

Resource Accounts 2009–10

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

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

Respective responsibilities of the Accounting Officer and auditor

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

Scope of the audit of the financial statements

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

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

Opinion on regularity

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

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the Department's affairs as at 31 March 2010 and of its net cash requirement, net resource outturn, net operating cost, net operating costs applied to departmental strategic objective, changes in taxpayers' equity and cash flows for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

Opinion on other matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000, and
- the information given in the Management Commentary (excluding the tables headed 'Difference between resource budget and resource outturn 2009–10' and 'Reconciliation of resource expenditure between estimates, accounts and budgets') for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

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

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

Report

I have no observations to make on these financial statements.

Amyas C E Morse
Comptroller and Auditor General

7 July 2010

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

The maintenance and integrity of National Savings and Investments' website is the responsibility of the Accounting Officer; the work carried out by the auditors does not involve consideration of these matters and accordingly the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially placed on the website.

Statement of parliamentary supply

Summary of resource outturn 2009–10

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

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

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

Net cash requirement 2009–10

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

Summary of income payable to the Consolidated Fund

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

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

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

Operating cost statement

for the year ended 31 March 2010

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

All income and expenditure is derived from continuing operations.

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

Statement of financial position

as at 31 March 2010

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

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

Jane Platt

Jane Platt
Chief Executive
National Savings and Investments

30 June 2010

Statement of cash flows

for the year ended 31 March 2010

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

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

Statement of changes in taxpayers' equity

for the year ended 31 March 2010

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

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

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

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

Statement of operating costs by departmental strategic objective

for the year ended 31 March 2010

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

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

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

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

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

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

Notes to the accounts

1 Statement of accounting policies

These financial statements have been prepared in accordance with the 2009–10 *Government Financial Reporting Manual* (FReM) issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of NS&I for the purpose of giving a true and fair view has been selected. The particular policies adopted by NS&I for the Resource Accounts are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

In addition to the primary statements prepared under IFRS, the FReM also requires the Department to prepare two additional primary statements. The statement of operating costs by departmental strategic objective and supporting notes analyse the Department's income and expenditure by the objective agreed with Treasury Ministers.

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

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

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

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

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

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

1.2 Accounting convention

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

1.3 Accounting estimates and judgements

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

The accounting policies set out areas involving a higher degree of judgement, complexity, assumptions, estimation techniques, such as note 1.4 (service concession arrangements), note 1.6 (depreciation), note 1.8 (amortisation of intangible assets), note 1.9 (impairment) and note 1.14 (provisions).

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

NS&I follows the principles provided in International Financial Reporting Interpretations Committee (IFRIC) 12: Service Concession Arrangements as interpreted and adapted by HM Treasury.

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

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

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

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

1.5 Property, plant and equipment (PPE)

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

Property that is being constructed or developed for future use is classified as an asset under construction in property plant and equipment and stated at cost until construction or development is complete at which time it is classified as property.

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

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

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

Any surplus arising on revaluation is credited to the revaluation reserve and any loss arising is debited to the revaluation reserve to the extent of the gains that have been recorded previously, otherwise it is charged to the operating cost statement. The revaluation surplus is not transferred to the General Fund until the asset's ultimate disposal.

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

1.6 Depreciation

Land is not depreciated. Depreciation on other property, plant and equipment is charged to the operating cost statement on a straight-line basis over their estimated useful economic lives. The depreciable amount is the cost or value of the assets less its residual value. The estimated useful economic lives are as follows:

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

1.7 Non-current assets held for sale

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

1.8 Intangible assets

1.8.1 Software

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

1.8.2 Website

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

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

1.8.3 Assets under construction

These are initially recognised when they are separable and identifiable or arise from contractual or other legal rights and the cost can be measured reliably. External and internal costs of acquiring and developing intangible assets are capitalised where it is probable that future economic benefits that exceed its cost will flow from its use over more than one year.

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

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

1.9 Impairments of PPE and intangible assets

At each balance sheet date, NS&I assesses whether there is any indication that its intangible assets, or property, plant and equipment are impaired. If such an indication exists, NS&I estimates the recoverable amount of the assets or the cash-generating unit and the impairment loss if any. The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less selling costs and its value in use. Value in use is the present value of future cash flows expected to be derived from an asset or cash-generating unit discounted at the HM Treasury discount rate, currently 3.5%.

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

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

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

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

1.10 Leases

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

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

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

1.11 Employee benefits

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

1.12 Early departure costs

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

1.13 Pensions

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

1.14 Provisions

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

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date taking into consideration the risks and uncertainties surrounding the obligation. Where a provision is measured using cash flows over a number of accounting periods to settle the present obligation, these are discounted using the HM Treasury discount rate. Its carrying amount is the present value of those cash flows.

1.15 Contingent liabilities

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

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

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

1.16 Financial instruments

All financial instruments are recognised at fair value. Fair value of financial instruments is determined by using the discounted future cash flow method. Financial assets and financial liabilities including derivative financial instruments are recognised on the statement of financial position when NS&I becomes a party to the contractual provisions of the instrument. Gains and losses are dealt with through the operating cost statement.

1.17 Operating income

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

1.18 Capital charges

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

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

1.19 Value Added Tax (VAT)

The activities of the Department are exempted under the terms of the VAT legislation and therefore input VAT is not recoverable. Irrecoverable VAT is charged to the relevant expenditure category or included in the capitalised purchase of non-current assets.

1.20 Operating segments

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

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

2 First-time adoption of IFRS

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

Explanation of transition to IFRS

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

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

The principal adjustments are explained below:

- Under IFRS, and specifically IFRIC 12 as adapted for the public sector, NS&I had to identify and bring all assets that its outsourced provider uses for the NS&I business onto its statement of financial position. This has meant including over £4.6 million assets worth at 1 April 2008 and over £19.9 million for 2008–09.
- The application of IFRIC 12 has had a significant impact on the operating cost statement. Costs under UK GAAP of £184.07 million reduced to £173.33 million. A considerable part of the reduction is attributed to asset purchases and developments which were previously accounted for as operating leases paid to Siemens.
- Under IFRS, NS&I revalued its land and buildings to market value. This added a further £2.28 million to costs.
- Under IAS 19 – Employee Benefits, deferred holiday costs were calculated and added to pay costs (£0.13 million).
- Other changes to costs were the direct result of the application of IFRIC 12. These included increased depreciation, cost of capital and also, on the statement of financial position, additional payables for work completed but not paid for.

2(a) Reserves prior year (restated)

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

2(b) Operating cost prior year (restated)

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

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

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

3 Analysis of net resource outturn by section

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

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

(2) RfR – request for resources.

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

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

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

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

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

4(b) Outturn against final administration budget

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

5 Reconciliation of net resource outturn to net cash requirement

5(a) Net cash requirement 2008–09

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

5(b) Net cash requirement 2009–10

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

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

6 Analysis of income payable to the Consolidated Fund

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

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

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

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

8 Non-operating income not classified as appropriations in aid

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

9 Staff numbers and related costs

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

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

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

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

Average number of persons employed

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

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

10 Other administration costs

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

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

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

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

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

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

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

11 Operating income

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

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

12 Property, plant and equipment

12(a) Prior year (restated)

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

12(b) Current year

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

The freehold land and buildings at Blackpool, Durham and Glasgow were revalued as at 31 March 2009 by professional valuers on a market value basis. Chartered surveyors DTZ Debenham Tie Leung Limited carried out the valuations in accordance with the RICS Valuation Standards. The valuers also provided a market value at 31 March 2010.

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

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

13 Intangible assets

13(a) Prior year (restated)

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

13(b) Current year

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

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

14 Financial instruments

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

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

15 Trade and other receivables

15(a) Trade and other receivables

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

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

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

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

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

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

16 Cash and cash equivalents

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

17 Trade and other payables

17(a) Trade and other payables

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

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

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

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

18 Provisions for liabilities and charges

18(a) Movements in provisions

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

(1) NS&I meets the additional costs of benefits beyond the normal PCSPS benefits in respect of employees who retire early by paying the required amounts annually to the PCSPS over the period between early departure and normal retirement date. The Department provides for this in full when the early retirement programme becomes binding by establishing a provision for the estimated payments discounted by the HM Treasury discount rate of 3.5% in real terms.

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

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

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

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

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

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

20 Capital commitments

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

21 Leases

21(a) Operating leases with tenants

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

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

21(b) Commitments under operating leases

The future minimum lease payments under operating leases are given in the table below, discounted to present value and analysed between future years. The discount rate used is the HM Treasury discount rate of 3.5%.

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

None of these leases relate to the hire of plant.

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

22 Commitments under the Public Private Partnership (PPP) contract

NS&I entered into a 10-year PPP contract with Siemens for the provision of operational services, which came into effect on 1 April 1999. The contract is to design, develop, procure, finance and operate, including maintain, certain assets over the period of the contract to enable the provision of a back office function and Customer Interaction Centre. After exercising the option to extend on pre-agreed terms, which was covered in the original contract, the initial 10-year period was extended to a 15-year period ending in March 2014.

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

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

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

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

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

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

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

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

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

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

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

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

23 Other financial commitments

There were no other financial commitments at 31 March 2010.

24 Contingent liabilities disclosed under IAS 37

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

25 Losses and special payments

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

26 Related party transactions

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

The Post Office® is a major distributor of NS&I products and, as a public body, the Post Office® is a related party. NS&I had a significant number of transactions with the Post Office® during the accounting period. NS&I's Post Office® costs during 2009–10 were £22,589,439 (2008–09: £28,487,056) for contract services and £0 for non-contract services (2008–09: £0).

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

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

27 Post balance sheet events

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

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