# 2015 2016

National Savings and Investments
Annual Report and Accounts and Product Accounts 2015–16

HC345

National Savings and Investments • Annual Report and Accounts and Product Accounts 2015–16

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**National Savings and Investments**
**Annual Report and Accounts and Product Accounts 2015–16**

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# Annual Report and Accounts and Product Accounts 2015–16
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## Section 1
## Performance Report

# Who we are

NS&I is one of the largest savings organisations in the UK with over 25 million customers and more than £135 billion invested. NS&I is both a government department and an Executive Agency of the Chancellor of the Exchequer. Our origins can be traced back over 150 years to 1861.

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

## Our vision

Service, Value and Trust

## Our mission

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

## Our values

Security, integrity, straightforwardness, human touch

Our values are at the heart of everything we do:

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

## Operating framework

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

# Chairman's statement

2015–16 has seen NS&I achieve impressive results. We successfully delivered one of our largest annual contributions to government debt financing in recent years, raising £11.3 billion of Net Financing – within our target range of £8 billion to £12 billion. Furthermore, we again proved a cost-effective means of doing so, delivering positive value to the taxpayer in a time of fluctuating comparator gilt yields. Equally important was the manner in which this performance was delivered, with NS&I implementing the FCA Conduct rules and Senior Managers' Regime to clearly map out individual responsibilities and ensure accountability across the business.

Three major projects – the closure of the offer for sale of 65+ Bonds; the increase in the Premium Bonds maximum investment limit to £50,000; and the conclusion of our distribution relationship with the Post Office® – were completed smoothly and in quick succession. Our financial projections and forecasting proved highly accurate, quarter on quarter, demonstrating a sound understanding of customer behaviour and transparency to the financial services sector.

All of this was completed by a lean, effective and committed team of people across NS&I and our outsource partners who balanced the delivery of major projects alongside 'business as usual'. I would like to thank each and every one of them. We are a larger business in terms of total stock and transaction levels, but our operating costs are lower.

This is a direct result of our long-term strategy, which has focused over a number of years on becoming an evermore cost-effective, scalable operation. At the heart of that strategy is our ambitious channel shift agenda: encouraging and enabling customers to use lower-cost channels to interact with us. With the end of commercial sales through the Post Office®, we are now a 100% direct business.

The transformation we have undertaken over the past decade has streamlined our operation to an impressive degree. This year, NS&I's efficiency ratio – how cost effectively we manage the funds we hold – improved once again, falling from 14 to 12 basis points. This means that it costs NS&I 12 pence a year to manage each £100 of stock we hold. We believe that our efficiency ratio is some way ahead of many banks and building societies in the same business areas.

However, improving on our efficiency presents certain challenges, not least in terms of our 2015 Spending Review settlement under which our funding from the public purse will be reduced by 25% in real terms by 2020. Our task will be to find where else we can make savings. As well as promoting customer channel shift further to reduce our operational costs, we will increasingly seek to fund our operations through delivering payment processing to other government departments as business-to-business services. It was therefore of immense importance to us and our strategy when in July the Supreme Court ruled that government plans to use NS&I, in partnership with HM Revenue and Customs, to deliver Tax-Free Childcare were lawful. Work was able to proceed on the delivery of Tax-Free Childcare.

As our existing business-to-business partners demonstrate, we have been able to drive down payment processing costs for each of them, while improving service levels. In partnership with HM Revenue and Customs, we look forward to doing the same for Tax-Free Childcare and the Department for Education's extended free entitlement, by delivering a joint application service.

These business-to-business activities and the income they generate are essential to enable NS&I to grow and invest in improvements to the retail customer experience. They provide ongoing efficiencies for the taxpayer as we become progressively self-funding. Retail savers expect to be able to do business with us in the same ways they can interact with banks and building societies. Wherever the experience drops below expected benchmarks, it affects our customer satisfaction.

This year we have seen evidence of that, as satisfaction has dropped. One of the prime reasons for this is our online authentication process, which has become outdated. Enhancements to this, and other aspects of the digital customer experience, are central to our plans for 2016–17, and we know that customer expectations are constantly rising. Throughout the year, customer service levels for timeliness and accuracy have been maintained.

In 2015–16 we saw some changes to the composition of the board. David Hulf stood down as Non-executive Director and Chairman of the Audit and Risk Committee after two full terms. David brought renewed rigour and professionalism to his committee and to the board for which I and my board colleagues are very grateful.

We are pleased to welcome Ed Anderson in his place. As a former Chairman of Yorkshire Building Society, Ed brings very relevant knowledge of the sector but also an insight into NS&I's impact on retail savings. There have also been changes to the HM Treasury team, which are set out in the Corporate Governance section of this report. I would like to thank the former and new HM Treasury representatives for their support.

Reflecting on a decade of growth and delivery as I have done here is also to reflect on the leadership of NS&I's Chief Executive, Jane Platt CBE. This May, Jane announced her decision to stand down as Chief Executive effective from the end of August 2016, after which she intends to focus on her role as a Non-executive Director at the Financial Conduct Authority where she is also Chair of the External Risk and Strategy Committee.

Since 2006 when she took charge, Jane has steered NS&I through a number of significant milestones and has been a vital part of building our success and our standing today as a trusted, cost-effective organisation that is valued both by our retail customers and our partners in Government. We look forward to appointing a successor in due course. Jane deserves huge thanks for her 10 years of service, her leadership and her excellent stewardship of NS&I. I have valued our working relationship immensely and wish her well for the future.

John de Trafford

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

For details of the board's composition, committees and activities, please see the Governance statement on pages 42 to 46.

# Chief Executive's overview

In 2015–16, NS&I again delivered one of our largest contributions to government debt financing since the 'flight to safety' in 2008. This was due in part to 65+ Bonds remaining on sale until 15 May 2015, proving to be the biggest selling retail financial product in Britain's modern history. Another factor driving inflows was the further increase in the investment limit for Premium Bonds – up from £40,000 to £50,000 from June 2015.

We completed our long-term plan to become a 100% direct business. All products on sale are now available only directly from NS&I: either online, by phone or by post. We have now also smoothly managed the maturities of the 1-year 65+ Bonds for nearly half a million customers. We also delivered £149 million for the taxpayer – measured using our Value Indicator.

We pressed forward with our plans to become progressively self-funding after the Supreme Court confirmed that the Government's decision to deliver Tax-Free Childcare through HM Revenue and Customs in partnership with NS&I was lawful. Our business-to-business services are now part and parcel of NS&I's offer, reducing costs for other parts of Government and delivering savings for taxpayers.

Importantly, during this extremely busy year we have maintained excellent levels of customer service in terms of timeliness and accuracy. This has always been the primary benchmark against which we measure ourselves and reflects the exceptional commitment of our people.

### Smooth and successful delivery

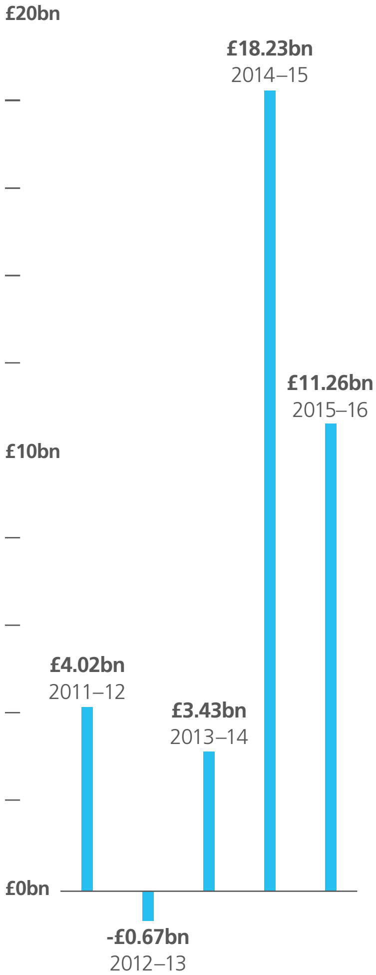
Our headline target for the year was the delivery of £10 billion of Net Financing, in a range of £8 billion to £12 billion. This included an allowance for sales of 65+ Bonds in April and May 2015, together with previously announced plans to increase the maximum investment limit in Premium Bonds from £40,000 to £50,000 in June 2015.

At 31 March 2016, NS&I had raised £11.3 billion for the Exchequer, within our target range. NS&I also delivered £149 million of value for the taxpayer, despite the volatility of the comparator gilt yields.

Under ordinary circumstances, a Net Financing target on this scale might seem daunting: it requires us to prepare for larger transaction volumes and to manage a higher total stock. However, in the context of the activity at the end of 2014–15, when the launch of 65+ Bonds saw us take in more than £4 billion in a single week, we felt well equipped for the operational challenge. In fact, our planning allowed us to build on each of the major milestones in the year to ensure smooth, efficient and successful delivery.

The additional people we put in place to manage the closedown of 65+ Bonds sales were retained, ready for the increase in the investment limit for Premium Bonds which took place just two weeks later on 1 June. When NS&I's business became

Net Financing



100% direct, with the ending of our contract with the Post Office® to sell Premium Bonds at the end of July, we were again well resourced to manage the higher volumes of direct transactions and enquiries.

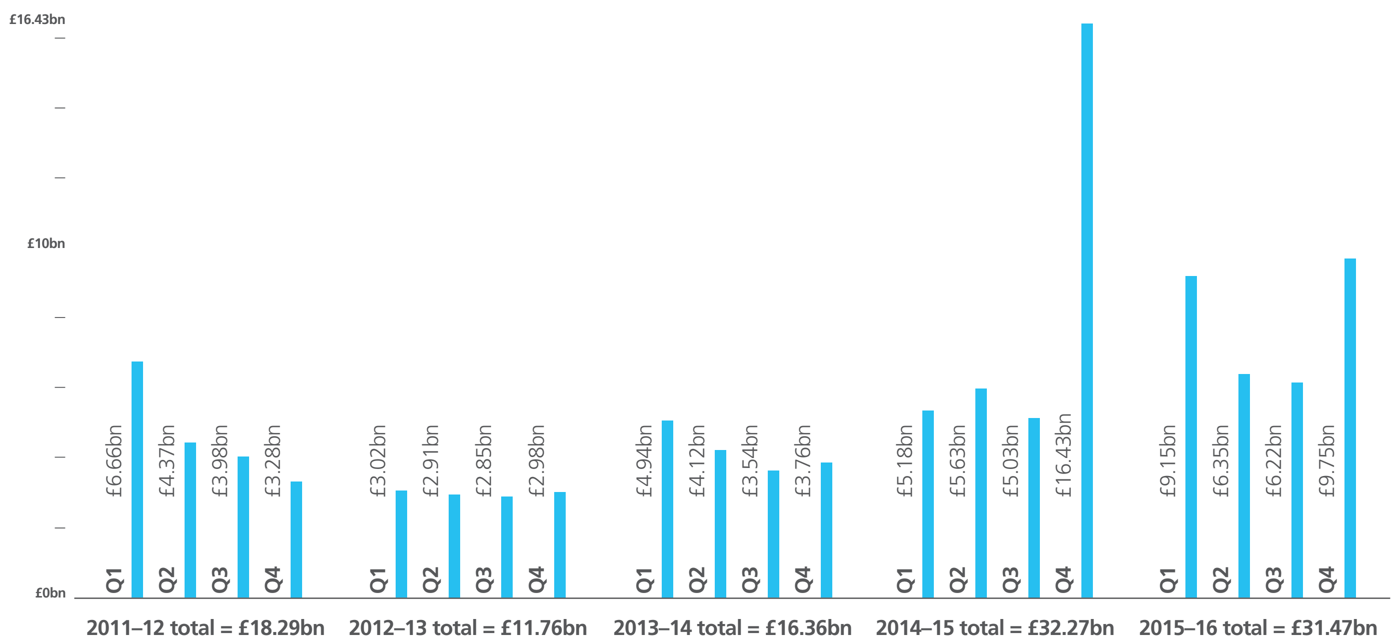
Evidence of successful planning can also be seen in our quarterly results throughout the year, where our Net Financing was in line with forecasts each time. In the final quarter, when 1-year 65+ Bonds began to reach maturity, we gave maturing customers a range of options including whole or partial reinvestment into our 1-, 2-, 3- and 5-year terms of standard Guaranteed Growth Bonds.

### Financial targets met

Significantly in terms of NS&I's targets and performance, the special Issue of 65+ Bonds was a market-leading offer to support older savers. It sat outside of our operating framework of balancing the interests of customers, taxpayers and the stability of the broader financial services sector. It was therefore not included in our Value Indicator target – which provides an assessment of NS&I's cost-effectiveness in raising finance for the Government. However, any reinvestments into our standard Guaranteed Growth Bonds are included within the Value Indicator figure. The Value Indicator 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. This year, gilt yields fluctuated considerably while our costs stayed steady. At the year end, we had met our target of delivering positive value for the taxpayer, delivering £149 million.

Our final Net Financing figure for the year was £11.3 billion. Meeting our Net Financing target is important, not only in terms of measuring our own performance but also because it is the clearest indication we can give to the broader financial services sector of our intent and our impact. As well as acting consistently and transparently so that the financial services market can plan ahead, we have also been consistent in the way we set interest rates for customers. A clear example of this was our Direct ISA, which in April 2015 was paying an interest rate of 1.50%. Rates across this market had fallen since we had last adjusted our rate in

### Gross inflows to NS&I (including reinvestments)



February 2014, meaning that Direct ISA was at, or near, the top of the best buy tables – at odds with our usual position. Given our operating framework, we knew that this would require us to make an adjustment to the interest rate on Direct ISA. In September 2015, we announced our intention to cut the rate to 1.25%.

In the Government's March 2016 Budget, NS&I's Net Financing target for 2016–17 was set at £6 billion within a range of £4 billion to £8 billion. At that time, competitor interest rates had fallen further, leaving NS&I's variable rate products particularly attractively priced. In order to manage the momentum of sales to achieve our target for 2016–17 while preserving the balance of interests between our customers, taxpayers and broader financial stability, we took the difficult decision to reduce rates on Premium Bonds, Direct ISA, Direct Saver, Income Bonds and the Investment Account. When the new rates were announced at the end of March, the majority were either at, or above, market average rates, thus presenting a fair offer to customers. As always, we gave customers 60 days' notice of these changes.

### Focusing on customer satisfaction

One small change that has had a significant impact on the business is the way we measure customer satisfaction. For many years, we had relied on a monthly survey. Though it consistently indicated a high level of satisfaction with NS&I, it offered little real-time insight into the drivers of satisfaction – or indeed dissatisfaction. This year, we replaced that with a more timely measure, in which customers are asked immediately after each interaction with us whether they would like to complete our satisfaction survey. The new approach provides more robust data, as well as far more valuable and actionable feedback.

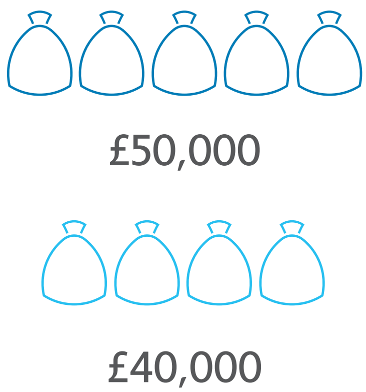
Although the new way of measuring customer satisfaction is much more stringent, our levels of customer satisfaction continue to compare very well with our competitors in the financial services sector. This year we have missed our target, which was not revised as part of the process of introducing the new methodology. We are using detailed real-time feedback to help us understand areas for improvement, for example around online services which will be evolving rapidly in 2016–17.

### Enhancing the customer experience

The other key change to our products this year was the increase in the investment limit in Premium Bonds from £40,000 to £50,000. A large number of customers took up the option to increase their holding, but of equal importance was that we attracted new customers. There were some important associated changes: parents and legal guardians are now able to buy Premium Bonds for their children online and via our call centres. Another change in the prize landscape is the fact that 45% of Premium Bond prizes are now paid by BACS – around 990,000 each month – reducing paperwork and postage, and meaning winners receive their prizes faster.

We also launched a Facebook page for ERNIE, the machine which randomly generates the winning Premium Bond numbers. This has introduced ERNIE to a new medium and audience and has already generated significant customer interest. It underscores the affection which this unique product holds among our customers. This year we improved the Premium Bond jackpot winner's pack. It is now something that winners can keep as a memento and the happy news continues to be personally delivered by Agent Million.

**Increase in Premium Bonds maximum holdings limit**



These changes were put in place by Julian Hynd who left NS&I this year after serving as an executive director for almost a decade, first as Director of Strategy and Change, then as our first Director of Business-to-Business and latterly as Retail Director. I thank him for his strong and wide-ranging contribution to NS&I and wish him every success in the future. I am delighted that Jill Waters has seamlessly taken on the role of acting Retail Director and under her leadership the team continues to make NS&I easier for customers to do business with.

### Our Spending Review settlement

This year there was a Government Spending Review. Our settlement requires us to deliver real-term cost savings of 25% by 2020. This will be a significant challenge, especially as NS&I is already a highly efficient organisation: the ratio of our total administrative costs to total stock is now down to 12 basis points – a figure that we believe continues to compare very well to our competitors in the retail financial services sector. However, our strategy over a number of years has been rooted in the expectation that we would keep finding efficiencies and reduce the funding we require from the taxpayer. There are two critical strands to this – channel shift and business-to-business services.

In terms of channel shift, we aim to manage more customer interactions by lower-cost digital channels, making digital channels the easiest and therefore the most attractive way to do business with us. While there has been steady progress this year, with 65% of transactions now taking place via digital channels compared to 64.5% last year, we expect this to accelerate in 2016–17. We will simplify the authentication and logon processes for our website and we will continue to enhance our Premium Bond Prize Checker app which will offer additional functionality.

**Retail interactions conducted using digital channels**


The ending of the Post Office® relationship was another milestone in achieving channel shift. This has been a long-term, carefully managed transition: we have gradually reduced our reliance on the Post Office® as customers' behavioural preferences have evolved and the Post Office® has developed its own financial services. We are now a 100% direct business, an important milestone in our ongoing aim to be even more efficient for taxpayers.

We have also integrated our Spending Review target into our strategic objectives for the coming year. This is to ensure that we reduce our operating costs in line with our Spending Review settlement and to ensure that Atos, our operational partner, achieves a reduction in operational costs to support our long-term cost challenges.

### A landmark year for business-to-business services

The second strategic strand of meeting our Spending Review settlement is developing our business-to-business operation. Our goal is to become progressively self-funding and this year saw a crucial landmark in our ability to grow our business-to-business services.

On 1 July 2015, the Supreme Court ruled that the decision to deliver Tax-Free Childcare through HMRC in partnership with NS&I was lawful. This confirmed that the Government could use NS&I's business-to-business services to deliver Tax-Free Childcare. We estimate that around two million families will have access to the scheme. This ruling allowed us to move forward with our business model, which is based on leveraging our infrastructure and operational partnership with Atos to help other government organisations reduce their costs. We have made good progress towards delivery and, in partnership with HM Revenue and Customs, we will launch Tax-Free Childcare from early 2017.

It was a landmark not only in legal terms, but also because it was the first time NS&I had been selected to deliver a major government policy; and the first business-to-business service which really utilises our digital capability. Following this, we secured another business-to-business agreement: in partnership with HM Revenue and Customs, NS&I has been appointed to enable the Department for Education policy to increase the amount of free childcare from 15 to 30 hours per week for eligible families in England. The two services – Tax-Free Childcare and extended free entitlement will have a joint application, reducing the costs to taxpayers and delivering a simple and straightforward way for parents to access the schemes, avoiding the need to provide the same information twice, and saving them valuable time.

These new business-to-business services are in addition to those we already provide for the Court Funds Office, Home Office Payment Processing Service and the Equitable Life Payment Scheme. Each of these customers has given us additional work to do during the year.

### Operational performance

Once again, our people have shown exceptional dedication this year, resulting in impressive operational performance and productivity. On average, each member of the Atos operational team now handles £84 million worth of customer deposits – a 15% increase compared to a year ago when the average was around £73 million. This, perhaps more than anything else, underscores how smoothly the growth in our total stock has been managed. Customer service levels for timeliness and accuracy were maintained, as were the key performance indicators on the business-to-business operation. This was despite suffering significant disruption at the end of November when both of our Chennai sites were flooded.

Our Chennai sites play a vital back-office role, helping us process transactions efficiently around the clock. As soon as the severity of the floods became apparent, our business continuity measures were activated. UK sites took on the additional work, meaning that there was no impact on our customers, and Chennai staff could rightly focus on their homes and families. Our Chennai staff then got our operations back to normal extremely quickly. It was for me yet another example of the exceptional resilience we now have in the organisation and the equally exceptional dedication of our people: an ability to respond to change – both planned and unplanned – and to maintain high operational standards.

### Ten years of growth and delivery

This is my tenth Annual Report and Accounts for NS&I, covering a period of rapid growth of the savings book from £73 billion to £135 billion and delivering over £4 billion of value. The business model has been transformed: not only has the total cost to savings book ratio fallen from 25 basis points to 12 basis points, but we have started business-to-business services from scratch, reducing our direct dependence on taxpayer funding and setting us on a course towards self-funding. Our partnership with Atos remains strong and the current contract will deliver some £400 million of savings for the taxpayer. In 2006, half of sales came through the Post Office®; today NS&I is a modern, 100% direct business with customers able to transact 24 hours a day through NS&I's UK call centres, at nsandi.com or by post.

I have also decided, after an immensely fulfilling decade as Chief Executive of NS&I, that the time is right for me to stand down and focus on my other role as Non-executive Director of the Financial Conduct Authority. I will leave NS&I at

**100%**
direct business from
1 August 2015

the end of August 2016 and my successor will be appointed through an open competition. NS&I is an institution that offers millions of customers a simple and safe option for their savings and plays a key role in the UK's fiscal strategy.

I'm particularly proud that we now do so with less contribution from the taxpayer, with an improved customer proposition that is now digital and 100% direct, and with a vibrant offer to the rest of Government through our business-to-business services. This is a testament to the talented and committed team that I joined and have helped to shape over an immensely exciting and busy period, as well as to our operational partner Atos.

I would like to thank everyone at NS&I, our Atos colleagues, the Debt and Reserves Management team at Her Majesty's Treasury, and our Minister, Harriet Baldwin, Economic Secretary to the Treasury, for their support. I wish the business, our customers and all my colleagues the very best for the future.

Jane Platt

**Jane Platt CBE**
**Chief Executive**
**National Savings and Investments**

27 June 2016

# Strategy and performance

### Our strategy

In 2013–14, we set our strategy for the five years from 2014–15 to 2018–19. Our strategy, called 'think ahead', focuses on what, with the support of our operational partner Atos, we had to achieve to meet the targets of successive Spending Reviews, while delivering our core remit of helping reduce the cost to the taxpayer of government borrowing now and in the future. The strategy was developed with the expectation that Spending Review 2015 would be challenging: it was confirmed this year that we will need to reduce our real-term costs by 25% by 2020.

## Objective: Meet NS&I's core remit to help reduce the cost to the taxpayer of government borrowing now and in the future

### Progress in 2015–16

Our core remit is to help reduce the cost to the taxpayer of government borrowing, now and in the future. This year, we delivered one of our largest annual contributions to government debt financing in recent years of £11.3 billion, and did so efficiently. Performance against our Value Indicator target shows that we were once again able to do this, delivering £149 million of value to the taxpayer after covering all of our costs. This was despite continued volatility in key comparator, government gilt yields. See page 15 for an explanation of what the Value Indicator means.

## Objective: Achieve retail channel shift to digital channels (phone and online) of at least 75% by 2018–19

### Progress in 2015–16

Channel shift is both a response to customer demand and a means of increasing the efficiency of our operations. This year, 65% of retail interactions (covering sales and enquiries) were conducted using digital channels. At the end of July 2015, we formally ended our relationship with the Post Office®, after a gradual process of withdrawing our products over a number of years. Our operation is now 100% direct: online, by phone and by post. A full breakdown of sales by channel is shown on page 24. We are marginally behind our target, due to managing the maturity of 1-year 65+ Guaranteed Growth Bonds by post and online only. This decision was taken to ensure a smooth customer experience across a large volume of maturities concentrated in a short period.

## Objective: Deliver an appealing retail digital customer experience

### Progress in 2015–16

We introduced a 'test and learn' approach in the contact centre, in which small teams of contact centre staff explore how they can address known issues and improve the customer experience. This has led to a number of small, yet significant improvements which have increased customer satisfaction with the contact centre: see Our customers on pages 20 to 22 for some examples of these. We also saw increased usage of Twitter as a means of resolving individual customer issues. Next year will see a major refresh of our internet banking service and further enhancements to our mobile app.

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

**Progress in 2015–16**

We will continue to review our product portfolio as a whole, developing new propositions where appropriate. As the 1-year 65+ Bonds reached maturity, customers were offered the option of reinvesting in our standard Guaranteed Growth Bonds. We also introduced the option for parents and legal guardians to purchase Premium Bonds online on behalf of their children. This was something that a large number of customers had requested.

## Objective: Move progressively towards a self-funding model

**Progress in 2015–16**

We were delighted when, on 1 July 2015, the Supreme Court ruled that government plans to use NS&I to work in partnership with HM Revenue and Customs to deliver its Tax-Free Childcare scheme were lawful. In partnership with HM Revenue and Customs, the Government is also using our services to enable the Department for Education policy to increase the amount of free childcare available to working parents.

For more information, see 'Business-to-business customers', pages 26 and 27.

## Objective: Provide good careers and work/life balance

**Progress in 2015–16**

The changing nature of our business, and in particular the growth of our business-to-business operations, is generating exciting career opportunities for our people. This year, we have also introduced some new policies which are helping to deliver a better work/life balance for our people. These include increased support for wellbeing at work, and the option to work contracted hours in nine days each fortnight rather than 10 – effectively giving people an extra day off each fortnight in exchange for working longer hours on the other days.

For more information, see 'Our people', pages 30 to 32.

## Performance analysis 2015–16

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.

| | SDM | 2014–15 | 2015–16 | 2016–17 |
|---|---|---|---|---|
| 1 | **Net Financing**<br>**Goals and objectives**<br>To raise an amount of Net Financing within an agreed range<br>**Measure**<br>Absolute amount of Net Financing from NS&I products | **Performance**<br>£18.2 billion | **Target**<br>£10 billion<br>(+/-£2 billion)<br>**Performance**<br>**£11.3 billion** | **Target**<br>£6 billion<br>(+/-£2 billion) |
| 2 | **Value Indicator(1)**<br>**Goals and objectives**<br>To deliver value to Government when compared to equivalent wholesale funding costs<br>**Measure**<br>Absolute amount of value from NS&I products as calculated by the Value Indicator | **Performance**<br>£330 million(2) | **Target**<br>To deliver positive value for the taxpayer with a lower limit of –£100 million (excluding 65+ Bonds)<br>**Performance**<br>**£149 million** | **Target**<br>To deliver positive value for the taxpayer with a lower limit of –£200 million |
| 3 | **Customer satisfaction(3)**<br>**Goals and objectives**<br>To exceed a threshold level of experience with customer service received from NS&I<br>**Measure**<br>Overall satisfaction with NS&I's service – as measured through 'EvaluAgent' in 2015–16. See note (3) below for details of 2014–15 methodology. | **Performance**<br>87.2% | **Target**<br>At least 87%<br>**Performance**<br>**81.3%** | **Target**<br>At least 87% |

**Footnotes:**

(1) Calculating the Value Indicator

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

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

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

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

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

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

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

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

(2) All initial sales of 65+ Bonds are not included within our Value Indicator target. As they were a specific Budget measure, the costs for delivering them were set out in the 2014 Budget scorecard. An updated cost projection was given in the 2015 Budget. All reinvestments at maturity are included within the Value Indicator target.

(3) Before 2015–16, we measured customer satisfaction via a survey of 600 customers, conducted by Ipsos Mori. The survey was conducted two months after those customers had completed a transaction. The overall measure was the average level of satisfaction against the question, 'Taking everything into account, how would you rate NS&I's customer service?'. From 2015–16, this was replaced by a new process, in which customers are asked the same question via a tool called EvaluAgent, immediately after they have completed a transaction. The satisfaction target remained 87%.

| | | 2014–15 | 2015–16 | 2016–17 |
|---|---|---|---|---|
| 4 | **Customer service – operational delivery**<br>**Goals and objectives**<br>To exceed the threshold level of both timeliness and accuracy<br>**Measure**<br>Average performance against contractual key performance indicators (KPIs) | **Performance**<br>98.06% | **Target**<br>At least 95%<br>**Performance**<br>**97.54%** | **Target**<br>At least 95% |
| 5 | **Customer service – online availability**<br>**Goals and objectives**<br>To exceed the threshold level of attainment in meeting availability targets<br>**Measure**<br>Percentage of time, including planned downtime, that customer-facing marketing and transactional websites are available | **Performance**<br>98.93% | **Target**<br>At least 97%<br>**Performance**<br>**99.93%** | **Target**<br>At least 97% |
| 6 | **Efficient administration of funds**<br>**Goals and objectives**<br>To improve the efficiency of administering total funds<br>**Measure**<br>Ratio of total NS&I administrative costs that are funded by Resource DEL to average funds invested by customers | **Performance**<br>14 basis points | **Target**<br>Less than 16 basis points<br>**Performance**<br>**12 basis points** | **Target**<br>Less than 16 basis points |

| | Goal | 2014–15 | 2015–16 | 2016–17 |
|---|---|---|---|---|
| 7 | **Contact Centre Association (CCA) Global Standard© V6 accreditation**<br>**Goals and objectives**<br>To maintain our current Contact Centre Association Global Standard© Version 6 accreditation following the annual external assessment<br>**Measure**<br>A respected independent customer service standard, widely used by other organisations with a large contact centre operation | **Performance**<br>Met | **Target**<br>CCA Global Standard© Version 6 accredited<br>**Performance met** | **Target**<br>Achieve accreditation |
| 8 | **Financial Ombudsman Service (FOS)**<br>**Goals and objectives**<br>To minimise the incidence where FOS intervention is justified<br>**Measure**<br>The ratio of the number of complaints upheld by FOS in favour of the complainant to the total number of complaints closed by NS&I | **Performance**<br>0.19% | **Target**<br>Less than 0.5% of total complaints raised found against us by FOS<br>**Performance 0.28%** | **Target**<br>Less than 0.5% of total complaints raised found against us by FOS |
| 9 | **Fraud(4)**<br>**Goals and objectives**<br>To minimise the cost of fraud<br>**Measure**<br>The cost of fraud as a percentage of total average stock | **Performance**<br>0.00022% | **Target**<br>Below 0.001% of average funds invested by customers<br>**Performance 0.00034%** | **Target**<br>Below 0.001% of average funds invested by customers |

**Footnote:**
(4) Following the commencement of the new contract on 1 April 2014, Atos, NS&I's operational services provider, is liable for any fraud losses that are incurred under the new contract. Previously, the liability was shared equally once the amount of fraud exceeded £300,000. The fraud losses borne by Atos in the financial year 2015–16 were £442,000. Compared on a like-for-like basis against 2014–15, net fraud losses in 2015–16 were 76% higher. This reflects both an increase in the average size of NS&I stock and an increase in financial fraud attempts nationally over the last 12 months, as reported by the ONS. NS&I fraud losses are still comparatively, very low given the scale of deposits. In addition, the controls we have in place to combat fraud have resulted in attempts with a total value of £3,324,000 being prevented, up by £2,447,000 from £877,000 in preventative losses in 2014–15. The contractual changes have no impact on how customers are reinstated in the event of a fraud. While recoveries may follow, the customer is not disadvantaged.

## Our finances

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

NS&I stayed within all the spending limits set by Parliament. In 2015–16, NS&I's actual net resource requirement was £154.8 million, which is £6.7 million lower than the net resource requirement approved in the 2015–16 estimate, and £69.5 million lower than the net resource outturn in 2014–15.

The following table provides a more detailed comparison of NS&I's 2015–16 outturn with the 2015–16 Estimate.

## Comparison of outturn with Estimate[1]

| | 2015–16<br>Outturn<br>£m | 2015–16<br>Savings compared with Estimate<br>£m | 2014–15<br>Outturn<br>£m | 2014–15<br>Savings compared with Estimate<br>£m |
|---|---|---|---|---|
| Net resource requirement | 154.8 | 6.7 | 224.3 | 6.1 |
| *of which:* | | | | |
| Departmental Expenditure Limit (DEL)[2] | 155.5 | 2.7 | 223.9 | 4.5 |
| Annually Managed Expenditure (AME)[2] | (0.7) | 4.0 | 0.4 | 1.6 |
| Non-budget adjustments[3] | 15.5 | (15.5) | (18.3) | 18.3 |
| **Net operating cost (Accounts)** | 170.3 | (8.8) | **206.0** | **24.4** |
| Capital expenditure (CDEL) | (1.6) | 0.2 | 1.4 | 0.3 |
| Non-budget adjustments[3] | 28.6 | (28.6) | 46.5 | (46.5) |
| **Total capital expenditure (Accounts)** | 27.0 | (28.4) | **47.9** | **(46.2)** |
| **Net cash requirement** | 173.0 | (6.5) | **209.1** | **14.5** |

**Footnotes:**
More information on the use of our resources is contained in the Statement of Parliamentary Supply and the Accounts.

(1) Figures are presented here to the nearest £0.1m. Note SoPS1.1 on page 76 provides figures to the nearest £1,000.

(2) See the Glossary on pages 136 and 137 for definition of these terms.

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

### Savings achieved against the approved net resource requirement

The variance against the net resource requirement is mainly due to a combination of unused operational contingency funding, lower depreciation and lower revaluation charges for NS&I's property portfolio. The following table provides a more detailed breakdown of the variance.

## Difference between resource outturn and Estimate[1]

| | 2015–16<br>£m | 2015–16<br>£m |
|---|---|---|
| Unused operational contingency funding | (1.2) | |
| Lower marketing and customer communication costs | (1.5) | |
| Lower depreciation costs | (0.5) | |
| Other differences | 0.5 | |
| **Total DEL underspend** | | **(2.7)** |
| Lower requirements for provisions | (1.0) | |
| Lower revaluation charge for NS&I properties | (3.0) | |
| **Total AME underspend** | | **(4.0)** |
| **Total underspend against estimate** | | **(6.7)** |

**Footnote:**
(1) Figures are presented here to the nearest £0.1m. Note SoPS1.1 on page 76 provides figures to the nearest £1,000.

### Financial position

The Statement of financial position on page 86 shows that, as at 31 March 2016, total assets less total liabilities were £55.1 million, £3.4 million higher than as at 31 March 2015.

Non-current assets decreased by £13.3 million, due to £8.9 million of land and buildings being transferred to current assets as assets held for sale, an impairment of software development and depreciation charges offset by an increase in capital expenditure on new technology and software development.

Current assets, excluding client funds, increased by £13.4 million to £15.0 million, mainly due to £8.9 million of land and buildings transferred to current assets as assets held for sale and an increase in accrued income of £4.0 million. Total liabilities, excluding client funds, decreased by £3.3 million from £34.6 million to £31.3 million due to a fall in trade payables and accruals offset by an increase in deferred income.

### Payment of suppliers: policy and performance

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

In 2015–16 NS&I paid 92.4% (2014–15: 94.4%) of bills within this standard. The Government made a commitment to speed up the payment process for small- and medium-size enterprises (SMEs). HM Treasury's Managing Public Money guidance states that 'Public sector organisations should aim to pay suppliers wherever possible within 10 days'. NS&I has 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. For 2015–16, the average time taken to pay all suppliers was 14 days.

For the third year in a row, NS&I has come first in the HM Treasury cash flow forecasting league table. This is a significant achievement as cash flow forecasting is important for the Government to manage its borrowing or investing in the money markets in a way that delivers the best results for the taxpayer.

Details of all expenditure over £25,000 can be found on our website along with a list of all contracts with a value of over £75,000, in line with government guidelines.

Jane Platt

**Jane Platt CBE**
**Chief Executive**
**National Savings and Investments**

27 June 2016

## Our customers

This year saw the completion of our long-term programme to become a 100% direct business. Our aim is to make it easier for customers to do business with us and to deliver an outstanding customer experience. This year, we made some valuable progress, although there are some key aspects of the customer experience where we need to improve. Plans are in place to address these issues in 2016–17.

It is almost a decade since we announced our intention to become a direct business – reducing our reliance on our long-term distribution partner the Post Office®. This was rooted in several wider trends as customer expectations and behaviours were evolving, with people increasingly expecting to be able to transact online and to transact quickly. There was also a need for us to optimise processes and invest in service improvements. In August 2015, we withdrew our final product from the Post Office®, with minimal reaction from customers.

### Continuing channel shift

On 1 June 2015 the maximum investment limit for Premium Bonds was increased from £40,000 to £50,000. From the same date we also introduced the option for parents and legal guardians to purchase Premium Bonds online on behalf of their children. This was something that a large number of customers had requested.

In total, more than 2.3 million customers are now registered to use our online services. Some 45% of Premium Bond prizes are paid by BACS – around 990,000 each month – and new sales of all but one of our products are now 'paperless by default', meaning customers who wish to receive paper statements and transaction records must opt in.

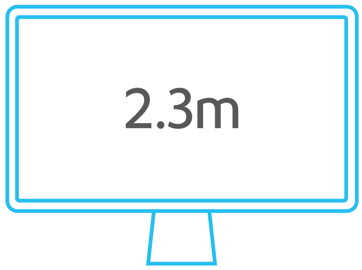
Together, these changes have helped us make steady progress towards our strategic goal of achieving retail channel shift to digital channels (phone and online) of at least 75% by 2018–19. This year, 65% of retail interactions (covering sales and enquiries) were conducted using digital channels.

### Enhancing the digital customer experience

Our approach is centred around making digital channels the easiest and most effective way to interact with us – thus encouraging channel shift. This year, some of the key advances have come from making digital platforms easier to use and expanding our use of social media. We have developed the Prize Checker app based on customer feedback to make it more intuitive and incorporate some additional features. Further enhancements will follow in the next year. We have also completed the development of improvements to the secure section of our website. The refreshed pages have been tested with customers and we plan to launch them in 2016, along with new authentication which will enable most customers to set up an online password and gain full site access almost immediately. This will replace a process which, though secure, takes several days and has been a source of frustration to customers.

We have also expanded the use of our customer Twitter feed for managing queries, evolving this into a 24/7 service channel staffed by our contact centre; and have launched Facebook for Premium Bonds.

**Customers registered for online services**




The two channels have distinct roles. The Twitter account @nsandihelp allows us to respond to customer queries and issues and provide updates. The team has received a lot of positive feedback on how approachable and effective they are.

The Facebook page is focused on Premium Bonds, and is designed to reflect the key product message of making saving fun. It has received more than 37,000 likes but more significantly has served to create a community of Premium Bond customers, with a number of regular users who interact with each other as well as with us. This is an area we will grow with our existing customers and to appeal to new and future customers too.

**Customer satisfaction**

Really understanding how our customers feel about our service is vital to our business and therefore we have introduced a new, more rigorous method of measuring customer satisfaction. Where previously we used a monthly survey, we now invite customers to provide feedback immediately after an interaction with us. This approach gives us far more in-depth and actionable insight. For example, it confirmed that the authentication process has been a factor in the drop we have experienced this year in customer satisfaction levels. The overall figure was 81.3% – down from 87.2% last year and below our target of 87% (the target was 87% in both 2014–15 and 2015–16. For details of the different methodology used in each year, see page 15, note 3). While this still compares well with other organisations in the financial services sector, it is something we are actively addressing.

We have already taken action on a number of other issues where feedback from customers – through surveys, anecdotally through talking to staff and via complaints – has indicated that there are unnecessary 'pinch points' in the customer experience. With Atos, we introduced a new 'test and learn' approach, where small teams of operational staff are tasked with brainstorming possible solutions to a known issue. They then test out our preferred solutions with customers, and gather feedback. Where the new approach proves successful, we roll it out across the business.

To date, we have commenced various test and learn projects of which six have already led us to rollout improvements. For example, following a test and learn project, we introduced knowledge-based authentication to allow customers to make small purchases by phone. This initiative has received excellent feedback from customers and, like the other test and learn projects, it has also proved highly motivating and satisfying for the team involved.

**How we respond to dissatisfied customers**

We value feedback from our customers and we have an approach where we turn feedback into actionable insight. This ensures that we can continually review and improve our processes and service delivery. We are pleased to report that even though the volume of transactions that we manage has increased for the year ending 31 March 2016, 48.3% of complaints were still closed within two working days. An additional 16.5% of complaints were closed between three and five working days.

Resolving complaints faster is in itself a driver of customer satisfaction. During the year we have worked more closely with the Financial Ombudsman Service (FOS) to understand more clearly what the main causes of escalation are, and we are adopting new ways of working to align ourselves with these. Our latest complaints data can be found at nsandi-corporate.com/about-nsi/our-performance/complaints-data/.

### Working with financial advisers

We have continued to strengthen our engagement programme with financial advisers, in order to maintain their advocacy. We attended a range of advice industry events, where the NS&I stand attracted a very high volume of advisers. Our dedicated website – the Adviser Centre – also saw unique visitor volumes increase to c12,000 a month.

### Reuniting customers with assets

Once again, we have continued with our work to reunite customers with money, prizes and accounts they may have lost track of. We continue to support the MyLostAccount service, and this year reunited customers with £36 million of lost assets through MyLostAccount and our own tracing service. We run regular media campaigns and communications around unclaimed Premium Bond prizes and will pilot a scheme to alert existing customers proactively to other NS&I holdings that appear to be in their name, but have seen no activity for a prolonged period.

### Unclaimed assets

NS&I has broadened the definition for reporting unclaimed assets. Previously, unclaimed assets were defined as holdings with no activity or customer contact for a period of 15 years or more (the 15-year rule). This included a proportion of holdings from closed products, but from now on all closed products (which are held in the Residual Account) will also be included in the definition of unclaimed assets, regardless of the 15-year rule.

Unclaimed assets data for 2014–15 and 2015–16 is reported in new tables showing the conversion from the previous definition to the new definition (see Table 1 and Table 2 below).

Under this broader definition, NS&I is reporting an increase in unclaimed assets of £234 million from 2014–15 to 2015–16. NS&I is committed to this new definition as we believe that it is a more appropriate way of measuring unclaimed assets.

**Progress of NS&I tracing service**

Total amount reunited


2014–15 2015–16

### Table 1: Unclaimed assets 2015–16

| **2015–16 Unclaimed assets** | **£m** | Conversion **£m** | Residual Account values not previously included **£m** | Totals **£m** |
|---|---|---|---|---|
| Accounts | 610 | (179) | 0 | **431** |
| Certificates[1] | 1,100 | 0 | 0 | **1,100** |
| Income Bonds | 8 | 0 | 0 | **8** |
| Other products[2] | 26 | (26) | 0 | **0** |
| Unclaimed Premium Bond prizes | 8 | 0 | 0 | **8** |
| Residual Account (New Category)[3] | 0 | 205 | 421 | **626** |
| **Total** | **1,752** | **0** | **421** | **2,173** |

### Table 2: Unclaimed assets 2014–15

| **2014–15 Unclaimed assets** | 2014–15 Annual Report **£m** | Conversion **£m** | Residual Account values not previously included **£m** | Totals **£m** |
|---|---|---|---|---|
| Accounts | 572 | (179) | 0 | **393** |
| Certificates[1] | 917 | 0 | 0 | **917** |
| Income Bonds | 5 | 0 | 0 | **5** |
| Other products[2] | 26 | (26) | 0 | **0** |
| Unclaimed Premium Bond prizes | 8 | 0 | 0 | **8** |
| Residual Account (New Category)[3] | 0 | 205 | 411 | **616** |
| **Total** | **1,528** | **0** | **411** | **1,939** |

**Footnotes:**

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

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

(3) More details of the Residual Account are provided in the Product Accounts on pages 117 to 121 of this report.

## Sales performance by principal channels(1) (4)

### NS&I phone sales

**2011–12** £2.30bn

**2012–13** £1.33bn

**2013–14** £1.62bn

**2014–15** £4.17bn

**2015–16 £4.39bn**

### NS&I internet sales

**2011–12** £5.11bn

**2012–13** £2.30bn

**2013–14** £4.38bn

**2014–15** £11.15bn

**2015–16 £10.66bn**

### NS&I postal sales

**2011–12** £1.75bn

**2012–13** £1.05bn

**2013–14** £4.23bn

**2014–15** £8.70bn

**2015–16 £6.63bn**

### NS&I electronic transfers(2)

**2011–12** £1.72bn

**2012–13** £1.47bn

**2013–14** £2.36bn

**2014–15** £3.20bn

**2015–16 £4.36bn**

### NS&I sales via Post Office® branches(3)

**2011–12** £2.58bn

**2012–13** £2.15bn

**2013–14** £2.18bn

**2014–15** £3.90bn

**2015–16 £1.47bn**

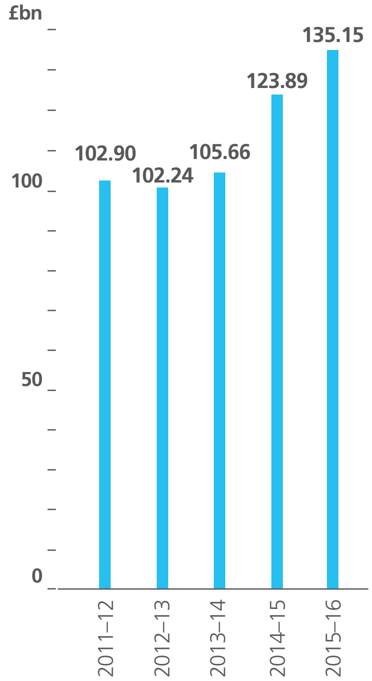
(1) Figures differ slightly from those in Product Accounts note 15, Related party transactions, due to timing differences (see page 128). Previously, we reported separately sales where a customer picked up an application form at the Post Office® and then sent this by post to NS&I. Our brochures are no longer on display in post offices and we no longer pay the Post Office® for sales where a customer collects an application form over the counter and then posts it to NS&I. Therefore, for the 2013–14 data only (above), all sales by post are now recorded as one channel. The Post Office® is paid for sales transacted over the Post Office® counter, and these are reflected above.

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

(3) NS&I sales via Post Office® branches stopped on 31 July 2015.

(4) 2014–15 figures reflect sales of 65+ Guaranteed Growth Bonds.

### Total amount invested by customers at the end of the year



## Our product range

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

### NS&I products

| | Status (at 31 March 2016) | Tax-free | Fixed rate | Monthly income | Manage online and by phone | Manage by post | Annual statement |
|---|---|---|---|---|---|---|---|
| **Children's Bonds** | On sale | ● | ● | | ● | ● | ● |
| **Direct ISA** | On sale | ● | | | ● | | ● |
| **Direct Saver** | On sale | | | | ● | | ● |
| **Fixed Interest Savings Certificates**(1) | Not currently on sale | ● | ● | | ● | ● | ● |
| **65+ Guaranteed Growth Bonds**(2)(3) | Not currently on sale | | ● | | ● | ● | ● |
| **Guaranteed Growth Bonds**(1) | Not currently on sale | | ● | | ● | ● | ● |
| **Guaranteed Income Bonds**(1) | Not currently on sale | | ● | ● | ● | ● | ● |
| **Income Bonds** | On sale | | | ● | ● | ● | ● |
| **Index-linked Savings Certificates**(1) | Not currently on sale | ● | | | ● | ● | ● |
| **Investment Account** | On sale | | | | ○ | ● | ● |
| **Premium Bonds** | On sale | ● | | | ● | ● | |

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

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

(2) If renewed at maturity, customers reinvest their funds into standard Guaranteed Growth Bonds.

(3) Customers providing maturity instructions could only do so by post and online, and not by phone.

## Business-to-business customers

Since 2011–12, NS&I Government Payment Services has been providing other government partners with payment processing services using our banking systems – an approach which delivers operating efficiencies for them and helps us to fund our retail savings operations. Our aim is to become progressively more self-funding so that ultimately, our business-to-business operations will wholly fund our retail savings operations. 2015–16 saw some crucial developments in our journey towards that aim.

### Tax-Free Childcare

From July 2015, we were able to move forward with preparations to deliver the Government's new Tax-Free Childcare scheme. This had been the subject of an ongoing court case since August 2014. Some organisations involved in the existing Employer-Supported Childcare scheme decided to pursue challenges against the Government's decision to deliver Tax-Free Childcare by HM Revenue and Customs and NS&I working in partnership, and NS&I's use of an existing outsourcing contract to deliver childcare accounts. On 1 July 2015, Supreme Court judges unanimously agreed that the Government's plan to use NS&I to deliver Tax-Free Childcare was lawful.

Together with HM Revenue and Customs, we are now in the process of developing the service, which will allow parents to apply for up to £2,000 of childcare support per year, per child. The service is 'digital by default', in line with wider government policy, and we are designing a user-friendly online system for parents to apply and manage their account. The programme will be launched from early 2017.

This service is an important one for us in several ways. We are very pleased to have been entrusted with the delivery of a major government policy. It is by some distance the largest business-to-business activity we will have delivered in terms of expected transaction volumes, and it truly capitalises on our digital capabilities.

### Extended free entitlement

We were also delighted to be selected, again in partnership with HM Revenue and Customs, to support the delivery of another government childcare policy. This will see the doubling of free childcare for eligible working parents of 3- and 4-year-olds in England from 15 to 30 hours a week.

Several hundred thousand children are expected to benefit from extended free entitlement and there will be a substantial overlap between working parents applying for free childcare under this policy and those applying for Tax-Free Childcare. Our delivery approach will be to use the same core platform for both. Providing a joint application for both schemes provides a simple and straightforward customer experience for parents, significantly reducing the implementation costs for the Department for Education compared to developing this as a stand-alone service.

### Exemplary service

Alongside the preparatory work for these two new business-to-business activities, we have maintained the outstanding service levels we have set for our existing customers. For the Court Funds Office, we are driving efficiencies to deliver the promised like-for-like savings of £14 million over the life of the agreement. We continue to exceed Key Performance Indicators for transaction processing and call handling.

This year, we again consistently met or exceeded our agreed service levels for processing in-country immigration application payments for the Home Office. The operations continue to support Home Office business requirements to meet fluctuating volumes, while it works on its strategic objective to move towards digital by default.

**The Equitable Life Payment Scheme**

As announced by the Chancellor in the July 2015 Budget, the Equitable Life Payment Scheme closed to new claims on 31 December 2015. As NS&I Government Payment Services has been delivering the Scheme since 2011, this was another crucial development in the evolution of our business-to-business services. As at 31 January 2016, we had issued payments of nearly £1.1 billion to 931,022 policyholders – 89% of all policyholders deemed eligible. The Scheme has made major efforts to trace policyholders, including extensive electronic tracing methods, writing to policyholders' last known addresses, a national advertising campaign working with other government departments and liaising with group scheme trustees.

Following the Chancellor of the Exchequer's announcement in the July Budget 2015, additional payments were issued by the Scheme to non-With Profit Annuity policyholders in receipt of Pension Credit as of 31 December 2015.

**Growing our business-to-business operation**

An important development for our business-to-business operation was the 2015 Spending Review settlement that requires NS&I to cut our real-term costs by 25% by 2020. As highlighted earlier in this report, these costs refer to the funding that comes directly from the taxpayer. Though we are seeking to drive further efficiencies within our operations, we are also determined to invest in our growth and ensure our customer offer remains competitive and appropriate.

This reinforces the pivotal strategic role for our business-to-business services: to provide us with a growing income that enables us to become increasingly self-funding. The additional business-to-business services we have secured this year provide a robust platform for this, but our aim is to add more customers. Our focus is on finding a small number of opportunities where we can deliver significant mutual benefit, enabling us to grow our business-to-business operation at a managed rate and ensuring we continue to deliver high service standards and value for money for our business-to-business and retail customers alike.

We continue to engage with colleagues across government to identify opportunities for our payment processing services to drive efficiencies and service improvements that will benefit them and their customers. We are also actively exploring opportunities to bring related payment processing services together – as we are doing with childcare – to simplify the experience for users and deliver efficiencies.

## Our operational partnership

As the performance figures indicate, 2015–16 has been an extremely busy year in operational terms. To meet our £10 billion Net Financing target (+/- £2 billion), our operational partner Atos had to manage large volumes of inflows, particularly around 65+ Bonds and then the increase in the Premium Bonds investment limit – as well as a normal volume of outflows. Operational performance was maintained at very high levels, and both customer Service Delivery Measures were met over the year.

This is particularly noteworthy for several reasons. Firstly, the growth in our overall stock means that on average each member of the Atos operational team now manages £84 million of customer deposits, up from £73 million a year. As noted in previous years, the team now manages a growing volume of customer queries: each of the major initiatives in the year generated large volumes of queries by telephone, email and increasingly through our customer services Twitter feed. Furthermore, the performance was delivered against a backdrop of office moves – with the long-planned closure of the Cowglen site in Glasgow and Milburngate House in Durham. In both cases, the moves were completed with no disruption to service. Successful sales of the former sites will enable NS&I to contribute additional monies to the public purse.

### Efficiency and resilience

We have moved to premises that have been fitted out to meet the needs of our modernised operations, enabling us to work more efficiently and sustainably. We have modernised and optimised the processes and systems we use at our new premises in East Kilbride, giving us the potential to process transactions faster. These new systems are a vital asset in enabling us to manage higher overall transaction volumes resulting from our growth over the past two years – a great example of doing more with less.

Investment in new technology is a crucial component of the Atos partnership contract, enabling us to improve the customer experience and increase the resilience of our operations. The importance of such resilience was demonstrated at the end of November 2015, when the devastating floods in Chennai, India, left both our offices there under water. The two sites, which jointly perform a vital back-office function for us, are more than 20 kilometres apart and have never previously been affected at the same time. However, this flooding, considered as a once-in-a-100-year event, affected the whole city and meant the offices had to close for several days.

Our business continuity planning – something we have worked on closely with Atos – proved its worth. The additional workload was immediately taken on by UK sites, with work undertaken in accordance with agreed plans, ensuring there was no noticeable impact on customer service. The flooding had a significant impact on Atos staff, many of whom suffered substantial damage to their homes. Atos provided immediate relief and support to its employees; later in the year Atos and NS&I staff ran fundraising events to support their colleagues.

## Managing change

NS&I's contract with Atos is designed to deliver a set of agreed outcomes at a fixed price to NS&I, and therefore to the taxpayer. During the course of the year it has been recognised that new, more effective solutions are now available to deliver these outcomes than those originally conceived at the start of the contract. Given subsequent changes in the savings market, in technology and a significant increase in the size of NS&I's business, some solutions – particularly in relation to the planned data centre migration – have been redesigned and a new change programme has been agreed. As a result, the capital value of the original solutions has been reduced and this is shown as an impairment of assets in note 6(a) on page 100 of the Accounts in section 3 of this report. The new change programme does not present any additional cost to the taxpayer; new solutions are in effect additional contributions by Atos to the business of NS&I. The revised change programme has been designed to deliver significant customer benefits over the remainder of the contract term and has been usefully informed by the work done to date.

## Independent accreditation

As well as monitoring our operational performance in terms of timeliness, accuracy and online availability, we are also keen to benchmark our service levels against independent standards. We are among the first organisations to be awarded the Contact Centre Association (CCA) Global Standard© Version 6. This new version of the established standard places a greater emphasis on employee engagement, wellbeing and development, as well as assessing whether we are maintaining excellent customer service through our call centres.

We also entered our contact centres into the 'Top 50 Companies for Customer Service' programme. More than 200 organisations put their operations forward for consideration under this independent national benchmarking scheme. The largest of its type in the UK, it uses in-depth mystery shopping to examine service across all channels. NS&I/Atos was ranked 8th overall for call service and 19th for our email service. Within the financial sector we were placed second.

An important part of the programme is that each entrant receives a detailed report on the experience of the mystery shoppers. We are using this report alongside our existing performance improvement plan to improve coaching for contact centre agents.

We were also pleased that nsandi.com was named as the best central government website in the UK in 2016 for content written in plain English. In the Central Government agency report, NS&I came top of the 2016 rankings. It scored very highly in the readability index compared to its peers, but also distinguished itself in a handful of other key areas to secure its place at the top.

Atos has been awarded the Investors in People accreditation for its work under the NS&I partnership. Beyond operational performance, the main way we measure the strength of our partnership is through an annual partnership survey conducted by Service Matters (an independent third party). This year saw an overall partnership score of 7.2 (out of 10), up from 7.0 last year – remaining well above industry average. We are particularly pleased to have seen the score increase in a year when workloads have been consistently high.

## Our people

One of our strategic objectives is to attract and retain high-quality people by providing good careers and work/life balance. This year, we have refreshed our approach to talent management and continued to refine our approach to learning and development. In both cases, this helps our people capitalise on new opportunities within our business as well as develop their career as a whole. We have also introduced new initiatives that support flexible working and employee wellbeing. All these developments have received positive feedback from colleagues.

Over recent years, it has been increasingly clear that the nature of our work is evolving. NS&I's role in the partnership with Atos has changed, with a greater emphasis on assurance rather than management at this stage of the contract. Our core business is increasingly reliant on digital skills. We run a growing number of change projects, and our business-to-business operations require the commercial skills needed to bid for, structure and manage accounts. Each of these areas opens up opportunities for career development, and our people strategy aims to support staff to make the most of these opportunities.

### Learning and development

Learning and development are integral to this and we have continued to focus on sourcing effective, high-quality and value-for-money training programmes. We have placed a greater emphasis on professional qualifications; this year, five people achieved the Chartered Insurance Institute (CII) Award in Retail Banking. Two cohorts of colleagues completed a line management development programme.

In addition to the formalised learning, we also ran informal programmes in our Learning at Work and Digital Awareness weeks. These encourage colleagues to think about how NS&I can become a more digital business and help individuals identify skills they may need themselves.

As part of adopting a more open approach to talent management, we introduced career conversations for everyone. Individuals and their manager mutually appraise potential, and people are encouraged to consider and share their short-, medium- and long-term career goals. This results in more targeted development. Colleagues are given the opportunity to think not only about the training they need to thrive in their current roles, but also what skills they may need for future roles, which supports NS&I's overall succession planning. This complements the active role that the Appointments and Remuneration Committee continues to play in succession planning for senior management roles.

The new approach has been very well received, as has the overall learning and development programme. In the Civil Service People Survey conducted in October, there were clear improvements in satisfaction with overall opportunities for learning, and a strong recognition that the learning opportunities provided are valuable to people across the business.

### Wellbeing and work/life balance

The Survey also showed a strong improvement in one of the measures around employee wellbeing – satisfaction with pressure and pace at work. Given that we delivered many high-profile projects and managed very high transaction volumes, this year the improvement was even more pleasing. Several different initiatives may have played a part.

Firstly, we introduced the option of a nine-day fortnight for all full-time NS&I employees, meaning they work the same total hours by working for longer but across a smaller number of days. Around half have chosen this option, offering valuable flexibility in their work. Our diversity audit highlighted that, unusually for the Civil Service, we have a very low proportion of part-time employees. However, we are keen to offer increased flexibility around working times and practices where possible, to help retain talented people. We introduced shared parental leave at the start of the year, and this has been taken up, with very positive feedback about the impact on balancing work and family life. Flexible working is also a key consideration in planning for the forthcoming move of our London office, scheduled for 2017. As more staff work flexibly or remotely for some of the time, the total office footprint we need may decrease.

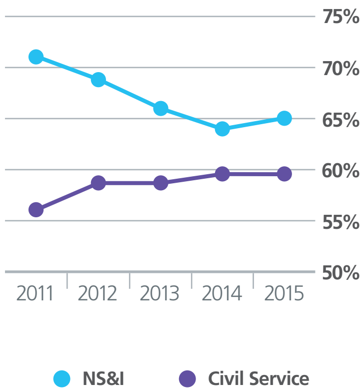
On an ongoing basis, we continue to support everyday wellbeing at work and stress management. As well as our 24-hour Employee Assistance helpline, a member of staff is now trained to provide mental health first aid and plans for further training and awareness are in progress.

### Employee engagement

Overall, employee engagement as measured by the Civil Service People Survey remains above the Civil Service average and the high-performance benchmark. This year's score was 65%, fractionally up on last year.

One area of the Survey where we have consistently performed well is around trust in the leadership team. A new initiative this year, introduced by the Chief Executive, was the 'Town Hall meeting' – an informal gathering in the breakout area at our London office and repeated by Lync, used to share important news as quickly as possible, and invite questions from across the business. Organised on an ad hoc basis whenever there is an announcement to make, these have been extremely well attended and have received excellent feedback.

**Civil Service People Survey – engagement**




### Conduct

This year, we introduced a new conduct programme designed to shadow the Financial Conduct Authority (FCA) Senior Managers' Regime. Though we are not formally regulated by the FCA, we have chosen to follow regulatory standards that apply to our business, such as our longstanding commitment to Treating Customers Fairly (TCF). We are applying the FCA principles with regard to conduct, both for our customers – building on our TCF programme – and general conduct within the organisation.

While many of the underlying behaviours and conduct rules identified by the FCA mirror the Civil Service Code, the FCA regime requires organisations to clarify responsibility for certain key duties and ensure competency in a number of areas. We have confirmed who in the organisation has overall responsibility for issues such as risk, financial reporting and culture, and reviewed their role profiles to ensure that their responsibilities are clearly set out. A key part of the FCA approach is that the key issues should be auditable and we have adapted our existing processes to ensure that is the case.

The FCA regime also explicitly makes it the duty of anyone who delegates a responsibility to ensure the person to whom they are delegating is competent. This links again to our learning and development programme.

### Health and safety

We take seriously our responsibility as an employer for ensuring that, as far as is reasonably practical, every employee has a safe workplace that does not pose risks to their health. We comply with current health and safety legislation and approved codes of practice and are committed to continuous assessment and improvement of the health and safety culture of the organisation. NS&I has maintained the OHSAS18001 Health and Safety Management System Standard for the past six years. We had no material issues in 2015–16.

### Speaking up

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

### Volunteering and staff charity

This year, the chosen staff charity was once again Macmillan Cancer Support, and we raised over £4,000 through a wide range of activities. We also held events to raise funds for Atos colleagues in Chennai, whose homes were damaged by the catastrophic flooding. Jointly with Atos, we raised over £11,000. For 2016–17, staff have chosen to support the Honeypot Children's Charity, which works with young carers and children at risk.

## Sustainability report

This year, we delivered the expected reductions in our carbon emissions and energy and water consumption, as we completed the moves into new, more efficient premises in Glasgow and Durham. All the electricity we use at our operational sites comes from renewable energy. This means that 91% of our total electricity usage is from renewable energy. We now generate hydro-electric power in Durham via an Archimedes screw which is a form of hydro-electric turbine, and solar panels in Blackpool provide electricity to the National Grid.

Our total carbon emissions for 2015–16 have decreased by 9,994 tonnes a year compared to the 2009–10 baseline. The majority of that decrease has been achieved through the sites in Glasgow, Blackpool and Durham operated by Atos. One of our future challenges will be to achieve a substantial reduction in emissions when we move our London office in 2017. Sustainability is one of the key considerations in evaluating potential premises. At present, the Head Office function accounts for approximately 19% of carbon dioxide equivalent ($CO_2e$) (2015–16 data) for energy emissions.

We will be looking at opportunities to reduce our environmental impact through energy consumption and management of energy, waste and water. In addition, we will explore opportunities to make more use of flexible working in line with the Cabinet Office led programme 'The Way We Work'. We are continuing to make use of audio and videoconferencing to reduce non-essential travel. This has helped reduce carbon emissions from business travel; changes in our travel provision mean these are now more transparent, encouraging our staff to make greener choices when they book.

### Our next carbon management plan

As reported last year, 2014–15 was the final year of our medium-term carbon reduction plan, and we met or exceeded all the targets we set in 2009–10. We are currently working to develop our next carbon management plan and are awaiting further guidance on cross-government targets. We will be focusing on customer impact – specifically, whether there are more ways we can reduce the carbon footprint of customer interactions, and whether we can offer customers the opportunity to do so.

The ongoing move towards 'paperless by default' has already had an impact here; despite the high volume of transactions and increase in total customer numbers we saw through 65+ Bonds, paper consumption did not increase.

### Independent accreditation

We were delighted to achieve 100% compliance with the ISO14001 standard for our Environmental Management System. The standard changed in 2015 and NS&I is working on our transition plan to ensure that we are compliant with the new standard, placing a greater emphasis on the link between organisational policy and environmental performance. We commissioned a gap analysis to understand where we would need to take action and are addressing the handful of issues identified.

**Compliance with ISO 14001 Standard for our Environmental Management System**

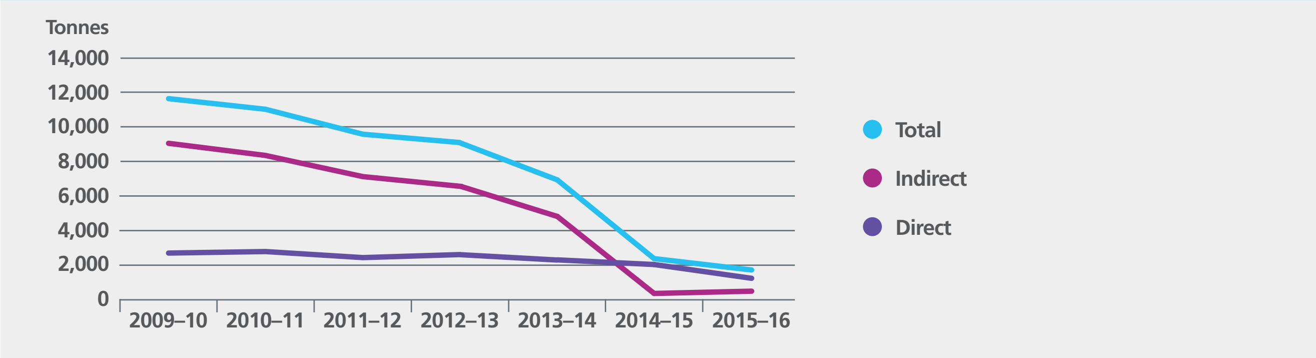
100%

## Adapting to climate change

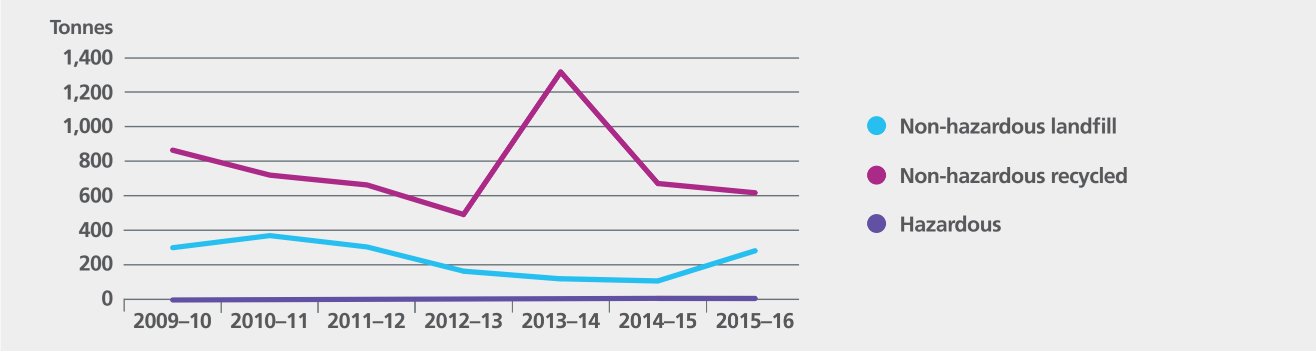
We continue to assess our policies and premises against the risks of changing climate and extreme weather events. As discussed earlier, both our sites in Chennai were affected by flooding in late November 2015. This is considered to be an exceptional event; the offices are geographically some distance apart. Nonetheless, we are reviewing what steps we could take to protect against similar floods in the future.

As highlighted last year, our new premises in Durham are, like the old office, by the River Wear. However, the new office has been designed with protection against rising river levels, and when the River Wear did flood during the winter, the building was unaffected.

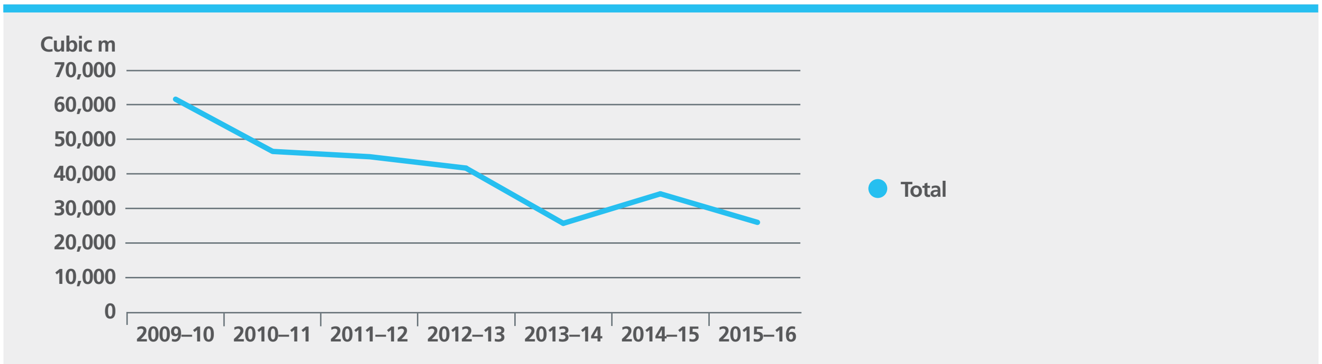
### $CO_2$e emissions (four sites) tonnes



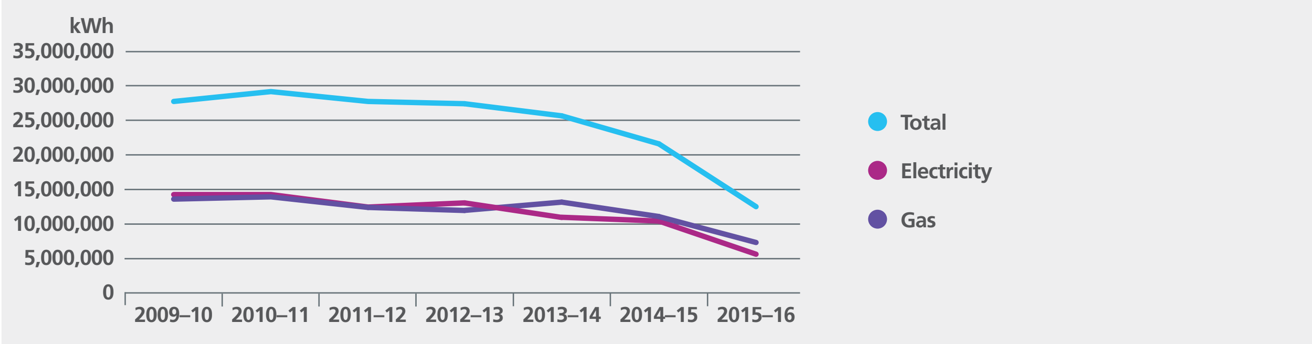

### Waste (four sites) tonnes



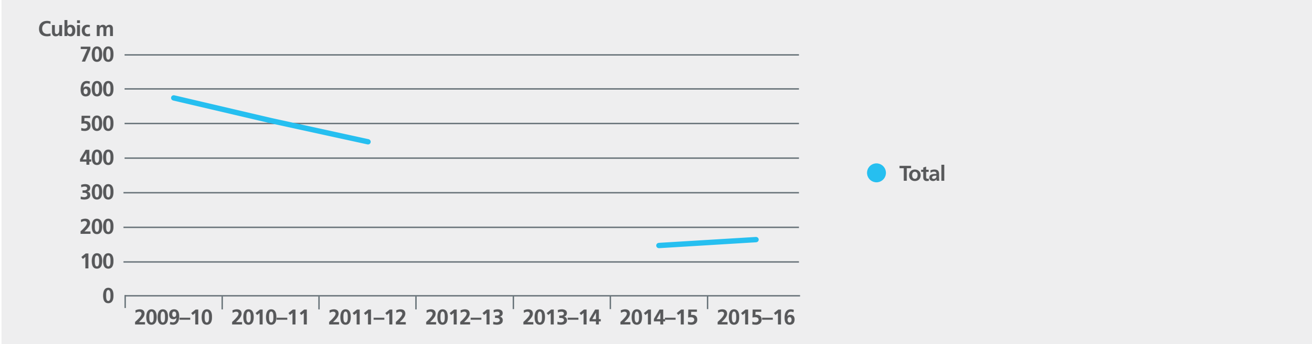

### Water consumption (four sites) cubic metres[1]



## Energy consumption (four sites) kW/hour




## Travel $CO_2e$ emissions (tonnes)(1)




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

Note: Conversion factors for 2015–16 reporting year are taken from the following Government document.
www.ukconversionfactorscarbonsmart.co.uk/.

Direct $CO_2$ emissions relate to gas or diesel fuel for heating.

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

## Waste (tonnes)

| | 2009–10 | 2010–11 | 2011–12 | 2012–13 | 2013–14 | 2014–15 | 2015–16 |
|---|---|---|---|---|---|---|---|
| **Location** | | | | | | | **Tonnes** |
| Blackpool | 190.93 | 227.01 | 156.64 | 125 | 159 | 135 | 156 |
| Durham | 481.99 | 529.05 | 378.81 | 262 | 296 | 85 | 368 |
| Glasgow | 395.01 | 251.13 | 416.39 | 229 | 884 | 529 | 333 |
| London | 71.49 | 65.25 | 45.12 | 31 | 38 | 37 | 35 |
| **Total** | **1139.42** | **1,072.44** | **996.96** | **647** | **1,377** | **786** | **892** |

## Water (cubic metres)

| | 2009–10 | 2010–11 | 2011–12 | 2012–13 | 2013–14 | 2014–15 | 2015–16 |
|---|---|---|---|---|---|---|---|
| **Location** | | | | | | | **Cubic metres** |
| Blackpool | 30,197 | 21,376 | 16,318 | 17,641 | 9,350 | 8,924 | 9,167 |
| Durham | 12,346 | 13,459 | 19,576 | 13,360 | 10,772 | 15,230 | 9,517 |
| Glasgow | 14,308 | 10,958 | 9,162 | 8,877 | 5,092 | 7,003 | 6,450 |
| London | 3,784 | 1,076 | 59 | 1,220 | 1,301 | 1,965 | 826 |
| **Total** | **60,635** | **46,869** | **45,115** | **41,098** | **26,515** | **33,122** | **25,960** |

## Percentage of waste recycled

| | 2009–10 | 2010–11 | 2011–12 | 2012–13 | 2013–14 | 2014–15 | 2015–16 |
|---|---|---|---|---|---|---|---|
| **Location** | | | | | | | **%** |
| Blackpool | 71.07 | 48.26 | 45.54 | 56.56 | 78.94 | 86.94 | 77.44 |
| Durham | 66.17 | 69.78 | 58.65 | 76.2 | 85.84 | 62.63 | 49.47 |
| Glasgow | 84.88 | 78.96 | 84.16 | 86.46 | 93.33 | 91.41 | 81.8 |
| London | 73 | 86.49 | 84.91 | 100 | 100 | 100 | 100 |
| **Total** | **74** | **67.71** | **68.43** | **77.16** | **90.24** | **86.18** | **68.43** |

## Energy ($CO_2e$) (tonnes)

| | 2009–10 | 2010–11 | 2011–12 | 2012–13 | 2013–14 | 2014–15 | 2015–16 |
|---|---|---|---|---|---|---|---|
| **Location** | | | | | | | **Tonnes** |
| Blackpool | 2,839 | 3,796 | 3,232 | 3,010 | 2,091 | 249 | 59 |
| Durham | 3,451 | 3,616 | 3,300 | 3,430 | 2,692 | 969 | 956 |
| Glasgow | 2,249 | 2,852 | 2,476 | 2,606 | 1,914 | 775 | 236 |
| London | 355 | 366 | 300 | 315 | 273 | 317 | 287 |
| **Total** | **8,894** | **10,630** | **9,308** | **9,361** | **6,970** | **2,310** | **1,538** |

## Monitoring performance

The governance arrangements over our sustainability performance data for 2015–16 were assessed by our internal auditors, Deloitte LLP. We monitor our performance closely, as part of our Corporate Social Responsibility risk policy. Our plans, policy and full sustainability report can be found at: nsandi-corporate.com/about-nsi/what-we-do/corporate-social-responsibility/.

Jane Platt

**Jane Platt CBE**
**Chief Executive**
**National Savings and Investments**

27 June 2016

## Section 2
## Accountability Report

# Corporate governance report – Directors' report

### Scope of responsibility

NS&I is both a government department and an Executive Agency of the Chancellor of the Exchequer. The Chancellor of the Exchequer is responsible for determining the policy and financial framework within which NS&I operates and Harriet Baldwin, the Economic Secretary to the Treasury, has been the minister responsible for NS&I since 7 May 2015. Andrea Leadsom MP was the Minister responsible for NS&I between July 2014 and 7 May 2015.

Sir Nicholas MacPherson, the Permanent Secretary to the Treasury, was NS&I's permanent head of department until March 2016. John Kingman replaced him in an acting capacity and will be replaced on 1 July 2016 by Tom Scholar in a permanent capacity.

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

### NS&I board

Members of NS&I's board during the year to 31 March 2016 were:

- Jane Platt CBE, Chief Executive
- Peter Cornish, Risk Director
- Dax Harkins, Business-to-Business Director
- Julian Hynd, Retail Director (until 15 December 2015)
- Steve Owen, Partnership Director
- Rodney Norman, Finance Director
- Sarah Tebbutt, People and Strategy Director
- Jill Waters, Acting Retail Director (from 15 December 2015)
- Sir John de Trafford Bt. MBE, independent Non-executive Chairman and Lead Non-executive Director
- Ed Anderson, independent Non-executive Director and Chairman of the Audit and Risk Committee (from 1 February 2016)
- James Furse, independent Non-executive Director and Chairman of the Appointments and Remuneration Committee
- David Hulf, independent Non-executive Director and Chairman of the Audit and Risk Committee (until 31 December 2015)
- Cheryl Millington, independent Non-executive Director
- Mario Pisani, HM Treasury representative (from 1 April 2016)
- James Richardson, HM Treasury representative (until 30 July 2015)
- Chris Sharrock, HM Treasury representative (until 30 October 2015)

## Conflicts of interest

NS&I's Board Operating Framework includes provisions that reflect recommended practice concerning conflicts of interest. The board has procedures in place for Directors to report any potential or actual conflicts to the other members of the board for their authorisation where appropriate.

Any such conflicts or potential conflicts considered by the board are recorded in the board minutes and in the register of directors' interests which is published on our website www.nsandi.com/about-nsi-who-we-are-our-board-and-committees.

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

# Corporate governance report –
## 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 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 2016 and of its net cash requirement, net resource outturn, net operating cost, changes in taxpayers' equity and cash flows for the financial year.

### Product Accounts

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

### Role of Accounting Officer

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

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

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

The Accounting Officer 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.

The Accounting Officer confirms that the Annual Report and Accounts, as a whole, is fair, balanced and understandable and that she takes personal responsibility for the Annual Report and Accounts and the judgements required for determining that it is fair, balanced and understandable.

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 external audit fees include fees for the Product Accounts statutory audit of £542,000 (2014–15: £649,000) and the Resource Accounts statutory audit of £93,000 (2014–15: £97,000).

# Corporate governance report – Governance statement

### The purpose of the Governance statement

This Governance statement gives a clear understanding of the dynamics of NS&I and its control structure. It provides information on the stewardship of NS&I and how it has managed the risks it has faced during 2015–16.

### How is NS&I's governance achieved?

#### Accounting Officer

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

#### Role of the NS&I board

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

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

All appointments to NS&I's board are made on merit, and political activity plays no part in the selection process.

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

NS&I is committed to achieving the highest standards of corporate governance, integrity and business ethics. Throughout 2015–16 NS&I complied with the Code for Corporate Governance in Central Government Departments except as detailed in this statement.

NS&I has adopted a Corporate Governance Manual (also known as the Board Operating Framework) consistent with the principles of the Corporate Governance in Central Government Departments: Code of Good Practice, 2011 (the 'Code') and the FCA requirements and it is reviewed on a regular basis.

The Corporate Governance Manual was fully reviewed during 2014–15 to ensure that it was in line with the Code and the 2014 version of the UK Corporate Governance Code. NS&I's aim is also to comply with FCA requirements where applicable and appropriate on a voluntary basis and its Corporate Governance Manual also reflects the FCA requirements for corporate governance.

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

#### Role of HM Treasury and the Minister

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

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

### Partnership working

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

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

## The process of governance

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

The system of internal control is a significant part of the governance framework and is designed to manage risk to an acceptable level rather than to eliminate all risk of failure to achieve policies, aims and objectives. It can, therefore, only provide reasonable and not absolute assurance of effectiveness. The system of internal control is an ongoing process designed to identify and prioritise the risks to the achievement of NS&I's policies, aims and objectives, to evaluate the likelihood of those risks being realised and their potential impact and to manage them efficiently, effectively and economically. The system of internal control has been in place at NS&I throughout the year ended 31 March 2016 and up to the date of approval of the Accounts.

## The governance framework

NS&I's governance framework is overseen by the board. Responsibility for developing strategy and the day-to-day management of NS&I is delegated to the Chief Executive and the Executive Committee.

NS&I's governance framework is based on:

- clear organisational structure, a strategic plan and accountability structures
- strong business planning processes, including appropriate evaluation and performance metrics
- financial management protocols, risk management and administrative procedures, including delegated authority levels
- strong financial governance and management
- rigorous appraisal of any new or changed projects prior to approval, project delivery monitoring and project evaluation

- proper management supervision, including receiving regular management information on business as usual, continuing projects, the deferment of projects and closing projects
- close monitoring of performance by the Chief Executive, the board and its committees including key performance indicators
- effective stakeholder and partner engagement and feedback mechanisms.

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

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

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

**The board, committees and how we operate**

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

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

There is a formal schedule of matters reserved to the board which is reviewed annually.

Operating within instructions and guidance from HM Treasury, and in support of the Chief Executive in the achievement of the Agency's objectives, NS&I's board is responsible for:

- setting the tone from the top and monitoring conduct at NS&I through regular reporting
- approving the annual planning criteria and timetable
- assisting in developing NS&I's vision, strategy and corporate policies
- reviewing annually the five-year strategic plan to ensure it remains fit for purpose
- approving the annual business plan, ensuring consistency with the five-year strategic plan
- approving NS&I's risk appetite
- ensuring that NS&I has robust systems in place for compliance with legal, regulatory and government security requirements

- adopting the Annual Report and Accounts and Product Accounts and giving its support to its signature by the Accounting Officer, taking into account the recommendations and comments from the Audit and Risk Committee
- ensuring the existence of adequate succession plans for senior management.

Other specific responsibilities are delegated to the board's committees which operate within clearly defined terms of reference. Details of the responsibilities delegated to the committees are given on pages 49 and 50.

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

All Directors uphold the seven principles of public life: selflessness, integrity, objectivity, accountability, openness, honesty and leadership. Each Director brings a valuable range of experience and expertise to the board.

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

In 2015–16 the mix and balance of skills and understanding held by board members were assessed by the Chief Executive and HM Treasury stakeholder representative against the business requirements and the expertise required for the Chairman of the Audit and Risk Committee. The results were reflected in the role profile for the recruitment of a new Non-executive Director.

Each Executive and Non-executive Director has an annual appraisal and personal development or learning plan to acquire and maintain the skills and understanding to support their competence.

### Chairman and Chief Executive

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

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

As Chief Executive, Jane Platt is responsible for:

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

The Chief Executive is also the Accounting Officer and the Director of Savings. The Statement of Accounting Officer's responsibilities is on page 41.

### The independent Non-executive Directors

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

### Lead Non-executive board member

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

### Board Secretary and independent advice

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

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

### Board meetings and attendance

Board meetings are held every two months and additional board workshops and special meetings are held to discuss specific issues such as strategy and effectiveness and urgent issues. This year an additional special meeting was held to discuss the Spending Review.

During the year, the board has received reports on issues such as the strategic planning process, the transformation programme, cyber security, conduct and benefits realisation.

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

The attendance of the individual Directors at board and committee meetings of which they were members during 2015–16 was as follows:

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

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

(1) David Hulf retired as a Non-executive Director on 31 December 2015.

(2) Ed Anderson was appointed as a Non-executive Director on 1 February 2016.

(3) Although James Richardson resigned as a Director of NS&I on 30 July 2015, he attended the board on two occasions as an HMT representative in the absence of a formal HMT board member.

(4) Mario Pisani was appointed as the HMT representative on the board on 1 April 2016, replacing Chris Sharrock. He also replaced Elizabeth Dymond as HMT's representative on the Audit and Risk Committee.

(5) Julian Hynd, Retail Director, stood down from the board on 1 December 2015.

(6) Jill Waters joined the board as Acting Retail Director on 2 December 2015.

(7) Elizabeth Dymond is the HMT representative on the Audit and Risk Committee but is not a board member. She left HM Treasury in March 2016 and therefore stood down as HM Treasury's representative on NS&I's Audit and Risk Committee.

## Board appointments

All executive board members, including the Chief Executive, were appointed, where applicable, in accordance with the Civil Service Commissioners' Recruitment Code. Each member of the board has a personal contract which stipulates the procedures for termination.

The HM Treasury representative(s) on the board are appointed by HM Treasury by virtue of their role there.

The independent Non-executive members of the board are appointed by the Chancellor of the Exchequer and contracted by the Director of Savings. Non-executive Directors have fixed-term appointments not exceeding three years.

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

During this financial year, David Hulf, having served his two terms of office, retired as a Non-executive Director and Chair of the Audit and Risk Committee on 31 December 2015. As a result of a successful, external recruitment exercise Ed Anderson was appointed on 1 February 2016.

**Board induction**

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

During 2015–16, the board members were all engaged in a range of training and professional development activities. The Appointments and Remuneration Committee considers the training needs of the Executives and Non-executive Directors. All board members are encouraged to attend relevant training courses at NS&I's expense.

**Board evaluation**

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

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

An external review of board effectiveness, followed by a workshop, took place during 2015–16, the results of which were positive with no strong messages of concern arising. An action plan has been produced for completion during the next financial year and the board will regularly review progress of the action plan. The board has also continued to propose topics for deep dives and workshops throughout the year.

**Quality of data used by the board**

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

At the beginning of each financial year, the board receives the proposed board scorecard reflecting NS&I's strategy for consideration and approval. These measures are updated and presented to each board meeting.

During the year, a Culture and Conduct Dashboard and Cyber Dashboard have also been introduced for the board's consideration and approval, both of which have been discussed and refined to take account of the board's views.

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

### Ministerial Directions

There have been no Ministerial Directions during this financial year.

## Board Committees

The board has delegated authority to three permanent committees (Audit and Risk Committee, Appointments and Remuneration Committee and Executive Committee) that deal with specific matters, in accordance with written terms of reference. The terms of reference for all committees are reviewed annually to ensure that they are still appropriate and reflect any changes in good practice and governance and the committees all carry out annual reviews of their performance which is reported to the board.

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

The board considers that it receives adequate assurance from its committees via a written report (including minutes) and additional oral updates after each committee meeting. It also receives a regular and detailed Chief Executive's overview.

### Audit and Risk Committee

The Audit and Risk Committee consists solely of Non-executive Directors and a representative from HM Treasury. It is chaired by Ed Anderson (previously David Hulf) and comprises Cheryl Millington and an HM Treasury representative (Elizabeth Dymond to 9 March 2016 and Mario Pisani from 1 April 2016). As required by the Code, at least one of the Audit and Risk Committee members has recent and relevant financial experience. In NS&I's case this is currently the Chair of the Committee.

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

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

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

During 2015–16, the Audit and Risk Committee discharged fully its responsibilities listed above and, in doing so, considered the following:

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

The Chairman of the Audit and Risk Committee provides a comprehensive annual report to the board as well as a report and the minutes after each meeting.

**Appointments and Remuneration Committee**

The Appointments and Remuneration Committee comprises Non-executive Directors James Furse (as Chairman), Sir John de Trafford Bt. and two Executive Directors: the Chief Executive and the Director of People and Strategy.

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

The Chair of the Appointments and Remuneration Committee provides a report on the committee's meetings to the board (including minutes), taking into account the confidential nature of the committee's business.

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

Details of Directors' remuneration and emoluments are set out in the Remuneration and staff report on pages 66 and 67.

**Executive Committee**

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

The Executive Committee met 26 times in 2015–16 to discuss issues relating to strategy, people, risk and financial results. Representatives from across NS&I and our operating delivery partner are invited to the meetings, as appropriate, to discuss aspects of their business or to give presentations on specific topics.

## Risk management

NS&I operates through a comprehensive Risk Management Framework which integrates risk management in its daily business activities and strategic planning and employs the following structure and approach.

### Responsibilities and culture

The Executive Committee has responsibility for the management of NS&I's Risk Management Framework including NS&I's risk appetite, which is agreed by the board. The board oversees NS&I's compliance with the Risk Management Framework protocols by annually reviewing NS&I's risk appetite and biannually reviewing NS&I's key operational and strategic risks as well as NS&I's compliance with best corporate governance practice. In April 2015, the board agreed to set NS&I's corporate risk appetite as 'open'; this was retained in April 2016. This has been further clarified to recognise that NS&I generally has an open attitude to risk and always seeks to find the most appropriate solution to improve the business. However, when implementing solutions it is not willing to compromise its existing operations or reputation and always makes sure that solutions are fully compliant and fit for purpose before they are launched.

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

NS&I's corporate governance structure facilitates delegation of responsibilities to ensure that there are appropriate flows of information in relation to the business, the use of resources, responses to risks and the extent to which year end budgets and targets are met. This includes ensuring that all risks identified across NS&I are reviewed, understood and actioned at an appropriate level.

NS&I encourages a positive risk culture whereby risk management is embedded in day-to-day operations. The 'tone at the top', clear ownership, training, performance measurement through individual contribution agreements and knowledge sharing are regarded as essential elements of NS&I's risk management culture and the foundation for sound decision-making.

### Approach

NS&I's approach to risk management is guided by the provisions set out in the FCA handbook and *Management of Risk – Principles and Concepts* (the Orange Book) issued by HM Treasury.

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

- increase the likelihood that strategic objectives are achieved and value is preserved and enhanced
- provide a framework, procedures and guidance to enable everyone to manage risk in the best way
- assign responsibilities and accountabilities and underpin corporate governance
- assure the board that significant business risks are systematically identified, assessed and reduced to acceptable levels.

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

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

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

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

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

To gain assurance that risk management is effective and to identify when further action is necessary, the Risk Management Framework is subject to regular review.

**Managing and mitigating risk**

Some of our key management controls are set out below:

- Our delegations manual and committee governance structure reflect the principles of clear delegation of authority and segregation of duties.
- Our governance committees ensure that we have a monthly, systematic review of risks and controls across NS&I's operations, including those areas of significant expenditure, and that these risks are reviewed, understood and actioned at an appropriate level. In addition, NS&I conducts independent and objective reviews of all activities relating to budget management, cost improvements and financial performance of projects.
- The management of information risk is a key priority for NS&I based on a set of related IT and information management policies and procedures, covering corporate and personal data. Controls are in place to mitigate the risks of incorrect disclosure, loss or misuse or lack of access to customer data and destruction in line with our obligations under the Data Protection Act 1998 and Cabinet Office guidance.
- Selective and open recruitment, succession planning and other human resource policies and practices ensure that staff skills are aligned with NS&I's current and future needs.
- Robust project management and change implementation disciplines are applied to all major projects, including new technology applications, change programmes and other major initiatives.

- The European Public Contracts Directive and Public Contracts Regulations 2015 sets out detailed procedures for the award of contracts above a specific threshold. However, NS&I applies a lower threshold of £90,000, above which either a formal or informal tender process is employed. Details of NS&I tender opportunities and contracts awarded with a value of £10,000 (ex. VAT) or more are published on Contracts Finder which is accessible via the GOV.UK website www.gov.uk/contracts-finder.
- Staff can and are actively encouraged to report perceived illegal, dishonest or unethical activities to senior management using internal arrangements or to a confidential reporting service.
- We employ a range of internal controls to mitigate our fraud risk, and these are reviewed and updated regularly.
- Business continuity and disaster recovery plans are in place to manage incidents or crisis events, and these are reviewed regularly.

### Personal data related incidents

NS&I self-notified the Information Commissioner's Office of a possible breach under the Data Protection Act 1998. The Information Commissioner has confirmed that no enforcement action was required but recommended a number of measures to improve our handling of personal data, which have been taken.

### Significant governance issues

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

The Audit and Risk Committee has provided assurance that there have been no major breakdowns in internal controls that have led to a material loss and that there is no major weakness in the governance systems, including the delivery and maturity (1-year holdings) of 65+ Bonds, that has exposed, or continues to expose, NS&I to an unacceptable risk.

As part of NS&I's routine cyber monitoring, numerous phishing attacks and cyber attacks generally have been identified but there were no actual losses.

### Principal risks and uncertainties

The principal risks and uncertainties facing NS&I which could cause our financial results or operational delivery to materially differ from expected results are set out on pages 60 to 63 along with a summary of how we managed or mitigated these risks in 2015–16.

### Assurances

NS&I's systems of governance, risk management and internal control have been assessed by Deloitte LLP in its capacity as NS&I's internal auditors, which report to each meeting of the Audit and Risk Committee. This forms part of the annual audit programme which enables the Audit and Risk Committee to gain assurance that NS&I's risk profile is being monitored and provides independent verification on the appropriateness of the risk management and assurance processes in place.

In addition, the Audit and Risk Committee is provided with an independent evaluation of the governance, risk management and internal control through:

- the quarterly integrated assurance report which brings together the results of 2015–16 assurance activity from NS&I's 'three lines of defence' arrangement. This includes assessment of the first line assurance completed by line management, the risk-based second line assurance programme incorporating operations, compliance, IT and project assurance and the risk-based internal audit programme as the third line of assurance.
- the risk-based internal audit plan agreed by the Audit and Risk Committee and delivered during 2015–16 by Deloitte; from this programme, internal audit reports including management responses to the recommendations were generated, summarised and submitted for consideration by the Audit and Risk Committee; a comprehensive tracker system is used to monitor delivery of the control improvements
- internal audit's Annual Internal Audit Opinion for the year ended 31 March 2016
- discussion, where appropriate, with the responsible NS&I and operational partner's executives on any key control issues
- external third party evidence through, for example, NS&I measuring progress against external standards/requirements and regular discussion with the FCA on the compliance agenda
- provision of International Standard on Assurance Engagements (ISAE) 3402 operational controls assurance for government payment services' clients
- the external auditors' annual audit with recommendations for improvements to the internal control environment identified during the annual audit and inspection.

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

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

Deloitte's Annual Internal Audit Opinion for the year ended 31 March 2016 stated: Deloitte's annual opinion is that, based on the assurance work performed during the year, NS&I generally has effective governance, risk management, and internal control processes in place over its principal activities including those undertaken by Atos on NS&I's behalf. Notwithstanding this, Internal Audit and other assurance work completed during the year identified a number of areas where the need to improve controls was identified, for which action plans have been agreed with management.

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

### Quality assurance

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

## Internal Audit

NS&I's internal audit service provides an independent appraisal service for the Audit and Risk Committee by measuring and evaluating the adequacy, reliability and effectiveness of management and financial control systems. Internal audit makes recommendations based on the appraisal of each system reviewed.

To ensure wholly independent and fully professional analysis and recommendations, NS&I chooses to outsource the provision of internal audit. The service for 2015–16 year was provided by Deloitte LLP. In line with government guidelines, NS&I's internal audit service will now be provided by the Government Internal Audit Agency (GIAA) with effect from 2016–17. Work has been undertaken in accordance with Public Sector Internal Audit Standards (PSIAS).

## Board members' biographies

### Sir John de Trafford Bt. MBE

Independent Non-executive Chairman

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

### Ed Anderson

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

Ed was appointed as Non-executive Director on 1 February 2016.

Ed was Chairman of the Yorkshire Building Society from 2007 to 2015. He was Managing Director of Leeds Bradford Airport for 10 years and is currently Chairman of the Airport Operators Association (AOA). He is also a former President, and Chairman, of Leeds Chamber of Commerce and is a director of a number of other public and voluntary sector organisations in Yorkshire including being a member of the University of Leeds Council and chairing its Audit and Risk Committee. Ed is an economics graduate and a qualified accountant.

### James Furse

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

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

### Cheryl Millington

Independent Non-executive Director

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

## Mario Pisani

HM Treasury representative

Mario was appointed to the board as HMT's representative on 1 April 2016. He has been Deputy Director for the Debt and Reserves Management team in HM Treasury since April 2016. Since joining HM Treasury in 2005, he has worked on international finance, communications, economic forecasting and macroeconomic policy.

He led the team supporting Professor Sir Charles Bean in his Independent Review of UK Economic Statistics, which was published in March 2016. Between 2013 and 2016, he represented HM Treasury at the G20 Framework Working Group. During 2014, he worked on the Referendum on Scottish Independence. Between 2008 and 2011, he was Private Secretary to the Chancellor of the Exchequer. During 2006 Mario was seconded to the *Financial Times* in London, where he worked as a leader writer.

He is a Senior Visiting Research Fellow at King's College, London and an unpaid member of the Young Patrons Committee of the National Theatre, London. Mario holds degrees in Economics from the University of Kent and the University of Oxford, and is a part-qualified accountant.

## Jane Platt CBE

Chief Executive

Jane Platt CBE has been Chief Executive of NS&I since September 2006 and in May 2016 she announced her intention to step down at the end of August 2016. She joined the Financial Conduct Authority board in April 2013 as a Non-executive Director and since January 2016 has chaired the External Risk and Strategy Committee.

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

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

## Peter Cornish

Risk Director

Peter oversees the management of legal and regulatory compliance for NS&I as both a financial services organisation and a government body in a way which is consistent and compliant with the requirements of regulators, auditors and central government, including compliance with the FCA regulations as they apply to NS&I.

Peter joined NS&I in 1998, taking responsibility for the tax-free products and savings accounts portfolios. Prior to that he held a number of roles in Lloyds Bank including private client wealth management, internal audit and the development of savings, investment and stockbroking services.

He took on the additional responsibility of customer management before being appointed Marketing Director in 2006. He continued to manage the product portfolio and overall customer offer as Director of Customer Offer until his appointment as Risk Director in 2011.

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

## Dax Harkins

Business-to-Business Director

Dax is responsible for the development and delivery of the B2B strategy. His accountabilities include the management of existing clients, winning and transitioning new clients and the development of value-added services for NS&I retail customers.

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

In 2003 Dax joined NS&I and moved from marketing in 2011 to become the Programme Director for the retender of the NS&I outsourcing contract. After successfully awarding the contract and ensuring a smooth transition, he was appointed to the board in 2014 as Director of B2B.

## Rodney Norman

Finance Director

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

Before joining HM Treasury in 2007, Rodney was Finance Director of the banking arm of Close Brothers, a FTSE 250 company regulated by the FSA, having worked in the City for most of his career after qualifying as a Chartered Accountant with PricewaterhouseCoopers. Rodney has a degree in Economics and Econometrics from the University of Nottingham.

### Steve Owen

Partnership Director

Steve is responsible for the design and delivery of a radical outsourcing business model and for managing the agency's key partnership with Atos. He also manages NS&I's Commercial and Procurement functions as well as leading the Change Assurance team.

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

In 2011 Steve led the second generation outsourcing that ultimately resulted in NS&I's operational partnership with Atos.

### Sarah Tebbutt

People and Strategy Director

Sarah is responsible for NS&I's strategy, media and market intelligence. She also leads on workplace, culture, employee engagement and the people strategy. Sarah chairs the Conduct Committee at NS&I.

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

In 2009, Sarah co-designed the quantitative easing programme. Prior to those roles she worked in a Minister's office and as a negotiator at the Cabinet Office, European Council and World Trade Organization.

Sarah studied Genetics at Cambridge University and has an MBA from Imperial College, London.

### Jill Waters

Acting Retail Director

Jill is NS&I's Acting Retail Director and is responsible for leading the development, management and growth of the Retail business on behalf of NS&I, which includes customer offer, marketing and sales, brand, product management, retail experience and complaints.

She was appointed to the board in 2015. In her time at NS&I, Jill has also held the following roles: Head of Sales and Operational Delivery, Head of Digital Channels and Assistant Director for Retail.

In 2001, she joined NS&I from Yorkshire Electricity where she was responsible for the Customer and Sales Strategy for the newly developed privatised consumer utility markets. Prior to that Jill was an independent financial adviser, following many years at Norwich Union advising on pensions and life insurance.

Jill is a member of the Chartered Management Institute (CMI), the Institute of Finance Services (IFS) and Association of Business Psychology.

## Principal risks facing NS&I

### Net Financing risk

**Principal risk factor**

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

**Key factors**

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

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

**Key specific risk and mitigation**

- Inability to meet Net Financing target

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

### Transformation programme risk

**Principal risk factor**

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

**Key factors**

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

**Key specific risk and mitigation**

- Failure to meet the transformation programme objectives

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

### Brand risk

**Principal risk factor**

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

### Key factors

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

### Key specific risk and mitigation

- Impact on NS&I brand

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

## Outsourcing risk

### Principal risk factor

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

### Key factors

NS&I's business model relies on Atos for operational delivery. NS&I will always retain ultimate accountability and responsibility for service provision.

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

Our ability to manage and oversee the contract with Atos is key over the term of the contract, while retaining ultimate accountability and responsibility for service provision.

### Key specific risk and mitigation

- Failure of outsourcing partnerships

In order to manage the risks associated with Atos and the activities under the contract, we have well-developed governance and relationship structures, coupled with formal contract arrangements and targets, so that issues are dealt with promptly and the partnership remains aligned. We have also established performance indicators that have been implemented throughout the year.

## Business-to-business risk

### Principal risk factor

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

### Key factors

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

**Key specific risk and mitigation**

- Delivering business-to-business revenue

Over the past year we have enhanced our business-to-business capability (e.g. broaden our market offer) to mitigate this risk. We will continue to monitor the strategy and revised capability to ensure that we remain on track.

## Operations risk

**Principal risk factor**

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

**Key factors**

In any large organisation with many systems, processes, partners, suppliers and people, there is a risk that operational losses can occur. Sources of such risks include system reliability, IT security, failure of key partners or suppliers to deliver, change management, human error, fraud and failure to comply with legislation or regulations.

**Key specific risk and mitigation**

- Operations risks in the normal course of business

## Information risk

**Principal risk factor**

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

**Key factors**

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

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

**Key specific risk and mitigation**

- Data and information loss

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

Information risk mitigations are provided through a robust security and business continuity programme that aligns with the requirements set out in the HM Government Security Policy Framework covering physical, personnel and information security.

## Conduct risk

**Principal risk factor**

Conduct risk is the failure by NS&I senior management and staff to achieve expected standards of conduct, which leads to poor customer outcomes. At NS&I our vision is to always be recognised for high standards of conduct.

**Key factors**

Our ability to demonstrate good conduct behaviours depends on a number of factors, including:

- controlling the business effectively through good governance and meeting the NS&I management standards
- compliance with regulations and policies
- effective delegation and oversight
- ensuring staff are competent to fulfil their roles.

**Key specific risk and mitigation**

- Data and information loss

At mid-year we implemented the Senior Manager Regime and the FCA Conduct rules across NS&I. These have been delivered via one-to-one meetings, an all-staff communication meeting, one-to-one written communications, and a senior manager workshop. The implementation has been used in recruitment, induction and probation of senior managers. Our new training and competency policy provides learning pathways for colleagues within the regime.

Our board sets the tone from the top and monitors conduct at NS&I through regular reporting.

Jane Platt

**Jane Platt CBE**
**Chief Executive**
**National Savings and Investments**

27 June 2016

# Remuneration and staff report

## Appointments and Remuneration Committee

The Appointments and Remuneration Committee comprised Non-executive Directors James Furse (as Chairman) and Sir John de Trafford Bt. It also comprised two Executive Directors: the Chief Executive, Jane Platt, and the People and Strategy Director, Sarah Tebbutt.

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

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

## Remuneration policy

The remuneration arrangements for senior staff are set out in their contracts and are subject to annual review in line with awards recommended by the Chief Executive. In May 2016, Jane Platt announced that she would be leaving NS&I after 10 years as Chief Executive. Her last day will be 31 August 2016. A process is now underway to select Jane's succesor by fair and open competition.

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

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

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

Non-executive Directors have fixed-term appointments not exceeding three years. Normally they can serve for two terms of office. Their remuneration is accounted for in 'other costs'. The details of their payments are shown in Table B on page 66.

## Salary and pension entitlements

The salary and pension entitlements of the executive board members are shown in Tables A and C on pages 66 and 67. There were no taxable benefits in kind paid.

## Salary and performance-related pay

'Salary' includes gross salary and any other allowance to the extent that it is subject to UK taxation. Performance-related payments are made as part of NS&I's performance management system. The payments reported in 2015–16 relate to performance in 2014–15 and the comparative payments reported for 2014–15 relate to performance in 2013–14.

## Pay multiples

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

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

The total remuneration of the highest-paid Director in NS&I in the financial year 2015–16 was £195,000–£200,000. This was 4.5 times (2014–15: 4.9 times) the median remuneration of the workforce, which was £44,313 (2014–15: £43,795).

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

No employee received remuneration in excess of the highest-paid Director (excluding the Chief Executive) in either 2015–16 or 2014–15. Remuneration ranged from £15,000–£20,000 to £145,000–£150,000 in 2015–16 (2014–15: £15,000–£20,000 to £145,000–£150,000).

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

Audited

| | 2015–16 Salary £000 | 2015–16 Performance-related pay £000 | 2015–16 Pension benefits £000[5] | 2015–16 Total £000 | 2014–15 Salary £000 | 2014–15 Performance-related pay £000 | 2014–15 Pension benefits £000[5] | 2014–15 Total £000 |
|---|---|---|---|---|---|---|---|---|
| **Jane Platt[4]** Chief Executive | 195–200 | n/a | 73 | 270–275 | 195–200 | 15–20 | 55 | 265–270 |
| **Peter Cornish** Risk Director | 110–115 | 15–20 | 30 | 160–165 | 110–115 | 15–20 | 29 | 160–165 |
| **Dax Harkins[6]** Business-to-Business Director | 105–110 | 15–20 | 60 | 180–185 | 100–105 | 10–15 | 58 | 170–175 |
| **Julian Hynd[2]** Retail Director | 90–95 (120–125 annualised equivalent) | 15–20 | 46 | 155–160 | 120–125 | 20–25 | 41 | 185–190 |
| **Jill Waters[3]** Acting Retail Director | 45–50 (100–105 annualised equivalent) | n/a | 48 | 95–100 (150–155 annualised equivalent) | n/a | n/a | n/a | n/a |
| **Sarah Tebbutt[7]** People and Strategy Director | 105–110 | 15–20 | 48 | 175–180 | 105–110 | 10–15 | 64 | 180–185 |
| **Steve Owen** Partnership Director | 120–125 | 20–25 | 41 | 185–190 | 120–125 | 20–25 | 33 | 175–180 |
| **Rodney Norman** Finance Director | 125–130 | 15–20 | 40 | 180–185 | 120–125 | 15–20 | 37 | 175–180 |
| **John Prout[2]** Retail Customer Director | n/a | n/a | n/a | n/a | n/a | 10–15 | n/a | 10–15 |
| **Band of highest-paid Director** | **195–200** | n/a | **73** | **270–275** | **195–200** | **15–20** | **64** | **265–270** |
| **Remuneration median for workforce[8]** | **£44,313** | | | | **£43,795** | | | |
| **Ratio of highest-paid Director to median salary of the workforce** | **4.5** | | | | **4.9** | | | |

## Table B: The remuneration of Non-executive Directors

Audited

| | 2015–16 £000 | 2014–15 £000 |
|---|---|---|
| Sir John de Trafford Bt. (Chairman) | 20–25 | 20–25 |
| Ed Anderson[9] | 0–5 (15–20 annualised equivalent) | n/a |
| James Furse | 15–20 | 15–20 |
| David Hulf[10] | 10–15 (15–20 annualised equivalent) | 15–20 |
| Cheryl Millington[11] | 15–20 | 10–15 (15–20 annualised equivalent) |
| Simon Ricketts[12] | – | 0–5 (15–20 annualised equivalent) |

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

Audited

| | Accrued pension at pension age as at 31 March 2016 and related lump sum | Real increase in pension and related lump sum at pension age | CETV at 31 March 2016 | CETV at 31 March 2015 | Real increase in CETV | Employer contribution to partnership pension account |
|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | Nearest £100 |
| **Jane Platt**<br>Chief Executive | 30–35 | 2.5–5 | 642 | 524 | 72 | – |
| **Peter Cornish**<br>Risk Director | 20–25 (lump sum 70–75) | 0–2.5 (lump sum 2.5–5) | 514 | 446 | 26 | – |
| **Dax Harkins**<br>Business-to-Business Director | 15–20 | 2.5–5 | 290 | 231 | 28 | – |
| **Julian Hynd**<br>Retail Director | 25–30 | 2.5–5 | 365 | 323 | 20 | – |
| **Rodney Norman**<br>Finance Director | 20–25 | 0–2.5 | 352 | 287 | 33 | – |
| **Steve Owen**<br>Partnership Director | 55–60 (lump sum 165–170) | 0–2.5 (lump sum 5–7.5) | 1,203 | 1,075 | 37 | – |
| **Sarah Tebbutt**<br>People and Strategy Director | 25–30 (lump sum 80–85) | 2.5–5 (lump sum 0–2.5) | 473 | 407 | 22 | – |
| **Jill Waters**<br>Acting Retail Director | 15–20 (lump sum 50–55) | 0–2.5 (lump sum 5–7.5) | 366 | 311 | 44 | – |

(1) Performance-related payments are based on performance levels attained and are made as part of the appraisal process. Given the timing of the appraisal process, performance-related payments relating to 2015–16 are yet to be finalised. As a result, disclosure is based on the period in which payments are made rather than the performance year to which they relate. Performance-related payments in this report for 2015–16 are performance-related payments for the 2014–15 performance year, which were paid in August 2015. Performance-related payments for 2014–15 are performance-related payments for the 2013–14 performance year.

(2) Julian Hynd left NS&I on 4 January 2016. John Prout left NS&I in January 2014.

(3) Jill Waters was appointed as Acting Retail Director on 19 October 2015.

(4) In 2014–15 the Chief Executive chose to waive her contractual entitlement to variable pay (which would have been paid in 2015–16). In 2013–14 the Chief Executive also chose to limit her performance-related pay (which was paid in 2014–15) to the amount permitted for Senior Civil Servants, regardless of her contractual entitlement.

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

(6) Dax Harkins joined the executive board on 1 January 2014. On becoming a director, the member had a salary increase. This meant that his pensionable pay increased. In order to meet the terms of his pension (final salary) an actuarial calculation was made in order to adequately adjust his pension benefit. This is reflected in increased pension benefit remuneration for 2014–15 and 2015–16.

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

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

(9) Ed Anderson joined NS&I on 1 February 2016.

(10) David Hulf left NS&I on 31 December 2015.

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

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

## Civil Service pensions

Pension benefits are provided through the Civil Service pension arrangements. A new Career Average pension arrangement, called Alpha, came into effect on 1 April 2015. The majority of Classic, Premium, Classic Plus and Nuvos members joined the new scheme.

From 30 July 2007, civil servants may be in one of five defined benefit schemes:either a final salary scheme (Classic, Premium or Classic Plus); or a whole career average scheme (Nuvos and Alpha). 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, Nuvos and Alpha are increased annually in line with Pensions Increase legislation. Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a 'money purchase' stakeholder pension with an employer contribution (partnership pension account).

Employee contributions are salary related and range between 3% and 8.05% of pensionable earnings for Classic and between 4.6% and 8.05% for Premium, Classic Plus, Nuvos and Alpha. Benefits in Classic accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years' initial pension is payable on retirement. For Premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike Classic, there is no automatic lump sum. Classic Plus is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per Classic and benefits for service from October 2002 worked out as in Premium. In Nuvos a member builds up a pension based on pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with Pensions Increase legislation. In Alpha a member builds up a pension based on pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.32% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with Pensions Increase legislation. Alpha benefits will be effective from Normal Pension Age without any early payment reduction. 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 8% and 14.75% (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of two providers. The employee does not have to contribute, but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.5% 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. Alpha will be effective from normal pensionable state age.

Further details of the Civil Service pension arrangements are available at www.civilservicepensionscheme.org.uk.

## Cash equivalent transfer values

Table C on page 67 shows each executive board member's CETV accrued at the beginning and the end of the reporting period. The table reflects the increase in CETV effectively funded by the employer.

A CETV is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies.

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

## Real increase in CETV

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

## Compensation for loss of office

Details of compensation paid due to loss of office are included in the table on page 71.

## Staff report

In total, we made 27 permanent and fixed-term appointments in the year. These are summarised in the table below. Full details of staff numbers can be found in Table 5 of the Departmental Report on page 135.

### Permanent and fixed-term appointments in 2015–16

| | Non-executive Directors | Senior Civil Servants | Pay band 1 | Pay band 2 | Pay band 3 | Pay band 4 | Pay band 5 | Pay band 6 | Pay band 7 |
|---|---|---|---|---|---|---|---|---|---|
| Male | 1 | 0 | 0 | 0 | 0 | 6 | 3 | 2 | 0 |
| Female | 0 | 0 | 0 | 1 | 1 | 7 | 3 | 2 | 1 |
| White | 1 | 0 | 0 | 1 | 1 | 10 | 4 | 3 | 0 |
| Non-white | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 1 | 0 |
| Non-declared | 0 | 0 | 0 | 0 | 0 | 3 | 1 | 0 | 1 |
| Disabled | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 0 |

### NS&I Executive Directors, senior managers and all employees as at 31 March 2016

| | Male | Female |
|---|---|---|
| Number of persons of each sex who were Executive Directors of NS&I at year end | 4 | 3 |
| The number of persons of each sex who were senior managers at year end | 22 | 22 |
| The total number of persons who were employed at year end[(1)] | 72 | 94 |

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

### Staff and related costs

Staff costs comprise:

| | 2015–16 Permanently employed UK staff £000 | 2015–16 Others £000 | 2015–16 Total £000 | 2014–15 Total £000 |
|---|---|---|---|---|
| Wages and salaries | 8,707 | 853 | 9,560 | 9,958 |
| Social security costs | 852 | – | 852 | 817 |
| Other pension costs | 1,677 | – | 1,677 | 1,523 |
| **Total net costs** | **11,236** | **853** | **12,089** | **12,298** |

The Principal Civil Service Pension Scheme (PCSPS) and the Civil Servant and Other Pension Scheme (CSOPS) – known as 'alpha' are unfunded multi-employer defined benefit schemes but NS&I is unable to identify its share of the underlying assets and liabilities. The scheme actuary valued the scheme as at 31 March 2012. Further details are available in the Resource Accounts of the Cabinet Office: Civil Superannuation (www.civilservice.gov.uk/pensions).

For 2015–16, employer contributions of £1,588,010 were payable to the PCSPS (2014–15: £1,404,184) at one of four rates in the range 20.0% to 24.5% (2014–15: 16.7% to 24.3%) of pensionable earnings, based on salary bands. The scheme actuary reviews employer contributions usually every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2015–16 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. Employer contributions of £84,935 (2014–15: £111,694) were paid to one or more of the panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 3.0% to 12.5% (2014–15: 3.0% to 12.5%) of pensionable earnings up to 30 September 2015 and from 8% to 14.75% of pensionable earnings from 1 October 2015. Employers also match employee contributions up to 3.0% of pensionable earnings. In addition, employer contributions of £3,423, 0.8% of pensionable pay up to 30 September 2015 and 0.5% of pensionable pay from 1 October 2015 (2014–15 £7,309, 0.8%), were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees. Contributions due to the partnership pension providers at the Statement of financial position date was Nil (2014–15: 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:

| | 2015–16 Permanently employed UK staff 000 | 2015–16 Others 000 | 2015–16 Total 000 | 2014–15 Total 000 |
|---|---|---|---|---|
| Administration of NS&I | 169 | 7 | 176 | 179 |
| **Total** | **169** | **7** | **176** | **179** |

All NS&I staff costs are charged to administration costs as defined under the Government Financial Reporting Manual. There are no staff costs charged to programme costs.

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

| Exit package cost band | Number of compulsory redundancies 2015–16 | Number of other departures agreed 2015–16 | Total number of exit packages by cost band 2015–16 | Number of compulsory redundancies 2014–15 | Number of other departures agreed 2014–15 | Total number of exit packages by cost band 2014–15 |
|---|---|---|---|---|---|---|
| <£10,000 | – | – | – | – | – | – |
| £10,000–£25,000 | – | – | – | – | – | – |
| £25,000–£50,000 | – | – | – | – | 1 | 1 |
| £50,000–£100,000 | – | – | – | – | – | – |
| £100,000–£150,000 | – | – | – | – | – | – |
| £150,000–£200,000 | – | – | – | – | – | – |
| Total number of exit packages by type(1) | **–** | **–** | **–** | **–** | **1** | **1** |
| Total resource cost (£)(1) | **–** | **–** | **–** | **–** | **–** | **–** |

(1) Under the Data Protection Act, to protect the anonymity of individuals who have left NS&I, the actual cost of exit packages is not being disclosed in 2014–15.

### Recruitment monitoring

We operate fair and open competition for all recruitment in line with the Civil Service Commissioners' guidelines. Appointments are made against robust criteria, which are applied throughout the recruitment and assessment process. The process has recently been updated to include 'name blind' selection for interview. There were nine permitted exceptions to the recruitment principle of fair and open competition, which were short-term appointments to meet short-term business needs (maternity cover or roles to cover a short-term resource requirement).

We compare CVs against the selection criteria, apply a name-blind approach to reviewing job applications and review diversity breakdowns to ensure that the criteria are fair and robustly applied. We submit an annual audit return to the Office of the Civil Service Commissioners which summarises campaigns, policy and processes. All activities may then be subject to a further audit review by the Civil Service Commissioners, and campaign files are kept for two years to comply with these requirements.

## Pay and reward

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

Details of executive pay and performance-related pay can be seen in the Remuneration and staff report on page 66. Details of our board Directors' expenses can also be found online at www.nsandi-corporate.com/about-nsandi/who-we-are/our-board-and-committees/. Reward for individual senior staff members is approved by our Appointments and Remuneration Committee.

## Pension liabilities

During 2015–16, the majority of our current and previous employees were covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS). The rate of employer's contribution to this is determined by the Government Actuary and advised by HM Treasury. For 2015–16 the rates were between 20.0% and 24.5% (2014–15: 16.7% and 24.3%) of pensionable pay, depending on salary.

From 1 April 2015, a new pension scheme known as Alpha was introduced across the Civil Service. Of our current staff the majority moved to this scheme. However, most of those who were within 10 years of retirement stayed with the PCSPS. See the Remuneration and staff report (pages 67 to 70) for further details.

To support staff moving to the new scheme, some additional financial education was provided, particularly around retirement planning and recent changes to pensions.

## Equal opportunities

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

NS&I seeks to be open and inclusive in its management policies and processes and seeks to recruit and develop a diverse and talented workforce that is representative of the society it serves. Our Equality and Diversity Information Statement provides full details of the diversity of NS&I's employees. It is available here:
https://nsandi-corporate.com/about-nsi/working-at-nsi/policies-and-procedures/

## Sick absence data

The average number of sick days per person in the 12 months ending 31 March 2016 was 5.38 days (2014–15: 5.13). This figure covers all absences including long-term absence. Short-term absences were 3.14 days (2014–15: 3.03).

Overall, sickness absence levels at NS&I are well below both private and public sector benchmarks, including the Civil Service benchmark.

### Table 1: For all off-payroll engagements as at 31 March 2016, for more than £220 per day and that last for longer than six months

| | |
|---|---|
| **Number of existing engagements as at 31 March 2016** | **6** |
| *of which:* | |
| Number that have existed for less than one year at time of reporting | 5 |
| Number that have existed for between one and two years at time of reporting | 1 |
| Number that have existed for between two and three years at time of reporting | 0 |
| Number that have existed for between three and four years at time of reporting | 0 |
| Number that have existed for four or more years at time of reporting | 0 |

### Table 2: For all new off-payroll engagements between 1 April 2015 and 31 March 2016, for more than £220 per day and that last for longer than six months

| | |
|---|---|
| **Number of new engagements, or those that reached six months in duration, between 1 April 2015 and 31 March 2016** | **5** |
| Number of the above that include contractual clauses giving the Department the right to request assurance in relation to income tax and National Insurance obligations | 5 |
| Number for which assurance has been requested | 0 |
| *of which:* | |
| Number for which assurance has been received | 0 |
| Number for which assurance has not been received | 0 |
| Number that have been terminated as a result of assurance not being received | 0 |

### Table 3: For any off-payroll engagements of board members, and/or senior officials with significant financial responsibility, between 1 April 2015 and 31 March 2016

| | |
|---|---|
| Number of off-payroll engagements of board members, and/or senior officials with significant financial responsibility, during the financial year | 0 |
| Number of individuals that have been deemed board members, and/or senior officials with significant financial responsibility, during the financial year. This figure should include both off-payroll and on-payroll engagements | 13[(1)] |

(1) This includes executive and Non-executive Directors as detailed on page 66 in tables A and B relating to 2015–16.

Jane Platt

**Jane Platt CBE**
**Chief Executive**
**National Savings and Investments**

27 June 2016

# Parliamentary accountability and audit report – Statement of Parliamentary Supply

In addition to the primary statements prepared under IFRS which are included in Section 3 Financial Statements, the *Government Financial Reporting Manual* (FReM) requires National Savings and Investments to prepare a Statement of Parliamentary Supply and supporting notes to show resource outturn against the Supply Estimate presented to Parliament, in respect of each budgetary control limit. The SoPS and related notes are subject to audit.

In line with the implementation of the Simplifying and Streamlining Accounts project, the SoPS has been moved away from the core IFRS financial statements and included within the Accountability Report section. This is to ensure it retains its prominence and is positioned next to the report of the Comptroller and Auditor General to the House of Commons.

In addition, the number of mandatory notes to the SoPS has been reduced and grouped together with other disclosures from elsewhere in the FReM which relate to Parliamentary accountability.

All tables in the SoPS and related notes have been audited.

### Summary of resource and capital outturn

| | | | | | | | | 2015–16 | 2014–15 |
|---|---|---|---|---|---|---|---|---|---|
| | | Estimate | | | Outturn | | | Voted outturn compared with Estimate: | Outturn |
| | SoPS note | Voted | Non-voted | Total | Voted | Non-voted | Total | savings/ (excess) | Total |
| | | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| **Departmental Expenditure Limit (DEL)** | | | | | | | | | |
| – Resource | 1.1 | 158,220 | – | **158,220** | 155,453 | – | **155,453** | 2,767 | **223,865** |
| – Capital | 1.2 | (1,352) | – | **(1,352)** | (1,585) | – | **(1,585)** | 233 | **1,383** |
| **Annually Managed Expenditure (AME)** | | | | | | | | | |
| – Resource | 1.1 | 3,300 | – | **3,300** | (682) | – | **(682)** | 3,982 | **420** |
| – Capital | | – | – | – | – | – | – | – | – |
| **Total budget** | | **160,168** | **–** | **160,168** | **153,186** | **–** | **153,186** | **6,982** | **225,668** |
| **Total** | | **160,168** | **–** | **160,168** | **153,186** | **–** | **153,186** | **6,982** | **225,668** |
| | | | | | | | | | |
| Total resource | 1.1 | 161,520 | – | 161,520 | 154,771 | – | 154,771 | 6,749 | 224,285 |
| Total capital | 1.2 | (1,352) | – | (1,352) | (1,585) | – | (1,585) | 233 | 1,383 |
| **Total** | | **160,168** | – | **160,168** | **153,186** | – | **153,186** | **6,982** | **225,668** |

## Net cash requirement

| | SoPS note | 2015–16 | 2015–16 | | 2014–15 |
|---|---|---|---|---|---|
| | | Estimate | Outturn | Net total outturn compared with Estimate: saving | Outturn |
| | | £000 | £000 | £000 | £000 |
| | 3 | **179,473** | **172,983** | 6,490 | **209,104** |

## Administration costs

| | 2015–16 | 2015–16 | 2014–15 |
|---|---|---|---|
| | Estimate | Outturn | Outturn |
| | £000 | £000 | £000 |
| | **158,220** | **155,453** | **223,865** |

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

Explanations of variances between Estimate and outturn are given in SoPS note 1 and in the Management Commentary.

The notes on pages 76 to 79 form part of this report.

# Notes to the Statement of Parliamentary Supply

## SoPS1 Net outturn

### SoPS1.1 Analysis of net resource outturn by section

| | 2015–16 | | | | | | | | | 2014–15 |
|---|---|---|---|---|---|---|---|---|---|---|
| | Outturn | | | | | | | Estimate | | Outturn |
| | Administration | | | Programme | | | | | | |
| | Gross £000 | Income £000 | Net £000 | Gross £000 | Income £000 | Net £000 | Total £000 | Net total £000 | Net total compared with Estimate £000 | £000 |
| **Spending in Departmental Expenditure Limit (DEL)** | | | | | | | | | | |
| **Voted** | | | | | | | | | | |
| Administration | 186,363 | (30,910) | 155,453 | – | – | – | 155,453 | 158,220 | 2,767 | 223,865 |
| **Spending in Annually Managed Expenditure (AME)** | | | | | | | | | | |
| **Voted** | | | | | | | | | | |
| Administration | – | – | – | (682) | – | (682) | (682) | 3,300 | 3,982 | 420 |
| **Total** | **186,363** | **(30,910)** | **155,453** | **(682)** | **–** | **(682)** | **154,771** | **161,520** | **6,749** | **224,285** |

| Difference between resource outturn and Estimate | £000 | 2015–16 £000 |
|---|---|---|
| Unused operational contingency funding | (1,200) | |
| Lower marketing and customer communication costs | (1,567) | |
| Lower depreciation costs | (476) | |
| Other differences | 476 | |
| **Total DEL underspend** | | **(2,767)** |
| Lower requirement for provisions | (993) | |
| Lower revaluation charge for NS&I properties | (2,989) | |
| **Total AME underspend** | | **(3,982)** |
| **Total underspend against Estimate** | | **(6,749)** |

### SoPS1.2 Analysis of net capital outturn by section

| | 2015–16 | | | | | 2014–15 |
|---|---|---|---|---|---|---|
| | Outturn | | | Estimate | | Outturn |
| | Gross £000 | Income £000 | Net £000 | Net £000 | Net total compared with Estimate £000 | Net £000 |
| **Spending in Departmental Expenditure Limit (DEL)** | | | | | | |
| **Voted** | | | | | | |
| Administration | 40 | (1,625) | (1,585) | (1,352) | 233 | 1,383 |
| **Total** | **40** | **(1,625)** | **(1,585)** | **(1,352)** | **233** | **1,383** |

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

## SoPS2 Reconciliation of outturn to net operating expenditure

| | Note | 2015–16 Outturn £000 | 2014–15 Outturn £000 |
|---|---|---|---|
| **Total resource outturn in Statement of Parliamentary Supply** | | 154,771 | 224,285 |
| | SoPS1.1 | **154,771** | **224,285** |
| **Add** | | | |
| Income recognised in budget but transferred to deferred income | | 16,617 | – |
| Income transferred from deferred income to operating income | | (3,281) | (5,625) |
| PPP asset depreciation | | 3,173 | 2,657 |
| PPP asset amortisation | | 12,027 | 30,577 |
| PPP asset revaluation (gain)/loss | | (60) | 136 |
| PPP asset impairment | | 15,431 | 43 |
| PPP asset loss on disposal | | 194 | 426 |
| | | **44,101** | **28,214** |
| **Less** | | | |
| Transfer of PPP costs to capital | | (28,604) | (46,536) |
| | | **(28,604)** | **(46,536)** |
| **Net operating expenditure in Statement of comprehensive net expenditure** | | **170,268** | **205,963** |

## SoPS3 Reconciliation of net resource outturn to net cash requirement

| | Note | Estimate £000 | 2015–16 Outturn £000 | Net total outturn compared with Estimate: saving/ (excess) £000 | 2014–15 Outturn £000 |
|---|---|---|---|---|---|
| **Resource outturn** | SoPS1.1 | 161,520 | 154,771 | 6,749 | 224,285 |
| **Capital outturn** | | | | | |
| – Addition of property, plant and equipment | SoPS1.2 | (1,352) | (1,585) | 233 | 937 |
| – Addition of intangible assets | SoPS1.2 | – | – | – | 446 |
| **Accruals to cash adjustments** | | | | | |
| Adjustments to remove non-cash items: | | | | | |
| – Depreciation | | (4,200) | (734) | (3,466) | (365) |
| – New provisions and adjustments to previous provisions | | (300) | 296 | (596) | (683) |
| – Other non-cash items | | (820) | (635) | (185) | (746) |
| Adjustments to reflect movements in working balances: | | | | | |
| – Increase/(decrease) in receivables | | 6,300 | 4,533 | 1,767 | (2,010) |
| – Decrease/(increase) in payables | | 18,325 | 15,940 | 2,385 | (12,805) |
| – Use of provisions | | – | 397 | (397) | 45 |
| **Net cash requirement** | | **179,473** | **172,983** | **6,490** | **209,104** |

## SoPS4 Income payable to the Consolidated Fund

### SoPS4.1 Analysis of income payable to the Consolidated Fund

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

| | Outturn 2015–16 | | Outturn 2014–15 | |
|---|---|---|---|---|
| | Income | *Receipts* | Income | *Receipts* |
| | £000 | *£000* | £000 | *£000* |
| Operating income outside the ambit of the Estimate | 39 | *39* | *175* | *175* |
| Excess cash surrenderable to the Consolidated Fund | – | – | – | – |
| **Total income payable to the Consolidated Fund** | **39** | ***39*** | ***175*** | ***175*** |

## Parliamentary Accountability Disclosures

### 1 Losses and special payments

### 1.1 Losses statement

as at 31 March

| | Accounts Note | 2015–16 Number of cases | 2015–16 £000 | 2014–15 Number of cases | 2014–15 £000 |
|---|---|---|---|---|---|
| Compensation payments | | – | – | 1 | 3 |
| Fraud loss | | – | – | 1 | (3) |
| Bad debts | 3 | 1 | 16 | 1 | 16 |
| Fruitless payments | | – | – | – | – |
| Special payments | | – | – | – | – |
| **Total** | | **1** | **16** | **3** | **16** |

Net fraud losses are shown in the table below:

| | 2015–16 £000 | 2014–15 £000 |
|---|---|---|
| Fraud (recoveries) | – | (3) |
| Reversal of fraud losses in provisions | – | (12) |
| Increase in provisions for fraud losses | – | 2 |
| | – | (13) |
| Contracted fraud loss recovery | – | (84) |
| **Total net fraud credited to Statement of financial net expenditure** | **–** | **(97)** |

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

## 2 Fees and charges

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

| | 2015–16 | | | 2014–15 | | |
|---|---|---|---|---|---|---|
| | Gross income £000 | Full cost £000 | Surplus £000 | Gross income £000 | Full cost £000 | Surplus £000 |
| Business-to-business | 16,665 | 14,911 | 1,754 | 18,274 | 16,385 | 1,889 |

The financial objective of Business-to-business is to recover the costs of providing payment services and make a contribution towards financing other costs. Investments that have been made in NS&I's capabilities have enabled NS&I to offset some of its costs by offering government and third parties payment processing services within agreed spending limits. From 2010–11, NS&I started developing its business-to-business activities with HM Treasury with regard to the Equitable Life Payment Scheme and the Ministry of Justice (Office of Accountant General) with regard to the Court Funds Office. NS&I acquired a further client for its business-to-business activities, Home Office Payment Processing, during 2013–14. During 2015–16 the Supreme Court ruled that the Government could use NS&I's business-to-business services to deliver its Tax-Free Childcare scheme. We have made good progress towards delivery and in partnership with HM Revenue and Customs, are on track to launch Tax-Free Childcare in early 2017.

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

I certify that I have audited the financial statements of the National Savings and Investments for the year ended 31 March 2016 under the Government Resources and Accounts Act 2000. The financial statements comprise: the Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the Statement of Parliamentary Supply and the related notes, and the information in the Remuneration Report and the Parliamentary Accountability Disclosures that is described in those reports as having been audited.

### Respective responsibilities of the Accounting Officer and auditor

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

### Scope of the audit of the financial statements

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

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

### Opinion on regularity

In my opinion, in all material respects:

- the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary control totals for the year ended 31 March 2016 and shows that those totals have not been exceeded; and

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

**Opinion on financial statements**

In my opinion:

- the financial statements give a true and fair view of the state of National Savings and Investments' affairs as at 31 March 2016 and of its net operating cost for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

**Opinion on other matters**

In my opinion:

- the parts of the Remuneration Report and the Parliamentary Accountability disclosures to be audited have been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000; and
- the information given in the Performance Report and the Accountability Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

**Matters on which I report by exception**

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

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

**Report**

I have no observations to make on these financial statements.

**Sir Amyas C E Morse** **Date: 27 June 2016**

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

# The certificate and report of the Comptroller and Auditor General to the House of Commons – Product Accounts

I certify that I have audited the financial statements which constitute the Product Accounts of National Savings and Investments for the year ended 31 March 2016 under the Government Resources and Accounts Act 2000. The financial statements comprise: the Statements of Comprehensive Income, Financial Position, Cash Flows; and the related notes. These financial statements have been prepared under the accounting policies set out within them.

### Respective responsibilities of the Accounting Officer and auditor

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

### Scope of the audit of the financial statements

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

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

### Opinion on regularity

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

### Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the affairs of the Product Accounts of National Savings and Investments as at 31 March 2016 and of the net operating results for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

### Opinion on other matters

In my opinion the information given in the Performance Report and the Accountability Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

### Matters on which I report by exception

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

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

### Report

I have no observations to make on these financial statements.

**Sir Amyas C E Morse** **Date: 27 June 2016**

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

## Section 3
Financial Statements

# Statement of comprehensive net expenditure
## for the year ended 31 March

This account summarises the income generated and expenditure consumed on an accruals basis. It also includes other comprehensive income and expenditure, which include changes to the values of non-current assets and other financial instruments that cannot yet be recognised as income or expenditure.

| | Note | 2015–16 £000 | 2014–15 (Reclassified) £000 |
|---|---|---|---|
| Income from sale of goods and services | 4 | (17,425) | (19,707) |
| Other operating income | 4 | (150) | (201) |
| **Total operating income** | | **(17,575)** | **(19,908)** |
| Staff costs | 2 | 12,089 | 12,298 |
| Purchase of goods and services | 3 | 143,035 | 177,940 |
| Depreciation and impairment charges | 3 | 32,380 | 34,204 |
| Provision expense | 3 | (296) | 683 |
| Other operating expenditure | 3 | 635 | 746 |
| **Total operating expenditure** | | **187,843** | **225,871** |
| **Net expenditure for the year** | | **170,268** | **205,963** |
| **Other comprehensive net expenditure** | | | |
| Items that will not be reclassified to net operating costs: | | | |
| Net (gain) on revaluation of non-current assets | 14 | (40) | (22) |
| **Comprehensive net expenditure for the year** | | **170,228** | **205,941** |

All income and expenditure are derived from continuing operations.

The notes on pages 89 to 107 form part of these accounts.

# Statement of financial position
## as at 31 March

This statement presents the financial position of the department. It comprises three main components: assets owned or controlled; liabilities owed to other bodies; and equity, the remaining value of the entity.

| | Note | 2016 £000 | 2016 £000 | 2015 £000 | 2015 £000 |
|---|---|---|---|---|---|
| **Non-current assets** | | | | | |
| Property, plant and equipment | 5 | 14,323 | | 23,047 | |
| Intangible assets | 6 | 57,048 | | 61,615 | |
| **Total non-current assets** | | | 71,371 | | 84,662 |
| **Current assets** | | | | | |
| Assets classified as held for sale | 8 | 8,851 | | – | |
| Trade and other receivables | 9 | 6,122 | | 1,589 | |
| Cash and cash equivalents | 10 | 16 | | 13 | |
| Client funds | 11 | 34,487 | | 2,156 | |
| **Total current assets** | | | 49,476 | | 3,758 |
| **Total assets** | | | 120,847 | | 88,420 |
| **Current liabilities** | | | | | |
| Trade and other payables | 12 | (16,505) | | (33,905) | |
| Client funds: Liability to HM Treasury | 11 | (34,487) | | (2,156) | |
| Provisions | 13 | – | | (16) | |
| **Total current liabilities** | | | (50,992) | | (36,077) |
| **Total assets less total current liabilities** | | | 69,855 | | 52,343 |
| **Non-current liabilities** | | | | | |
| Trade and other payables | 12 | (14,799) | | – | |
| Provisions | 13 | – | | (677) | |
| **Total non-current liabilities** | | | (14,799) | | (677) |
| **Total assets less total liabilities** | | | **55,056** | | **51,666** |
| **Taxpayers' equity** | | | | | |
| General Fund | | | 48,364 | | 42,146 |
| Revaluation reserve | 14 | | 6,692 | | 9,520 |
| **Total equity** | | | **55,056** | | **51,666** |

The notes on pages 89 to 107 form part of these accounts.

Jane Platt

**Jane Platt CBE**
**Chief Executive**
**National Savings and Investments**

27 June 2016

# Statement of cash flows
## for the year ended 31 March

The Statement of cash flows shows the changes in cash and cash equivalents of the department during the reporting period. The statement shows how the department generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of service costs and the extent to which these operations are funded by way of income from the recipients of services provided by the department. Investing activities represent the extent to which cash inflows and outflows have been made for resources that are intended to contribute to the department's future public service delivery.

| | Note | 2015–16 £000 | 2014–15 £000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Net operating cost | | (170,268) | (205,963) |
| Adjustment for non-cash transactions | 3 | 32,719 | 35,633 |
| (Increase)/decrease in trade and other receivables | 9 | (4,533) | 2,010 |
| (Decrease)/increase in trade and other payables | 12 | (2,502) | 8,157 |
| Use of provisions | 13 | (397) | (45) |
| **Net cash outflow from operating activities** | | **(144,981)** | **(160,208)** |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | 5 | (5,546) | (5,598) |
| Purchase of intangible assets | 6 | (23,099) | (42,321) |
| Decrease in capital payables | 12 | (101) | (977) |
| Proceeds of disposal of property, plant and equipment | 5 | 744 | – |
| **Net cash flows from investing activities** | | **(28,002)** | **(48,896)** |
| **Cash flows from financing activities** | | | |
| From the Consolidated Fund (Supply) – current year | | 172,996 | 209,115 |
| To the Consolidated Fund (Supply) – prior year | | (11) | (115) |
| **Net cash flows from financing activities** | | **172,985** | **209,000** |
| **Net increase/(decrease) in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund** | | **2** | **(104)** |
| Receipts due to the Consolidated Fund which are outside the scope of the department's activities | | 39 | 175 |
| Payments of amounts due to the Consolidated Fund | | (38) | (173) |
| **Net increase/(decrease) in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund** | 10 | 3 | (102) |
| **Cash and cash equivalents at the beginning of the period** | 10 | **13** | **115** |
| **Cash and cash equivalents at the end of the period** | 10 | **16** | **13** |

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

The notes on pages 89 to 107 form part of these accounts.

# Statement of changes in taxpayers' equity
## as at 31 March

This statement shows the movement in the year on the different reserves held by National Savings and Investments, analysed into 'General Fund reserves' (i.e. those reserves that reflect a contribution from the Consolidated Fund) and the Revaluation reserve. The Revaluation reserve reflects the change in asset values that have not been recognised as income or expenditure. The General Fund represents the total assets less liabilities of a department, to the extent that the total is not represented by other reserves and financing items.

| | Note | General Fund £000 | Revaluation reserve £000 | Taxpayers' equity £000 |
|---|---|---|---|---|
| **Balance at 1 April 2014** | | **38,028** | **9,729** | **47,757** |
| **Changes in taxpayers' equity 2014–15** | | | | |
| Net Parliamentary Funding – drawn down | | 209,000 | – | 209,000 |
| Net Parliamentary Funding – deemed | | 115 | – | 115 |
| Supply payable adjustment | | (11) | – | (11) |
| | | **209,104** | **–** | **209,104** |
| Net operating costs for the year | | (205,963) | – | (205,963) |
| **Non-cash adjustments** | | | | |
| Auditor's remuneration | 3 | 746 | – | 746 |
| Net gain on revaluation of non-current assets | 14 | – | 22 | 22 |
| | | (205,217) | 22 | (205,195) |
| **Movements in reserves** | | | | |
| Transfer between reserves | 14 | 231 | (231) | – |
| **Balance at 31 March 2015** | | **42,146** | **9,520** | **51,666** |
| **Changes in taxpayers' equity 2015–16** | | | | |
| Net Parliamentary Funding – drawn down | | 172,985 | – | 172,985 |
| Net Parliamentary Funding – deemed | | 11 | – | 11 |
| Supply payable adjustment | | (13) | – | (13) |
| | | **172,983** | **–** | **172,983** |
| Net operating costs for the year | | (170,268) | – | (170,268) |
| **Non-cash adjustments** | | | | |
| Auditor's remuneration | 3 | 635 | – | 635 |
| Net gain on revaluation of non-current assets | 14 | – | 40 | 40 |
| | | (169,633) | 40 | (169,593) |
| **Movements in reserves** | | | | |
| Transfer between reserves | 14 | 2,868 | (2,868) | – |
| **Balance at 31 March 2016** | | **48,364** | **6,692** | **55,056** |

The notes on pages 89 to 107 form part of these accounts.

# Notes to the Departmental Resource Accounts

## 1 Statement of accounting policies

These financial statements have been prepared in accordance with the 2015–16 Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of NS&I for the purpose of giving a true and fair view has been selected. The particular policies adopted by NS&I for the accounts are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

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

The implementation of HM Treasury's *Simplifying and Streamling Accounts project* has resulted in a revised presentation of the Statement of comprehensive net expenditure. Costs have been reclassified into revised categories in accordance with the latest guidance. The previous use of administration and programme costs has been discontinued in these accounts (those terms are only used in the Statement of Parliamentary Supply). This has also resulted in revised notes that provide supporting information for the income and expenditure costs shown in the Statement of comprehensive net expenditure.

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

### 1.1 Standards in issue but not in force

Certain standards, amendments and interpretations to existing standards have been published that may be mandatory for NS&I's accounting periods beginning on or after 1 April 2016 or later periods. NS&I has not early-adopted the standards, amendments or interpretations described below.

**1.1.1** IFRS 15 *Revenue from Contracts with Customers* – describes how and when an entity will recognise contract revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard provides a single, principles-based five-step model to be applied to all contracts with customers (effective 1 January 2017). It is considered very likely that this will impact on NS&I.

**1.1.2** IFRS 9 *Financial Instruments* – the first phase of IFRS 9 addresses the classification and measurement of financial instruments. The impact of IFRS 9 is not expected to be significant, given that IAS 39 classification and measurement requirements used by NS&I have largely been carried forward into IFRS 9, including the embedded derivative separation rules used for Guaranteed Equity Bonds (effective 1 January 2018).

**1.1.3** IFRS 16 *Leases* – specifies how an entity will recognise, measure, present and disclose leases. The standard provides a single lease accounting model, requiring lessees to recognise assets and liabilities for all leases unless the term is 12 months or less or the underlying asset has a low value. Lessors will continue to classify leases as operating or finance with IFRS 16's approach to lessor accounting unchanged from the previous standard IAS 17 *Leases*. It is expected that this standard will impact on NS&I. The standard becomes effective for annual reporting periods beginning on or after 1 January 2019.

#### 1.1.4 Other amendments to the FReM

Other amendments to the FReM due to come into effect on or after 1 April 2016 are considered to have no impact on NS&I.

### 1.2 Accounting convention

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

### 1.3 Accounting estimates and judgements

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

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

- Intangible assets – substantial amounts of software development costs have been capitalised since International Financial Reporting Interpretations Committee (IFRIC) 12 was implemented. Capitalisation of these costs requires considerable judgement. Development work is being carried out to modernise NS&I's infrastructure, simplify its products and develop its business-to-business capability. NS&I capitalises the implementation costs of developments where future benefits will accrue. Management judgement has been applied in quantifying the benefit expected to accrue to NS&I over the useful life of the relevant assets. The benefits relate to the fact that such software allows NS&I to carry out its functions more efficiently and to leverage its capability. Where the software does not produce the expected benefits in terms of NS&I achieving its objectives, or is no longer being used for the purpose it was developed for, then the carrying value would require adjustment.
- Property, plant and equipment – under IFRIC 12, IT, plant and machinery and furniture and fittings costs were capitalised during the year. NS&I obtains information regarding movements of assets (either additions or disposals) directly from its outsourced provider.

- Impairments – NS&I carries out a comprehensive review of the value of its assets at the end of the reporting period. Asset values are assessed as to whether the carrying value on the Statement of financial position is overstated in comparison to fair value, usually market value. Also, an assessment is carried out to ensure that the assets are performing to the levels determined in business cases and also on the organisation as a whole. This includes an assessment of assets under construction. NS&I management ensures, as far as possible, that asset carrying values reflect current values.
- Intangible Asset Impairments – for software development assets under construction, where there are significant changes to the proposed project solution, management judgement is applied in assessing the ongoing carrying value of the capitalised assets. Detailed assessments are carried out by technical experts with extensive experience within NS&I's outsourced provider, Atos, to identify work of ongoing benefit. These assessments are reviewed and considered by NS&I in forming its view on the value of its assets. Where carrying values are higher than the assessed current value, an impairment is recognised in the Statement of comprehensive net expenditure.
- Depreciation and amortisation – under IFRIC 12, depreciation costs have risen substantially since NS&I has included these assets on its Statement of financial position. Depreciation is dependent on the carrying values and useful economic lives that NS&I uses for its assets. NS&I management ensures as far as is possible that the values used reasonably reflect NS&I's position.

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

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

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

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

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

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

a. it is probable that future economic benefits associated with the asset will flow to NS&I; and

b. the cost of the asset can be measured reliably.

Further information regarding NS&I's service concession arrangements with Atos is provided in note 16.

### 1.5 Non-current assets

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

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

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

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

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

Any surplus arising on revaluation is credited to the revaluation reserve and any loss arising is debited to the revaluation reserve to the extent of the gains that have been recorded previously, with any balance being charged to the Statement of comprehensive net expenditure, within other comprehensive net expenditure. Components of an asset are separated where their value is significant in relation to the total value of the asset and where those components have different useful lives to the remainder of the asset.

### 1.6 Depreciation and amortisation

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

<u>Property, plant and equipment</u>

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

Intangible assets

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

**1.7 Impairment of non-current assets**

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

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

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

**1.8 Non-current assets held for sale**

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

**1.9 Leases**

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

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

**1.10 Employee benefits**

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

### 1.11 Early departure costs

NS&I is required to meet the additional cost of benefits beyond the normal Civil Service pension benefits in respect of employees who retire early unless the retirement is on approved medical grounds. NS&I provides for this cost when it has entered into contractual arrangements with the early retirees and creates a corresponding provision for its future payments in the Statement of financial position. In accordance with the requirements of IAS 37, this provision has been discounted. NS&I may, in certain circumstances, settle some or all of its liability in advance by making a payment for the credit of the Civil Superannuation Vote.

### 1.12 Pensions

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

### 1.13 Provisions

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

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

### 1.14 Contingent liabilities

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

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

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

### 1.15 Financial instruments

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

### 1.16 Operating income

All income received is assessed on receipt to determine whether it is appropriate to recognise as operating income or whether it is recognised as deferred income. Income that is deferred represents payments for implementation costs from business-to-business clients. This is accumulated over the period an asset is being developed. When the asset is ready to be used, deferred income is transferred to operating income over the useful economic life of the asset.

### 1.17 Value added tax

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

### 1.18 Operating segments

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

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

### 1.19 Client funds

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

## 2 Staff and related costs

Staff costs comprise:

| | 2015–16 £000 | 2014–15 £000 |
|---|---|---|
| Wages and salaries | 9,560 | 9,958 |
| Social security costs | 852 | 817 |
| Other pension costs | 1,677 | 1,523 |
| **Total net costs** | **12,089** | **12,298** |

Further details are included in the Remuneration and staff report in Section 2.

## 3 Expenditure

| | Note | 2015–16 £000 | 2015–16 £000 | 2015–16 £000 | 2014–15 (Reclassified) £000 | 2014–15 (Reclassified) £000 | 2014–15 (Reclassified) £000 |
|---|---|---|---|---|---|---|---|
| Public Private Partnership provider costs(1) | | 152,661 | | | 194,449 | | |
| Transfer of PPP provider cost to capital | | (28,604) | | | (46,536) | | |
| **Net PPP costs** | | | 124,057 | | | 147,913 | |
| Goods and services | | | 17,311 | | | 29,144 | |
| Rentals under operating leases | | | 1,651 | | | 867 | |
| Losses and special payments | | | 16 | | | 16 | |
| **Total goods and services** | | | | **143,035** | | | **177,940** |
| **Non-cash items** | | | | | | | |
| Depreciation | 5 | | 3,774 | | | 3,169 | |
| Amortisation | 6 | | 12,150 | | | 30,643 | |
| Loss on disposal of property, plant and equipment | 5, 6 | | 1,074 | | | 431 | |
| Revaluation | 5, 6, 14 | | (49) | | | (82) | |
| Impairment | 6 | | 15,431 | | | 43 | |
| **Depreciation and impairment** | | | **32,380** | | | **34,204** | |
| (Decrease)/increase in provision provided for in year less any release | 13 | | (296) | | | 683 | |
| Auditor's remuneration and expenses(2) | | | 635 | | | 746 | |
| **Total non-cash items** | | | | **32,719** | | | **35,633** |
| | | | | **175,754** | | | **213,573** |

(1) Public Private Partnership (PPP) gross costs were £152,661,000 (2014–15: £194,449,000). These are reduced by infrastructure and development work which are transferred to capital under IFRIC 12. The impact of the transfer is to reduce NS&I's operating costs but increase NS&I's assets on its Statement of financial position. The transfer during the year was £28,604,000 (2014–15: £46,536,000). The treatment is outlined in accounting policy note 1.4.

(2) The Audit remuneration costs include fees for the Product Accounts statutory audit of £542,000 (2014–15: £649,000) and for the Resource Accounts statutory audit fees of £93,000 (2014–15: £97,000).

# 4 Income

## 4.1 Operating income

| | Note | 2015–16 £000 | 2015–16 £000 | 2014–15 (Reclassified) £000 | 2014–15 (Reclassified) £000 |
|---|---|---|---|---|---|
| Operating income comprises: | | | | | |
| Business-to-business | | 16,666 | | 18,274 | |
| Rent from external tenants | | 759 | | 1,433 | |
| **Income from sale of goods and services** | | | **17,425** | | **19,707** |
| Contracted fraud loss recovery from Atos[1] | | – | | 84 | |
| Other receipts | | 150 | | 117 | |
| **Other operating income** | | | **150** | | **201** |
| **Total operating income** | | | **17,575** | | **19,908** |

(1) Following the retender of the outsourced operational services contract all fraud losses are covered by Atos.

## 5 Property, plant and equipment

## 5(a) Current year

| | Land[1, 2] | Buildings[2] | Information technology | Plant and machinery | Furniture and fittings | Assets under construction[3] | Total |
|---|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| **Cost or valuation** | | | | | | | |
| At 1 April 2015 | 11,036 | 19,494 | 19,319 | 1,164 | 4,902 | 1,551 | 57,466 |
| Additions | – | – | 4,806 | – | 11 | 729 | 5,546 |
| Transfer from 'Assets under construction'[3] | – | – | (10) | 650 | 845 | (1,485) | – |
| Disposals[1] | (1,625) | (10,212) | (2,305) | (247) | (879) | – | (15,268) |
| Transfers to 'Assets held for sale' [2] | (8,851) | (7,929) | – | – | – | – | (16,780) |
| Revaluation | 40 | (14) | – | – | – | – | 26 |
| **At 31 March 2016** | **600** | **1,339** | **21,810** | **1,567** | **4,879** | **795** | **30,990** |
| **Depreciation** | | | | | | | |
| At 1 April 2015 | – | (18,251) | (12,940) | (696) | (2,532) | – | (34,419) |
| Charged in year | – | (28) | (3,113) | (101) | (532) | – | (3,774) |
| Disposals | – | 10,212 | 2,263 | 247 | 874 | – | 13,596 |
| Transfers to 'Assets held for sale'[2] | – | 7,929 | – | – | – | – | 7,929 |
| Revaluation | – | 1 | – | – | – | – | 1 |
| **At 31 March 2016** | **–** | **(137)** | **(13,790)** | **(550)** | **(2,190)** | **–** | **(16,667)** |
| **Carrying amount** | | | | | | | |
| **At 31 March 2016** | **600** | **1,202** | **8,020** | **1,017** | **2,689** | **795** | **14,323** |
| **Owned assets** | **600** | **1,202** | **282** | **911** | **1,541** | **–** | **4,536** |
| **IFRIC 12 assets** | **–** | **–** | **7,738** | **106** | **1,148** | **795** | **9,787** |
| **Total** | **600** | **1,202** | **8,020** | **1,017** | **2,689** | **795** | **14,323** |

(1) The freehold land and buildings at Durham were sold by NS&I in October 2015. The Durham site was sold for an initial £744,000. The sale resulted in an initial loss on disposal of £881,000 and that is recognised in the accounts. Further receipts will be received from the buyer over an extended period and are expected to create an economic surplus for the taxpayer in the future. These are dependent upon the outcomes of planning permission and potential future profits realised by the purchaser, as defined in the sale contract. Therefore, at the time of sale and at the date of the accounts, a reliable estimate of the timing or value of the additional proceeds could not be included in the accounts.

(2) The land and buildings have been leased to Atos under an operating lease arrangement for most of the financial year. However, the Durham site was sold in October and the Blackpool Main Building and Glasgow sites stopped being used in the business and were vacated. The sales of the two sites have been actively pursued and have been transferred to 'Assets held for sale' at carrying value of £8,851,000 in accordance with IFRS 5 *Non current assets and discontinued operations*. The remaining property at Blackpool Moorlands was revalued by professional valuers as at 31 March 2016 from DTZ and Cushman Wakefield.

(3) Leasehold improvements classed as 'Assets under construction' at the start of the year came into use during 2015–16 and were reclassified as plant and machinery (£650,000) and furniture and fittings (£845,000).

## 5(b) Prior year

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

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

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

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

## 6 Intangible assets

### 6(a) Current year

| | Information technology software £000 | Software licences £000 | Website £000 | Assets under construction[1] £000 | Total £000 |
|---|---|---|---|---|---|
| **Cost or valuation** | | | | | |
| **At 1 April 2015** | 107,277 | 15,959 | 877 | 31,637 | 155,750 |
| Additions[1] | (7) | 902 | – | 22,204 | 23,099 |
| Transfer from 'Assets under construction' | 794 | – | – | (794) | – |
| Revaluation[3] | 195 | – | 3 | – | 198 |
| Disposals | (1,076) | (5) | – | (2) | (1,083) |
| Impairment[2] | – | – | – | (15,431) | (15,431) |
| Reclassifications | (18) | (258) | – | 276 | – |
| **At 31 March 2016** | **107,165** | **16,598** | **880** | **37,890** | **162,533** |
| **Amortisation** | | | | | |
| **At 1 April 2015** | (86,635) | (6,628) | (872) | – | (94,135) |
| Charged in year[4] | (9,759) | (2,385) | (6) | – | (12,150) |
| Revaluation[3] | (134) | – | (2) | – | (136) |
| Disposals | 932 | 4 | – | – | 936 |
| Reclassifications | – | – | – | – | – |
| **At 31 March 2016** | **(95,596)** | **(9,009)** | **(880)** | **–** | **(105,485)** |
| **Carrying amount** | | | | | |
| **At 31 March 2016** | **11,569** | **7,589** | **–** | **37,890** | **57,048** |
| **Owned assets** | **619** | **44** | **–** | **38** | **701** |
| **IFRIC 12 assets** | **10,950** | **7,545** | **–** | **37,852** | **56,347** |
| **Total** | **11,569** | **7,589** | **–** | **37,890** | **57,048** |

(1) Assets under construction additions were over £22 million during 2015–16. Most of the expenditure was for work carried out on the new improved banking platform and also implementation work for a major business-to-business client. The net increase from 2014–15 was £6.3 million.

(2) Intangible assets under construction include costs relating to software development solutions designed by Atos at the start of the contract with NS&I. A number of these solutions have now been identified as sub-optimal given a number of factors, including rapid technological change and the increasing size of NS&I's business which were not foreseen when the existing contract was conceived and agreed. Therefore Atos and NS&I have agreed various new solutions as part of a revised change programme. Changes to the design solutions mean elements of the work previously capitalised are now impaired. In addition, costs of £5.6 million were incurred and expensed by Atos during 2015–16 in relation to these software development solutions. The new solutions are designed to meet the original required contractual outcomes and the cost will be borne by Atos under the previously agreed fixed price contract in place with NS&I. There is no impact on the revaluation reserve as a result of this impairment.

(3) Information technology software was revalued during the year using an appropriate ONS index. This was the Computer Services Producer Price Index produced by the Office for National Statistics. The net increase in value of the assets was £0.062 million.

(4) Amortisation is lower than in 2014–15 (£28.73 million) for IT software. This is mainly because a significant number of assets in IT software were coming to the end of their useful lives during the year and a full year's amortisation would not be charged. This was compounded by the original lives of the asset being extended during 2015–16 over a longer period.

## 6 Intangible assets

### 6(b) Prior year

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

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

(2) Information technology software was revalued during the year using an appropriate Office for National Statistics (ONS) index. This was the Computer Services Producer Price Index produced by the ONS. The net reduction in value of the assets was £0.241 million.

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

## 7 Financial instruments

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

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

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

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

## 8 Assets held for sale

As described in note 5(a), NS&I has included its properties at Blackpool and Glasgow as actively held for sale. The sale of the properties had been actively pursued even prior to the complete vacation of the properties. The sales are expected to be completed during 2016–17. The assets were transferred to held for sale at their carrying value which is lower than fair value less costs to sell.

| | 2016<br>£000 | 2015<br>£000 |
|---|---|---|
| **Balance at 1 April** | – | – |
| Transfer from 'Property, plant and equipment' | 8,851 | – |
| **Balance at 31 March** | **8,851** | **–** |

## 9 Trade and other receivables

as at 31 March

| | 2016<br>£000 | 2015<br>£000 |
|---|---|---|
| **Amounts falling due within one year:** | | |
| Trade receivables | 527 | – |
| Deposits and advances | 76 | 77 |
| Prepayments | 290 | 278 |
| Accrued income | 5,188 | 1,234 |
| Other receivables | 41 | – |
| **Total trade and other receivables** | **6,122** | **1,589** |

## 10 Cash and cash equivalents

| | 2016 £000 | 2015 £000 |
|---|---|---|
| **Balance at 1 April** | 13 | 115 |
| Net change in cash and cash equivalent balances | 3 | (102) |
| **Closing cash and cash equivalent balance** | **16** | **13** |
| **The following balances are held at:** | | |
| Government Banking Service | 16 | 13 |
| **Balance at 31 March** | **16** | **13** |

## 11 Client funds

| | 2016 £000 | 2015 £000 |
|---|---|---|
| **Balance at 1 April** | 2,156 | 19,605 |
| Net change in client funds balance | 32,331 | (17,449) |
| **Closing client funds balance** | **34,487** | **2,156** |
| **The following balances are held at:** | | |
| Government Banking Service | 34,487 | 2,156 |
| **Balance at 31 March** | **34,487** | **2,156** |
| **Corresponding liability for payments to be made on behalf of HM Treasury** | **(34,487)** | **(2,156)** |

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

## 12 Trade payables and other liabilities

as at 31 March

| | 2016 £000 | 2015 (Reclassified) £000 |
|---|---|---|
| **Amounts falling due within one year:** | | |
| VAT | 54 | 105 |
| Taxation and social security | 276 | 251 |
| Trade payables | 4,940 | 15,423 |
| Other payables | 180 | 182 |
| Accruals | 7,901 | 13,330 |
| Deferred income | 3,138 | 4,601 |
| Consolidated Fund extra receipts due to be paid to the Consolidated Fund | 3 | 2 |
| Amounts issued from the Consolidated Fund for supply but not spent at year end | 13 | 11 |
| **Total trade and other payables** | **16,505** | **33,905** |
| **Amounts falling due after more than one year:** | | |
| Deferred income(1) | 14,799 | – |
| **Non-current liabilities** | **14,799** | **–** |
| **Total trade payables and other liabilities** | **31,304** | **33,905** |

(1) Amounts falling due after more than one year refer to deferred income that will be brought into operating income over the life of business-to-business services that NS&I operates for its clients.

## 13 Provisions for liabilities and charges

### 13(a) Movements in provisions

| | Provision for fraud losses[1] £000 | Provision for Glasgow sports ground £000 | Total £000 |
|---|---|---|---|
| Balance at 1 April 2015 | – | 693 | **693** |
| Provided in the year | – | – | **–** |
| Provision written back | – | (296) | **(296)** |
| Provisions utilised in the year | – | (397) | **(397)** |
| **Balance at 31 March 2016** | **–** | **–** | **–** |
| Balance at 1 April 2014 | 56 | – | **56** |
| Provided in the year | 2 | 693 | **695** |
| Provision written back | (13) | – | **(13)** |
| Provisions utilised in the year | (45) | – | **(45)** |
| **Balance at 31 March 2015** | **–** | **693** | **693** |

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

| | Provision for fraud losses[1] £000 | Provision for Glasgow sports ground[2] £000 | Total £000 |
|---|---|---|---|
| Not later than one year | – | – | **–** |
| Later than one year and not later than five years | – | – | **–** |
| Later than five years | – | – | **–** |
| **Balance at 31 March 2016** | **–** | **–** | **–** |
| Not later than one year | – | 16 | **16** |
| Later than one year and not later than five years | – | 68 | **68** |
| Later than five years | – | 609 | **609** |
| **Balance at 31 March 2015** | **–** | **693** | **693** |

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

(2) NS&I held a lease on land in Glasgow with Pollok and Corrur Ltd. The lease commenced in 1974. The original lease term was for 99 years. NS&I paid £16,300 rent to the landlord annually. The lease was subleased to another party from July 2011. NS&I paid the lease costs to March 2014. The sub-lessee failed to pay rent for 2014–15 and 2015–16 and the sublease was terminated. NS&I also made arrangements to terminate the lease with the lessor at the end of the 2015–16 financial year.

## 14 Movement in revaluation reserve

as at 31 March

| | Note | 2016 £000 | 2015 £000 |
|---|---|---|---|
| **Revaluation reserve changes:** | | | |
| Balance in revaluation reserve 1 April | | (9,520) | (9,729) |
| Total downward revaluation | | 13 | 238 |
| Charged to expenditure | 3 | 49 | 82 |
| Upward revaluation | | (102) | (342) |
| **Revaluation movement** | | **(40)** | **(22)** |
| Sale of assets | | 2,859 | 220 |
| Depreciation adjustment | | 9 | 11 |
| **Subtotal** | | **2,868** | **231** |
| **Balance at 31 March** | | **(6,692)** | **(9,520)** |

## 15 Commitments under leases

### 15(a) Operating leases with tenants

NS&I leased all of its buildings to Atos under operating lease agreements. The initial leases ended on 31 March 2014. The renewed leases are all at peppercorn rents and no rent from Atos is receivable. In 2014–15 NS&I received rents via Atos from third parties where sub-tenancies were granted, this is reflected in the amounts shown.

| | 2016 £000 | 2015 £000 |
|---|---|---|
| Buildings | | |
| Not later than one year | – | 400 |
| **Total** | **–** | **400** |

### 15(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.

| | 2016 £000 | 2015 Restated £000 |
|---|---|---|
| **Obligations under operating leases comprise:** | | |
| Buildings | | |
| Not later than one year | 1,692 | 1,691 |
| Later than one year and not later than five years | 4,094 | 4,976 |
| More than five years | 8,109 | 8,528 |
| **Total** | **13,895** | **15,195** |

## 16 Commitments under the Public Private Partnership contract

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

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

| | £000 |
|---|---|
| Amounts falling due within one year | 84,683 |
| Net present value of amounts falling due within two to five years | 310,490 |
| | **395,173** |

| | £000 |
|---|---|
| Comparable figures at 31 March 2015 were: | |
| Amounts falling due within one year | 113,850 |
| Net present value of amounts falling due within two to five years | 274,984 |
| Net present value of amounts falling beyond five years | 57,576 |
| | **446,410** |

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

## 17 Other financial commitments

There were no other financial commitments at 31 March 2016 (Nil 31 March 2015).

## 18 Contingent liabilities disclosed under IAS 37

There were no material contingent liabilities at 31 March 2016 (Nil 31 March 2015).

## 19 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 transactions with the Chancellor of the Exchequer during the year.

As a public body, the Post Office® is classed as a related party. NS&I had a significant number of transactions with the Post Office® for part of the current accounting period (to 31 August 2015). NS&I's Post Office® costs during 2015–16 were £1,137,675 (2014–15: £11,640,997) for contract services.

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

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

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

| | 2015–16 | 2014–15 |
|---|---|---|
| | £000 | £000 |
| Executive Directors and Non-executive Directors | 2,961 | 2,088 |

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

## 20 Events after the reporting period date

There are no reportable events between the Statement of financial position date and 27 June 2016, the date of authorisation of these accounts. The financial statements do not reflect events after that date.

# Product Accounts background

## Accounts

These accounts have been prepared under a direction issued by HM Treasury in accordance with section 7(2) of the Government Resources and Accounts Act 2000. This direction is at Annex 1 to these accounts on page 129.

## Scope of the Product Accounts

These accounts record transactions for the year ended 31 March 2016 on retail savings and investment products administered by NS&I and balances in respect of these products as at that date. They do not include:

- *The investment or use of funds*. Customer funds are not directly invested by NS&I. They are passed to the National Loans Fund (NLF) to fund public sector activity.
- *NS&I's administration costs*. These are funded by Parliamentary Vote and accounted for separately in the Accountability Report section of the Annual Report. However, the interest and prizes costs on NS&I products are included in the total cost of servicing the national debt, and these costs are therefore reflected as a charge on both the NLF account and these accounts.
- *Tax foregone.* Some NS&I products are tax free. The notional cost of tax foregone by the Exchequer is not recognised as a cost in these accounts, but is considered as part of NS&I's overall Value Indicator measure when computing how cost-effective NS&I has been at financing the national debt.

## The National Loans Fund

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

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

## NS&I's 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

| | |
|---|---|
| Children's Bonds (previously known as Children's Bonus Bonds) | The National Savings (No.2) Regulations 2015 |
| 65+ Guaranteed Growth Bonds | The National Savings (No.2) Regulations 2015 |
| Guaranteed Income Bonds and Guaranteed Growth Bonds (previously known as Fixed Rate Savings Bonds) | The National Savings (No.2) Regulations 2015 |
| Guaranteed Equity Bonds | The National Savings (No.2) Regulations 2015 |
| Income Bonds | The National Savings (No.2) Regulations 2015 |
| Premium Bonds | The National Savings (No.2) Regulations 2015 |
| Savings Certificates | The National Savings (No.2) Regulations 2015 |

### Products governed by the National Savings Bank Act 1971

| | |
|---|---|
| Direct Saver Account | The National Savings Regulations 2015 |
| Individual Savings Account | The National Savings Regulations 2015 |
| Investment Account | The National Savings Regulations 2015 |
| Residual Account | The National Savings Regulations 2015 |

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

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

### Notable events during the year ended 31 March 2016

NS&I's contract with the Post Office® came to an end on 31 July 2015 and the purchase of Premium Bonds, which had been the only product available for purchase by direct channels and through the Post Office®, shifted exclusively to direct channels. As a result, NS&I realised its direct channel strategy and became a fully direct business effective from, 1 August 2015.

65+ Guaranteed Growth Bonds, which launched on 15 January 2015, went off sale on 15 May 2015. These bonds were issued in one- and three-year terms. On 15 January 2016, the one-year bonds began to mature and customers were given the option to either cash in their investment or reinvest into NS&I's Guaranteed Growth Bonds or other products currently on sale.

### Audit

These accounts have been audited by the Comptroller and Auditor General, whose Certificate and Report appears on pages 82 and 83.

# Statement of comprehensive income
## for the year ended 31 March

| | Note | 2015–16 £000 | 2014–15 £000 |
|---|---|---|---|
| **Income** | | | |
| Interest and prizes financed by the NLF (excluding revaluation of embedded derivatives) | | 2,067,732 | 1,670,617 |
| Loss on revaluation of embedded derivatives | | – | (23,972) |
| Interest and prizes financed by the NLF | | 2,067,732 | 1,646,645 |
| **Cost** | | | |
| Interest and prizes earned by investors (excluding revaluation of embedded derivatives) | | (2,067,732) | (1,670,617) |
| Gain on revaluation of embedded derivatives | | – | 23,972 |
| Interest and prizes earned by investors | 2 | (2,067,732) | (1,646,645) |
| **Income less cost** | | **–** | **–** |

The notes on pages 113 to 128 form part of these accounts.

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

# Statement of financial position
## as at 31 March

| | Note | 2016 £000 | 2015 £000 |
|---|---|---|---|
| **Current assets** | | | |
| Held by the NLF | 4 | 133,989,355 | 122,564,773 |
| Other receivables | 5 | 232,812 | 395,770 |
| Cash and cash equivalents | 9 | 930,872 | 929,790 |
| **Total current assets** | 10 | 135,153,039 | 123,890,333 |
| **Current liabilities** | | | |
| Liability to investors | 6 | (135,148,451) | (123,888,533) |
| Other payables | 7 | (4,588) | (1,800) |
| **Total current liabilities** | 10 | (135,153,039) | (123,890,333) |
| **Net current assets** | | – | – |
| **Assets less liabilities** | | – | – |

The notes on pages 113 to 128 form part of these accounts.

Jane Platt

**Jane Platt CBE**
**Chief Executive**
**National Savings and Investments**

27 June 2016

# Statement of cash flows
## for the year ended 31 March

| | Note | 2015–16 £000 | 2014–15 £000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Income less cost | | – | – |
| Increase in net funds held by the NLF | 8 | (11,424,582) | (17,503,278) |
| Decrease in amortisation of Guaranteed Equity Bonds' principal liabilities | 4 | – | (665) |
| Decrease/(increase) in other receivables | 5 | 162,958 | (242,862) |
| Increase in total funds invested | 2 | 11,259,918 | 18,225,858 |
| Increase/(decrease) in other payables | 7 | 2,788 | (2,145) |
| **Net cash flow from operating activities** | | 1,082 | 476,908 |
| **Net increase in cash and cash equivalents in the period** | 9 | 1,082 | 476,908 |
| **Cash and cash equivalents at the beginning of the period** | 9 | 929,790 | 452,882 |
| **Cash and cash equivalents at the end of the period** | 9 | 930,872 | 929,790 |

The notes on pages 113 to 128 form part of these accounts.

# Notes to the accounts

## 1 Statement of accounting policies

These accounts are prepared in accordance with the Government 2015–16 *Financial Reporting Manual (FReM)* issued by HM Treasury subject to exemptions outlined in clause 3 of the Product Accounts direction issued by HM Treasury, which is disclosed at Annex 1. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context.

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

### 1.1 Accounting convention

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

### 1.2 Standards in issue but not in force

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for NS&I's accounting periods beginning on or after 1 April 2016. NS&I has not early-adopted the standards, amendments and interpretations described below.

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

IFRS 9 will replace IAS 39 *Financial instruments: recognition and measurement*. IFRS 9 will address classification and measurement issues and impairments, in particular how impairments of financial assets should be calculated and recorded. The standard will address hedge accounting with more detailed guidance and principles on hedge accounting. The International Accounting Standards Board published the final version of IFRS 9 in July 2014. The IASB has stated that effective from February 2015, entities newly applying IFRS 9 will need to apply the version published in July 2014. Mandatory application of IFRS 9 is for annual periods beginning on or after 1 January 2018.

#### 1.2.2 Other amendments to the FReM

Other amendments to the FReM due to come into effect on or after 1 April 2016 are considered to have no impact on NS&I.

### 1.3 Interest and prizes recognition

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

Capitalised and accrued interest is included in interest and prizes payable to investors in the Statement of comprehensive income, and liability to investors in the Statement of financial position. Capitalised interest is interest that has been added to the customer's investment and may now be earning further interest in accordance with the terms and conditions of the product. Accrued interest is interest which has been earned but not yet capitalised. Interest, where applicable, is accrued from the date of funds received or most recent capitalisation to the end of the accounting period.

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

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

### 1.4 Financed by the NLF

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

### 1.5 Cash and cash equivalents

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

### 1.6 Financial liabilities

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

A receipt from an investor is recognised as a liability when NS&I or one of its agents receives a payment instrument for a valid investment. Repayments to investors are recognised as a reduction in the liability to the investor on the date of the payment instrument. Where payment instruments are not cashed by the investor within their stipulated time limit, the liability to the investor is reinstated.

If an investor decides to reinvest funds in the same or another product, this is termed a reinvestment and is recognised as a payment and new receipt. An automatic or default rollover of funds within the same product, which requires no action by the investor, is not recognised as a payment or receipt. The undiscounted maturity profiles for the total liability for all products are disclosed in note 12.

### 1.7 Relationship with the NLF

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

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

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

### 1.8 Financial assets

Financial assets comprise the loan with the NLF and other receivables, based on deposits and investments made by customers. On initial recognition, financial assets are classified as loans and receivables.

Loans and receivables are assets with fixed or determinable repayments that are not quoted in an active market. Loans and receivables are initially recognised at fair value. Due to the agency nature of the business, the loan with the NLF is derived from the value of the financial liabilities upon which it is based (see note 1.6).

Derecognition of financial assets only occurs when NS&I transfers both its contractual right to receive cash flows from the financial assets and substantially all of the risks and rewards of ownership.

### 1.9 Derivative financial instruments

A derivative embedded in a product is accounted for as a standalone derivative if it is not closely related to the product. It is recognised initially, and subsequently measured, at fair value. Gains and losses arising from changes in the fair value of a derivative are recognised in the Statement of comprehensive income.

In March 2002, NS&I began to issue GEBs in partnership with the Debt Management Office. GEBs include an embedded equity derivative, which is exposed to equity index risk and interest rate risk over the life of each of the GEB issues. The equity index exposure is hedged by the DMO and these risks do not fall on NS&I as they are underwritten by HM Treasury.

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

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

The partnership with the DMO in respect of GEBs ended upon maturity of the final issue in December 2014.

## 2 Transactions with investors by product

### 2(a) Current year

| | Received from investors £000 | Interest and prizes earned by investors £000 | Paid to investors including tax deducted at source £000 | Transfer to Residual Account £000 | Increase/ (decrease) in investors' funds £000 | Invested 31 March 2016 £000 |
|---|---|---|---|---|---|---|
| Children's Bonds | 13,484 | 14,310 | (114,563) | (29,991) | (116,760) | 536,929 |
| Direct Saver | 5,178,530 | 69,952 | (3,282,907) | – | 1,965,575 | 7,532,550 |
| 65+ Guaranteed Growth Bonds | 2,707,335 | 470,156 | (3,982,003) | – | (804,512) | 10,280,543 |
| Guaranteed Bonds | 2,415,503 | 108,595 | (847,791) | (13) | 1,676,294 | 6,270,789 |
| Income Bonds | 5,468,405 | 152,164 | (3,308,987) | – | 2,311,582 | 13,565,133 |
| Individual Savings Account | 995,294 | 59,018 | (579,553) | – | 474,759 | 4,289,192 |
| Investment Account | 308,786 | 20,273 | (408,167) | – | (79,108) | 2,685,172 |
| Premium Bonds | 14,149,735 | 773,960 | (7,666,403) | – | 7,257,292 | 61,860,235 |
| Residual Account | 32,688 | 595 | (55,138) | 31,953 | 10,098 | 626,152 |
| Savings Certificates | 195,595 | 398,709 | (2,027,657) | (1,949) | (1,435,302) | 27,501,756 |
| **Total** | **31,465,355** | **2,067,732** | **(22,273,169)** | **–** | **11,259,918** | **135,148,451** |

### 2(b) Prior year

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

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

Amounts paid to investors include both capital and interest payments.

Guaranteed Bonds comprise Guaranteed Income Bonds and Guaranteed Growth Bonds.

Guaranteed Bonds and 65+ Guaranteed Growth Bonds are the only products that have tax deducted at source. The total tax deducted in 2015–16 was £100,698,000 (2014–15: £27,819,000).

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

## 3 Interest and prizes

| | Note | 2015–16 £000 | 2014–15 £000 |
|---|---|---|---|
| Total interest and prizes earned in year | 2 | (2,067,732) | (1,646,645) |
| Add accrued interest and prizes opening balance | | (453,935) | (670,185) |
| Less interest capitalised in year | | 1,206,671 | 1,195,267 |
| Less interest and prizes paid in year | | 766,002 | 670,861 |
| Add movements in out-of-date warrants/outstanding prizes in year | | (3,440) | (3,233) |
| **Accrued interest and prizes at 31 March** | 6 | **(552,434)** | **(453,935)** |

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

## 4 Amounts held by the NLF

| | Note | 2015–16 £000 | 2014–15 £000 |
|---|---|---|---|
| As at 1 April | | 122,564,773 | 105,060,830 |
| Interest and prizes financed by the NLF | | 2,067,732 | 1,646,645 |
| Received from the NLF | 8 | (21,748,711) | (15,308,570) |
| Paid to the NLF | 8 | 31,105,561 | 31,165,203 |
| Net funds held by the NLF | | 133,989,355 | 122,564,108 |
| Amortisation movements of GEB principal liabilities | | – | 665 |
| **As at 31 March** | | **133,989,355** | **122,564,773** |

The amount held by the NLF includes interest and prizes accrued in 2015–16 of £475,498,000 (2014–15: £380,438,000).

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

## 5 Other receivables

| | 2016 £000 | 2015 £000 |
|---|---|---|
| Agents | 232,568 | 326,604 |
| Post Office® | – | 68,049 |
| Other receivables | 244 | 1,117 |
| **Total** | **232,812** | **395,770** |

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

There are no Post Office® receivables at 31 March 2016 as Premium Bond purchases shifted exclusively to direct channels from 1 August 2015. Prior to this, Premium Bonds were the only NS&I product available for purchase both by direct channels and at the Post Office®.

## 6 Liability to investors

### 6(a) Current year

| | Principal liability £000 | Accrued interest and prizes £000 | Liability 31 March 2016 £000 |
|---|---|---|---|
| **Current liabilities** | | | |
| Children's Bonds | 525,634 | 11,295 | 536,929 |
| Direct Saver | 7,532,550 | – | 7,532,550 |
| 65+ Guaranteed Growth Bonds | 10,146,086 | 134,457 | 10,280,543 |
| Guaranteed Bonds | 6,242,135 | 28,654 | 6,270,789 |
| Income Bonds | 13,539,896 | 25,237 | 13,565,133 |
| Individual Savings Account | 4,232,763 | 56,429 | 4,289,192 |
| Investment Account | 2,680,229 | 4,943 | 2,685,172 |
| Premium Bonds | 61,729,942 | 130,293 | 61,860,235 |
| Residual Account | 623,296 | 2,856 | 626,152 |
| Savings Certificates | 27,343,486 | 158,270 | 27,501,756 |
| **Total liability to investors** | **134,596,017** | **552,434** | **135,148,451** |

Principal liability comprises initial investment plus capitalised interest that has been added to the holding where applicable. Accrued interest and prizes comprise only interest and prizes earned that have not been paid out or capitalised and added to the holding. The accrued interest disclosed above (£552,434,000) is accrued interest in respect of the principal liability to investors. Note 4 discloses accrued interest (£475,498,000) in respect of balances held by the NLF. The difference between these amounts is due to outstanding interest liabilities (£76,936,000) which have been drawn down from the NLF and are pending settlement, such as prizes and interest warrants.

All products are repayable on demand and therefore are classified as current liabilities.

## 6(b) Prior year

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

## 7 Other payables

| | 2016<br>£000 | 2015<br>£000 |
|---|---|---|
| NLF | 176 | 118 |
| HM Revenue and Customs | 1,841 | 45 |
| Agents | – | 1 |
| Other payables including sales repayments and evidence of identity repayments | 2,571 | 1,636 |
| **Total** | **4,588** | **1,800** |

The HM Revenue and Customs payable in 2016: £1,841,000 (2015: £45,000) relates to tax deducted at source on interest capitalised on Guaranteed Bonds and 65+ Guaranteed Growth Bonds, which is in the process of being settled.

## 8 Movement in net funds held by the NLF

| | 2015–16<br>£000 | 2014–15<br>£000 |
|---|---|---|
| Received from the NLF | 21,748,711 | 15,308,570 |
| Paid to the NLF | (31,105,561) | (31,165,203) |
| Net inflow to the NLF | (9,356,850) | (15,856,633) |
| Interest and prizes payable to investors | (2,067,732) | (1,646,645) |
| **Increase in net funds held by the NLF** | **(11,424,582)** | **(17,503,278)** |

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

## 9 Cash and cash equivalents

| | 2016<br>£000 | 2015<br>£000 |
|---|---|---|
| **Balance at 1 April** | 929,790 | 452,882 |
| Net change in cash and cash equivalent balances | 1,082 | 476,908 |
| **Balance at 31 March** | **930,872** | **929,790** |

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

## 10 Categorisation of financial assets and liabilities

| | 2016 £000 | 2015 £000 |
|---|---|---|
| **Assets** | | |
| Loans and receivables | 134,222,167 | 122,960,543 |
| Cash and cash equivalents | 930,872 | 929,790 |
| **Total** | **135,153,039** | **123,890,333** |
| **Liabilities** | | |
| Financial liabilities measured at amortised cost | (135,153,039) | (123,890,333) |
| **Total** | **(135,153,039)** | **(123,890,333)** |

## 11 Market, liquidity and credit risk

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

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

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

## 12 Product maturity profile

### 12(a) Current year

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

| | 2016 Variable rate, prize-based and index-linked products | 2016 Fixed rate products | 2016 Non-interest bearing products | 2016 Total |
|---|---|---|---|---|
| | £000 | £000 | £000 | £000 |
| Maturing in one year or less or repayable on demand | 114,308,732 | 20,782,842 | 56,877 | 135,148,451 |
| **Total** | **114,308,732** | **20,782,842** | **56,877** | **135,148,451** |

### 12(b) Prior year

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

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

Fixed rate products include Children's Bonds, 65+ Guaranteed Growth Bonds, Guaranteed Bonds and Fixed Interest Savings Certificates. These are classified according to the earliest period when a customer can demand repayment.

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

## 13 Fair values of assets and liabilities

### 13(a) Current year

| | 2016<br>Total per accounts<br>£000 | 2016<br>Fair value<br>£000 |
|---|---|---|
| **Assets** | | |
| Held by the NLF | 133,989,355 | 134,893,977 |
| Other receivables | 232,812 | 232,812 |
| Cash and cash equivalents | 930,872 | 930,872 |
| **Total** | **135,153,039** | **136,057,661** |
| **Liabilities** | | |
| Fixed rate products | (20,782,842) | (21,687,464) |
| Variable rate products | (114,308,732) | (114,308,732) |
| Non-interest bearing products | (56,877) | (56,877) |
| Other payables | (4,588) | (4,588) |
| **Total** | **(135,153,039)** | **(136,057,661)** |

### 13(b) Prior year

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

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

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

## 14 Fair value hierarchy disclosures

IFRS 13 *Fair Value Measurement* applies when another IFRS, in this case IFRS 7, requires an entity to disclose the fair value of its assets and liabilities. It sets out how to fair value assets and liabilities and requires an entity to classify these into fair value hierarchy levels, based on the significance of inputs used in the measurement. These fair value hierarchy levels are as follows:

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

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

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

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

## 14(a) Current year

| | Level 1 2016 £000 | Level 2 2016 £000 | Total 2016 £000 |
|---|---|---|---|
| **Assets** | | | |
| Held by the NLF – fixed rate products | – | 21,701,166 | 21,701,166 |
| Held by the NLF – variable rate products | 113,137,672 | – | 113,137,672 |
| Other assets[1] | 1,218,823 | – | 1,218,823 |
| | **114,356,495** | **21,701,166** | **136,057,661** |
| **Liabilities** | | | |
| Liability to investors – fixed rate products | – | (21,687,464) | (21,687,464) |
| Liability to investors – variable rate products | (114,308,732) | – | (114,308,732) |
| Other liabilities[2] | (61,465) | – | (61,465) |
| | **(114,370,197)** | **(21,687,464)** | **(136,057,661)** |

## 14(b) Prior year

| | Level 1 2015 £000 | Level 2 2015 £000 | Total 2015 £000 |
|---|---|---|---|
| **Assets** | | | |
| Held by the NLF – fixed rate products | – | 20,947,782 | 20,947,782 |
| Held by the NLF – variable rate products | 102,596,986 | – | 102,596,986 |
| Other assets(1) | 1,383,363 | – | 1,383,363 |
| | **103,980,349** | **20,947,782** | **124,928,131** |
| **Liabilities** | | | |
| Liability to investors – fixed rate products | – | (21,315,126) | (21,315,126) |
| Liability to investors – variable rate products | (103,551,989) | – | (103,551,989) |
| Other liabilities(2) | (61,016) | – | (61,016) |
| | **(103,613,005)** | **(21,315,126)** | **(124,928,131)** |

(1) Other assets include non-interest bearing products, cash and cash equivalents and other receivables.

(2) Other liabilities include non-interest bearing products and other payables.

## 15 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 transactions with the Chancellor of the Exchequer during the year.

The DMO, NLF and HM Treasury are related parties. NS&I's relationships with these parties are mentioned in the Product Accounts background section, pages 108 and 109, and the Governance statement, pages 42 to 63. In addition, note 4 contains details of the NLF transactions. The Post Office® distributed Premium Bonds until 31 July 2015 when this relationship came to an end. As a public body, the Post Office® is a related party. The total amount received from the Post Office® during 2015–16 was £1.47 billion (2014–15: £3.88 billion). The outstanding amount due from the Post Office® at 31 March 2016 was Nil (2015: £68.05 million).

NS&I has carried out transactions with HM Revenue and Customs (HMRC) on behalf of investors, in respect of tax deducted at source (2015–16: £98.90 million; 2014–15: £27.89 million) on interest earned on 65+ Guaranteed Growth Bonds and Guaranteed Bonds. The outstanding tax due to HMRC at 31 March 2016 is £1.84 million (2015: £0.04 million). In this regard as a public body, HMRC is a related party.

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

The deposits of Executive and Non-executive Directors, with the exception of Premium Bonds, are disclosed on page 107 of this Annual Report and Accounts and Product Accounts.

## 16 Events after the reporting period date

There are no reportable events between the Statement of financial position date and 27 June 2016, the date on which these accounts are authorised. The financial statements do not reflect events after that date.

# Annex 1: Product Accounts direction

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

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

2. The Department of National Savings and Investments shall prepare accounts for its Product Accounts for the year ending 31 March 2016 (and each subsequent financial year) that give a true and fair view of the state of affairs of the Product Accounts at the reporting date and of their income and expenditure and cash flows for the year then ended.

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

   a. a Statement of Comprehensive Income shall be prepared instead of a Statement of Comprehensive Net Expenditure; and

   b. the Statement of Parliamentary Supply and the Statement of Changes in Taxpayers' Equity are not relevant to the Product Accounts.

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

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

6. This Accounts Direction supersedes all previous directions.

**Michael Sunderland**
**Acting Deputy Director,**
**Government Financial Reporting**
**HM Treasury**
**19 April 2016**

## Section 4
## Other Information

# Departmental Report information

The 2015–16 Departmental Report information shown in the tables below is not consistent with the information shown in the 2015–16 Accounts. As a result there is no direct link to the Statement of comprehensive net expenditure found in the Accounts.

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

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

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

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

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

## Table 1: Total departmental spending

| | Outturn 2011–12 £000 | Outturn 2012–13 £000 | Outturn 2013–14 £000 | Outturn 2014–15 £000 | Outturn 2015–16 £000 | Plans 2016–17 £000 | Plans 2017–18 £000 | Plans 2018–19 £000 | Plans 2019–20 £000 |
|---|---|---|---|---|---|---|---|---|---|
| **Resource DEL** | | | | | | | | | |
| Section A: Administration | 172,465 | 167,203 | 146,990 | 223,865 | 155,453 | 144,200 | 132,800 | 132,700 | 120,300 |
| **Total resource DEL** | **172,465** | **167,203** | **146,990** | **223,865** | **155,453** | **144,200** | **132,800** | **132,700** | **120,300** |
| **of which:** | | | | | | | | | |
| Pay | 9,695 | 10,350 | 11,327 | 10,811 | 11,236 | 12,800 | 12,800 | 12,800 | 12,800 |
| Net current procurement[1] | 160,348 | 154,231 | 132,978 | 211,725 | 142,848 | 129,560 | 117,060 | 116,860 | 104,360 |
| Current grants and subsidies to the private sector and abroad | – | – | – | – | – | – | – | – | – |
| Current grants to local government | – | – | – | – | – | – | – | – | – |
| Depreciation[2] | 1,563 | 1,809 | 1,872 | 583 | 734 | 1,200 | 2,300 | 2,400 | 2,500 |
| Other | 859 | 813 | 813 | 746 | 635 | 640 | 640 | 640 | 640 |
| **Resource AME** | | | | | | | | | |
| Section B: Administration | 639 | 1,181 | 347 | 420 | (682) | 3,300 | 3,300 | 3,300 | 3,300 |
| **Total resource AME** | **639** | **1,181** | **347** | **420** | **(682)** | **3,300** | **3,300** | **3,300** | **3,300** |
| **of which:** | | | | | | | | | |
| Pay | – | – | – | – | – | – | – | – | – |
| Net current procurement[1] | – | – | – | – | – | – | – | – | – |
| Current grants and subsidies to the private sector and abroad | – | – | – | – | – | – | – | – | – |
| Current grants to local government | – | – | – | – | – | – | – | – | – |
| Net public service pensions[3] | – | – | – | – | – | – | – | – | – |
| Take-up of provisions | (107) | 6 | – | 683 | (296) | 300 | 300 | 300 | 300 |
| Release of provisions | (198) | (16) | (77) | (45) | (397) | – | – | – | – |
| Depreciation[2] | 944 | 1,191 | 424 | (218) | 11 | 3,000 | 3,000 | 3,000 | 3,000 |
| Other | – | – | – | – | – | – | – | – | – |
| **Total resource budget** | **173,104** | **168,384** | **147,337** | **224,285** | **154,771** | **147,500** | **136,100** | **136,000** | **123,600** |
| **of which:** | | | | | | | | | |
| Depreciation | 2,507 | 3,000 | 2,296 | 365 | 745 | 4,200 | 5,300 | 5,400 | 5,500 |

## Table 1: Total departmental spending (continued)

| | Outturn 2011–12 £000 | Outturn 2012–13 £000 | Outturn 2013–14 £000 | Outturn 2014–15 £000 | Outturn 2015–16 £000 | Plans 2016–17 £000 | Plans 2017–18 £000 | Plans 2018–19 £000 | Plans 2019–20 £000 |
|---|---|---|---|---|---|---|---|---|---|
| **Capital DEL** | | | | | | | | | |
| Section A: Administration | 191 | 34 | 1,517 | 1,383 | (1,585) | 610 | 620 | 630 | 650 |
| **Total capital DEL** | **191** | **34** | **1,517** | **1,383** | **(1,585)** | **610** | **620** | **630** | **650** |
| **of which:** | | | | | | | | | |
| Net capital procurement(4) | 191 | 34 | 1,517 | 1,383 | (1,585) | 610 | 620 | 630 | 650 |
| Current grants to the private sector and abroad | – | – | – | – | – | – | – | – | – |
| Capital support for local government | – | – | – | – | – | – | – | – | – |
| Capital support for public corporations | – | – | – | – | – | – | – | – | – |
| Other | – | – | – | – | – | – | – | – | – |
| **Capital AME** | | | | | | | | | |
| **Total capital AME** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** |
| **of which:** | | | | | | | | | |
| Capital grants to the private sector and abroad | – | – | – | – | – | – | – | – | – |
| Net lending to the private sector | – | – | – | – | – | – | – | – | – |
| Capital support for public corporations | – | – | – | – | – | – | – | – | – |
| Other | – | – | – | – | – | – | – | – | – |
| **Total capital budget** | **191** | **34** | **1,517** | **1,383** | **(1,585)** | **610** | **620** | **630** | **650** |
| **Total departmental spending(5)** | **170,788** | **165,418** | **146,558** | **225,303** | **152,441** | **143,910** | **131,420** | **131,230** | **118,750** |
| **of which:** | | | | | | | | | |
| Total DEL | 170,149 | 164,237 | 146,211 | 224,883 | 153,123 | 140,610 | 128,120 | 127,930 | 115,450 |
| Total AME | 639 | 1,181 | 347 | 420 | (682) | 3,300 | 3,300 | 3,300 | 3,300 |

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

(2) The depreciation charge shown only relates to owned assets..

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

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

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

## Table 2: Public spending control

| | Supply estimate | | | | | Supplementary estimate | | | Final provision | Final outturn | Differences |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Resources | Admin £000 | Other current £000 | Gross total £000 | A in A £000 | Net total £000 | Change in gross provision £000 | Change in A in A £000 | Change in net provision £000 | £000 | £000 | £000 |
| Spending in DEL | 191,720 | – | 191,720 | (43,300) | 148,420 | 9,800 | – | 9,800 | 158,220 | 155,453 | 2,767 |
| Spending in AME | – | 5,300 | 5,300 | – | 5,300 | (2,000) | – | (2,000) | 3,300 | (682) | 3,982 |
| **Total** | **191,720** | **5,300** | **197,020** | **(43,300)** | **153,720** | **7,800** | **–** | **7,800** | **161,520** | **154,771** | **6,749** |

| | Supply estimate | Supplementary estimate | | | Final provision | Final outturn | Differences |
|---|---|---|---|---|---|---|---|
| Capital | Capital £000 | Change in gross provision £000 | Change in A in A £000 | Change in net provision £000 | £000 | £000 | £000 |
| Spending in DEL | 273 | (1,625) | – | (1,625) | (1,352) | (1,585) | 233 |

## Table 3: NS&I capital employed

| | Outturn 2011–12 £000 | Outturn 2012–13 £000 | Outturn 2013–14 £000 | Outturn 2014–15 £000 | Outturn 2015–16 £000 | Plans 2016–17 £000 | Plans 2017–18 £000 | Plans 2018–19 £000 | Plans 2019–20 £000 |
|---|---|---|---|---|---|---|---|---|---|
| Assets on balance sheet at end of year | | | | | | | | | |
| **Non-current assets** | | | | | | | | | |
| Intangible | 66,915 | 65,704 | 50,645 | 61,615 | 57,048 | 65,000 | 70,000 | 71,000 | 73,000 |
| Property, plant and equipment | 28,677 | 23,231 | 20,281 | 23,047 | 14,323 | 14,400 | 15,400 | 16,500 | 16,400 |
| **of which:** | | | | | | | | | |
| Land and buildings | 18,210 | 14,643 | 11,959 | 12,279 | 1,802 | 1,900 | 2,000 | 2,100 | 2,200 |
| Information technology | 8,281 | 6,638 | 4,662 | 6,379 | 8,020 | 9,000 | 9,500 | 10,500 | 10,000 |
| Plant and machinery | 39 | 26 | 214 | 468 | 1,017 | 1,000 | 1,100 | 1,100 | 1,100 |
| Furniture and fittings | 2,147 | 1,924 | 2,700 | 2,370 | 2,689 | 2,300 | 2,600 | 2,600 | 2,900 |
| Assets under construction | – | – | 746 | 1,551 | 795 | 200 | 200 | 200 | 200 |
| Non-current receivables | 5,245 | 4,371 | – | – | – | – | – | – | – |
| Current assets | 340,297 | 179,944 | 23,318 | 3,758 | 49,476 | 4,000 | 5,000 | 6,000 | 8,000 |
| Creditors <1 year | (378,201) | (201,837) | (41,830) | (36,061) | (50,992) | (15,000) | (15,000) | (14,000) | (15,000) |
| Provisions <1 year | (126) | (132) | (56) | (16) | – | – | – | – | – |
| Creditors >1 year | (20,832) | (15,486) | (4,601) | – | (14,799) | (12,000) | (10,000) | (8,000) | (6,000) |
| Provisions >1 year | (16) | – | – | (677) | – | – | – | – | – |
| **Capital employed within main department** | **41,959** | **55,795** | **47,757** | **51,666** | **55,056** | **56,400** | **65,400** | **71,500** | **76,400** |

## Table 4: Administration Budget

| | Outturn 2011–12 £000 | Outturn 2012–13 £000 | Outturn 2013–14 £000 | Outturn 2014–15 £000 | Outturn 2015–16 £000 | Plans 2016–17 £000 | Plans 2017–18 £000 | Plans 2018–19 £000 | Plans 2019–20 £000 |
|---|---|---|---|---|---|---|---|---|---|
| Section A: Administration | 172,465 | 167,203 | 146,990 | 223,865 | 155,453 | 144,200 | 132,800 | 132,700 | 120,300 |
| **Total Administration Budget** | **172,465** | **167,203** | **146,990** | **223,865** | **155,453** | **144,200** | **132,800** | **132,700** | **120,300** |
| **of which:** | | | | | | | | | |
| Pay | 9,695 | 10,350 | 11,327 | 10,811 | 11,236 | 12,800 | 12,800 | 12,800 | 12,800 |
| Expenditure | 194,025 | 188,738 | 175,198 | 227,337 | 175,127 | 182,400 | 196,000 | 220,900 | 228,500 |
| Income | (31,255) | (31,885) | (39,535) | (14,283) | (30,910) | (51,000) | (76,000) | (101,000) | (121,000) |

## Table 5: NS&I staff numbers

| **Staff numbers at:** | **1 April 2011** | **1 April 2012** | **1 April 2013** | **1 April 2014** | **1 April 2015(1)** | **1 April 2016(1)** |
|---|---|---|---|---|---|---|
| Permanent | 140 | 140 | 170 | 164 | 173 | 166 |
| Others | 17 | 15 | 25 | 14 | 12 | 11 |
| **Total** | **157** | **155** | **195** | **178** | **185** | **177** |

(1) The staff numbers shown in the table above for 1 April 2016 do not agree with the table in the Remuneration and Staff Report. Those figures are calculated by averaging the staff numbers over the year while the numbers above are shown on spot dates.

## Table 6: NS&I consultancy and professional services

| | Outturn 2011–12 £000 | Outturn 2012–13 £000 | Outturn 2013–14 £000 | Outturn 2014–15 £000 | Outturn 2015–16 £000 |
|---|---|---|---|---|---|
| Consultancy services | 1,776 | 1,742 | 789 | 80 | – |
| Professional services | 7,846 | 7,516 | 6,222 | 2,149 | 2,491 |
| Contract staff | 1,795 | 1,143 | 451 | 1,487 | 853 |
| Other services | 1,476 | 1,544 | 1,920 | 1,704 | 1,691 |
| **Total** | **12,893** | **11,945** | **9,382** | **5,420** | **5,035** |

# Glossary

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

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

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

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

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

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

**Business-to-business services**
Payment processing services provided to other government departments, agencies and arms-length bodies, by NS&I Government Payment Services. The 'client' department pays NS&I to manage the payments on its behalf; payments are processed using NS&I's established technology, skills and processes, reducing the cost to the department and ultimately the taxpayer.

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

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

**Contact Centre Association (CCA)**
The Contact Centre Association is the leading independent authority on customer contact strategies and operations. It offers accreditation under the CCA Global Standard© – a set of key contact centre operations and customer service principles, which have been defined and agreed by industry experts and stakeholders. Retaining accreditation under CCA Global Standard© Version 5 is one of NS&I's service delivery measures.

**Court Funds Office**
The Court Funds Office provides a banking and administration service for some 160,000 customers with a total of £2.2 billion cash and £0.1 billion securities held under the control of the civil courts in England and Wales, including the Court of Protection.

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

**Digital**
In the context of channels available for customers to interact with NS&I, digital refers to all non-postal direct channels – including telephone.

**Director of Savings**
The person appointed by HM Treasury to manage NS&I in accordance with the statutory functions set out in the National Debt Act 1972 and the National Savings Bank Act 1971. Since we became an Executive Agency, the Director of Savings has also been the Chief Executive and the Accounting Officer.

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

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

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

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

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

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

**65+ Guaranteed Growth Bonds**
A special savings measure announced by HM Treasury in the 2014 Budget, designed to offer market-leading interest rates to support savers who rely on their savings during retirement. The 65+ Bonds were based on NS&I's Guaranteed Growth Bonds product, with rates set by HM Treasury. 1-year and 3-year 65+ Bonds were on sale from January to May 2015.

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

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

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

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

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

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

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

**Net Financing**
Net Financing is the measure of the net change of NS&I funds, meaning total inflows from deposits, retention of maturing monies and capitalised and accrued interest less the total outflows from withdrawals and interest or Premium Bond prize draw payments.

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

**Reserve Claim**
As part of the spending plans announced in Spending Reviews, the Government allocates a Reserve for genuinely unforeseen contingencies that departments cannot absorb within their Departmental Expenditure Limit (DEL). Where a department makes a Reserve Claim it is subject to an assessment of need, realism and affordability at the time at which the funds are released and requires approval by the Chief Secretary to the Treasury. Support from the Reserve to departments' resource or capital DELs is non-recurrent, i.e. it will not affect departments' Spending Review baselines.

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

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

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

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

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

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

### UK Debt Management Office (DMO)
Part of the Treasury group responsible for cash management on behalf of the Exchequer and the sale of government stock (gilts) and Treasury Bills.

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

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

### Value Indicator
An indication of our cost-effectiveness in raising finance for the Government. It compares the total cost of delivering Net Financing and servicing existing customers' deposits with how much it would cost the Government to raise funds through the wholesale market via equivalent maturity gilts.

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

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

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

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

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

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

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

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

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

**Warrant**
A type of payment similar to a cheque.

# Contacts and more information

We want to make it as easy as possible for you to contact us at any time in a way that is convenient to you.

### Internet

Visit our website

**nsandi.com**

Visit our YouTube channel

**youtube.com/nsandi**

### Email

**enquiries@nsandi.com**

### Twitter

For customer enquiries

**@nsandihelp**

For media enquiries

**@nsandi**

### Telephone

For general enquiries

**0500 007 007**

To buy our products

**0500 500 500**

Our customer service team is available 24 hours a day, seven days a week.
Calls from mobiles and some landline providers may not be free.
Calls may be recorded.

### Textphone

Use our free textphone service if you have Minicom equipment

**0800 056 0585**

### Post

Write to us at

**NS&I, Glasgow G58 1SB**


### Thank you

NS&I would like to thank all colleagues for their contribution to the 2015–16 Annual Report and Accounts.