

Resource Accounts 2008–09

Management commentary

National Savings and Investments (NS&I) is a government department and became an Executive Agency of the Chancellor of the Exchequer in 1996.

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

NS&I is one of the largest savings organisations in the UK with over £97.23 billion of investors' money at the end of March 2009 (representing over 12.24% of the National Debt), and annual flows in excess of £35 billion.

NS&I administration costs are funded by Parliamentary Vote and are shown in these Resource Accounts. However, the interest costs on NS&I products are included in the total cost of servicing the National Debt, and these costs are therefore reflected as a charge on the National Loans Fund (NLF) and are shown in the NS&I Product Accounts. HM Treasury is responsible for the operation of the NLF.

Aims

NS&I helps to reduce the cost to the taxpayer of government borrowing now and in the future. To achieve this, its single strategic objective is to provide retail funding for Government that is cost-effective in relation to funds raised on the wholesale market.

Vision

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

NS&I adding value

NS&I adding value is NS&I's current five-year strategy, which is designed to deliver sustainable long-term value to stakeholders by simplifying, modernising and diversifying the business.

When launched, it was intended to:

- deliver more than £1.6 billion of Value Add over five years
- deliver around £13 billion of Net Financing over five years (subsequently increased in 2007-08 to £21 billion)
- deliver a substantially lower whole business unit cost, positioning the business for continued successful delivery of Value Add.

by:

- **Building** low-cost channel capabilities that satisfy the long-term needs and expectations of the customer
- **Revitalising** the product mix, rationalising some products, simplifying and modernising the product range
- **Shifting** sales and fulfilment towards low-cost channels while retaining the Post Office® as a strong sales channel
- **Delivering** our compliance strategy and developing a compliance culture
- **Engaging and developing** NS&I's people and capabilities so that it can attract and retain the best talent.

The implementation of the strategy is tracked by metrics relating to sales, operations and projects that are contained in the corporate balanced scorecard, rather than captured separately, reflecting an integrated management approach. NS&I uses the balanced scorecard methodology at a corporate and business unit level to ensure that strategy is delivered to plan.

Market and competitive environment

NS&I competes for retail savings in the highly competitive cash deposit market. NS&I has a diverse portfolio of products that attract different types of savers.

The year 2008–09 proved to be another year of unprecedented market conditions. The financial turmoil post-September 2008 had a profound effect on customer behaviour within the retail savings market, while the decline in interest rates – to historically low levels – eroded the interest rate differential between competing deposit takers.

NS&I experienced substantial inflows as a result of the 'flight to safety' despite ceasing discretionary marketing activity and pricing our products towards the lower end of the competitive range.

The market and competitive environment during 2009–10 is expected to remain uncertain and challenging. The Bank of England base rate and inflation are forecast to remain at low levels for much of the year.

Performance against targets in 2008–09

NS&I's Service Delivery Measures (SDMs) were agreed with HM Treasury as part of the 2007 Comprehensive Spending Review. During 2008–09, and in response to the changing market conditions, the Value Add SDM was temporarily suspended. All other SDMs were met, including a revised Net Financing remit.

NS&I's SDMs are to:

- create at least an agreed amount of Value Added (currently temporarily suspended) and generate an agreed amount of Net Financing
- maintain the current high levels of customer satisfaction and service
- reduce the ratio of total NS&I administrative costs to average funds invested by customers
- improve the effectiveness of fraud management
- maintain Banking Code and Financial Ombudsman Service (FOS) compliance.

NS&I's SDMs are shown in the 'Our strategy' section of the Annual Report and Accounts on page 10.

Developments in 2008–09

2008–09 was the second year of **NS&I adding value**, a five-year strategy designed to modernise, simplify and diversify the business to deliver long-term, sustainable Value Add. This strategy is designed to maximise the potential of the five years remaining of the contract with Siemens, our operating partner. It will improve and lower the cost of operations while enhancing the customer proposition.

Highlights from 2008–09

- Net Financing of £12.45 billion was achieved, against a remit of £11 billion (+/- £2 billion). This target was revised by HM Treasury during the year to reflect the inflow of funds resulting from the 'flight to safety', which was outside the control of NS&I's management team
- excellent operational performance in the context of the exceptional and unsolicited inflows seen during the year, especially during the period immediately following the events of September 2008
- simplification of the product range, with closure of Mini Cash ISA to new sales announced during the year and withdrawal of the product from the Post Office® (effective from 5 April 2009)
- progress on the modernisation of NS&I's IT infrastructure, including a new banking platform
- **mylostaccount.org.uk**, the online tracing service launched with the British Bankers' Association (BBA) and Building Societies' Association (BSA) on 30 January 2008, continued to successfully reunite NS&I's customers with their unclaimed assets. In 2008–09, NS&I reunited £102 million of assets with their owners (£37 million in 2007–08)
- as part of the move to voluntary compliance with relevant FSA standards, NS&I continued to implement the compliance and risk strategies that were developed and agreed in 2007–08. In recognition of our legal obligations under the Proceeds of Crime Act 2002, Terrorism Act 2000 and Money Laundering Regulation 2007, NS&I introduced a verification of identity check for 15 million existing customer records
- NS&I achieved its highest score ever in the NS&I and Siemens partnership survey, reflecting the health of this key relationship.

Other notable achievements

- following a full Charter Mark assessment in November 2008, NS&I achieved 100% compliance and retained the standard it has held continuously since 1997
- NS&I retained its Investors in People accreditation in 2008

- NS&I achieved reaccreditation of the ISO14001:2004 standard in respect of its environmental management systems
- Siemens and NS&I retained the Customer Contract Association (CCA) Global Standard following an extensive interim assessment of our Customer Interaction Centres (CIC) in Glasgow, Blackpool and Durham
- Siemens (NS&I account) was the 2008 winner of the Best Use of the CCA Global Standard award
- NS&I received a Highly Commended award in the Central e-Government excellence category Take-up & usage growth (for mylostaccount.org.uk)
- NS&I received awards at the Financial Services Forum Awards for Marketing Effectiveness 2008 for Most Effective Advertising Campaign (for mylostaccount.org.uk), and commendations in the Digital Activity and the New Product, Service or Innovation categories (for mylostaccount.org.uk again) and in the Sponsorship category for building effectiveness through Classic FM
- NS&I and Siemens were finalists in the Best Outsourcing Partner category at the European Call Centre Awards.

Targets for 2009–10

The Net Financing target for 2009–10 is to maintain a neutral position (nil for the year +/- £2 billion).

Other NS&I SDMs remaining in place for 2009–10 are:

- ensure that the ratio of total NS&I administrative costs to average funds invested by customers is 20 basis points or below
- generate an agreed amount of Net Financing while continuing to reduce the ratio of administrative costs to customer funds invested
- maintain the current high levels of customer satisfaction and service
- improve the effectiveness of fraud management
- maintain Banking Code and Financial Ombudsman Service (FOS) compliance.

The existing Value Add target remains temporarily suspended because the unprecedented market conditions have made the calculation unrealistic and potentially misleading. Financial markets have been unusually volatile, and the Bank of England base rate has fallen to exceptionally low levels. As a result, the comparators on which Value Add is based have become invalid as a current measure of performance.

Principal risks and uncertainties facing NS&I

A summary of principal risks and uncertainties facing NS&I shown in the 'How we operate' section of the Annual Report on pages 31 and 32.

Expenditure

The NS&I Vote is approved by Parliament. For 2008–09, Parliament approved a resource budget of £185.2 million (2007–08: £170.29 million) a capital budget of £1.43 million (2007–08: £0.5 million) and a net cash requirement of £183.63 million (2007–08: £167.67 million). This included £12 million for the incremental costs associated with administering the unexpected inflows driven by the 'flight to safety', and £0.95 million for modernising the Moorland building in Blackpool.

The resource outturn was £184.07 million (2007–08: £153.61 million), capital outturn £0.93 million (2007–08: £0.05 million) and the net cash outturn was £181.4 million (2007–08: £155.22 million).

The difference between the resource budget and the resource outturn was £1.13 million (2007–08: £16.69 million). The table on the next page shows the key differences between the resource budget and outturn during 2008–09.

Difference between Resource Budget and Resource Outturn

Overspend / (underspend) category	Difference between estimate and outturn £ million
Increase in volume charges not in budgets	15.59
Project costs lower due to deferment	(6.41)
Cancellation of marketing and research plans due to early achievement of Net Financing target	(4.86)
Professional fees lower in part due to scaling down of marketing programme	(2.35)
Lower printing, evidence of identity costs and internet-hosting costs	(2.26)
Lower cost of capital charges	(0.36)
Other differences	(0.48)
Total underspend	(1.13)

The difference between the net cash requirement and the net cash outturn was £2.24 million (2007–08: £12.45 million).

	2008–09 £000	2007–08 £000
Net resource outturn (estimates)	184,069	153,607
<i>Adjustments to remove:</i>		
Provision voted for earlier years	–	–
<i>Adjustments to additionally include:</i>		
Non-voted expenditure in OCS ⁽¹⁾	–	–
Consolidated Fund extra receipts in the OCS	–	–
Net operating cost (accounts)	184,069	153,607
<i>Adjustments to remove:</i>		
Capital grants to local authorities	–	–
Capital grants finance from the Capital Modernisation Fund	–	–
European Union income and related adjustments	–	–
Voted expenditure outside the budget	–	–
<i>Adjustments to additionally include:</i>		
Other Consolidated Fund extra receipts	–	–
Resource consumption of non-departmental bodies	–	–
Unallocated resource provision	–	–
Other adjustments	–	–
Resource Budget Outturn (budget)	184,069	153,607
of which:		
Departmental Expenditure Limit (DEL)	184,069	153,607
Annually Managed Expenditure (AME)	–	–

(1) OCS – Operating cost statement

Departmental Report

For 2008–09, NS&I has elected to combine its Departmental Report with the Annual Report and Accounts, rather than publish them separately. The core tables from the Departmental Report are shown within the 'How we operate' section of the Annual Report on pages 33 and 34.

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

As part of the 2007 Comprehensive Spending Review (CSR), NS&I agreed a settlement with HM Treasury that requires average annual real reductions of 5% on its 2007–08 baseline costs for the period from 2008–09 to 2010–11, despite a planned rise in liabilities to investors over that period.

In 2008–09, NS&I's DEL was initially £166.2 million. In 2010–11, NS&I's total DEL will be £158.2 million. Around 80% of NS&I's DEL is spent on the Public Private Partnership (PPP) with Siemens and on the Post Office® distribution contract.

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

The unforeseen and unsolicited 'flight to safety' has meant that NS&I is now substantially larger than envisaged at the time that CSR2007 was agreed and the financial strategy is being replanned to account for this.

Post balance sheet events

There were no other reportable post balance sheet events between the balance sheet date and 10 July 2009, the date of authorisation of the accounts. The financial statements do not reflect events after that date.

Sick absence data

The average number of sick days per person in the twelve-month ending 31 March 2009 is 5.18 days (2007–08: 5.51). This figure includes all absences including long-term absence. Short-term absences were 2.7 days (2007–08: 2.82).

Reporting of personal data-related incidents

Incidents, the disclosure of which would in itself create an unacceptable risk of harm, may be excluded in accordance with the exemptions contained in the Freedom of Information Act 2000 or may be subject to the limitations of other UK information legislation.

Summary of protected personal data-related incidents formally reported to the Information Commissioner's Office in 2008–09

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

Further action on information risk	<p>NS&I will continue to monitor and assess its information risks. Although no events are noted above, NS&I will ensure continuous improvement of its systems.</p> <p>NS&I will continue to proactively monitor and assess its information risks in order to identify and address any potential weaknesses and, in so doing, minimise the risk of personal data-related incidents and ensure continuous improvement of its systems and processes.</p> <p>NS&I has reviewed its internal security policies and procedures, including those that specifically deal with the secure handling of information and protected personal data. NS&I has ensured that these policies are compliant with the mandatory minimum standards of protection, specifically regarding limiting the use of removable media to the minimum necessary for business operation and ensuring that any information shared with third parties is transferred securely. An enhanced approval and control process has been put in place to ensure that any information shared with third parties is necessary and is properly authorised, and that the mechanism for transferring the information is secure. A programme has been completed to encrypt all NS&I laptops to ensure that information will remain secure in the event that a laptop is lost or stolen.</p> <p>Planned steps for the coming year include:</p> <p>Extending the existing programme of staff vetting, including extending the use of identity and financial checks, to ensure that all staff working for NS&I and their sub-contractors are people in whom NS&I can have confidence and whose identities are assured.</p> <p>Continue to review policies to ensure that they provide a secure environment for information handling and to ensure that they meet the requirements set out in Her Majesty's Government (HMG) Security Policy Framework. All staff will be required to provide written confirmation that they are aware of the policies and the responsibilities that the policies place on them.</p> <p>Security awareness training for all staff will be enhanced to include a regular, ongoing programme of assessed computer-based training to ensure that staff remain alert to the risk of data loss.</p>
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Ministerial responsibility

NS&I is an Executive Agency of the Chancellor of the Exchequer. The Government Minister with the portfolio for NS&I was the Economic Secretary to the Treasury (EST) until 16 June 2009. The position was held by Kitty Ussher MP until October 2008. From October 2008 this position has been held by Ian Pearson MP. Details of the Minister's salary and pension entitlements are shown in HM Treasury's 2008–09 Resource Accounts. On 16 June 2009, the Government Minister with the portfolio for NS&I was changed to the Financial Services Secretary and Minister for the City, Paul Myners CBE.

Code of Good Practice for Corporate Governance for Central Government Departments

The NS&I board reviewed its composition and practices against the Code of Good Practice for Corporate Governance for Central Government Departments and has concluded that it is highly compliant with the Code's provisions. One area where it was decided not to follow the Code was in the appointment of a Senior Independent Director. The board has identified HM Treasury as NS&I's main stakeholder and considers that HM Treasury representation on the board, together with agreement that the Non-executive Directors can meet the responsible Minister annually, means that there is no need for a separate independent Director other than the Chairman.

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

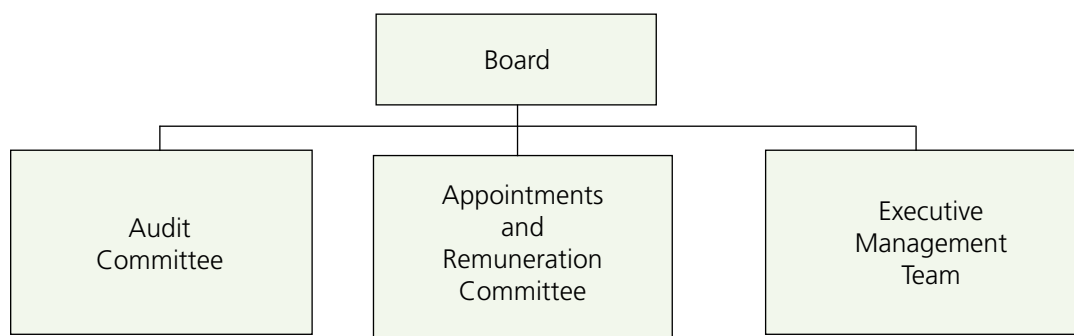
The HM Treasury members, representing NS&I's main stakeholder, are also considered to be independent. Full board meetings are held every two months, and additional board workshops are held to discuss specific issues, such as strategy and planning.

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

Operating within instructions and guidance from HM Treasury, and in support of the Chief Executive in the achievement of the Agency's objectives, the board operates within terms of reference that are published on NS&I's website.

In addition to its normal meetings, the board meets regularly to review the way in which it operates in discharging its responsibilities; and the board Chairman discusses performance with board members on an individual basis, feeding back comments both individually and to the board as a whole. The board Chairman's performance is reviewed by the Chairman of the Appointments and Remuneration Committee.

The board has three key subsidiary committees:



Executive members of the board who served during the year

Jane Platt (Chief Executive, Accounting Officer and Director of Savings), appointed in September 2006.

Mike Chilton (Finance and Risk Director), appointed in January 2007.

Peter Cornish (Customer Offer Director), appointed in April 2006 in an acting capacity. Appointed permanently in April 2007.

Julian Hynd (Change and Strategy Support Director), appointed in April 2007.

Steve Owen (Channel Delivery Director), appointed in February 2002.

Gillian McGrattan (People and Environment Director), appointed in September 2008.

John Prout (Customer Sales and Retention Director), appointed in August 2003.

Representatives of HM Treasury

Samantha Beckett (Director of Fiscal Policy), appointed in April 2008.

Mike Glycopantis (Debt and Reserves Management joint Team Leader), left in March 2009.

Sarah Tebbutt (Debt and Reserves Management joint Team Leader), appointed in April 2009.

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 in accordance with the NS&I Management Code. Non-executive members of the board are appointed by the Chancellor of the Exchequer and contracted by the Director of Savings.

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

Non-executive members of the board

Paul Spencer, appointed in September 2003, became Chairman of the board in January 2005. He has a contract extension to August 2009.

Michael Medlicott, joined in September 2003 as Non-executive Director, appointed Chairman of Appointments, and Remuneration Committee in March 2008. He is contracted to September 2009. For continuity, he has been requested, and has agreed, to stay on until December 2009 while two new Non-executive Directors are recruited.

Martin Gray, joined in January 2005 as Non-executive Director, appointed Chairman of the Audit Committee in July 2007. He has a contract extension to January 2011. He has been appointed as the new Chairman effective from September 2009 to run until December 2010.

Simon Ricketts, appointed in July 2007 for a three-year term.

Audit Committee

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

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

The Audit Committee of NS&I meets quarterly. Membership of the Audit Committee during 2008–09 comprised Martin Gray (Chair), Simon Ricketts and a member of HM Treasury's Debt and Reserves Management team. Executive Directors have a standing invitation to attend, as do NS&I's Head of Internal Audit, the National Audit Office (NAO) and PriceWaterhouseCoopers, who are the NAO's framework partners for the NS&I Product Accounts. Siemens also has a standing invitation for appropriate matters.

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

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

Appointments and Remuneration Committee

The Committee's role relates to the pay and performance of senior NS&I staff. Full details of the Committee's membership, role and senior staff salary entitlements are given in the Remuneration report on pages 47 to 51.

Board attendance

Name	Board (5 meetings)		Audit Committee (4 meetings)		Appointments and Remuneration Committee (3 meetings)	
	Possible	Actual	Possible	Actual	Possible	Actual
Jane Platt	5	5			3	3
Mike Chilton	5	5				
Peter Cornish	5	5				
Julian Hynd	5	4				
Steve Owen	5	4				
Gillian McGrattan	3	3			2	2
John Prout	5	5				
Paul Spencer	5	5			3	3
Martin Gray	5	3	4	4		
Michael Medlicott	5	5			3	3
Simon Ricketts	5	5	4	4		
Sam Beckett (HM Treasury)	5	2				
Mike Glycopantis (HM Treasury)	5	5	4	2		
Dan Dorner (HM Treasury)			1	1		

Executive Management Team (EMT)

The EMT members are the Executive Directors of NS&I supported by the board secretary. The EMT meets twice a month to discuss issues relating to strategy, people, risk and financial results.

Auditors

The Comptroller and Auditor General is responsible for the audit of the Resource Accounts, in accordance with section 7 of the Government Resources and Accounts Act 2000. The notional charge for audit of these Resource Accounts as disclosed in the accounts is £58,000 (2007–08: £58,000). There was no auditors' remuneration (actual or notional) for non-audit work.

The Accounting Officer has taken all the steps that ought to have been taken to make herself aware of any relevant audit information and to establish that NS&I's auditors are aware of that information. So far as she is aware, there is no relevant audit information of which NS&I's auditors are unaware.

NS&I's internal audit service provides an independent appraisal service for management by measuring and evaluating the adequacy, reliability and effectiveness of management and financial control systems. Internal audit make recommendations based on the appraisal of each system reviewed. An annual assurance report is provided to the Accounting Officer. NS&I chose to outsource the provision of internal audit services to ensure wholly independent and fully professional analysis and recommendations. Deloitte is NS&I's current provider of the internal audit function. The current contract will come to an end in June 2009. NS&I has therefore conducted a re-tender exercise for the internal audit function, and KPMG will be its new internal auditors from July 2009.



Jane Platt
Chief Executive
National Savings and Investments
 23 June 2009

Appointments and Remuneration Committee

The Appointments and Remuneration Committee comprises Non-executive Directors, Paul Spencer and Michael Medlicott (as Chairman). It also comprises two Executive Directors: the Chief Executive and the People and Environment Director, Gillian McGrattan (from 1 September 2008). Tricia Ghatauray, in her capacity as interim People and Environment Director, attended as an observer up until October 2008. Support to the Committee was provided by Paul Farley (Group Head of Reward Lloyds TSB plc) in an independent advisory capacity until October 2008. We have now appointed Gerard Hutchinson (Rolls-Royce) as our new independent advisor.

The Committee's role is to determine NS&I's pay strategy for Senior Civil Service (SCS) members. This includes reviewing the Chief Executive's recommendations on pay and bonus awards within the parameters set by the Cabinet Office for the SCS following recommendations by the Senior Salaries Review Body. The Cabinet Office gives overall approval to the pay and bonus award for the NS&I SCS members.

Service contracts

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

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

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

Non-executive Directors have fixed-term appointments not exceeding three years. Normally they can serve for two terms of office. Their remuneration is accounted for in 'other costs'. The details of their payments are shown in Table C. No Executive Directors hold any Non-executive directorships elsewhere.

Salary and pension entitlements

The salary and pension entitlements of the executive board are shown below. There were no taxable benefits in kind paid. Jane Platt and Mike Chilton are members of the Civil Service Supplementary (Earnings Cap) Scheme. Bonuses for 2008–09 were accrued.

Table A: The salary and bonus entitlements of the executive board members of NS&I

Audited

Name	2008-09	2008-09	2008-09	2007-08	2007-08	2007-08
	Salary £000	Bonus £000	Total £000	Salary £000	Bonus £000	Total £000
Jane Platt <i>Chief Executive</i>	185-190	15-20 ⁽³⁾	200-205	180-185	35-40	215-220
Mike Chilton <i>Finance and Risk Director</i>	135-140	15-20	155-160	130-135	20-25	155-160
Peter Cornish <i>Customer Offer Director</i>	100-105	15-20	115-120	95-100	15-20	115-120
Julian Hynd <i>Change and Strategy Support Director</i>	95-100	15-20	110-115	90-95	10-15	105-110
Steve Owen <i>Channel Delivery Director</i>	110-115	15-20	130-135	105-110	15-20	130-135
Sandra Postles ⁽¹⁾ <i>People and Environment Director</i>	–	–	–	80-85	–	80-85
Gillian McGrattan ⁽²⁾ <i>People and Environment Director</i>	60-65	5-10	65-70	–	–	–
John Prout <i>Customer Sales and Retention Director</i>	110-115	15-20	130-135	110-115	15-20	130-135

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

(1) Left 31 January 2008. Equivalent annual salary for 2007-08 was £95,000-£100,000.

(2) Appointed 1 September 2008. Equivalent annual salary for 2008-09 was £100,000-£105,000.

(3) In view of the current economic background, the Chief Executive has chosen to limit her variable pay for 2008-09 to the maximum bonus set for Senior Civil Servants regardless of her contract entitlement.

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

Audited

Name	Real increase in pension at age 60	Real increase in pension related lump sum at age 60 at 31 March 2009	Total accrued pension at age 60 at 31 March 2009	Pension related lump sum at age 60 at 31 March 2009	Cash equivalent transfer value (CETV) at 31 March 2008 ⁽¹⁾	Cash equivalent transfer value (CETV) at 31 March 2009	Employee contributions and transfers	Real increase in CETV after adjustment for inflation and changes in market investment factors
	£000	£000	£000	£000	£000	£000	£000	£000
Jane Platt <i>Chief Executive</i>	2.5–5	–	5–10	–	48	97	15–20	27
Mike Chilton <i>Finance and Risk Director</i>	0–2.5	–	0–5	–	30	61	0–5	24
Peter Cornish <i>Customer Offer Director</i>	0–2.5	2.5–5	10–15	35–40	189	222	0–5	15
Julian Hynd <i>Change and Strategy Support Director</i>	0–2.5	–	5–10	–	75	101	5–10	13
Steve Owen <i>Channel Delivery Director</i>	0–2.5	2.5–5	35–40	115–120	613	683	15–20	10
Gillian McGrattan <i>People and Environment Director</i>	0–2.5	–	0–5	–	–	17	0–5	15
John Prout <i>Customer Sales and Retention Director</i>	0–2.5	–	10–15	–	229	294	15–20	30

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

(1) Due to refinements in CETV calculator there are slight differences between the final period CETV for 2007–08 and the start of period CETV for 2008–09.

The salary entitlements of Non-executive Directors are provided in Table C.

Table C: The remuneration of Non-executive Directors

Audited

Name	2008–09 £000	2007–08 £000
Martin Gray	10–15	10–15
Michael Medicott	10–15	10–15
Paul Spencer (Chairman)	15–20	15–20
Simon Ricketts	10–15	10–15

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

Salary

'Salary' includes gross salary; overtime; rights to London weighting or London allowances; recruitment and retention allowances; private office allowances; and any other allowance to the extent that it is subject to UK taxation.

Civil Service pensions

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

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

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

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

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

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

For 2008–09, employers' contributions of £1,366,721 were payable to the PCSPS (2007–08: £1,269,883) at one of four rates in the range 17.1% to 25.5% (2007–08: 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. From 2009–10, the rates will be in the range 16.7% to 24.3%. The contribution rates are set to meet the cost of the benefits accruing during 2008–09 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 £19,008 (2007–08: £14,420) 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% (2007–08: 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 £1,170, 0.8% (2007–08: £1,003, 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.

There were no contributions due to the partnership pension providers at the balance sheet date. There were no contributions prepaid at that date.

There were no additional pension liabilities during 2008–09 payable by the Civil Service pension arrangements for individuals who retired early on health grounds.

Cash equivalent transfer values

Table B above shows the member's cash equivalent transfer value (CETV) accrued at the beginning and the end of the reporting period. The final column reflects the increase in CETV effectively funded by the employer. It takes account of the increase in accrued pension due to inflation, 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.

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 the 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 that the individual has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their purchasing additional pension benefits at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

Real increase in CETV

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

Jane Platt

Jane Platt
Chief Executive
National Savings and Investments
 23 June 2009

Sustainability report

Environmental Policy

NS&I is committed to sustainable business practices. Governance by the Sustainability Committee drives actions on both environmental and sustainability issues. Siemens is involved in the Committee.

NS&I's policy reflects its aim to deliver long-term value to its stakeholders in a way that is both financially viable and socially and environmentally responsible. Everyone in NS&I has a role to play, especially those responsible for NS&I's buildings, plant and machinery or for obtaining / using goods and services.

NS&I has engaged staff on environmental issues by using a variety of channels to promote substantial development initiatives, including via the intranet, staff briefings and its staff newsletters.

Suppliers

Payment of suppliers, policy and performance

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

In 2008–09 NS&I paid 96.0% (2007–08: 89.3%) of bills within this standard.

During the year, the Government made a commitment to speed up the payment process for small or medium size enterprises (SMEs). HM Treasury's *Managing Public Money* guidance stated 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 and services or receipt of a legitimate invoice if that is later.

Employees

Training and development

NS&I recognises that training and development is essential for all its employees – to support them in their job roles, to meet team goals and to meet NS&I's business objectives. NS&I is committed to providing and maintaining a learning and development framework to Investors in People standards, which encourages a 'learning culture' and strives for continuous improvement.

NS&I EMT and senior managers fully support the training and development of the staff by:

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

Health and safety

NS&I recognises and accepts its responsibility as an employer for ensuring that, as far as is reasonably practical, every employee has a place of work that is both safe and without risk to their health.

NS&I complies with current health and safety legislation, approved codes of practice, guidance documentation and British Standards, and satisfies the spirit as well as the legal requirements of the Health and Safety at Work Act 1974 and other relevant statutory provisions.

NS&I is committed to continuous assessment and improvement of the health and safety culture of the organisation.

Disabled employees

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

Pension liabilities

The majority of present and past employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS). The PCSPS is a defined benefit scheme which, in the main, provides benefits based upon length of service and final salary. The scheme is non-contributory and unfunded. Liability for payment of future benefits lies with the PCSPS. There is a separate scheme statement for the PCSPS as a whole. NS&I meets the cost of pension cover provided for its employees by payment of charges calculated on an accruing basis. The rate of the employer's contribution is determined from time to time by the Government Actuary and advised by HM Treasury. For 2008–09 the rates were between 17.1% and 25.5% (2007–08: 17.1% and 25.5%) of pensionable pay, depending on salary.

NS&I is required to meet the additional cost of benefits beyond the normal PCSPS benefits in respect of employees who retire early, unless the retirement is on approved medical grounds. 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 its balance sheet.

Equal opportunities

NS&I is committed to equality of opportunity in all its employment practices, policies and procedures. No employee or potential employee will therefore receive less favourable treatment due to their ethnic origin, age, language, religion, political or other opinion affiliation, gender, sexual orientation, marital status, connections with a national minority, property, birth or other status, family connections, working pattern, membership or non-membership of a trade union or, unless justifiable, disability.

Equal opportunities monitoring is undertaken for each recruitment campaign, and candidates are sent an equal opportunities statement with an equal opportunities form to complete.

Recruitment monitoring

NS&I operates fair and open competition for all recruitment campaigns, in line with the Civil Service Commissioners' guidelines. Appointments are made against robust criteria, which are applied throughout the recruitment and assessment process.

NS&I has a monitoring system in place to ensure that recruitment is carried out on the basis of fair and open competition and selection on merit, in accordance with the guidelines laid down by the Civil Service Commissioners.

NS&I's recruitment campaign files are independently audited annually through a reciprocal agreement with the Office of the Rail Regulator (a requirement of the Civil Service Commissioners). This includes comparing CVs against the selection criteria and reviewing diversity breakdowns to ensure that the criteria were fair and robustly applied. NS&I submits an annual audit return to the Office of the Civil Service Commissioners which summarises campaigns, policy and processes. All activities may then be subject to a further audit review by the Civil Service Commissioners, and campaign files are kept for 12 months to comply with this requirement.

During 2008–09, there was a total of 23 permanent and fixed-term appointments, and these are summarised in the table below. There were no permitted exceptions to the recruitment principle of fair and open competition.

Permanent and fixed-term appointments in 2008–09

	Non-executive Directors	Senior civil servants*	Range A	Range B	Range C	Range D
Male	0	0	5	2	2	0
Female	0	1	0	5	5	3
White	0	1	5	5	4	2
Non-white	0	0	0	2	3	1
Disabled	0	0	0	0	0	0

* Includes Executive Directors

Under the Government Resources and Accounts Act 2000, HM Treasury has directed NS&I to prepare, for each financial year, Resource Accounts detailing the resources acquired, held or disposed of during the year and the use of resources by the department during the year. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the department and of its net resource outturn, resources applied to objectives, recognised gains and losses and cash flows for the financial year.

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

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

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

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

Statement on internal control

1. Scope of responsibility

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

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

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

2. The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives. It can, therefore, only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of departmental policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in NS&I for the year ended 31 March 2009 and up to the date of approval of the accounts, and accords with HM Treasury guidance.

3. Capability to handle risk

The board, Audit Committee and Executive Management Team (EMT) have primary responsibility for identifying and monitoring the key risks which NS&I faces. The board delegates the responsibility for overseeing the risk management process to the Audit Committee, with the Audit Committee reporting back to the board after each meeting. Every month the EMT considers whether there are any new risks to the business to be registered and discusses the key risks as part of its monthly risk review. The Audit Committee formally reviews the key risks at least annually to ensure that they remain valid and complete in the light of changing circumstances in the year and business plans for the coming year.

NS&I has a risk management strategy, a risk management framework and agreed risk management reporting protocols, and these are reviewed and approved annually by the Audit Committee.

The Audit Committee, chaired by an independent Director, is responsible for providing assurance, in conjunction with internal and external auditors, to the board on the existence and effectiveness of the overall processes for managing risk within NS&I and within these parts of Siemens concerned with NS&I business.

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

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

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

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

4. The risk and control framework

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

For each key risk and sub-risk identified, the assessment and scoring of the probability and impact both before and after mitigating controls is performed using a consistent methodology on a risk matrix. The results of this are considered against our agreed organisational risk appetite as approved annually by the Audit Committee. Reviews of risks and their risk scores are performed regularly by senior managers and the EMT. Where further action is necessary to reduce exposure, the action, and its intended effect on the status of the risk, is logged, responsibility allocated, and a completion date agreed. This ensures that there is ongoing

tracking of any risk where exposure remains unacceptably high despite the controls that are in place. These risks are flagged as red, reviewed monthly by the EMT and reported to the Audit Committee.

Our management of risk is embedded in policy making, planning and delivery by Executive Directors and senior managers, who are responsible for ensuring the proper management of risks and for cascading implementation of the risk management strategy and framework within their respective directorates and teams. Senior managers are responsible for implementation of self-assessment processes.

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

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

A programme management function ensures that all projects are subject to formal project management disciplines, including an assessment of inherent and residual risks. Projects are governed by formal project management disciplines, including regular review of project and programme risks overseen by the project board, EMT, Audit Committee and the board.

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

The risk management process continues to be enhanced.

The key achievements in 2008–09 include:

- continuing to implement a risk based approach to anti-money laundering in line with the Money Laundering Regulations 2007
- embedding Treating Customers Fairly within our culture:
 - conducting regular reviews with every area of the business
 - implementing an electronic workflow approval process for any financial promotions issued to make sure that these are fair, clear and not misleading
 - enhancing the complaints-handling processes
- refining data protection and retention rules to be built into our new systems
- conducting a comprehensive audit of our compliance arrangements with the Post Office®
- making further enhancements to our overall risk framework, including key policies and related assurance
- refining and reviewing the effectiveness of our governance committees to ensure that they are working as required
- providing ongoing training to our staff on key compliance issues
- continuing to embed compliance more deeply into our delivery partner, Siemens.

Plans for 2009–10 include the continued strengthening of our risk management and compliance assurance processes and increased investment in Information Security and in our fraud risk management capabilities.

5. Statement of information risk

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

The Cabinet Office's review of data-handling procedures in government, published in June 2008, made a number of recommendations to be implemented across government. In December 2008, the Cabinet Office published Her Majesty's Government (HMG) Security Policy Framework which embraces the requirements of the Data Handling Review. This

framework superseded the Manual of Protective Security and set out mandatory requirements for government departments on protective security, covering physical, personnel and information security.

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

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

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

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

In 2008–09, all NS&I staff received training in data protection and information security through e-learning packages, and in 2009–10 this will be augmented by more focused security awareness training and will be expanded to include Siemens staff working for NS&I.

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

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

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

The existing programme of staff vetting will be extended during 2009–10 to include increased levels of identity and financial checks for all NS&I staff and those in Siemens handling NS&I customer information.

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

6. Review of effectiveness

As Accounting Officer, I also have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and those Executive Directors and managers within the department and Siemens who have responsibility for the development and maintenance of the internal control framework, and by comments made by the external auditors in their management letter and other reports.

I have been advised on the implications of the results of my review of the effectiveness of the system of internal control by the board and the Audit Committee, and a plan to address weaknesses and ensure continuous improvement of the system is in place.

The board, via the Audit Committee, satisfies itself as to the adequacy of the risk management process and reviews the management of each key residually red risk at least annually

by examining evidence of performance against objectives and targets, the timely identification and assessment of significant risks, the prioritisation of risks and the allocation of resources to address areas of exposure, the ability of NS&I to learn from its experiences and the commitment and speed with which corrective actions are implemented. The board, via the Audit Committee, also reviews the internal and external risk profile for the coming year and considers if current internal control arrangements are likely to be effective.

The Executive Directors conduct regular reviews of the risk register, with the top risks being reported monthly to the EMT for review. These are reviewed at least annually by the Audit Committee. The Audit Committee also reviews annually assurance on the overall system of internal control provided by the Head of Internal Audit, and advises the board of its assessment of the internal control system.

The Head of Internal Audit provides the Audit Committee with regular reports on internal audit activity, including an independent opinion on the adequacy and effectiveness of the system of internal control, together with recommendations for improvement.

The overall internal audit plan and internal audit process for the NS&I business, led by Deloitte, is based on management's assessment of risk throughout the business. In my opinion, and that of the Audit Committee, this appreciably enhances the internal audit process, and hence the value of the internal audit assurance. We will continue our ongoing process for assessing internal controls against best practice across all systems and products. The approach to reviewing effectiveness and plans to ensure the continuous improvement of the systems in place will be further refined in 2009–10.

Jane Platt

Jane Platt
Chief Executive
National Savings and Investments
 23 June 2009

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 2009 under the Government Resources and Accounts Act 2000. These comprise the Statement of Parliamentary Supply, the Operating Cost Statement and Statement of Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement and 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

The Accounting Officer is responsible for preparing the Annual Report, which includes the Remuneration Report, and the financial statements in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions made thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Accounting Officer's Responsibilities.

My responsibility is to audit the financial statements and the part of the Remuneration Report to be audited in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000. I report to you whether, in my opinion, the information which comprises the Management Commentary (excluding the section headed "Difference between Resource Budget and Resource Outturn"), Strategy, Board and Sustainable development, is consistent with the financial statements. I also report whether 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.

In addition, I report to you if the Department has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by HM Treasury regarding remuneration and other transactions is not disclosed.

I review whether the Statement on Internal Control reflects the Department's compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether this statement covers all risks and controls, or to form an opinion on the effectiveness of the Department's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises the unaudited part of the Remuneration Report, the Management Commentary section headed "Difference between Resource Budget and Resource Outturn", Who we are, Chairman's statement, Chief Executive's review, Customers, Products, Partners, People and How we operate. I consider the implications for my certificate if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinions

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Department's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error, and that 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. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

Opinions

In my opinion:

- the financial statements give a true and fair view, in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by HM Treasury, of the state of affairs of the Department as at 31 March 2009, and the net cash requirement, net resource outturn, net operating cost, net operating costs applied to departmental aim and objective, recognised gains and losses and cash flows for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000; and
- information which comprises the Management Commentary (excluding the section headed "Difference between Resource Budget and Resource Outturn"), Strategy, Board, and Sustainable development, included within the Annual Report, is consistent with the financial statements.

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.

Report

I have no observations to make on these financial statements.

Amyas C E Morse
Comptroller and Auditor General

National Audit Office
151 Buckingham Palace Road
Victoria
London
SW1W 9SS

10 July 2009

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 presented on the website.

Statement of parliamentary supply

Summary of resource outturn 2008–09

	Estimate £000				Outturn £000			£000 Net total outturn compared with estimate: saving	£000 Prior year outturn Net total
	Note	Gross expenditure	A in A ⁽¹⁾	Net total	Gross expenditure	A in A	Net total		
Request for resources, to provide retail funding for the Government that is cost-effective compared with raising funds on the wholesale market	2	191,117	(5,918)	185,199	189,817	(5,748)	184,069	1,130	153,607

Explanation of the variation between estimate and outturn are provided in the management commentary.

Net cash requirement 2008–09

	Note	Estimate £000	Outturn £000	2008–09 Net total outturn compared with estimate: saving £000	2007–08 Outturn £000
Net cash requirement	3	183,630	181,395	2,235	155,224

Summary of income payable to the Consolidated Fund

In addition to A in A⁽¹⁾, the following income relates to the department and is payable to the Consolidated Fund (cash receipts being shown in *italics*).

	Note	2008–09 Forecast Income £000	Receipts £000	2008–09 Outturn Income £000	Receipts £000
Operating income and receipts – excess A in A		–	–	–	–
Other non-operating income and receipts not classified as A in A ⁽¹⁾	4	–	–	62	62
Total		–	–	62	62

The actual receipts surrendered to the Consolidated Fund were £61,850.

⁽¹⁾ A in A: Appropriations in aid. Full definition in Glossary

The notes on pages 66 to 78 form part of the Resource Accounts.

Operating cost statement

for the year ended 31 March 2009

	Note	2008-09 £000	2007-08 £000
Administration costs			
Request for resources:			
Staff costs	7	9,830	8,937
Other administration costs	8	179,987	150,295
Operating income	9	(5,748)	(5,625)
Net operating costs		184,069	153,607

All income and expenditure is derived from continuing operations.

Statement of recognised gains and losses

for the year ended 31 March 2009

	Note	2008-09 £000	2007-08 £000
Net gain / (loss) on revaluation of tangible fixed assets	16	(638)	2,881
Total recognised gain / (loss) for the financial year		(638)	2,881

The notes on pages 66 to 78 form part of the Resource Accounts.

Balance sheet

as at 31 March 2009

	Note	31 March 09 £000	31 March 09 £000	31 March 08 £000	31 March 08 £000
Fixed assets:					
Tangible assets	10(a)	25,703		26,830	
Intangible assets	10(b)	40		89	
			25,743		26,919
Current assets					
Debtors	11(a)	242		2,167	
Cash at bank and in hand	12	1,335		1,426	
		1,577		3,593	
Current liabilities					
Creditors (falling due within one year)	13(a)	(19,197)		(20,113)	
Net current assets			(17,620)		(16,520)
Total assets less current liabilities					
			8,123		10,399
Provisions for liabilities and charges	14		(543)		(547)
			7,580		9,852
Taxpayer's equity					
General Fund	15		(3,214)		(1,580)
Revaluation reserve	16		10,794		11,432
			7,580		9,852

Jane Platt

Jane Platt
Chief Executive
National Savings and Investments
 23 June 2009

The notes on pages 66 to 78 form part of the Resource Accounts.

Cash flow statement

for the year ended 31 March 2009

	Note	2008-09 £000	2007-08 £000
Net cash outflow from operating activities	17(a)	(180,469)	(155,179)
Capital expenditure	17(b)	(926)	(45)
Receipts due to the Consolidated Fund which are outside the scope of the department's activities	4	62	214
Payments of amounts due to the Consolidated Fund		(62)	(214)
Financing	17(c)	181,304	158,750
Increase / (decrease) in cash in the period	17(d)	(91)	3,526

Statement of net operating costs by departmental strategic objective

for the year ended 31 March 2009

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 the Government with cost-effective retail finance compared with raising funds on the wholesale market.

During 2008-09, NS&I incurred the following resource costs in pursuit of its objective.

	2008-09 Gross £000	2008-09 Income £000	2008-09 Net £000	2007-08 Gross £000	2007-08 Income £000	2007-08 Net £000
Resource cost of objective	189,817	(5,748)	184,069	159,232	(5,625)	153,607
Net operating cost	189,817	(5,748)	184,069	159,232	(5,625)	153,607

The notes on pages 66 to 78 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 2008–09 *Government Financial Reporting Manual* (FReM) issued by HM Treasury. The accounting policies contained in the FReM follow UK generally accepted accounting practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector.

In addition to the primary statements prepared under UK GAAP, the FReM also requires the department to prepare two additional primary statements. The statement of parliamentary supply and supporting notes show outturn against estimate in terms of the net resource requirement and the net cash requirement. The statement of operating costs by departmental aim and objectives and supporting notes analyse the department's income and expenditure by the objective agreed with the Treasury Minister.

Where the FReM permits a choice of accounting policy, the accounting policy that has been adjudged to be most appropriate to NS&I's circumstances for the purpose of giving a true and fair view has been selected. The department's accounting policies have been applied consistently in dealing with items considered material in relation to the accounts.

1.1 Accounting convention

These accounts have been prepared under the historical cost convention, modified to account for the revaluation of fixed assets at their value to the business by their current costs.

The accounts comply with the *Accounts Direction* issued by HM Treasury in pursuance of section 5(2) of the Government Resources and Accounts Act 2000.

1.2 Tangible fixed assets

Tangible fixed assets are stated at the lower of replacement cost and recoverable amount, which is the higher of net realisable value or value in use. Expenditure on tangible fixed assets of £500 and over is capitalised. On initial recognition they are measured at cost, including any costs, such as installation, directly attributable to bringing them into working condition.

All tangible fixed assets are restated to current value each year. Land and buildings are restated to current value using professional valuations in accordance with Financial Reporting Standard (FRS) 15 every five years, and in the intervening years by the use of published indices appropriate to the type of land or building.

Any revaluation reserve balances realised on asset disposals are transferred to the General Fund.

Individual desks, chairs, computer furniture and cabinets generally individually fall below the prescribed capitalisation limit, but these assets are grouped together for capitalisation purposes.

1.3 Intangible fixed assets

Intangible fixed assets comprise purchased computer software licences. Where material, they are valued at their net current replacement cost using appropriate indices.

1.4 Depreciation and amortisation

In accordance with FRS 15, freehold land is not depreciated.

Depreciation and amortisation is provided on freehold buildings and other fixed assets at rates calculated to write off the cost or valuation, less estimated residual value, of each asset evenly over its expected useful life. Lives, which are reviewed regularly, are normally in the following ranges:

Freehold buildings	20 to 50 years
Plant and equipment	7 to 10 years
Computers	5 to 7 years
Telecommunications equipment	5 to 7 years
Furniture and fittings	10 years
Software licences	5 years

Fixed assets, other than freehold land, are depreciated or amortised from the later of the month of acquisition or the month when the asset is brought into use. Under HM Treasury guidance, an additional charge is made for backlog depreciation arising as a result of revaluations. This ensures that revalued assets are fully written off within their estimated useful lives.

1.5 Operating leases

Expenditure on operating leases is charged to the operating cost statement in the year in which it is incurred.

1.6 Research and development

Expenditure on research and development is charged to the operating cost statement as it is incurred.

1.7 Website development costs

The costs of designing and developing the content of the NS&I website are expensed in the year in which they are incurred.

1.8 Operating income

Operating income is income which relates directly to the operating activities of the department. It comprises rent from external tenants.

1.9 Administration expenditure

Administration costs reflect the costs of running the department. These include those administrative costs and associated operating income controlled under the administration cost-control regime (through the Departmental Expenditure Limit). NS&I does not have any programme expenditure.

1.10 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 real rate set by HM Treasury, being 3.5% for 2008–09 on the average carrying amount of all assets less liabilities, except for:

- cash balances with the Office of the Paymaster General where the charge is nil

- liabilities for amounts to be surrendered to the Consolidated Fund where the credit is nil.

1.11 Pensions

Past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS), which is non-contributory and unfunded. Liability for payment of future benefits is a charge to the PCSPS.

Departments, agencies and other bodies covered by the PCSPS meet the cost of pension cover provided for the staff they employ by payment of charges calculated on an accruing basis. There is a separate scheme statement for the PCSPS as a whole.

Full details are given in note 7 on page 70.

1.12 Early departure costs

The department 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. The department 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 FRS 12, this provision has been discounted. The department 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 Other provisions

The department provides for known obligations on the basis of the best estimate of the cost, where the final liability is uncertain at the balance sheet date.

1.14 Value Added Tax (VAT)

The activities of the department are exempted under the terms of 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 fixed assets.

1.15 The Statement of parliamentary supply and the Statement of operating costs by departmental aim and objectives

The information contained in the statement of parliamentary supply and associated notes is based on Request for Resources information. NS&I has only one Request for Resources. This information forms part of the parliamentary approval process.

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

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

	2008–09	2008–09	2008–09	2007–08
	Outturn £000	Supply estimate £000	Outturn compared with estimate £000	Outturn £000
Net resource outturn	184,069	185,199	1,130	153,607
Net operating cost	184,069	185,199	1,130	153,607

2(b) Outturn against final administration budget

	Note	2008–09 Budget £000	2008–09 Outturn £000	2007–08 Outturn £000
Gross administration budget		191,117	189,817	159,232
Income allowable against final administration budget	5	(5,918)	(5,748)	(5,625)
Net outturn against administration budget		185,199	184,069	153,607

3 Reconciliation of net resource outturn to net cash requirement

	Note	Estimate	Outturn	Net total outturn compared with estimate: saving / (excess) £000
		£000	£000	
Resource outturn		185,199	184,069	1,130
Capital				
• Acquisition of fixed assets	10(a)	1,438	926	512
Accruals adjustments				
• Non-cash items	8	(4,607)	(4,246)	(361)
• Changes in working capital other than cash		1,600	439	1,161
Use of provision	14(a)	–	207	(207)
Net cash requirement		183,630	181,395	2,235

4 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	2008-09 Forecast income £000	2008-09 Outturn receipts £000	2007-08 Forecast income £000	2007-08 Outturn receipts £000
Operating income and receipts – excess A in A	5	–	–	–	–
Other non-operating income and receipts not classified as A in A	6	–	62	–	214
Total		–	62	–	214

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

	Note	2008-09 £000	2007-08 £000
Operating income	9	5,748	5,625
Income authorised to be A in A		(5,748)	(5,625)
Operating income payable to the Consolidated Fund		–	–

6 Non-operating income not classified as A in A

	Note	2008-09 Income £000	2008-09 Receipt £000	2007-08 Income £000	2007-08 Receipt £000
Prior year fraud recoveries	4	62	62	214	214
Total non-operating income not classified as A in A		62	62	214	214

7 Staff numbers and related costs

Staff costs comprise:

	2008-09 Permanently employed UK staff £000	2008-09 Others £000	2008-09 Total £000	2007-08 Total £000
Wages and salaries	6,922	908	7,830	7,125
Social security costs	614	–	614	542
Other pension costs	1,386	–	1,386	1,270
Total net costs	8,922	908	9,830	8,937

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 2008–09, employers' contributions of £1,366,721 were payable to the PCSPS (2007–08 £1,269,883) at one of four rates in the range 17.1% to 25.5% (2007–08: 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. From 2009–10, the rates will be in the range 16.7% to 24.3%. The contribution rates are set to meet the cost of the benefits accruing during 2008–09 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 £19,008 (2007–08: £14,420) 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% (2007–08: 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 £1,170, 0.8% (2007–08: £1,003, 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.

7.1 Average number of persons employed

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

	2008–09 Permanently employed UK staff	2008–09 Others	2008–09 Total	2007–08 Total
Administration of NS&I	136	22	158	146
Total	136	22	158	146

8 Other administration costs

	Note	2008-09 £000	2008-09 £000	2007-08 £000	2007-08 £000
Operational contract costs					
Public Private Partnership provider costs		120,662		95,914	
Selling agents		28,828		27,469	
Giro fees, Link line, ATMOS and banking charges		1,394		1,384	
			150,884		124,767
Marketing and research costs					
Marketing		12,405		11,554	
Research		2,243		2,192	
			14,648		13,746
Other expenditure					
Consultancy, internal audit contract and personnel costs		4,507		3,957	
Professional services		4,016		2,346	
Rentals under operating leases		514		473	
Other costs		890		789	
Losses and special payments	25	224		282	
Audit of Ordinary Deposits White Paper Account		58		58	
			10,209		7,905
Non-cash items					
Tangible fixed assets depreciation	10(a)	1,414		1,289	
Intangible fixed assets amortisation	10(b)	49		44	
Prepayment amortisation	11(a)	1,539		1,539	
Diminution in fixed assets		–		22	
Loss on disposal of fixed assets		1		–	
Increase in early departure provision	14(a)	43		73	
Increase in losses provision	14(b)	160		–	
Cost of capital charge	15	306		255	
Notional external audit fees:					
Product Accounts statutory audit		650		597	
Product Accounts IFRS dry-run audit		8		–	
Resource Accounts statutory audit		58		58	
Resource Accounts IFRS dry-run audit		18		–	
			4,246		3,877
Administration costs			179,987		150,295

Selling agents include our distribution partners, Post Office®, WHSmith and other minor agents.

The external audit fees relating to Ordinary Deposits White Paper Account of £58,000 (2007–08: £58,000) are paid in cash. The National Audit Office (NAO) is NS&I external auditor and received no remuneration for non-audit work.

PriceWaterhouseCoopers (PWC) is the NAO's framework partner for the Product Accounts audit. PWC did not undertake any non-audit work for NS&I.

9 Operating income

Operating income comprises:

	2008-09 £000	2007-08 £000
Rent from external tenants	5,748	5,625
Total operating income	5,748	5,625

Non-operating income and receipts not classified as A in A comprises amounts that relate to prior years, including prior year loss recoveries. The actual receipts surrenderable were £61,850.

10 Fixed assets

10(a) Tangible fixed assets

	Freehold land & buildings £000	Information technology £000	Plant & machinery £000	Furniture & fittings £000	Asset under construction £000	Total £000
Cost or valuation						
At 1 April 2008	31,921	307	793	3,897	–	36,918
Additions	–	27	8	41	850	926
Disposals	–	(94)	(16)	(5)	–	(115)
Revaluation	–	34	61	20	–	115
Downward revaluation	(805)	–	–	–	–	(805)
At 31 March 2009	31,116	274	846	3,953	850	37,039
Depreciation						
At 1 April 2008	(6,765)	(212)	(581)	(2,530)	–	(10,088)
Provided in year	(681)	(43)	(78)	(612)	–	(1,414)
Disposals	–	94	14	5	–	113
Backlog depreciation	–	(34)	(61)	(20)	–	(115)
Downward revaluation adjustment	168	–	–	–	–	168
At 31 March 2009	(7,278)	(195)	(706)	(3,157)	–	(11,336)
Net book value						
At 31 March 2008	25,156	95	212	1,367	–	26,830
At 31 March 2009	23,838	79	140	796	850	25,703

The freehold land and buildings were revalued at 31 March 2005 by professional valuers on an existing use basis. Chartered surveyors Montagu Evans (Glasgow), Knight Frank (Durham) and Edmund Kirby (Blackpool) carried out the valuations in accordance with the Appraisal and Valuation Manual.

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

The asset under construction is the extension on the Moorlands building at NS&I's Blackpool site. The work began during 2008–09 and will be completed during 2009–10. A certified valuation of the building work completed was carried out by Hulme Upright Manning Architects. The value of this work was £492,000 at 31 March 2009. Other costs capitalised on this site include legal fees, architect fees and other professional costs.

10(b) Intangible fixed assets

	Software licences 2008–09 £000	Software licences 2007–08 £000
Cost or valuation		
At 1 April	301	312
Additions	–	–
Disposals	–	–
Revaluation	(11)	(11)
At 31 March	290	301
Amortisation		
At 1 April	(212)	(168)
Provided in year	(49)	(44)
Disposals	–	–
Revaluation adjustment	11	–
At 31 March	(250)	(212)
Net book value		
At 31 March	40	89

11 Debtors

11(a) Debtors

	31 March 2009 £000	31 March 2008 £000
Amounts falling due within one year:		
Deposits and advances	53	38
Prepayments and accrued income	162	571
PPP contract prepayment from asset transfer	–	1,539
Other debtors	27	19
Total	242	2,167

At 31 March 2009 there were no debtors falling due after more than one year.

The number of employees with an advance for season-ticket purchases in excess of £2,500 at 31 March 2009 was six.

Under a contract signed with Siemens in January 1999 for the provision of operational services, the majority of the department's assets were reclassified as a prepayment at 31 March 1999 and subsequently transferred to Siemens on 1 April 1999, for a nominal sum. This had the effect of reducing charges that would otherwise have been payable to Siemens over the life of the contract. The prepayment was being amortised over the initial life (10 years) of the contract on a straight-line basis.

11(b) Intra-Government balances – debtors

	31 March 2009 £000	31 March 2008 £000
Amounts falling due within one year:		
Balance with other central Government bodies	–	–
Balance with public corporations and trading funds	–	–
Subtotal: Intra-Government balances	–	–
Balance with bodies external to Government	242	2,167
Total debtors at 31 March	242	2,167

At 31 March 2009 there were no Intra-Government debtors falling due after more than one year.

12 Cash at bank and in hand

	Note	2008–09 £000	2008–09 £000	2007–08 £000	2007–08 £000
Balance at 1 April			1,426		189
Movement in cash balance (decrease)/increase	17(d)	(91)		3,526	
Exclude overdrawn HM Paymaster balance		–		(2,289)	
Net change in cash balances			(91)		1,237
Closing cash balance 31 March			1,335		1,426
The following balances at 31 March are held at:					
Office of HM Paymaster General		1,281		1,418	
Commercial banks		54		8	
			1,335		1,426
The balance at 31 March comprises:					
Cash due to be paid to the Consolidated Fund			1,335		1,426

13 Creditors

13(a) Creditors

	31 March 2009 £000	31 March 2008 £000
Amounts falling due within one year:		
Taxation and social security	276	292
Trade creditors	7,815	10,156
Other creditors	141	124
Accruals	9,630	8,115
Amounts issued from the Consolidated Fund for supply but not spent at year end	1,335	1,426
Total	19,197	20,113

At 31 March 2009 there were no creditors falling due after more than one year.

13(b) Intra-Government balances – creditors

	31 March 2009 £000	31 March 2008 £000
Amounts falling due within one year:		
Balance with other central Government bodies	1,614	1,718
Balance with public corporations and trading funds	1,974	1,314
Subtotal: Intra-Government balances	3,588	3,032
Balance with bodies external to Government	15,609	17,081
Total creditors at 31 March	19,197	20,113

At 31 March 2009, there were no Intra-Government creditors falling due after more than one year.

14 Provisions for liabilities and charges**14(a) Movements in the provision for early departure costs**

	2008–09 £000	2008–09 £000	2007–08 £000	2007–08 £000
Balance at 1 April		547		728
Use of provisions	(207)		(254)	
Increase in provision	43		73	
		(164)		(181)
Total early departure costs provision at 31 March		383		547

14(b) Movements in the provision for losses

	2008–09 £000	2007–08 £000
Balance at 1 April	–	–
Increase in provision	160	–
Total losses provision at 31 March	160	–
Provisions for liabilities and charges (total of 14(a) and 14(b))	543	547

The department is required to meet the additional cost of benefits beyond the normal PCSPS benefits in respect of employees who retire early, unless the retirement is on approved medical grounds. The department 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.

The provision for losses represents amounts for fraud where probable future obligations exist.

15 General Fund

	Note	2008–09 £000	2008–09 £000	2007–08 £000	2007–08 £000
Balance at 1 April			(1,580)		(4,107)
Parliamentary funding drawn down	17(c)		182,730		156,650
Net transfer from operating activities:					
Net operating cost			(184,069)		(153,607)
Year-end adjustment:					
Consolidated Fund creditors for cash unspent	13(a)		(1,335)		(1,426)
Non-cash charges:					
Cost of capital		306		255	
NAO notional audit fee		734		655	
			1,040		910
Balance at 31 March			(3,214)		(1,580)

16 Revaluation reserve

	2008–09 £000	2007–08 £000
Balance at 1 April	11,432	8,551
Arising on revaluation during the year (net)	(638)	2,881
Balance at 31 March	10,794	11,432

17 Notes to cash flow statement

17(a) Reconciliation of operating cost to operating cash flows

	Note	2008–09 £000	2007–08 £000
Net operating cost		184,069	153,607
Adjustments for non-cash transactions	8	(4,246)	(3,877)
Increase / (decrease) in debtors		(386)	(184)
Decrease / (increase) in creditors		825	5,379
Use of provisions	14	207	254
Net cash outflow from operating activities		180,469	155,179

17(b) Analysis of capital expenditure and financial investment

	Note	2008–09 £000	2007–08 £000
Tangible fixed asset additions	10(a)	926	45
Intangible fixed asset additions	10(b)	–	–
Net cash outflow from investing activities		926	45

17(c) Analysis of financing

	Note	2008–09 £000	2007–08 £000
From the Consolidated Fund (supply) – current year	17(d)	182,730	156,650
Cash surrender of part of prior year's unspent supply	17(d)	(1,426)	2,100
Net Financing		181,304	158,750

17(d) Reconciliation of net cash requirement to increase / (decrease) in cash

	2008–09 £000	2007–08 £000
Net cash requirement	(181,395)	(155,224)
From the Consolidated Fund (supply) – current year	182,730	156,650
From the Consolidated Fund (supply) – prior year	–	2,100
Cash surrender of part of prior year's unspent supply	(1,426)	–
(Decrease) / increase in cash	(91)	3,526

18 Capital commitments

	31 March 2009 £000	31 March 2008 £000
Contracted for but not provided	2,541	20
Authorised but not contracted	–	–
Total	2,541	20

19 Commitments under operating leases

The department was committed to making the following payments during the next financial year in respect of operating leases.

	31 March 2009 £000	31 March 2008 £000
Land and buildings		
Lease expiring within:		
One year	–	–
Two to five years	483	453
After five years	–	–
Total	483	453
Other:		
Lease expiring within:		
One year	–	3
Two to five years	22	13
After five years	11	11
Total	33	27

The lease payments due under the contract which expires after five years relate to land. None of these leases relate to the hire of plant.

20 The Public Private Partnership (PPP) contract

In January 1999, NS&I signed a 10-year contract with Siemens for the provision of operational services, which came into effect on 1 April 1999. The initial 10-year contract was extended to a 15-year contract, ending in March 2014. Exercising the option to extend on pre-agreed terms was covered in the terms of the original contract signed in 1999. The majority of NS&I's assets 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. The majority of NS&I's staff also transferred to Siemens on 1 April 1999.

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 of the contract is £48.1 million.

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 payments (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 as follows.

	£000
Amounts falling due within one year	83,148
Net present value of amounts falling due within two to five years	279,402

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

Under the terms of the contract, NS&I is also committed to paying for the cost of making its systems capable of handling the Euro while the UK remains outside the Euro area, and for possible changes should the UK decide to join. Under the terms of the contract, Siemens is entitled to charge for the actual cost of the work, but an upper limit of £9 million (plus uplift charges) has been set. Any costs incurred above the upper limit will be met by Siemens.

21 Contingent liabilities disclosed under FRS 12

There were no contingent liabilities at 31 March 2009.

22 Post balance sheet events

There were no other reportable post balance sheet events between the balance sheet date and 10 July 2009, the date of authorisation of the accounts. The financial statements do not reflect events after that date.

23 Related party transactions

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

Post Office® is a major distributor of NS&I products and, as a public body, Post Office® is a related party. NS&I had a significant number of transactions with Post Office® during the accounting period. NS&I Post Office® costs during 2008–09 were £28,487,056 (2007–08: £27,195,244) for contract services and £nil for non-contract services (2007–08: £117,500).

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. This was extended to 31 March 2014. As the major provider of operational services, Siemens is a related party. Note 8 to these accounts contain details of amounts payable under the contract during 2008–09 and note 20 to the accounts contains details of future commitments arising under the contract. 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 9 to these accounts.

During the year, none of the board members, members of key management staff or other related parties have undertaken any material transactions with NS&I. Investments in NS&I products by members of staff are not considered to be related party transactions and are therefore excluded from this declaration.

24 Resources by departmental aims and objectives

During 2000–01, NS&I objectives were redefined as part of the quinquennial review of the department. HM Treasury confirmed that NS&I has only one aim and one objective, as noted on 'Statement of parliamentary supply' (shown on page 62). This has subsequently been confirmed in the Landscape Review in 2005. To comply with the *Government Financial Reporting Manual* (FRM) and the *Accounts Direction* in these accounts, there is only one departmental strategic objective. The associated administrative cost is therefore equal to the net resource outturn, as shown in the operating cost statement.

25 Losses and special payments

	No of cases	31 March 2009 £000	No of cases	31 March 2008 £000
Compensation payments	15	4	9	15
Fraud loss	162	195	159	267
Operational losses	–	–	3	–
Constructive losses	–	–	–	–
Special payment	1	25	–	–
Other	–	–	–	–
Total	178	224	171	282

26 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 to buy 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.