	Restated 2008–09 £000	Restated 2008–09 £000
Public Private Partnership provider costs		102,119		106,907	
Selling agents (1)		23,293		28,828	
Giro fees, Link line, ATMOS and banking charges		1,358		1,395	
			126,770		137,130
Marketing and research costs					
Marketing		7,823		12,405	
Research (2)		2,048		2,243	
			9,871		14,648
Other expenditure					
Consultancy, internal audit contract and personnel costs		4,392		4,507	
Professional services		4,186		4,017	
Other costs		1,078		888	
Losses and special payments	25	499		224	
Rentals under operating leases		500		516	
Audit of Ordinary Deposits White Paper Account (3)		5		58	
			10,660		10,210
Non-cash items					
Depreciation	12(b)	2,026		2,297	
Amortisation	13(b)	1,352		927	
Impairment of website (4)	13(b)	562		–	
Impairment of property (5)	19	1,686		2,279	
Increase in early departure provision	18(a)	30		43	
Increase in losses provision	18(a)	81		160	
Reversal of loss provision	18(a)	(48)		–	
Glasgow sports ground lease provision	18(a)	30		–	
Loss on disposal		116		–	
Cost of capital charge		1,228		691	
Notional external audit fees (6)		768		734	
			7,831		7,131
Total			**155,132**		**169,119**

(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 external audit fees relating to Ordinary Deposits White Paper Account of £5,000 (2008–09: £58,000) are paid in cash. The Comptroller and Auditor General is NS&I's external auditor and received no remuneration for non-audit work, as he did not undertake any.

(4) NS&I replaced its existing website when the new website went live in October. The remaining value of the existing website was then written off.

(5) NS&I carried out a revaluation of its properties for the year end. The Blackpool building was impaired as there was no unrealised balance remaining for it in the revaluation reserve.

(6) The notional external audit fees include: a) fees for the statutory audit of the Product Accounts (£688,000) and Resource Accounts (£60,000) and b) fees for the Product Accounts IFRS dry-run audit (£2,000) and the Resource Accounts IFRS dry-run audit (£18,000). NS&I's external auditor did not undertake any non-audit work.

11 Operating income

	2009–10 £000	2008–09 £000
Contracted loss recovery from Siemens	219	–
Rent from external tenants	5,613	5,748
Total operating income	**5,832**	**5,748**

Non-operating income and receipts not classified as A in A comprise amounts that relate to prior years, including prior year loss recoveries. The actual receipts surrenderable were £72,183 (2008–09: £61,850).

12 Property, plant and equipment

12(a) Prior year (restated)

	Land £000	Buildings £000	Information technology £000	Plant & machinery £000	Furniture & fittings £000	Assets under construction £000	Total £000
Cost or valuation							
At 1 April 2008	9,252	22,669	8,919	2,673	5,597	–	49,110
Additions	–	–	4,282	8	50	850	5,190
Disposals	–	–	(94)	(16)	(5)	–	(115)
Revaluation	2,224	5,714	34	61	20	–	8,053
Downward revaluation	(210)	(5,212)	–	–	–	–	(5,422)
At 31 March 2009	**11,266**	**23,171**	**13,141**	**2,726**	**5,662**	**850**	**56,816**
Depreciation							
At 1 April 2008	–	(6,765)	(7,546)	(1,522)	(3,669)	–	(19,502)
Provided in year	–	(681)	(580)	(266)	(770)	–	(2,297)
Disposals	–	–	94	16	5	–	115
Revaluation	–	168	–	–	–	–	168
Downward revaluation	–	–	(34)	(61)	(20)	–	(115)
At 31 March 2009	**–**	**(7,278)**	**(8,066)**	**(1,833)**	**(4,454)**	**–**	**(21,631)**
Net book value							
At 1 April 2008	9,252	15,904	1,373	1,151	1,928	–	29,608
At 31 March 2009	**11,266**	**15,893**	**5,075**	**893**	**1,208**	**850**	**35,185**

12(b) Current year

	Land	Buildings	Information technology	Plant & machinery	Furniture & fittings	Assets under construction	Total
	£000	£000	£000	£000	£000	£000	£000
Cost or valuation							
At 1 April 2009	11,266	23,171	13,141	2,726	5,662	850	56,816
Additions	–	385	5,395	–	1,909	2,742	10,431
Transfer to buildings	–	3,592	–	–	–	(3,592)	–
Disposals	–	–	(148)	–	(10)	–	(158)
Revaluation	–	1,178	–	–	–	–	1,178
Downward revaluation	–	(2,718)	–	–	–	–	(2,718)
At 31 March 2010	**11,266**	**25,608**	**18,388**	**2,726**	**7,561**	**–**	**65,549**
Depreciation							
At 1 April 2009	–	(7,278)	(8,066)	(1,833)	(4,454)	–	(21,631)
Provided in year	–	(558)	(568)	(259)	(641)	–	(2,026)
Disposals	–	–	39	–	4	–	43
Revaluation	–	(1,396)	–	–	–	–	(1,396)
Downward revaluation	–	–	–	–	–	–	–
At 31 March 2010	**–**	**(9,232)**	**(8,595)**	**(2,092)**	**(5,091)**	**–**	**(25,010)**
Net book value							
At 1 April 2009	11,266	15,893	5,075	893	1,208	850	35,185
At 31 March 2010	**11,266**	**16,376**	**9,793**	**634**	**2,470**	**–**	**40,539**

The freehold land and buildings at Blackpool, Durham and Glasgow were revalued as at 31 March 2009 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. The valuers also provided a market value at 31 March 2010.

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

The assets under construction included the extension on the Moorland building at NS&I's Blackpool site. The work began during 2008–09 and was completed during February 2010. A certified valuation of the building work completed was carried out by Hulme Upright and Manning Architects.

13 Intangible assets

13(a) Prior year (restated)

	Software	Website	Assets under construction	Total
	£000	£000	£000	£000
Cost or valuation				
At 1 April 2008	1,635	1,719	–	3,354
Additions	3,260	–	12,407	15,667
Disposals	–	–	–	–
Revaluation	(11)	–	–	(11)
At 31 March 2009	**4,884**	**1,719**	**12,407**	**19,010**
Amortisation				
At 1 April 2008	(811)	(646)	–	(1,457)
Provided in year	(587)	(340)	–	(927)
Disposals	–	–	–	–
Revaluation adjustment	11	–	–	11
At 31 March 2009	**(1,387)**	**(986)**	**–**	**(2,373)**
Net book value				
At 1 April 2008	824	1,073	–	1,897
At 31 March 2009	**3,497**	**733**	**12,407**	**16,637**

13(b) Current year

	Software £000	Website £000	Assets under construction (1) £000	Total £000
Cost or valuation				
At 1 April 2009	4,884	1,719	12,407	19,010
Additions	867	773	22,009	23,649
Transfer from 'assets under construction' on implementation	16,755	–	(16,755)	–
Disposals	(9)	–	–	(9)
Write-off of old website – new website came into use	–	(1,719)	–	(1,719)
Revaluation	–	–	–	–
At 31 March 2010	**22,497**	**773**	**17,661**	**40,931**
Amortisation				
At 1 April 2009	(1,387)	(986)	–	(2,373)
Provided in year	(1,105)	(247)	–	(1,352)
Disposals	8	–	–	8
Write-off of old website – new website came into use	–	1,157	–	1,157
Revaluation adjustment	–	–	–	–
At 31 March 2010	**(2,484)**	**(76)**	**–**	**(2,560)**
Net book value				
At 1 April 2009	3,497	733	12,407	16,637
At 31 March 2010	**20,013**	**697**	**17,661**	**38,371**

(1) Assets under construction include developments concerning the implementation of the new banking platform. At the statement of financial position date £16.76 million had been transferred to software on implementation of the first part of the programme. The remaining amounts are linked to further product migration and other developments.

14 Financial instruments

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

NS&I's net revenue resource requirements including capital expenditure are financed by resources voted annually by Parliament. NS&I's Resource Accounts are not, therefore, exposed to significant liquidity risks.

15 Trade and other receivables

15(a) Trade and other receivables

	31 March 2010 £000	Restated 31 March 2009 £000	Restated 1 April 2008 £000
Amounts falling due within one year			
Deposits and advances	44	53	38
Other receivables	31	27	19
Prepayments and accrued income	151	161	571
	226	**241**	**628**

At 31 March 2010 there were no debtors falling due after more than one year.

The number of employees with advance for season ticket purchases in excess of £2,500 at 31 March 2010 was three.

15(b) Intra-government balances – trade and other receivables

	31 March 2010 £000	Restated 31 March 2009 £000	Restated 1 April 2008 £000
Balance with other central government bodies	–	–	–
Balance with public corporations and trading funds	–	–	–
Subtotal: intra-government balances	–	–	–
Balance with bodies external to government	226	241	628
Total receivables at 31 March	**226**	**241**	**628**

At 31 March 2010 there were no intra-government receivables falling due after more than one year.

16 Cash and cash equivalents

	2009–10 £000	2008–09 £000
Balance at 1 April	1,335	1,426
Net increase/(decrease) in cash and cash equivalent balances	(706)	(91)
Closing cash and cash equivalents balance	**629**	**1,335**
The following balances at 31 March are held at:		
Office of HM Paymaster General	576	1,281
Commercial banks	53	54
Balance at 31 March	**629**	**1,335**

17 Trade and other payables

17(a) Trade and other payables

	31 March 2010 £000	Restated 31 March 2009 £000	Restated 1 April 2008 £000
Amounts falling due within one year			
Taxation and social security	295	276	292
Trade payables	12,245	13,991	10,156
Other payables	262	141	124
Accruals	20,715	9,755	8,115
Amounts issued from the Consolidated Fund for supply but not spent at year end	629	1,335	1,426
Subtotal	**34,146**	**25,498**	**20,113**
Amounts falling due after more than one year			
Trade payables	2,532	–	–
Total trade and other payables	**36,678**	**25,498**	**20,113**

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

	31 March 2010 £000	Restated 31 March 2009 £000	Restated 1 April 2008 £000
Amounts falling due within one year			
Balance with other central government bodies	1,073	1,614	1,718
Balance with public corporations and trading funds	994	1,974	1,314
Subtotal: intra-government balances	**2,067**	**3,588**	**3,032**
Balance with bodies external to government	32,079	21,910	17,081
Subtotal	**34,146**	**25,498**	**20,113**
Amounts falling due after more than one year			
Balance with bodies external to government	2,532	–	–
Total trade and other payables	**36,678**	**25,498**	**20,113**

Amounts falling due after more than one year refer to payments to be made to Siemens for developments that have already been completed.

18 Provisions for liabilities and charges

18(a) Movements in provisions

	31 March 2010 £000	31 March 2009 £000
Early departure costs (1)		
Balance at 1 April	383	547
Provided in the year	30	43
Provisions utilised in the year	(201)	(207)
Balance at 31 March	**212**	**383**
Provision for losses (2)		
Balance at 1 April	160	–
Increase in provision	81	160
Provision written back	(48)	–
Provisions utilised in the year	(76)	–
Balance at 31 March	**117**	**160**
Provision for Glasgow ground (3)		
Balance at 1 April	–	–
Increase in provision	30	–
Provisions utilised in the year	–	–
Balance at 31 March	**30**	**–**
Provisions for liabilities and charges	**359**	**543**

(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. The Department provides for this in full when the early retirement programme becomes binding by establishing a provision for the estimated payments discounted by the HM Treasury discount rate of 3.5% in real terms.

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

(3) Explanation of the provision is provided in notes 21(b) and 24.

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

	31 March 2010 £000	31 March 2009 £000
Early departure costs		
Less than one year	160	185
Between one year and five years	52	198
Balance at 31 March	**212**	**383**
Provision for losses		
Less than one year	117	160
Balance at 31 March	**117**	**160**
Provision for Glasgow ground		
Less than one year	10	160
Between one year and five years	20	–
Balance at 31 March	**30**	**160**

19 Net gain/(loss) on revaluation of property, plant and equipment

	31 March 2010 £000	Restated 31 March 2009 £000
Revaluation on property charges to reserves		
Downward revaluation	(2,718)	(5,422)
Downward revaluation on depreciation	(1,396)	168
Upward revaluation	1,178	7,938
	(2,936)	**2,684**
Revaluation of property: charges to operating cost statement	1,686	2,279
Movement in revaluation reserve	**(1,250)**	**4,963**

20 Capital commitments

	31 March 2010 £000	31 March 2009 £000
Contracted for but not provided	1,481	2,541
Authorised but not contracted	–	–
Total	**1,481**	**2,541**

21 Leases

21(a) Operating leases with tenants

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

	31 March 2010 £000	Restated 31 March 2009 £000	Restated 1 April 2008 £000
Buildings			
Less than one year	5,321	5,078	5,078
Between one year and five years	14,877	19,078	23,340
More than five years	–	–	–
Total	**20,198**	**24,156**	**28,418**
Land (1)			
Less than one year	10	10	10
Between one year and five years	9	38	38
More than five years	–	226	227
Total	**19**	**274**	**275**

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. The discount rate used is the HM Treasury discount rate of 3.5%.

	31 March 2010 £000	Restated 31 March 2009 £000	Restated 1 April 2008 £000
Obligations under operating leases comprise:			
Buildings			
Less than one year	117	467	438
Between one year and five years	–	113	525
More than five years	–	–	–
Total	**117**	**580**	**963**
Land (1)			
Less than one year	25	32	30
Between one year and five years	42	56	76
More than five years	224	226	227
Total	**291**	**314**	**333**

None of these leases relate to the hire of plant.

(1) NS&I holds a lease on land in Glasgow with Pollok and Corrour Limited. The lease commenced in 1974. The original lease term was for 99 years. NS&I pays £10,800 rent to the landlord annually. The Glasgow Sports & Social Association has refunded NS&I the rent of £10,800 annually until July 2009. NS&I is attempting to sub-lease the land. It is anticipated that NS&I will cover the rent for the next three years. NS&I has recognised the liability for the three-year period in a provision.

22 Commitments under the Public Private Partnership (PPP) contract

NS&I entered into a 10-year PPP contract with Siemens for the provision of operational services, which came into effect on 1 April 1999. The contract is to design, develop, procure, finance and operate, including maintain, 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, which was covered in the original contract, the initial 10-year period was extended to a 15-year period ending in March 2014.

On the commencement of the contract on 1 April 1999, over 4,000 NS&I staff were transferred to Siemens. In addition, £15 million of NS&I's assets were also transferred to Siemens for a nominal sum, which had the effect of reducing charges which would otherwise have been payable to Siemens over the life of the contract. Under UK GAAP, the £15 million of assets had been accounted for as a prepayment to be amortised over the original 10-year contract period on a straight-line basis as services were delivered. In the UK GAAP based accounts for 2008–09, the remaining £1.5 million of the prepayment was recognised on the balance sheet as at 1 April 2008 and had been fully amortised to zero as at 31 March 2009.

For the purpose of the 2009–10 accounts presented here, which are prepared in accordance with International Financial Reporting Standards, the prepayment balance recognised in the UK GAAP based accounts as at 1 April 2008 has been derecognised and the assets that underlie the arrangement have been recognised as property, plant and equipment under IAS 16 or intangible assets under IAS 38.

Under the same contract Siemens has entered into an agreement to lease NS&I's three operational sites in return for a monthly rent. Details of the amounts receivable are provided in note 11 to these accounts.

NS&I is committed to making annual payments to Siemens and these payments are set to reduce significantly over the life of the contract as NS&I gains from the capital investment and operational efficiency brought about by this agreement. The estimated capital value at the commencement of the contract was £48.1 million. Under UK GAAP the unitary payment to Siemens was taken directly through the operating cost statement, with none of the assets involved in the project recognised on the statement of financial position.

In transitioning to IFRS a major exercise was undertaken to review the contract arrangements, fixed asset registers maintained by Siemens and data books held by NS&I. In doing so, assets to the value of £4.6 million were identified and, in accordance with IFRS, recognised in the statement of financial position as at 1 April 2008 (and a further £19.9 million of assets were added during the year). Details on those assets are contained in note 2 to these accounts.

At this point in time the contract does not constitute a finance lease arrangement, as the payment mechanism is such that all related assets and services have been paid for on an ongoing basis as delivered and recognised in the contract year when incurred.

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

	£000
Amounts falling due within one year	89,133
Net present value of amounts falling due within two to five years	247,010
	336,143

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

Specific to the contract is that NS&I has an option to purchase IT assets, plant and other assets in use at the end of the existing contract.

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

On expiry of the contract, certain assets in the legal ownership of Siemens but which NS&I has recognised on the statement of financial position will transfer to NS&I. Siemens will be able to negotiate arrangements for the shared assets but are obliged to provide NS&I with assets to allow NS&I to continue running the business. If this involves the use of shared assets, Siemens must either sell the shared asset to NS&I at fair market value or provide NS&I with an alternative asset that fulfils the same purpose; also at fair market value.

23 Other financial commitments

There were no other financial commitments at 31 March 2010.

24 Contingent liabilities disclosed under IAS 37

NS&I has an operating lease agreement in place with Pollok and Corrour Limited (landlords of the sports ground in Glasgow). There are still 63 years to run on the lease. The lease is an onerous lease. NS&I has clear plans to pass on the lease to another party. The lease is likely to be held for a further three years. A provision has been established to cover that. However, a possibility remains that NS&I has a contingent liability of around £300,000.

25 Losses and special payments

	Number of cases	31 March 2010 £000	Number of cases	31 March 2009 £000
Compensation payments	14	98	15	4
Fraud loss	180	393	162	195
Fruitless payments	1	8	–	–
Special payments	–	–	1	25
Other	–	–	–	–
Total	**195**	**499**	**178**	**224**

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 2009–10 were £22,589,439 (2008–09: £28,487,056) for contract services and £0 for non-contract services (2008–09: £0).

In addition, the Department has carried out a small number of various immaterial transactions with other government departments: HM Treasury, HMRC, Cabinet Office and the Financial Ombudsman Service.

Neither the Economic Secretary to HM Treasury nor the Financial Services 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 Department.

27 Post balance sheet events

Following the general election in May 2010, Lord Sassoon was appointed Commercial Secretary to HM Treasury with responsibility for NS&I.

There were no other reportable post balance sheet events between the balance sheet date and the date of authorisation of the accounts (7 July 2010). The financial statements do not reflect events after that date.

Product Accounts 2009–10

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

I certify that I have audited the financial statements of National Savings and Investments' Product Accounts for the year ended 31 March 2010 under the Government Resources and Accounts Act 2000. These 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 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 the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to National Savings and Investments' circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by National Savings and Investments; and the overall presentation of the financial statements.

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

Opinion on regularity

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

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of affairs of National Savings and Investments' Product Accounts as at 31 March 2010 and of the income and expenditure and cash flows for the year then ended; and
- the financial statements have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000.

Opinion on other matters

In my opinion:

- the information given in the Management Commentary (excluding the tables headed 'Difference between resource budget and resource outturn 2009–10' and 'Reconciliation of resource expenditure between estimates, accounts and budgets') 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, 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 or returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Statement on Internal Control 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

7 July 2010

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 in Annex 1 to these accounts.

Scope of the Product Accounts

These accounts record transactions for the year ended 31 March 2010 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 and 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 Resource Accounts in the Annual Report. However, the interest costs on NS&I products are included in the total cost of servicing the national debt, and these costs are therefore reflected as a charge on 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 in financing the national debt.

The National Loans Fund (NLF)

The NLF is central government's main borrowing and lending account. The NLF undertakes borrowing and uses the proceeds to meet any deficits on the Consolidated Fund. Most of the NLF's borrowing needs are met indirectly through borrowing on its behalf by NS&I and the Debt Management Office (DMO). The NLF 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 (DMA). HM Treasury is responsible for the operation of the NLF and guarantees to honour NS&I's products' terms and conditions.

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

Under the National Savings Bank Act 1971, Ordinary Account investments were passed to the 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.

In December 2007, NS&I made a submission to the Economic Secretary to the Treasury to have funds held by the CRND transferred to the NLF under the Residual Account. The Ordinary Account funds were transferred in June 2008, followed by the unclaimed funds on 1 September 2009. By transferring these funds, NS&I was able to modernise and standardise product accounting and reduce complexity with a single product-based system.

The final White Paper account for the Ordinary Deposits was prepared for the period 1 April 2009 to 1 September 2009 and certified by the Comptroller and Auditor General on 24 February 2010.

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 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 in Capital Bonds and Pensioners' Guaranteed Income Bonds were transferred to 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 82–83.

Statement of comprehensive income

for the year ended 31 March 2010

	Note	2009–10 £000	2008–09 £000
Interest and prizes financed by the NLF (excluding revaluation of embedded derivatives)		1,893,492	2,785,027
Gain/(loss) on revaluation of embedded derivatives		17,536	(230,738)
Interest and prizes financed by the NLF		1,911,028	2,554,289
Interest and prizes financed by the CRND		–	732
		1,911,028	2,555,021
Interest and prizes payable to investors (excluding revaluation of embedded derivatives)		(1,893,492)	(2,785,759)
(Loss)/gain on revaluation of embedded derivatives		(17,536)	230,738
Interest and prizes payable to investors	3	(1,911,028)	(2,555,021)
Net cost		–	–

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

The notes on pages 89 to 99 form part of the Product Accounts.

Statement of financial position

as at 31 March 2010

	Note	31 March 2010 £000	31 March 2009 £000	1 April 2008* £000
Current assets				
Held by the NLF	4	98,120,139	96,551,545	83,707,804
Held by the CRND	5	–	45,894	336,186
Other receivables	6	180,116	207,887	215,946
Cash and cash equivalents		522,068	436,892	527,591
Total current assets		98,822,323	97,242,218	84,787,527
Current liabilities				
Liability to investors	7	(98,511,242)	(96,915,693)	(84,106,100)
Unclaimed funds	8	–	(35,862)	(42,602)
Other payables	9	(18,369)	(11,385)	(7,275)
Total current liabilities		(98,529,611)	(96,962,940)	(84,155,977)
Net current assets		**292,712**	**279,278**	**631,550**
Non-current liabilities				
Liability to investors	7	(292,712)	(279,278)	(631,550)
Total non-current liabilities		**(292,712)**	**(279,278)**	**(631,550)**
Assets less liabilities		–	–	–

A Statement of Changes in Taxpayers' Equity is not required for NS&I's Product Accounts due to the nature of the agency relationship between NS&I and HM Treasury and NS&I and its customers.

* There is no material difference between the Statement of Financial Position at 31 March 2008 under UK Generally Accepted Accounting Principles and 1 April 2008 under International Financial Reporting Standards.

The notes on pages 89 to 99 form part of the Product Accounts.

Jane Platt

Jane Platt
Chief Executive
National Savings and Investments
30 June 2010

Statement of cash flows

for the year ended 31 March 2010

	Note	2009–10 £000	2008–09 £000
Cash flow from operating activities			
Net operating costs		–	–
Increase in net funds held by the NLF and the CRND	10	(1,517,824)	(12,551,122)
Decrease in amortisation of Guaranteed Equity Bonds' principal liabilities		(4,876)	(2,327)
Decrease in other receivables		27,771	8,059
Increase in total funds invested		1,573,121	12,450,581
Increase in other payables		6,984	4,110
Net cash flow from operating activities		85,176	(90,699)
Net increase/(decrease) in cash and cash equivalents in the period		85,176	(90,699)
Cash and cash equivalents at beginning of the period		436,892	527,591
Cash and cash equivalents at end of the period		**522,068**	**436,892**

The notes on pages 89 to 99 form part of the Product Accounts.

Notes to the accounts

1 Statement of accounting policies

These accounts are prepared in accordance with the *Government Financial Reporting Manual* (FReM) issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. These financial statements are the first statements to be prepared in accordance with IFRS, including prior year comparatives. NS&I Product Accounts reflect the nature of the agency relationship between NS&I and HM Treasury and NS&I and its customers, therefore a Statement of Changes in Taxpayers' Equity is not required.

There is no material difference between the Statement of Financial Position at 31 March 2008 under UK Generally Accepted Accounting Principles and 1 April 2008 under IFRS, as a result no disclosure note showing the impact of first time adoption of IFRS has been provided. The application of IFRS 7 – Financial Instruments: Disclosure, International Accounting Standards (IAS) 32 – Financial Instruments: Presentation and IAS 39 – Financial Instruments: Recognition and Measurement is not materially different to the application of Financial Reporting Standards (FRS) 25 – Financial Instruments: Presentation, FRS 26 – Financial Instruments: Recognition and Measurement and FRS 29 – Financial Instruments: Disclosure.

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.

1.2 New standards, interpretations and amendments to published standards that have not yet been early adopted

Certain new standards, amendments and interpretations to existing standards have been published that, where applicable, are mandatory for NS&I's accounting periods beginning on or after 1 April 2010 or later periods. NS&I has not early adopted the standards, amendments and interpretations described below:

IFRS 9 – Financial Instruments on classification and measurement (effective from annual periods beginning on or after 1 January 2013)

This is the first part of a new standard for financial instruments that deals with the classification and measurement of financial assets that will replace IAS 39. IFRS 9 allows only two measurement categories: amortised cost and fair value. All equity instruments are measured at fair value. A debt instrument is measured at amortised cost only if it is held to collect contractual cash flows and the cash flows represent principal and interest, otherwise it is measured at Fair Value through Profit and Loss. Management is in the process of considering the potential implications on classification and measurement of financial instruments of adoption of the new requirements.

1.3 Interest and prizes recognition

Interest and prizes earned by investors are recognised in accordance with the terms and conditions applicable to each product. Capitalised interest is accrued and included in interest and prizes earned in the Statement of Comprehensive Income and liability to investors in the Statement of Financial Position. Interest, where applicable, is accrued from the date of receipt or most recent capitalisation to the end of the accounting period.

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

1.4 Financed by the CRND / NLF

The interest and prizes earned by investors are funded by the NLF except for the Ordinary Account, which was funded by the CRND until June 2008 when the product was transferred to the NLF under the Residual Account. The accounting policy for the CRND / NLF interest is as outlined in note 1.3 and is therefore equal and opposite in total, resulting in a net cost of zero.

1.5 Cash and cash equivalents

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

1.6 Financial assets

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. They are subsequently measured at amortised cost using the effective interest method, with the exception of Guaranteed Equity Bonds (GEBs), which have an embedded derivative. The GEB embedded derivatives 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 asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period. Derecognition of financial assets only occurs when NS&I transfers both its contractual right to receive cash flows from the financial assets and substantially all the risks and rewards of ownership. Financial assets include other receivables.

1.7 Relationships with the CRND and the NLF

NS&I is the Government's retail savings agency. All funds from investors are payable to either the NLF or the CRND, and all liabilities to investors are discharged from funds payable by the NLF and the CRND, on a statutory basis. Risks relating to liabilities to investors are met wholly by the NLF and the CRND. Further, the Product Accounts present only a part of the Government's overall financing requirement managed by HM Treasury through the NLF and the CRND (with recourse to the Consolidated Fund), and is financed ultimately from the Government's tax revenues or borrowings. Due to the nature of these arrangements, the risk management and capital disclosure requirements of IFRS 7 are not applicable to these accounts.

The analysis by principal liability and accrued interest of the total funds held or financed by the NLF (note 4) and the CRND (note 5) does not equal the total funds invested by product (notes 7 and 8), i.e. liability to investors. This is due to timing differences in the flow of funding and defunding movements between NS&I and its agents and the NLF/CRND via HM Treasury's bank account at the Bank of England. This difference is represented by the net of cash plus debtors minus other creditors.

1.8 Financial liabilities

All financial liabilities are measured at amortised cost using the effective interest method unless stated otherwise. The treatment of GEBs is an exception, as explained in note 1.6. Financial liabilities are derecognised when the obligation is discharged. Financial liabilities include other payables.

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

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.

1.9 Derivative financial instruments

A derivative embedded in a product is accounted for as a stand-alone derivative if it is not evidently closely related to the product. It is recognised initially, and subsequently measured, at fair value. Gains and losses arising from changes in the fair value of a derivative are recognised in the 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. These risks were transferred to the DMO to manage and mitigate for each of the GEB issues as NS&I does not hold any underlying position in this product.

IAS 39 requires all embedded derivatives that are not closely related to the host contract to be separately accounted for from the host contract. The separated embedded derivative must be measured at fair value through the Statement of Comprehensive Income.

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

The fair value of the embedded derivative is set at an equal and opposite value to the hedging derivative, with both values being reflected in the liability and the asset sides of the Statement of Financial Position.

2 Transactions with investors by product

	Received from investors	Interest and prizes earned	Paid to investors including tax deducted at source	Transfer to Residual Account	Increase/ (decrease) in investors' funds	Invested 31 March 2010	Invested 31 March 2009
	£000	£000	£000	£000	£000	£000	£000
Capital Bonds	–	29,902	(228,586)	(47,193)	(245,877)	581,388	827,265
Children's Bonus Bonds	34,151	47,945	(106,195)	–	(24,099)	1,273,666	1,297,765
Direct Saver	118,282	55	(400)	–	117,937	117,937	–
Easy Access Savings Account	816,776	20,187	(2,047,565)	–	(1,210,602)	2,628,431	3,839,033
First Option Bonds	–	3,738	(38,337)	–	(34,599)	127,895	162,494
Guaranteed Equity Bonds	75,312	27,506	(325,020)	–	(222,202)	382,009	604,211
Guaranteed Income Bonds and Guaranteed Growth Bonds	6,511,942	266,101	(1,911,367)	–	4,866,676	9,904,440	5,037,764
Income Bonds	1,462,524	157,524	(2,265,709)	–	(645,661)	8,549,362	9,195,023
Individual Savings Account	581,836	53,052	(1,194,000)	–	(559,112)	3,587,463	4,146,575
Investment Account	475,223	12,792	(1,106,987)	–	(618,972)	4,968,397	5,587,369
Pensioners' Guaranteed Income Bonds	(6)	50,154	(739,525)	(59,449)	(748,826)	811,822	1,560,648
Premium Bonds	6,498,450	524,088	(6,242,732)	–	779,806	41,572,648	40,792,842
Residual Account	21,426	543	(29,302)	106,642	99,309	443,927	344,618
Savings Certificates	1,559,792	717,441	(2,257,890)	–	19,343	23,854,569	23,835,226
Total	**18,155,708**	**1,911,028**	**(18,493,615)**	–	**1,573,121**	**98,803,954**	**97,230,833**

First Option Bonds, Guaranteed Income Bonds and Guaranteed Growth Bonds are the only products that have tax deducted at source. The total tax deducted during 2009–10 was £43,152,000 (2008–09: £13,801,000).

The GEB interest earned figure includes a revaluation gain from the embedded derivative at 31 March 2010 of £17,536,000 (31 March 2009: loss £230,738,000).

3 Interest and prizes payable to investors

	2009–10	2008–09
	£000	£000
National Loans Fund	1,911,028	2,554,289
Commissioners for the Reduction of the National Debt	–	732
Total	**1,911,028**	**2,555,021**

4 Amounts held by the NLF

	2009–10 £000	2008–09 £000
As at 1 April	96,551,545	83,707,804
Interest and prizes earned by investors	1,911,028	2,554,289
Received from the NLF	(17,093,077)	(15,277,391)
Paid to the NLF	16,745,767	25,564,516
Amortisation of GEB principal liabilities due to fair value accounting	4,876	2,327
As at 31 March	**98,120,139**	**96,551,545**

The amounts held by the NLF as at 31 March 2010 relate to the following products:

	Principal liability £000	Accrued interest £000	Total £000
Capital Bonds	611,252	18,104	629,356
Children's Bonus Bonds	1,220,808	48,720	1,269,528
Direct Saver	49,430	55	49,485
Easy Access Savings Account	2,627,961	–	2,627,961
First Option Bonds	126,155	1,058	127,213
Guaranteed Equity Bonds	346,066	34,203	380,269
Guaranteed Income Bonds and Guaranteed Growth Bonds	9,786,540	100,261	9,886,801
Income Bonds	8,452,901	12,035	8,464,936
Individual Savings Account	3,508,188	49,205	3,557,393
Investment Account	4,940,219	2,953	4,943,172
Pensioners' Guaranteed Income Bonds	864,809	1,257	866,066
Premium Bonds	41,192,181	51,015	41,243,196
Residual Account	332,797	289	333,086
Savings Certificates	23,159,328	582,349	23,741,677
Total	**97,218,635**	**901,504**	**98,120,139**

The GEB accrued interest figure at 31 March 2010 of £34,203,000 (31 March 2009: £16,667,000) represents the fair value on the hedging derivative contained within the GEB products. Accordingly, the GEB principal liability is amortised using the effective interest rate method as described in note 1.6.

5 Amounts held by the CRND

	2009–10 £000	2008–09 £000
As at 1 April	45,894	336,186
Interest and prizes earned by investors	–	732
Received from the CRND	(48,345)	(1,529)
Paid to the CRND	2,451	5,955
Transferred to the NLF in respect of the Residual Account	–	(295,465)
Loss recoveries paid to the CRND	–	15
As at 31 March	**–**	**45,894**

6 Other receivables

	31 March 2010 £000	31 March 2009 £000	1 April 2008 £000
Agents	126,675	118,197	129,603
Post Office®	49,921	84,814	79,146
Other debtors	3,520	4,876	7,197
Total	**180,116**	**207,887**	**215,946**

Some NS&I products are distributed by the Post Office® and, until October 2009, by WHSmith. The latter changed to a marketing-based contract from November 2009. The Post Office® provides face-to-face counter and brochure pick-up services for customers, across its UK network.

7 Liability to investors

	Principal liability £000	Accrued interest £000	Liability 31 March 2010 £000	Liability 31 March 2009 £000	Liability 1 April 2008 £000
Current liabilities					
Capital Bonds	563,284	18,104	581,388	827,265	1,017,086
Children's Bonus Bonds	1,224,946	48,720	1,273,666	1,297,765	1,306,302
Deposit Bonds	–	–	–	–	5,538
Direct Saver	117,882	55	117,937	–	–
Easy Access Savings Account	2,628,431	–	2,628,431	3,839,033	1,530,474
First Option Bonds	126,837	1,058	127,895	162,494	180,184
Guaranteed Equity Bonds	82,698	6,599	89,297	324,933	377,754
Guaranteed Income Bonds and Guaranteed Growth Bonds	9,804,179	100,261	9,904,440	5,037,764	863,498
Income Bonds	8,524,882	24,480	8,549,362	9,191,656	8,222,185
Individual Savings Account	3,538,258	49,205	3,587,463	4,146,575	3,993,408
Investment Account	4,965,444	2,953	4,968,397	5,587,369	5,434,264
Ordinary Account	–	–	–	–	307,292
Pensioners' Guaranteed Income Bonds	807,522	4,300	811,822	1,560,046	2,895,638
Premium Bonds	41,476,881	95,767	41,572,648	40,760,949	36,894,192
Residual Account	443,638	289	443,927	344,618	–
Save As You Earn	–	–	–	–	10,062
Savings Certificates	23,272,220	582,349	23,854,569	23,835,226	21,029,230
Treasurer's Account	–	–	–	–	19,465
Yearly Plan	–	–	–	–	19,528
	97,577,102	**934,140**	**98,511,242**	**96,915,693**	**84,106,100**
Non-current liabilities					
Guaranteed Equity Bonds	265,108	27,604	292,712	279,278	631,550
	265,108	**27,604**	**292,712**	**279,278**	**631,550**
Total liability to investors	**97,842,210**	**961,744**	**98,803,954**	**97,194,971**	**84,737,650**

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. A split of current and non-current liabilities was required upon conversion to IFRS.

8 Unclaimed funds

	31 March 2010 £000	31 March 2009 £000	1 April 2008 £000
British Savings Bonds	–	–	2,656
Gift Tokens	–	–	1,531
Income Bonds	–	3,367	2,947
Pensioners' Guaranteed Income Bonds	–	602	431
Premium Bonds	–	31,893	29,264
Savings Stamps	–	–	5,773
	–	**35,862**	**42,602**
Aged one year or less	–	–	–
Aged more than one year but not more than two years	–	–	–
Aged more than two years but not more than five years	–	8,672	7,133
Aged more than five years	–	27,190	35,469
	–	**35,862**	**42,602**

Unclaimed funds represent old uncleared payments to investors. Unclaimed funds are repayable to investors on demand. All unclaimed funds were transferred to the Residual Account in April 2008, with the exception of Income Bonds, Pensioners' Guaranteed Income Bonds and Premium Bonds, which were transferred in September 2009.

9 Other payables

	31 March 2010 £000	31 March 2009 £000	1 April 2008 £000
NLF	165	100	48
HM Revenue and Customs	4	2	–
Agents	150	–	–
Post Office®	521	–	173
Sales accruals and evidence of identity refunds	17,529	11,283	7,054
	18,369	**11,385**	**7,275**

10 Movement in net funds held by the NLF and the CRND

	2009–10 £000	2008–09 £000
NLF		
Received from the NLF	17,093,077	15,277,391
Paid to the NLF	(16,745,767)	(25,564,516)
	347,310	(10,287,125)
CRND		
Received from the CRND	48,345	1,529
Paid to the CRND	(2,451)	(5,955)
Transferred to the NLF in respect of the Residual Account	–	295,465
Loss recoveries paid to the CRND	–	(15)
	45,894	291,024
Interest and prizes earned	(1,911,028)	(2,555,021)
Net cash outflow	**(1,517,824)**	**(12,551,122)**

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.

11 Categorisation of financial assets and liabilities

	31 March 2010 £000	31 March 2009 £000
Assets		
Financial assets measured at fair value through statement of comprehensive income	34,203	16,667
Loans and receivables	98,266,052	96,788,659
Cash and cash equivalents	522,068	436,892
	98,822,323	**97,242,218**
Liabilities		
Financial liabilities measured at fair value through statement of comprehensive income	(34,203)	(16,667)
Financial liabilities measured at amortised cost	(98,788,120)	(97,225,551)
	(98,822,323)	**(97,242,218)**

12 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. Therefore NS&I does not face any material market or credit risk. Credit risk relating to the agency and other debtors is mitigated by the short settlement period.

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

13 Product maturity profile

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:

	Variable rate, prize-based and index-linked products 31 March 2010	Fixed rate products 31 March 2010	Non-interest bearing products 31 March 2010	Total 31 March 2010
	£000	£000	£000	£000
Maturing in one year or less or repayable on demand	79,464,841	18,975,238	71,657	98,511,736
Maturing in more than one year but not more than two years	61,861	–	–	61,861
Maturing in more than two years but not more than five years	256,854	–	–	256,854
Maturing in more than five years	–	–	–	–
	79,783,556	**18,975,238**	**71,657**	**98,830,451**

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

14 Fair values of assets and liabilities

	Total per accounts 31 March 2010 £000	Fair value 31 March 2010 £000
Assets		
Held by the NLF – all products apart from GEB	97,739,870	98,458,310
Held by the NLF – GEB	380,269	388,020
Held by the CRND	–	–
Cash and cash equivalents	522,068	522,068
Other receivables	180,116	180,116
	98,822,323	**99,548,514**
Liabilities		
Fixed rate products	(18,975,238)	(19,693,678)
GEB	(382,009)	(389,760)
Floating rate products	(79,375,050)	(79,375,050)
Non-interest bearing products	(71,657)	(71,657)
Other payables	(18,369)	(18,369)
	(98,822,323)	**(99,548,514)**

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

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

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

15 Fair value hierarchy disclosures

In November 2009, an amendment was made to IFRS 7. The amendment provides enhanced disclosure about fair value measurement. It requires disclosure of any change in technique used to establish fair value, including reasons, and to classify the financial instrument measured at fair value into hierarchy level. There are three 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).

In the first year of application, comparative information need not be presented for the disclosures required by the amendment.

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.

	Note	Level 2 31 March 2010 £000	Total 31 March 2010 £000
Assets			
GEB embedded derivative	(a)	34,203	34,203
		34,203	**34,203**
Liabilities			
GEB embedded derivative	(a)	(34,203)	(34,203)
		(34,203)	**(34,203)**

(a) 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.

16 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.

In addition to the DMO, NLF, CRND and HM Treasury (NS&I's relationships with these parties are mentioned in the 'Product Accounts background' and 'Our governance and board' sections), 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 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 2009–10 was £3.09 billion (2008–09: £8.02 billion) and the total amount transferred to the Post Office® for repayment during 2009–10 was £0.20 billion (2008–09: £0.23 billion).

The outstanding amount due from the Post Office® at 31 March 2010 is £49.92 million (2008–09: £84.81 million) and the outstanding amount due to the Post Office® at 31 March 2010 is £0.52 million (2008–09: £0).

Neither the Economic Secretary to HM Treasury nor the Financial Services Secretary to HM Treasury, no board member, 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.

17 Post balance sheet events

Following the general election in May 2010, Lord Sassoon was appointed Commercial Secretary to the Treasury with responsibility for NS&I. There are no other reportable post balance sheet events between the balance sheet date and 7 July 2010, the date of authorisation of the accounts. 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 2010 (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* except to the extent set out below:

    a. a Statement of Comprehensive Income shall be prepared instead of an Operating Cost Statement (Statement of Comprehensive Net Expenditure from 2010–11); and

    b. the Statement of Parliamentary Supply and the Statement of Operating Costs by Departmental Strategic Objectives are not relevant to the Product Accounts.

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

5. This Accounts Direction supersedes that issued on 23 May 2007.

Chris Wobschall
Head, Assurance and Financial Reporting Policy
HM Treasury
15 January 2010

Annex 2: Departmental Report information

The 2009–10 Departmental Report information shown in the tables below is not consistent with the information shown in the 2009–10 Resource Accounts. This is a departure from previous years.

The differences in the information below and the Resource Accounts are 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 Resource Accounts.

The main difference is that departmental budgets are not adjusted for IFRS, 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. There are also further changes brought about by changes in HM Treasury's required budgetary framework which are also not reflected in the Resource Accounts. The main budgetary changes that have impacted on NS&I in 2009–10 are shown below:

- the cost of capital charge has been removed from budgets, Supply Estimates and Resource Accounts
- provisions and revaluations have been moved from DEL budgets into AME, and
- depreciation, impairments and notional audit fees have remained in resource DEL.

As required by HM Treasury these changes have also been made to previous years' numbers shown in the Departmental Report. As a result the data shown in this Departmental Report does not directly reconcile to either the Resource Accounts or to previous years' Departmental Reports.

Table 1: NS&I public spending

	Outturn 2004–05 £000	Outturn 2005–06 £000	Outturn 2006–07 £000	Outturn 2007–08 £000	Outturn 2008–09 £000	Outturn 2009–10 £000	Plans 2010–11 £000
Resource budget							
Resource departmental expenditure limit (DEL)							
NS&I	165,853	175,215	167,766	153,533	183,767	179,354	157,402
Total resource budget DEL	**165,853**	**175,215**	**167,766**	**153,533**	**183,767**	**179,354**	**157,402**
Resource annually managed expenditure (AME)							
NS&I	(681)	(529)	528	(181)	(4)	1,502	5,000
Total resource budget AME	**(681)**	**(529)**	**528**	**(181)**	**(4)**	**1,502**	**5,000**
Total resource budget	**165,172**	**174,686**	**168,294**	**153,352**	**183,763**	**180,856**	**162,402**
of which: depreciation	3,807	2,666	2,703	2,894	3,002	2,899	7,983
Capital budget							
Capital DEL							
NS&I	137	237	68	45	926	4,991	464
Total capital budget DEL	**137**	**237**	**68**	**45**	**926**	**4,991**	**464**
Capital AME							
Total capital budget AME	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total capital budget	**137**	**237**	**68**	**45**	**926**	**4,991**	**464**
Total departmental spending(1)							
NS&I	161,502	172,257	165,659	150,503	181,687	182,948	154,883
Total departmental spending(1)	**161,502**	**172,257**	**165,659**	**150,503**	**181,687**	**182,948**	**154,883**
of which:							
Total DEL	162,183	172,786	165,131	150,684	181,691	183,132	154,883
Total AME	(681)	(529)	528	(181)	(4)	(184)	–

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

Table 2: NS&I resource budget DEL and AME

	Outturn 2004–05 £000	Outturn 2005–06 £000	Outturn 2006–07 £000	Outturn 2007–08 £000	Outturn 2008–09 £000	Outturn 2009–10 £000	Plans 2010–11 £000
Resource DEL							
National Savings and Investments	**165,853**	**175,215**	**167,766**	**153,533**	**183,767**	**179,354**	**157,402**
of which:							
NS&I	165,853	175,215	167,766	153,533	183,767	179,354	157,402
Total resource budget DEL	**165,853**	**175,215**	**167,766**	**153,533**	**183,767**	**179,354**	**157,402**
of which:(1)							
Pay	6,711	7,497	7,692	7,993	8,922	9,514	
Procurement	154,830	164,486	156,764	142,013	171,108	166,173	
Current grants and subsidies to the private sector and abroad	–	–	–	–	–	–	–
Current grants to local authorities	–	–	–	–	–	–	–
Depreciation and amortisation	3,807	2,666	2,703	2,894	3,002	2,899	2,893
Resource AME							
National Savings and Investments	**(681)**	**(529)**	**528**	**(181)**	**(4)**	**1,502**	**5,000**
of which:							
NS&I	(681)	(529)	528	(181)	(4)	1,502	5,000
Total resource budget AME	**(681)**	**(529)**	**528**	**(181)**	**(4)**	**1,502**	**5,000**
of which:(1)							
Depreciation and amortisation	–	–	–	–	–	1,686	5,000
Total resource budget	**165,172**	**174,686**	**168,294**	**153,352**	**183,763**	**180,856**	**162,402**

(1) The economic category breakdown of resource budgets only shows the main categories, so may not sum to the total. The breakdown may even exceed the total where further income scores in resource budgets.

Table 3: NS&I capital budget DEL and AME

	Outturn 2004–05 £000	Outturn 2005–06 £000	Outturn 2006–07 £000	Outturn 2007–08 £000	Outturn 2008–09 £000	Outturn 2009–10 £000	Plans 2010–11 £000
Capital DEL							
National Savings and Investments	**137**	**237**	**68**	**45**	**926**	**4,991**	**464**
of which:							
NS&I	137	237	68	45	926	4,991	464
Total capital budget DEL	**137**	**237**	**68**	**45**	**926**	**4,991**	**464**
of which:							
Capital expenditure on fixed assets net of sales[1]	137	237	68	45	926	4,991	464
Capital AME							
Total capital budget AME	–	–	–	–	–	–	–
Total capital budget	**137**	**237**	**68**	**45**	**926**	**4,991**	**464**
of which:							
Capital expenditure on fixed assets net of sales[1]	137	237	68	45	926	4,991	464
Less depreciation[2]	3,807	2,666	2,703	2,894	3,002	2,899	7,983
Net capital expenditure on tangible fixed assets	(3,670)	(2,429)	(2,635)	(2,849)	(2,076)	2,092	(7,519)

(1) Expenditure by the Department on land, buildings and equipment, net of sales. Excludes spending on financial assets and grants, and public corporations' capital expenditure.

(2) Included in resource budget.

Table 4: NS&I capital employed

	Outturn 2004–05 £000	Outturn 2005–06 £000	Outturn 2006–07 £000	Outturn 2007–08 £000	Outturn 2008–09 £000	Outturn 2009–10 £000	Plans 2010–11 £000
Assets on balance sheet at end of year							
Non-current assets							
Intangible	141	222	144	1,897	16,637	38,371	47,000
Property, plant and equipment	24,841	25,318	25,204	29,608	35,185	40,539	41,900
of which:							
Land and buildings	22,014	22,842	23,139	25,156	27,159	27,642	28,000
Information technology	134	140	137	1,373	5,075	9,793	10,400
Plant and machinery	402	340	260	1,151	893	634	800
Furniture and fittings	2,291	1,996	1,668	1,928	1,208	2,470	2,700
Assets under construction	–	–	–	–	850	–	–
Current assets	**10,384**	**9,145**	**4,641**	**2,054**	**1,577**	**855**	**3,000**
Creditors <1 year	(17,833)	(23,161)	(26,356)	(20,113)	(25,498)	(34,146)	(24,000)
Creditors >1 year	–	–	–	–	–	(2,532)	–
Provisions	**(1,575)**	**(1,045)**	**(728)**	**(547)**	**(543)**	**(359)**	**(500)**
Capital employed within main department	**15,958**	**10,479**	**2,905**	**12,899**	**27,358**	**42,728**	**67,400**

Table 5: NS&I administration costs

	Outturn 2004–05 £000	Outturn 2005–06 £000	Outturn 2006–07 £000	Outturn 2007–08 £000	Outturn 2008–09 £000	Outturn 2009–10 £000	Plans 2010–11 £000
Administration expenditure							
Paybill	6,711	7,497	7,692	7,993	8,922	9,514	
Other	163,820	172,930	165,421	151,165	180,593	175,672	
Total administration expenditure	**170,531**	**180,427**	**173,113**	**159,158**	**189,515**	**185,186**	**163,680**
Administration income	(4,678)	(5,212)	(5,347)	(5,625)	(5,748)	(5,832)	(6,278)
Total administration budget	**165,853**	**175,215**	**167,766**	**153,533**	**183,767**	**179,354**	**157,402**
Analysis by activity							
NS&I	165,853	175,215	167,766	153,533	183,767	179,354	157,402
Total administration budget	**165,853**	**175,215**	**167,766**	**153,533**	**183,767**	**179,354**	**157,402**

Table 6: NS&I staff numbers

Staff numbers at:	1 April 2005	1 April 2006	1 April 2007	1 April 2008	1 April 2009	1 April 2010
Permanent	123	125	129	135	141	143
Casual	4	7	4	1	6	13
Total	**127**	**132**	**133**	**136**	**147**	**156**

Glossary

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

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

Basis point
This is usually one-hundredth of a percentage point.

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

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

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

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

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

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

Executive Agency
NS&I is 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.

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

Flight to safety
In autumn 2008, the global economic crisis generated a significant increase in the amount of savers' funds being invested in NS&I.

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

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

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

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

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

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

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

ISO 14001
An international standard used to evaluate an organisation's environmental management systems.

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.

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

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

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

Sustainable Development Action Plan (SDAP)
A plan which states how an organisation will change its operations and activities to become more sustainable. All government organisations must produce an SDAP annually, setting out how they are contributing to meeting the aims and objectives of the UK Sustainable Development Strategy *Securing the Future*.

Sustainable Operations on the Government Estate (SOGE)
Government-wide targets to drive improvements in sustainability across public sector operations. From 2011–12, these will be replaced by the Sustainable Development in Government (SDiG) framework.

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
This means that the interest is 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 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 **mylostaccount.org.uk**

Value Add
A measure of our cost-effectiveness in raising finance for the Government. The total cost of NS&I raising funds is compared with how much it would cost the Government to raise funds through the wholesale market via gilts and Treasury Bills. Unprecedented market conditions – specifically the base rate falling to an exceptionally low level – had a significant effect on this measure and made the comparators invalid. HM Treasury and NS&I agreed to formally suspend the Value Add measure for 2008–09 and no Value Add target was set for 2009–10 or 2010–11. As an alternative, NS&I has developed the Value Indicator.

Value Indicator
An alternative measure of our cost-effectiveness in raising finance for the Government which 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.

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

Contacts and more information

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.

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- 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 may not be free. Calls may be recorded.

Internet
Visit our website at **nsandi.com**

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

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Thank you
NS&I would like to thank all staff for their contribution to the 2009–10 Annual Report.

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