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Building on success

National Savings and Investments
Annual Report and Accounts 2006/07



National Savings and Investments

Annual Report and Accounts 2006/07

Presented to the House of Commons pursuant to section 7
of the Government Resources and Accounts Act 2000

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£18.00



£2.4^{bn}

internet sales, a
94% increase on the
previous year

£337^m

created in Value Add
at year-end

More than
3.7^m

calls handled by
Siemens at NS&I call
centres during the
year

£5.6^{bn}

Net Financing achieved
during the year

91%

of customers felt that
NS&I customer service
meets their needs

Building on success

Our five-year strategy, Direction 2007, laid firm foundations for success. Having reached our Direction 2007 Net Financing targets a year ahead of schedule, we now plan to build on this achievement and realise our vision of becoming the nation's most trusted financial services provider.

Here's how we plan to do it...

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Who we are

With £79 billion invested and more than 26 million customers, NS&I is one of the UK's largest providers of savings to personal savers and investors. We are a Government department and an Executive Agency of the Chancellor of the Exchequer.

Our vision

To be recognised as the UK's leading and most trusted savings and investment organisation.

Our mission

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

Our values

When people think of NS&I, we want them to associate us with:

Security: we offer a unique promise of 100% security, backed by HM Treasury

Straightforwardness: we always use clear, everyday language that is easy to understand

Integrity: we are honest and responsible in everything that we do and say

Delivered with a human touch: we treat our customers as individuals and recognise their needs

Our strategy

Our new five-year strategy, **NS&I adding value**, will build on the success of Direction 2007 – the previous five-year strategy. The new strategy aims to deliver sustainable long-term value to stakeholders and customers by simplifying, modernising and diversifying the business as a whole. Specifically, our plan is to raise a total of around £13 billion in Net Financing and deliver more than £1.6 billion of Value Add – that's 20% more than Direction 2007 – over the next five years.

Our style

NS&I is committed to a way of working that is:

- Progressive
- Decisive
- Joined-up
- Straightforward
- Trustworthy



Our Chairman's statement

It's been a year of high achievement, extensive change and crucial strategic development for NS&I.

In the past year (2006/07) we have reached some major milestones while embracing significant change, without losing our traditional focus on customer service and providing good value for money.

The dawn of a new era

This was the fourth year of NS&I's five-year strategy – Direction 2007. Thanks to unstinting efforts from all, combined with an overwhelming response to our 50th anniversary of Premium Bonds campaign, we achieved our £15 billion Net Financing target a year early. In addition, we nearly raised the £1.3 billion in savings (known as Value Add) for the Treasury in the four years.

This was seen as a golden opportunity to develop and implement a new five-year strategy – **NS&I adding value**.

The desire to take a fresh look at the business, its objectives, how it is structured and how it can be improved were all given a new impetus with the arrival of Jane Platt as Chief Executive last September. Jane came to NS&I after leading roles at Reuters and Barclays Stockbrokers. She is keen to see NS&I evolve into a more balanced and more sustainable business with a focus on 'adding value' for all stakeholders, attracting investment and raising the NS&I profile.

A new team

Our drive into the next phase of development is being led by our executive team, which has been strengthened by several new appointments. I am delighted to welcome Julian Hynd, who facilitated the creation of **NS&I adding value** and has been promoted to Director of Change and Strategic Support. He joins Mike Chilton, who came to NS&I from Standard Chartered in January 2007 as Finance and Risk Director.

While he was acting Marketing Director, Peter Cornish was promoted to Director of Customer Offer. They join Jane Platt, Steve Owen, Sandra Postles, John Prout and Dave Ormrod, Siemens' NS&I Account Director, to complete the Executive Management Team.

The fact that two of the senior roles have been filled internally demonstrates the strength of our internal development and the calibre of NS&I staff.

Our Board has also been strengthened with new Non-executive Directors. From the Treasury we welcomed Tamara Finkelstein, Director of Government Treasury Management and, following the retirement of Maria Stafford, we have appointed Simon Ricketts as the new Non-executive Director.

The Board would like to thank Maria Stafford for her participation and direction in guiding the organisation through six years of major change and development.

At the same time, we would also like to recognise the major contribution that Trevor Bayley made over five and a half years. During this period he was twice acting Chief Executive, but predominantly he was our Director of Finance. He was a rock of stability and strength during this period of great growth.

The desire to improve efficiency and deliver better value drives every successful organisation. Siemens has deftly taken up the 'operational' mantle and is delivering it with a dependability and certainty that comes only from a very close working partnership.

I hope you will find this report aspirational in showing how NS&I wants to develop over the next five years, as well as showing pride in all the hard work that has gone into creating the foundations for this progress.

Paul Spencer
Chairman



Our Chief Executive's review

It's been quite a year at NS&I. Reaching our Direction 2007 Net Financing targets a year ahead of schedule was a tremendous achievement. The building blocks for success are now firmly in place, but new challenges lie ahead.

I've had a fascinating first six months as Chief Executive of NS&I. I came into the business in September 2006, when it was at a crucial stage in its development. The organisation was growing strongly, but a key strategic period was drawing to a close. There was a lot of energy and excitement internally, but also a degree of uncertainty as to what would happen next.

My first priority has been to develop our new strategy, **NS&I adding value**, and to put in place new spending parameters and an organisational design to make it all happen. It has been an intensely busy period, but what has struck me most during the past few months has been the commitment of everyone I've met – in every department and at every site across the organisation. It's clear that this commitment has played a major part in the success of the last four years.

Achieving our Net Financing goals in four years, rather than five, and very nearly attaining our five-year target for Value Add, has demonstrated the strength and viability of our products. It has also shown the success of our marketing efforts to reach key audience groups and raise the profile of the NS&I brand. The ability of Siemens to handle increased volumes from the Premium Bonds 50th anniversary campaign in such a robust and professional way has also ensured that we've been able to deliver from an operational perspective. In fact, the NS&I customer experience has improved over the last year and will continue to improve going forward.

The 50th anniversary of Premium Bonds was a great success, increasing public awareness of NS&I and resulting in unprecedented sales. Thanks to our strong, ongoing relationship with our major distributor, the Post Office®, we delivered a successful and fully-integrated campaign. We were absolutely delighted with our achievements last year – not just from a financial perspective, but also in terms of broadening our customer base.

At the same time, we've raised the profile of other key NS&I products, such as Inflation-Beating Savings. In fact, the last few months have been vital in transforming perceptions of NS&I as a one-product business. By bringing other savings and investments to the fore, we have become less heavily identified with Premium Bonds and are now seen to be offering real product diversity. This makes us better placed to meet the growing needs of customers, who require a range of products in their savings portfolios.

Within NS&I, meanwhile, our people-focused approach was recognised with a couple of important awards. Attaining one star status from the 2007 Best Companies Accreditation scheme was a great achievement, confirming our commitment to workplace engagement. In recognition of our work with Siemens, our 100% Charter Mark score was also well-deserved, showing that we have a valued and motivated team committed to delivering an excellent customer experience. These achievements support my goal for NS&I to be seen as a great place to work, where personal contribution is always recognised and skills are developed to benefit the organisation and the individual.

NS&I adding value aims to increase the value our business brings to stakeholders.

Direction 2007

As we draw a line under Direction 2007, we should pay tribute to the significant progress that's been made over the last four years. As a growth strategy, Direction 2007 has laid firm foundations for the future. It has put in place the building blocks for the next stage of development for NS&I, giving us a clear brand positioning, raising product range awareness and opening up new direct customer channels.

Direction 2007 has also shown that NS&I products can compete effectively in the marketplace. Over the last four years, we have held our market share steady in relative terms while the market has grown dramatically. And while we are extremely proud of the achievements of the Premium Bonds 50th anniversary campaign, it was not our intention to exceed our financial targets so emphatically last year. The success of the Premium Bonds 50th anniversary significantly exceeded our projections and, although we halted our marketing for the rest of the year, the momentum continued to drive sales up. Our remit is to raise an agreed amount of finance each year for HM Treasury, and the experience we have gained from recent campaigns should allow us to do this more accurately in the future. But our financial results do speak volumes about the strength and appeal of our brand and products. These lessons and insights will be vital as we move forward into a new strategic period.

NS&I adding value

With **NS&I adding value**, our aim is to build on the success of Direction 2007 to increase the value the business as a whole brings to stakeholders.

While Direction 2007 was all about developing our capabilities, **NS&I adding value** is about improving our value creation to bring added benefits to the taxpayer and the customer, diversifying the business and improving customer relationships.

Strategically, **NS&I adding value** evolved from the Landscape Review of 2005. The Landscape Review takes place every five years and establishes the basic framework for how HM Treasury wants NS&I to develop. In 2005, a number of key objectives emerged:

- maximise sustainable Value Add
- achieve Net Financing* of around £3 billion a year
- ensure good governance of the business
- comply with regulations and move towards voluntary compliance with relevant Financial Services Authority (FSA) standards.

These objectives were absorbed into our strategic thinking as we planned our next phase of development. At the centre of our plans was a desire to maintain the strong customer focus of Direction 2007, and to enhance all systems and procedures to ensure that we reflect these requirements.

* For the definition, see the Glossary.



Our Premium Bonds 50th anniversary campaign is launched at BBC Proms in the Park

NS&I has already voluntarily adopted the Banking Code and moved from having its own adjudicator to using the Financial Ombudsman Service to deal with customer complaints. Although NS&I is not directly regulated by the Financial Services Authority (FSA), we aim to comply voluntarily with the FSA regulations that are relevant to our business. We have made good progress and carried out an extensive gap analysis this year to enable us to develop a clear risk and compliance roadmap. We will publish progress against our implementation plan in subsequent annual reports and discuss this on an ongoing basis with the FSA.

The Landscape Review also influenced the new strategy's shift of focus away from Net Financing to Value Add. A summary of the Landscape Review is being made available on our website and HM Treasury's website. Value Add is the name given to the way NS&I measures how cost-effective it is at raising finance for Government. The total costs of raising funds, including our operating costs and tax foregone, is compared to how much it would cost Government to raise funds in the wholesale market.

Our role as an organisation is to raise financing for Government, and our aim for **NS&I adding value** is to deliver a consistent flow of funds, rather than an increasing flow of funds, to HM Treasury. Within this, there is considerable potential to increase Value Add over and above the Government's fixed-interest bond market, or 'Gilt market' as it's known. We have therefore decided to move away from a strategy of growth, and while our market share may fall as a result of this, we expect our Value Add to rise over the next five years. However, we still need to generate sales of around £11 billion a year to achieve this target, something that will be a significant challenge.

We have also done a lot recently to make NS&I more environmentally sustainable, and have developed a sustainable development policy to help measure our performance and manage our activities in this area. Our sustainable development policy is on page 32.

Overall themes

Over the next five years NS&I plans to deliver **sustainable** long-term value to stakeholders by **simplifying, modernising** and **diversifying** the business. All activities during **NS&I adding value** will be organised under these new overall themes, which are intended to drive the business forward and shape our strategic direction. Here's what these new themes mean to us:

Sustain

We aim to develop long-term customer relationships; deliver value for money and offer a clear, transparent product base that will engender customer loyalty for years to come. We will establish a robust operational infrastructure that is fit for the future and do this in a way that manages the impact we have on the environment and communities.

Simplify

This is about simplifying how customers save or invest with NS&I. We want to offer a clearer, simpler product range, and we want the process of buying and selling these products to be as straightforward as possible. It's all about clarity, transparency, ease of use and access. In an increasingly complex financial market, it's vital that NS&I stands out as a beacon of simplicity.

Modernise

Here we want to focus our efforts on enhancing high-quality, easy-to-use and integrated direct channels, such as the internet and telephone, offering customers choice as to how they do business with us. We also want to modernise the infrastructure of the business in order to maximise efficiency and, ultimately, value to the customer and taxpayer.

Diversify

This is all about diversifying our customer base, our product range and our channels. We want to ensure that NS&I is not dependent on one set of customers and that we can expand into new market areas. We also want customers to understand that we offer a strong product range, not just Premium Bonds, and that there are a number of channels by which they can save or invest with us.

These four themes will help to shape our business, making NS&I more streamlined and cost-effective. They will also help to ensure that customers remain at the heart of our operations, and that we can continue to meet the expectations of specific customer groups.

The new strategy will help to shape our business, making NS&I more streamlined and cost-effective.

However, we must remember that these expectations have been raised; customers and stakeholders are now demanding better value, better services and better products. Our new strategy has been designed to meet these demands, but we've set ourselves some tough targets and this next phase of development will hold many challenges for us all.

Looking forward, I am personally very excited about **NS&I adding value**. My team is in place. We have delivered the end of Direction 2007 and, working closely with Siemens, we are now focused on getting **NS&I adding value** off to a flying start.

Jane Platt

Jane Platt
Chief Executive

NS&I adding value

Over the next five years NS&I plans to deliver **sustainable** long-term value to stakeholders by **simplifying**, **modernising** and **diversifying** the business. All activities during **NS&I adding value** will be organised under these new overall themes, which are intended to drive the business forward and shape our strategic direction.



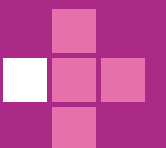
Simplify

verb: to make less complicated, clearer or easier...

Simplifying products, processes and infrastructure to drive down costs and improve efficiencies.

We want to offer a clearer, cleaner and crisper product range. A product range that is more streamlined and more straightforward, with gaps filled and overlaps eliminated. We also want to make the process of buying and selling these products as simple as possible.

NS&I is also committed to providing financial information that is transparent and easy to understand. In an increasingly complex market, we want to stand out as a beacon of simplicity.



Modernise

verb: to make modern in appearance or style;
to adopt modern ways, ideas...

Modernising systems and infrastructure to improve processes, support low-cost transactions and maintain service excellence.

We want to use technology to enhance high-quality, easy-to-use and integrated direct channels. With a more modern back-office, we can work in a cost-effective way without compromising the customer experience.

By modernising the way NS&I operates, we aim to maximise efficiency and value for the customer and taxpayer.



Sustain

verb: to withstand, to last...

Sustaining our business by developing long-term customer relationships; establishing a robust operational infrastructure that is fit for the future.

We want to put systems in place that will enable us to continue our business operations for many years to come. By delivering value for money and a clear, transparent product base, we aim to engender customer loyalty.

We will also follow sustainable business practice. This will help us to minimise our impacts on the environment and maximise ways of promoting quality, integrity and good governance.





Diversify

verb: to vary, to create different forms, to move into different areas of activity...

Diversifying our customer base, our product range and our channels to spread risk and open up new opportunities.

We want to ensure that NS&I is not dependent on one set of customers, and that we can expand into new market areas. And we want to offer a range of viable products, not just Premium Bonds.

By adopting a multi-channel approach, we can minimise business risk and give customers more options.



Our customers

In the last four years we have gone from being a traditional, product-focused organisation to a truly modern customer-centric business. While **NS&I adding value** promises major changes, retaining a strong customer focus is essential to our new phase of development.

Sustainable development

As part of our commitment to sustainable business practice, we are:

- reducing paper consumption by:
 - switching from paper-based transactions to direct channels
 - moving from paper warrants to BACS
 - encouraging customers to go online for financial information – for example, through the launch of a new website
- simplifying our product range to ensure transparency and clarity for our customers
- continuing to be straightforward and fair in all our dealings with our customers and stakeholders

Our sustainable development policy is on page 32.

Direction 2007 put customers at the heart of our business. In the last few years we have worked hard to understand our customers' behaviours and needs. We have also endeavoured to assess our own levels of customer focus and to further improve our complaints process. As a result, we have strengthened our commitment to customers and are now poised to move to a new level of customer relationship with **NS&I adding value**.

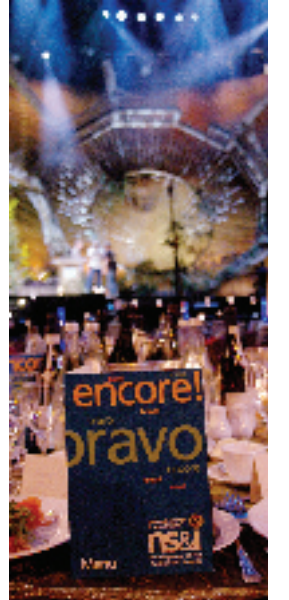
As confirmation of our commitment to customers, in October 2006 NS&I achieved Charter Mark re-accreditation. The Charter Mark is a prestigious public sector award which, in our case, was given in recognition of NS&I and Siemens' joint commitment to providing excellent service to customers. NS&I achieved 100% compliant status across all 63 categories of the Charter Mark – a rare achievement that puts the business in the top 10% of all public sector organisations.

Growth of new channels

In the last few years, thanks to our operational partnership with Siemens, we have made progress in rationalising our IT systems and creating a more efficient savings and investment platform. This has enabled rapid expansion into new direct channels and has led to significant service improvements. These achievements were recognised in November 2006, when NS&I won the award for Most Effective Delivery Channels Initiative at the IFS School of Finance Financial Innovation Awards.



Raising our public profile:
NS&I at the Ideal Home Show...



...sponsoring the Classical
BRIT Awards...

In particular, we now place greater emphasis on the internet and telephone, and are constantly looking to enhance and grow these key elements of our service. The internet and telephone are certainly two of our most popular channels for customers, with nearly 1.4 million online visits per month and 13,000 calls to NS&I every day. In 2006/07, the internet and telephone together accounted for 36% of NS&I's total sales value.

Since its relaunch in January 2005, the NS&I website has seen rapid growth, and sales continued to rise in 2006/07, going from £1.2 billion in 2005/06 to £2.4 billion at year end. Online sales now make up 19% of our total sales.

Growth in telephony has also been strong, with sales up from £1.68 billion in 2005/06 to £2.16 billion in 2006/07. In October 2006, at the peak of the Premium Bonds 50th anniversary campaign, our call centres took 491,000 calls, while Siemens now handles around 45 million NS&I transactions a year.

In the first 12 months of **NS&I adding value**, our main priority will be to further enhance our website capability. We will concentrate on improving our online offer from a customer perspective, and will seek to align our products to this tool. We will develop initiatives to improve financial understanding in the year ahead, providing wider independent financial information to our customers to help them feel more confident in the decisions that they make.

We also plan to explore a whole host of opportunities to make it easier and more enjoyable for customers to transact with NS&I. These measures will include:

- new distribution partners
- enhanced customer experience through the 'Just Ask' sales training programme
- tracking Independent Financial Adviser introductions
- email marketing
- online affiliate marketing

However, we will continue to offer face-to-face and postal access. The Post Office® remains our most significant distributor, and we liaise closely with their senior management. We also benefited from working with Tesco Personal Finance for a year. While the relationship worked well, it did not deliver all that had been hoped for in terms of sales or widening our customer base and, at the end of April 2007, the arrangement was ceased by mutual consent. However, we will use the important insights we gained from this distribution agreement when looking at any future arrangements.

So, in the process of modernisation, we have been careful to retain our human touch – resisting moves towards electronic telephone menus and offering consistent, high-quality customer service and, most importantly, choice.

In October 2006, sales of Premium Bonds reached an all-time high of £2.2 billion.



...commemorating 50 years of Premium Bonds



...sponsoring BBC Proms in the Park

Summary of audited product figures:
(a) Transactions with investors

	2006/07 £m	2006/07 £m	Restated* 2005/06 £m	Restated* 2005/06 £m
Received from investors		14,165		11,976
Interest and prizes earned		2,877		2,544
		17,042		14,520
Paid to investors	-11,476		-9,656	
Tax deducted on interest	-6		-7	
		-11,482		-9,663
Increase/(Decrease) in liability to investors		5,560		4,857
Funds invested at the beginning of the year		73,341		68,484
Funds invested at the end of the year		78,901		73,341

(b) Transactions and funds invested by product

Product	Received from investors 2006/07 £m	Interest and prizes earned 2006/07 £m	Paid to investors including tax deducted at source 2006/07 £m	Invested at 31 March 2007 £m	Restated* Invested at 31 March 2006 £m
Premium Bonds	8,422	1,069	-5,347	35,249	31,105
Fixed rate products	2,595	1,030	-2,817	24,936	24,128
Variable rate products	3,148	769	-3,290	18,467	17,840
Products no longer on sale	0	9	-28	249	268
Total	14,165	2,877	-11,482	78,901	73,341

* 2005/06 results have been restated due to the introduction of new financial reporting standards in 2006/07. See our product accounts on www.nsandi.com

Customer feedback and satisfaction

Last year, through our Customer Satisfaction survey, we spoke to some 5,750 customers to find out what they think about NS&I's products and services:

- 86% of our customers are satisfied overall with our products, compared to a 75% rating for their main provider of savings and investments
- 91% of our customers feel that NS&I's customer service meets their needs

For 2006/07 we included new survey questions around ease and accessibility: 85% of customers think that the different ways of contacting or transacting with us 'always' meets their needs.

Throughout 2006/07 we also carried out a number of research projects with our customers, consulting them on NS&I developments to ensure that our work progressed in line with their preferences and opinions.

In addition we carried out our own internal customer focus assessment. This was put to employees to determine internal perceptions of the organisation, and to provide a baseline and benchmark report to highlight areas of strength and weakness. Results showed many areas of strength, which we are currently working to consolidate, and some areas for improvement, which we are turning into business improvement actions.

...and winning awards with our stand at the RHS Chelsea Flower Show



In 2006, NS&I achieved 100% compliant status across all 63 categories of the Charter Mark – a rare achievement that puts the business in the top 10% of all public sector organisations.

Financial Ombudsman Service progress to date

In 2005, NS&I joined the Financial Ombudsman Service (FOS) voluntary jurisdiction scheme, creating a complaints service for customers and bringing the organisation further into line with the UK retail financial services industry.

Under FOS jurisdiction, NS&I's complaints procedure has been streamlined to achieve clarity and transparency and to deliver greater simplicity for customers, who have access to the same dispute resolution process as other financial services providers. Customers are also given clear timelines within which complaints will be handled.

With an established dedicated complaints handling team in place, our progress within the scheme has been good. Over the last 18 months, only 27 complaints from more than 60 million transactions reached case level with the FOS, and all of these were adjudicated in our favour. These 'concurrence cases' have demonstrated that we are fair in our dealings with customers, and that we have successfully enhanced our public complaints procedure.

Media reporting and Quarterly Savings Survey

Our efforts to reach new customers and raise awareness of our work met with real success last year. This success was reflected by extensive media reporting on NS&I activities. NS&I ranked first again in Presswatch's savings table for 2006, beating key competitors such as Halifax, Nationwide and Abbey for quantity and quality of coverage on its savings products.

Positive NS&I media coverage increased by 10% in 2006, compared to 2005, and NS&I has now achieved five years of unbroken net positive media coverage.

Widespread coverage was also generated by the Quarterly Savings Survey (QSS). Launched by NS&I in December 2004, the QSS aims to monitor national and regional trends in people's savings habits. Used by the media to keep track of savings trends, the QSS also helps to establish NS&I as an independent, authoritative and trusted voice in the marketplace.

Raising our public profile

In 2006, Premium Bonds turned 50. To mark the occasion, NS&I launched a 50th anniversary campaign, with five £1 million prizes on offer in the December and June draws, taking the opportunity to raise the profile of this flagship product and the organisation generally. The campaign was launched at five BBC Proms in the Park events on 9 September, with NS&I-sponsored concerts in London, Belfast, Glasgow, Swansea and Manchester. These prestigious events thrust NS&I into the public spotlight and kicked off the celebrations in style.



Awareness raising: Sir Alan Sugar featuring in NS&I television advertisements



During the 50th anniversary campaign, a sustained programme of branding, marketing and communications helped to boost interest and sales across all channels. In October 2006, sales of Premium Bonds reached an all-time high of £2.2 billion. An integrated marketing campaign involving the Post Office® resulted in £869 million in Post Office® counter sales and 166,000 postal applications for Premium Bonds in October alone.

The accompanying television advertising campaign, fronted by Sir Alan Sugar, played a key role in helping to raise our public profile at this time. Building on the success of the advertisements run the previous year, Sir Alan backed the five £1 million anniversary jackpots and reaffirmed his commitment to Premium Bonds.

Overall the campaign was a huge success in raising the profile of NS&I, building relationships with new customers and strengthening our brand image and familiarity. Following the campaign, a survey found that, for the first time, a majority of people realised that Premium Bonds were owned by NS&I, not the Post Office®. An Ipsos Mori survey also indicated continuing growth of brand awareness for the second consecutive year, rising from 15% in May 2004 to 27% in July 2006.

As the campaign winds down, the challenge ahead will be to maintain this level of awareness. But the celebratory period has definitely reawakened public interest in Premium Bonds and NS&I.

Sponsorship events and partnerships

Sponsorship is an important part of our marketing programme. Through our presence at the RHS Chelsea Flower Show, BBC Proms in the Park, the Classic FM morning show and, for the third year running, the Classical BRIT Awards, last year we continued to raise our profile through sponsorship activities. These also included the Science Museum to whom NS&I donated ERNIE 3 – to join ERNIES 1 and 2 – for posterity.

Our sponsorships are closely aligned to, and help reinforce our brand values, and there is natural synergy between NS&I and our sponsorship partners. The customers we reach through our sponsorship events also represent an important part of our target customer segments.

We are still learning from our existing partnerships, and we plan to consolidate these relationships before growing any further in this area. But we are very pleased with progress to date and have some great sponsorship events planned for the year ahead.

Our range of products

NS&I's range of savings and investment products is designed to meet a wide variety of customer needs. All our products carry a unique promise of safety, security and integrity.

Premium Bonds

Two £1 million jackpots and more than a million other prizes a month

Instead of interest payments, customers have the chance to win tax-free prizes each month. There are two £1 million prizes and more than a million other prizes ranging from £50 to £100,000. Each £1 Bond has a separate and equal chance of winning a prize and customers can get their money back whenever they choose. Customers can invest up to £30,000 – the more Premium Bonds they have, the more chances they have to win.

Inflation-Beating Savings

Guaranteed to outgrow inflation, tax-free

With Inflation-Beating Savings (also known as Index-linked Savings Certificates), customers' savings will rise ahead of inflation – providing they hold them for the full term of the investment. The value of Inflation-Beating Savings moves in line with the Retail Prices Index (RPI) and they earn extra interest at guaranteed rates. Customers have a choice of terms, currently three or five years. There's no tax to pay on the interest, and no need to declare anything on a tax return. Customers can invest up to £15,000 in each term and each issue.

Fixed Interest Savings Certificates

Guaranteed returns, tax-free

Customers can hold Fixed Interest as well as Index-linked Savings Certificates, on top of any other tax-free savings they hold. The key difference with Fixed Interest Savings Certificates is that the interest they will earn is fixed at the outset, so customers can work out exactly what return they'll get at the end of their chosen term. Customers can invest up to £15,000 in each term and each issue. There are two terms currently on sale of two and five years.

Direct ISA

Our phone and internet-only ISA with our highest tax-free rate

Like our cash mini ISA, our Direct ISA offers customers tax-free returns and a straightforward, secure way of saving up to £3,000 each tax year. It combines the convenience of managing their account online and by phone, along with a very competitive tax-free interest rate – guaranteed to stay 0.55% above the base rate until at least April 2008.

Cash mini ISA

Tax-free saving the easy way

Customers can save up to £3,000 in our cash mini ISA each tax year without paying any tax on the interest. To open an account, customers need to deposit a minimum of £10 – they can then go on to make further deposits of £10 or more. They can manage their account at any Post Office® branch, by post or by phone, and they can access their money at any time, with no notice or penalty.

Guaranteed Equity Bond

FTSE 100 index growth potential with a 100% capital guarantee

This investment offers potential returns linked to the growth of the FTSE 100 over a set term, with no risk to a customer's investment even if the stock market falls. The exact share of the FTSE 100 growth on offer differs from one issue to the next – and each issue is only available for a limited period. Customers can register to receive details of the latest offer as soon as it becomes available. Although the returns on the investment are taxable, they are paid gross.

As we move into **NS&I adding value**, we will be looking to streamline and rationalise our product portfolio. We're aware that there are a few existing gaps and overlaps, and as we move forward we will be addressing these issues to make our product offering as crisp and clean as possible.

Children's Bonus Bonds

A tax-free lump sum to give a child a head start in life
Children's Bonus Bonds are an easy way to build up a useful lump sum for a child in their own name. They earn interest at a fixed, guaranteed rate for five years at a time, with a guaranteed bonus on every fifth anniversary. Bonds mature on the child's 21st birthday, when a final bonus is paid.

Capital Bonds

Fixed rates that rise every year over five years

Capital Bonds earn fixed interest at rates that rise each year for five years – so customers can know at the outset exactly how much their investment will be worth at the end of the term. They are available in series, each of which has its own guaranteed rate of return, and customers can invest any amount from £100 up to £1 million. Although the interest is taxable each year, it is added to the Bond gross.

Pensioners Guaranteed Income Bonds

Guaranteed monthly income for those aged 60 or over

Designed especially for those aged 60 or over, Pensioners Guaranteed Income Bonds give customers the reassurance of knowing exactly how much income they'll get from their investment. Customers have a choice of fixed rate terms – currently one, two or five years. Although the interest is taxable, it is paid gross.

Fixed Rate Savings Bonds

Guaranteed returns, flexible terms

Our Fixed Rate Savings Bonds earn interest at guaranteed rates, with a choice of reinvesting the interest for growth or having it paid out as an income. Customers also have a choice of terms – currently one, three or five years. Interest is paid net of basic income tax.

Income Bonds

A regular monthly income at attractive variable rates
Income Bonds are for those customers who want to earn a regular income from their investment without being tied to a fixed term. Each month, we pay the interest into an account of the customer's choice and, if they invest £25,000 or more, we'll pay a higher rate of interest. Customers can also access their money whenever they like, with no notice or penalty. Although the interest is taxable, it is paid gross.

Easy Access Savings Account

The easy way to build up savings

Our Easy Access Savings Account comes with a cash card that can be used to pay in and withdraw money quickly and easily. Customers have access to our telephone service to check their balance, make deposits, withdraw money and make enquiries seven days a week. Interest rates are tiered, so the more a customer saves, the higher the rate. Although the interest is taxable, it is paid gross.

Investment Account

Straightforward passbook savings account

With tiered interest rates and a passbook to help customers keep track of their money, it's easy to build up savings in an Investment Account. Customers can access their account at any time – without any notice period or penalty – making it easier to save and access their money. Although the interest is taxable, it is paid gross.



Our people

During Direction 2007 we concentrated on offering a highly attractive employee proposition. As part of **NS&I adding value**, we are offering our employees what they asked for in the form of a new organisational design: empowerment, transparency, recognition and fairness.

The first half of last year was about engaging our people. In a period of transition, with Direction 2007 drawing to a close and leadership changes being made, we wanted to ensure that our people were focused and that their voices were being heard. We also wanted to retain and develop the skills we needed to drive the business forward.

Another round of APPLAUSE

With this in mind we continued to apply our organisational framework, APPLAUSE. A three-year cultural change programme, APPLAUSE aimed to deliver excellence by harnessing internal commitment and engagement. The programme, which concentrated on performance management and transparency, and which makes better use of internal feedback, has underpinned the recent success of Direction 2007.

Through our various APPLAUSE initiatives in 2006/07, we focused on addressing key people issues and becoming an employer of choice. These included our management development programmes, lead and lead on, run with the support of Ashridge Management College, setting up a new workforce diversity framework and establishing a team of diversity champions. We are currently embedding our 'valuing difference' policy into working practices, and have achieved a good ethnicity and gender mix across the organisation. In terms of benefits, we introduced subsidised gym membership and annual health checks. We also extended our flexible working policy and continued to offer childcare vouchers, free flu jabs and eye-care to all our employees.

Internal progress, external recognition

To improve our employee brand, a key objective for last year was to achieve external accreditation for our internal people practices. In November 2006 we received the HR, Learning and Development Award at the Whitehall and Westminster World Civil Service Awards, which generated a valuable amount of exposure and publicity. We also reached the top three in the Institute of Financial Services HR awards, and achieved single star status in the Sunday Times Best 100 Companies. Based on survey results from every employee at NS&I, this last award reflects good internal perception of the organisation, confirming that NS&I is seen to be a great place to work.

Together, these awards were recognition of the fact that, just as the business has been shifting its priorities from products and operations to a more customer-orientated culture, our internal change programme has been all about focusing on people. It was also very pleasing that our activities received endorsements from three distinct stakeholder groups: our own people, the civil service, and the financial services sector.

Pulse Survey

Our people strategy is all about attracting and retaining the skills we need to run our business. Internal engagement on business issues is therefore vitally important, and is measured frequently in our annual and quarterly Pulse Surveys.

In addition to our single star status in the Best 100 Companies awards, last year's annual Pulse Survey also gave us cause for celebration on the people front. Under the category 'Things we do well', results were as follows:



NS&I people power at the Chase Corporate Challenge



Senior management field questions at LiveLink



Most significantly, the survey also showed that 92% of NS&I staff have confidence in our organisational leadership. This is the highest score we've ever had in this area – which, in a time of leadership change, is a tremendous achievement. Overall the results were reassuring, reflecting our success in creating a good working environment and an attractive employee proposition.

Sustainable development

As part of our commitment to sustainable business practice, we are:

- giving staff an additional two days' leave for voluntary activities
- re-launching our Social Committee to oversee corporate support for community projects
- increasing our fundraising efforts for the children's charity, Kidscape
- increasing the use of teleconferencing and developing our intranet, e-zine and email as communication tools
- encouraging employee engagement with our sustainable development commitments
- promoting diversity and equality

Our sustainable development policy is on page 32.

Last year NS&I won the HR, Learning and Development Award at the Whitehall and Westminster World Civil Service Awards. We also reached the top three of the Institute of Financial Services HR awards, and achieved star status in the Sunday Times Best 100 Companies awards.



The NS&I employee offer



Changing shape and structure

In the second half of last year, we concentrated on preparing for the future. From September 2006, with the arrival of Jane Platt as Chief Executive, we began to work on our new five-year strategy, **NS&I adding value**. Central to our plans was a major restructuring of the organisation.

Our approach was two-fold. We needed to develop an organisational design that would best support the new strategy, particularly given its strong customer focus, and that would build in enhanced capabilities, such as risk and compliance. But we also wanted to ensure that the reshaping of NS&I reflected the wishes and ambitions of our people. So, through a series of workshops, seminars and surveys, we engaged our employees to find out what they wanted. This robust collaborative process indicated that, in the restructuring of the organisation, NS&I employees were looking for empowerment, transparency, recognition and fairness above all else.

Our new organisational structure



This structure drives accountability, focus and knowledge sharing, so that everyone at NS&I can understand customer needs and work together to respond to them.

Customer offer

The customer offer unit is dedicated to understanding our customers and their needs, so that they can develop and manage our products and the customer experience. The customer complaints team sits within this unit, so that they can give feedback directly – ensuring we continually improve our products to meet our customers’ evolving requirements.

Customer sales and retention

This unit handles all of our sales and marketing activity, and manages our media relations. As well as selling directly via the internet, phone and post, we sell our products through distributors like the Post Office – this unit manages these relationships too. It is also responsible for meeting our Net Financing, sales and retention targets.

Channel delivery and management

Whenever a customer contacts NS&I – via the internet, on the telephone or by post – they are handled by our partner Siemens. The channel delivery and management unit looks after this partnership. It also ensures that our customers receive the best possible level of service. Our Procurement, Estates Management and Business Continuity teams sit alongside this unit.

Finance and risk

As a financial services provider and a government department, we’re committed to best practice in compliance. This unit ensures we work with the business and our partners to embed risk and compliance in everything we do. It also offers financial management support and challenge to the rest of the business, from compiling monthly sales figures to managing our cost base and delivering our audited financial statements. The unit is also responsible for internal audit.

People and environment

The remit of this business unit is broad, but its ultimate role is to ensure that NS&I provides a positive working environment for everyone. It is responsible for training and development, organisational learning and facilities management. The unit also handles all internal and corporate communications.

Change and strategy support

This is the strategic thinking hub of the business, responsible for shaping the way **NS&I adding value** is implemented. It also looks after business effectiveness – which is measured using the corporate scorecard – and knowledge management, for example through the use of online facilities. Project management, responsible for the NS&I/Siemens joint change programme, also sits within this unit.

Sustainable development

We have done a lot recently to make NS&I more socially and environmentally responsible, and have developed a Sustainable Development policy to manage our activities and help measure our performance in this area. Here is our Sustainable Development policy and model in full:

Purpose

NS&I is committed to sustainable business practice. We seek to deliver long-term value to our stakeholders in a way that is both financially viable and socially and environmentally responsible.

Ownership

Responsibility for NS&I's sustainable development policy and procedures rests with our Chief Executive, Jane Platt, and the Executive Management Team. However, everyone at NS&I has a role to play in helping to meet our aims and objectives in this area.

Framework and commitments

Our sustainable development policy provides a framework for the measurement of our performance and the management of our activities. As a responsible organisation, our aim is to minimise our impact on the environment and maximise ways of promoting quality, integrity and good governance. We are committed to:

- complying with all relevant legislative and regulatory requirements and associated codes of practice
- supporting the government's sustainable development strategy, Securing the Future, by producing and implementing a Sustainable Development Action Plan (SDAP)
- supporting HM Treasury in its commitment to "raise the rate of sustainable growth, considering environmental protection"

Stakeholder focus and delivery

To help us achieve these goals, our sustainable development policy focuses on six key stakeholder groups: customers; employees; partners; suppliers; community; HM Treasury.

By concentrating on these groups, NS&I will be able to address the issues most pertinent to sustainable business practice. For example, we will:

- continue to be transparent, straightforward and fair in all our dealings with our customers
- encourage employee engagement with our sustainable development commitments, such as recycling and energy efficiency
- continue to promote diversity and equality in our recruitment policies
- ensure that all external partners and suppliers are aware of, and support, NS&I's environmental procedures and obligations
- continue to support community groups and projects

- meet HM Treasury requirements within the government's sustainable development framework. These requirements relate to nine separate themes, each of which includes a suite of targets and appropriate guidance:

- overarching commitments
- travel
- water
- waste
- energy
- procurement
- estate management
- biodiversity
- social

Assessment

Our commitments are supported by a programme of continual improvement and assessment, and our performance will be measured against targets over time. This policy, in addition to our SDAP, will be independently evaluated by Deloitte and will be reviewed on a regular basis. Deloitte's assessment of our performance will be published each year in our annual report from 2007/08 onwards.



We seek to deliver long-term value to our stakeholders in a way that is both financially viable and socially and environmentally responsible.

Our board



Changes to the board

Jane Platt joined as Chief Executive in September 2006. Trevor Bayley CBE, acting Chief Executive, retired in December. Mike Chilton joined from Standard Chartered as Finance and Risk Director, while Julian Hynd was promoted to Director of Change and Strategic Support, and Peter Cornish to Director of Customer Offer. They join Steve Owen, Sandra Postles, John Prout and Dave Ormrod on the Executive Management Team. On the Treasury side we welcomed Tamara Finkelstein, Director of Government Treasury Management and, with the retirement of Maria Stafford, who contributed so much to the development of the organisation, we have appointed Simon Ricketts as a new Non-executive Director.

There is a real emphasis on talent management and career development at NS&I, with opportunities for people to move upward within the business. For this reason, we're delighted to see two senior managers stepping up into executive roles, and six employees move into more senior positions.

1 Paul Spencer

Non-executive Director and Chairman of the Board

Paul joined the NS&I board as Non-executive Director in September 2003 before becoming Chairman in January 2005. He is currently Non-executive Director at WPP Group plc, Resolution Group plc, and Nipponkoa Insurance (Europe) Ltd; and Non-executive Chairman of the State Street Managed Pension Funds and Sovereign Reversions plc. He was Chief Executive of Royal and Sun Alliance (UK) between 1998 and 2002.

2 Jane Platt

Chief Executive Officer

Jane was appointed Chief Executive Officer of NS&I in September 2006. Previously holding senior management roles at Reuters and, before that, as Chairman and Chief Executive of Barclays Stockbrokers, Jane brings a wealth of leadership experience to NS&I. In particular, her expertise in retail financial services, marketing and operations brings a new dimension to the organisation.

3 Michael Medlicott

Non-executive Director

Michael was appointed Non-executive Director in September 2003. He has 20 years' experience in the public and private sectors at board level. Michael is currently Non-executive Director for Manchester Airport Group plc, the Heritage of London Trust Ltd, John Laing plc and Laing Rail Ltd. Until 2002, Michael was Transaction Director in the Principal Finance Group at Nomura International plc.

4 Martin Gray

Non-executive Director

Martin was appointed Non-executive Director in January 2005. He is also Non-executive Chairman of Evolution Securities and Non-executive Director of Miller Insurance Group. He was Chief Executive of NatWest UK between 1992 and 1999, and has held a number of board-level appointments within the financial services industry including NatWest Bank Group, MasterCard Inc Global Board, and Visa Europe.

5 Peter Cornish

Director, Customer Offer

Peter joined NS&I in December 1998 to manage and develop the savings accounts and tax-free products, having held a number of roles at Lloyds TSB. He subsequently took responsibility for customer management before becoming acting Marketing Director in 2006. As Director of Customer Offer he is responsible for developing and managing our products and the customer offer.

6 Sandra Postles

Director, People and Environment

Sandra was appointed as Human Resources Director in July 2003. She works to align the HR strategy with the organisation's overall business strategy and, with the restructure, her role includes employee environment and corporate communications. Previously Sandra held senior HR roles in the retail and financial services sectors, including Personnel Director for a major UK accountancy practice, before moving into management consultancy in 1998.

7 John Prout

Director, Customer Sales and Retention

John took up the role of Sales Director at NS&I in August 2003. Following the restructure he is now responsible for Net Financing and delivering the customer offer message. He has HR and sales senior management experience in the financial services and manufacturing sectors. Previous companies include Rover Group and the Parker Hannifin Corporation, and more recently, Prudential plc where he held a number of senior positions.

8 Steve Owen

Director, Channel Delivery and Management

Steve is responsible for the design and delivery of the outsourcing business model and for managing NS&I's key partnership with Siemens. Steve joined NS&I in 1993 as Deputy Head of Procurement. In 1997 he became the NS&I Project Manager responsible for delivery of the Public-Private Partnership project. He was appointed Director in February 2002.

9 Julian Hynd

Director, Change and Strategic Support

Julian joined NS&I in 2002 and was appointed Change and Strategy Support Director in April 2007, prior to which he was responsible for Corporate Development and Delivery. In his new role, Julian is responsible for the development and delivery of the business strategy. Previously Julian held senior roles in the engineering, retail and financial service sector, latterly at Siemens Southern Africa.

10 Tamara Finkelstein

Director, Government Treasury Management, HM Treasury

Tamara Finkelstein is the Director of Government Treasury Management at HM Treasury, where she looks after cash, debt and reserves management.

She has been at the Treasury since the early 1990s and her previous roles have included Director of Operations, Head of Strategy & Change, and Private Secretary & Speechwriter to the Chancellor (1997-1999). She also spent three years on secondment as Deputy Director of Sure Start, the Government's early years and childcare programme.

11 Mike Chilton

Director, Finance and Risk

Mike joined NS&I as Finance Director in January 2007. Trained as a chartered accountant, Mike has over 20 years' commercial experience – most recently at Standard Chartered PLC where he played an integral role in balancing finance and operational risk. At NS&I, Mike will be bringing finance closer to our business objectives, while keeping a close eye on risk and compliance issues.

12 Simon Ricketts (not pictured)

Non-executive Director

Simon Ricketts was appointed non-executive Director in July 2007. Since 2003 he has been the Chief Information Officer for Scottish and Newcastle PLC. He is also the senior Non-executive Director of the Strategic Thought Group PLC. Prior to this he spent 13 years with Cadbury Schweppes PLC in various roles, including Operations Director of the Trebor Bassett Group, Managing Director of ITNET Ltd, and Group Chief Information Officer.

13 Lowri Khan and Sarah Tebbutt (not pictured) Joint Heads of Debt and Reserves Management Team, HM Treasury

Sarah Tebbutt and Lowri Khan job-share as Joint Heads of the Debt and Reserves Management Team, HM Treasury. In the Treasury, Lowri has worked in various posts including, most recently, leading the Myners Review of the Governance of Life Mutuals. Sarah has worked in the Treasury, the Cabinet Office and at the UK representation in Brussels.

Our partners

At NS&I we work with our partners to achieve mutually beneficial results. Together we facilitate innovative processes and services, aiming to deliver first class service and value to our customers. As we move into **NS&I adding value**, we've focused on aligning partnership strategies and goals to ensure that our working relationships remain successful and strong.

The outsourcing of our operations to Siemens is a key feature of NS&I. Maintaining good relationships with distributors and partners is therefore essential to the success of our business.

Throughout Direction 2007 we made real progress in strengthening our partnership with Siemens. We negotiated changes that better aligned the two businesses and ensured that business aims, when delivered, brought financial benefit to both parties. This partnership is based on day-to-day service excellence and long-term improvement – enabling both parties to achieve their business objectives while providing cost-effective financing to Government.

The importance of this partnership has been reflected in the creation, in 2004, of a Siemens representative position within the NS&I Executive Management Team (EMT). Now occupied by Siemens Account Director Dave Ormrod, this role ensures that Siemens is part of the decision-making process at NS&I, and that there is a constant flow of up-to-date information between the two organisations. This has also enabled us to align our strategies and goals and move forward together, bringing real depth and understanding to the partnership. Indeed, during the planning of **NS&I adding value**, Siemens was able to have a key strategic input, helping to identify any technical issues or capacity problems that might arise in the next phase of development.

The value of our partnership with Siemens was demonstrated quite emphatically in 2006/07. During the first phase of the Premium Bonds 50th anniversary campaign, Siemens coped extremely well with unprecedented sales and call volumes. With the campaign generating a considerable customer response – at some points triggering call volumes 100% greater than forecast – Siemens showed its underlying operational strength, maintaining stability in a period of frenzied activity. Extra people were also recruited and systems were tested for resilience. The lessons learned in the October five times £1m Premium Bonds campaign were carried forward into the second campaign in April 2007.

The new partnership era

Our partnership with Siemens is unique, and we were delighted that during Direction 2007 we extended our contract, first established in 1999 to cover all of operations, for another five years. This means that our working relationship is set to run until 2014. Having strengthened the alignment between NS&I and Siemens, **NS&I adding value** has provided a joint plan that will enable us to achieve more for the benefit of both organisations, maximising resources and assisting both NS&I's and Siemens' business goals between now and the end of the contract.

Looking forward, we need to put in place an infrastructure that supports low-cost transactions and new, modern ways of doing business, while improving processes and maintaining a quality customer service. And our partnership with Siemens will be crucial to achieving these aims and objectives.



A member of the Siemens call centre team based in Glasgow

A key focus of **NS&I adding value** is to simplify and further modernise the business to drive down operational costs. The move from paper transactions to use of e-channels and telephony is a key part of this, and technology will play an important role in the integration and automation of processes. In the year ahead, NS&I will work closely with Siemens to enhance and develop our internet offer, and will seek every opportunity to make doing business with NS&I a simpler and even better experience for our customers.

Maintaining the required pace of change while delivering a continuing high level of customer service in our daily operations is a huge challenge for Siemens, but we believe that we have the strength within the partnership and the systems in place to meet the challenge head-on.

Sustainable development

As part of our commitment to sustainable business practice, we are:

- reducing the carbon emissions associated with our business operations by:
 - reducing travel through the use of teleconferencing and videoconferencing
 - sourcing more energy-efficient PC systems for our London-based headquarters
- ensuring our external partners and suppliers are aware of, and support, NS&I's environmental procedures and obligations
- working on our estates strategy to make more efficient use of our sites

Our sustainable development policy is on page 32.

At some points, the Premium Bonds 50th anniversary campaign triggered call volumes 100% greater than forecast, but Siemens coped well, maintaining stability in this period of frenzied activity.

NS&I won three awards at the IFS School of Finance Financial Innovation Awards: The Most Effective Delivery Channels Initiative; Most Effective Sourcing Strategy; and The Best Marketing Initiative.

Shared vision, Single Customer View

Last year also saw the delivery of the Single Customer View (SCV) project. SCV will enable NS&I to better understand its customer base of more than 26 million customers by pooling customer information across products. This will enable us to see when customers have invested in more than one product and will improve customer profiles and data for call centre staff. The project enables us to offer a more complete and tailored customer service which will better meet customer needs.

Working with the Post Office®

In the fourth year of Direction 2007, our distribution partnership with the Post Office® continued to play a vital role in our business activities, generating more than 56% of our sales. The Post Office® was certainly integral to the success of the Premium Bonds 50th anniversary campaign, and to the early attainment of our five-year financial targets. At its peak, an integrated campaign involving the Post Office® resulted in £869 million in Post Office® counter sales and 166,000 Premium Bonds postal applications in one month alone. And overall, £4.43 billion worth of sales came through Post Office® counters in 2006/07 contributing to an overall total of more than £7 billion for Post Office® sales of NS&I products.

Moving forward, the Post Office® will continue to be our primary high street presence, and we look forward to working with them to maintain their position as the preferred route for many of our customers when dealing with NS&I.

External recognition

Last year, in recognition of its partnership work, NS&I won three awards at the IFS School of Finance Financial Innovation Awards. All three awards – The Most Effective Delivery Channels Initiative, Most Effective Sourcing Strategy and The Best Marketing Initiative – pay tribute to the success of NS&I's modernisation and innovation in driving growth.

NS&I also won the Financial Services Forum's Advertising Award, in addition to the judges' Special Award for Marketing. Tim Mack, NS&I's Head of Marketing and Communications, was also named Marketeer of the Year – a tremendous achievement and very much deserved.



Some of the NS&I team with three awards at the Financial Services Forum

HM Treasury

When customers invest in NS&I products, they are lending to the Government. In return the Government pays interest, stock market-linked returns or prizes for Premium Bonds. HM Treasury uses the money invested in NS&I to manage the national debt cost-effectively, which contributes to the Government's financing needs.

How we add value

As well as giving customers value by offering competitive, 100% secure savings and investments, we also save taxpayers' money.

When the Government spends more than it receives in income, it borrows money to finance the difference. It does this in two ways:

- by selling Gilts (marketable Government bonds) and Treasury Bills – mostly to the wholesale market, including pension fund managers or investment companies – through the UK Debt Management Office
- by selling savings and investments products to the retail market, ie personal savers and investors, through NS&I

What is Value Add?

Any money borrowed by the Government is called the national debt. A sizeable part of the Government's annual expenditure goes towards paying interest on this debt. We help to keep this expense down by providing funds at a lower cost than financing the same amount through Gilts and Treasury Bills.

Value Add is the name given to the way NS&I measures how cost-effective it is at raising finance for Government. The total costs of raising funds, including our operating costs and tax foregone, is compared to how much it would cost Government to raise funds in the wholesale market. The difference, ie saving, is our Value Add.

To achieve sustainable Value Add, it's important that we give our customers a fair deal. As we operate in a highly competitive market, we need to offer products that suit our customers' needs based on security, benefits and returns – backed by excellent service.

Value Add performance

From 2006/07 NS&I will use lagged Value Add as the target measure of performance. However, historically we have used 'delagged' Value Add.

Delagged Value Add allows for timing differences between interest rate changes being announced and the rate coming into effect. Lagged Value Add excludes any allowance for these timing differences.

The lagged Value Add measure has gone from £285.3m in 2003/04 to £336.7m in 2006/07.

Adjusting rates of interest (tax foregone)

As NS&I's tax-free products deprive HM Treasury of tax revenue, NS&I adjusts the rates offered on its products to take account of this lost revenue. Within the calculation of our Value Add we take into account the 'tax foregone' to HM Treasury as a result of these tax-free products. However, this does not apply to our ISA products. This is because tax-free ISAs are available across the financial services market and their impact is calculated by HM Revenue and Customs.



How we set interest rates

As with any commercial operation, a reasonable return must be provided to both customers and owners. For NS&I, the owners are the Government. The return is assessed by comparing our overall cost of funds with two benchmarks:

- comparing the cost of our variable rate products with the Bank of England base rate
- comparing the cost of our fixed rate products with the yield on equivalent Gilts

We set our interest rates to meet Government's financing targets, adding value, while delivering consistently good value to our customers. We also consider the interest rates and terms and conditions offered on similar products by other providers in the market when making interest rate decisions.

When we set our interest rate, our policy is always to be consistent with our pricing principles, our brand values and the requirements of the Banking Code.

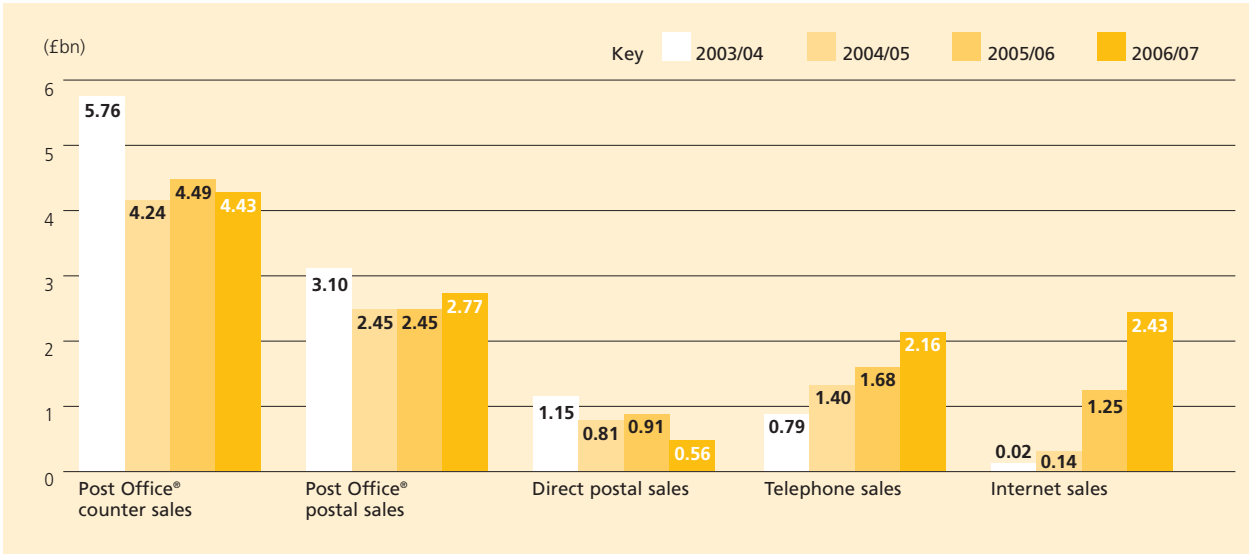
Landscape Review 2005

The Landscape Review takes place every five years and establishes the basic framework for NS&I's development as an organisation. In 2005 the Review was directed by a Steering Group consisting of officials from the Treasury and NS&I, together with an independent member. It was led by a project team within the Treasury's Debt and Reserves Management team, with NS&I support.

A summary of the Landscape Review can be found overleaf, and a fuller report will be made available on our website and the HM Treasury website.

Total invested by customers in NS&I at the end of the year	£78.901 billion
Net Financing (audited) for Government during the year	£5.560 billion
Value Add for the year after allowing for operating costs	£0.337 billion
Net operating costs of NS&I	£0.168 billion
Gross sales of all NS&I products	£14.165 billion
Telephone sales	*£2.156 billion
Sales generated via the internet	*£2.427 billion
Sales through Post Office® counters	*£4.430 billion
Sales by direct post	*£4.853 billion
• Direct postal sales	
• Post Office® lead generation	
NS&I Premium Bond sales	£8.440 billion
*these sales are part of the gross sales above	

Sales performance by channel



Key recommendations from the Landscape Review

- NS&I should retain as its sole purpose a remit to raise cost-effective debt finance. However, HM Treasury recognises that NS&I should allocate appropriate resources to meet broader sustainable development responsibilities in line with private sector practice in the financial services industry, drawing on partners where relevant
- NS&I should retain its ability to offer unique tax-free products
- HM Treasury expects NS&I to comply fully with FSA requirements where applicable and NS&I should extend compliance with FSA requirements on a voluntary basis
- HM Treasury should ensure that it is aware of the impact of NS&I on the wider retail financial savings market when setting financing targets. NS&I should ensure that it mitigates its impact through more transparent communication and reporting of overall aims and objectives, tax forgone, all key future targets, and a public quarterly business update
- NS&I and HM Treasury should review issues of corporate governance, performance and risk management, both internally to NS&I and between NS&I and HM Treasury
- NS&I should amend the measurement of Value Add in consultation with HM Treasury in order to present as accurate a measurement as possible
- NS&I should develop a business case to evaluate adoption of the Tax Deduction Scheme for Interest
- NS&I should develop a revised corporate strategy to deliver the Government's debt finance objectives to 2010/2011

Setting the standard

As an Executive Agency of the Chancellor of the Exchequer, NS&I seeks to follow best practice within Government in a range of areas. Our modernisation programme is progressing ahead of plan, and our relationship with Siemens is widely recognised as one of the UK's most successful public/private partnerships.

Our overall objective for 2007/08

Our overall objective for 2007/2008 is to deliver at least £275 million of Value Add and to raise between £2.3 and £3.3 billion in Net Financing. We aim to successfully deploy **NS&I adding value** and the supporting organisational design, and to test new approaches to processes and customer interactions, supporting the move to standardise, simplify and modernise the business.

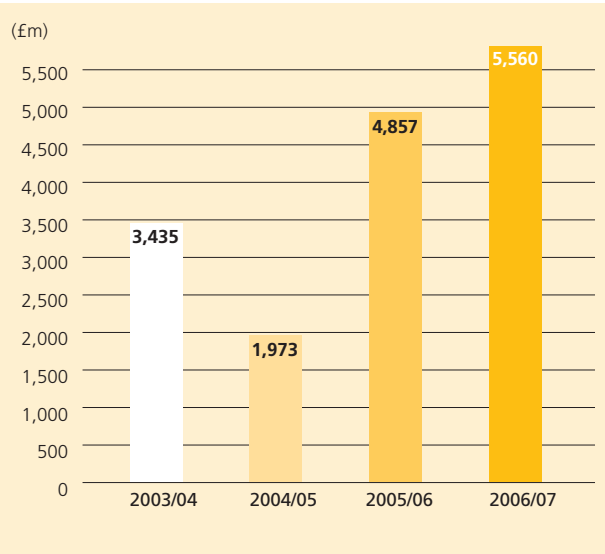
Total amount invested by customers at the end of the year (£bn)

2003/04	2004/05	2005/06	2006/07
66.531	68.520	73.341	78.901

Gross sales of all NS&I products (£bn)

2003/04	2004/05	2005/06	2006/07
12.725	11.062	11.976	14.165

Net Financing figures



How we plan to achieve this:


To achieve our objectives, the implementation of **NS&I adding value** has been split into three stages:

- **Phase One – ‘Optimise and Build’:** This phase covers years one and two of the five-year strategy. It will require the development and testing of the new capabilities required to deliver **NS&I adding value** especially the learning gained from our Direct ISA plus the lessons to be learned from any new products in future. During this time, we will need to analyse customer requirements, streamline our processes and standardise and modernise our product range.
- **Phase Two – ‘Improve and Leverage’:** This phase covers years three and four of the five-year strategy and sees continued cost reduction through improved operations and improved internet capabilities. At this time, we will move our marketing focus from our key products to cross-selling relevant offers to each customer segment, as well as promoting our new capabilities to our target customer base.
- **Phase Three – ‘Growth’:** This covers year five of the strategy. At this time, the major transformation will have taken place, although there will still be some capability developments. The focus of this phase will be on promoting our new product offers and services to our target customer base.

NS&I seeks to deliver long-term value to stakeholders in a way that is both financially viable and socially and environmentally responsible. We support HM Treasury in its commitment to ‘raising the rate of sustainable growth, considering environmental protection’.

Value Add figures (£m)

	2003/04	2004/05	2005/06	2006/07
Value Add (delagged) see definitions on page 40	260.4	253.7	268.6	309.7
Adjustment for timing & other differences	24.9	52.3	(8.7)	27
Value Add (lagged) see definitions on page 40	285.3	306.0	259.9	336.7



Our resource accounts, targets and further information

Resource accounts

Aiming even higher

The following tables show our performance against the targets published in our previous annual reports. Also included are our future goals, objectives, performance measures and targets.

How we are doing

As part of the 2004 Spending Review (SR2004), Service Delivery Measures (SDMs) were established as part of a new reporting mechanism between NS&I and HM Treasury. These measure the performance of NS&I in relation to its overall objectives. Targets are agreed for each of the performance measures with the Economic Secretary to the Treasury as part of our annual corporate planning process.

Service delivery measures (SDM) for 2006/07

SR 2004 SDM Goals	SR2004 SDM Objectives	2006/07 Targets	Performance
1. To achieve the financing remit and improve efficiency	To create at least an agreed amount of Value Add	At least £245 million	MET Lower interest rates, higher stock levels and low management costs saw NS&I exceed target. Value Add was £337million
	To raise an amount of Net Financing within an agreed range	£3 billion (+£0.9 billion to -£0.1 billion)	NOT MET (Exceeded) Favourable market conditions and strong retention. Net Financing was £5.56 billion
2. To maintain the current high levels of customer satisfaction	To exceed a threshold of customer satisfaction with NS&I	At least 88% customer satisfaction levels	NOT MET Due to Government procurement rules, we changed the supplier of our customer surveys. This affected results negatively. Analysis has shown that the percentage of dissatisfied customers remained constant but the proportion of neutral customers increased. The average for 2006/07 was 87.5%
3. To maintain the current high levels of customer service	To achieve consistent accuracy	At least 98.5%	MET Accuracy against key performance indicators was 99.4%. Timeliness against key performance indicators was 98.5%
	To achieve consistent timeliness	At least 97%	
4. To improve the effectiveness of fraud management	To minimise the proportion of fraud resulting loss	Less than 20%	MET The average for the year was 15.62%
5. Ratio of total NS&I administrative costs to average funds invested by customers	To invest in capability and continue to improve the efficiency of administering total funds	Less than 26 basis points	MET The ratio for the year was 21.4% basis points
6. To maintain Banking Code Compliance	To ensure compliance with the Banking Code	Self assessment of compliance checked by Banking Code Standards Board	MET NS&I remains compliant against the Banking Code

Targets 2004/05	Performance
Financing remit to achieve the financing remit and improve efficiency	Met
Effectiveness to improve the effectiveness of fraud management	Met and ongoing
Customer service to improve our accessibility for customers	Met
Effectiveness to maintain the current high levels of customer service satisfaction	Met and ongoing

Targets 2005/06	Performance
To achieve the financing remit and improve efficiency	Met
To maintain the current high levels of customer satisfaction	Met
To maintain the current high levels of customer service	Met
To improve the effectiveness of fraud management	Met
Ration of total NS&I administrative costs to average funds invested by customers	Met
To maintain Banking Code Compliance	Met

Service delivery measures (SDM) for 2007/08

SR2004 SDM Goals	SR2004 SDM Objectives	SR2004 SDM Performance measures	2007/08 Targets
To achieve the financing remit	To create at least an agreed amount of Value Add	Absolute amount of (lagged) Value Add from NS&I products	At least £275m
	To raise an amount of Net Financing within an agreed range	Absolute amount of Net Financing from all NS&I products	£2.8 billion (+£0.5 billion or -£0.5 billion)
To maintain the current high levels of customer satisfaction	To exceed a threshold level of customer satisfaction with NS&I	Average level of satisfaction against question, “How satisfied are you overall in terms of savings and investments with NS&I?”	At least 90%
To maintain the current high levels of customer service	To achieve consistent accuracy in meeting increasingly challenging targets	Average performance against Accuracy Key Performance Indicator targets	At least 98.5%
	To achieve consistent timeliness in meeting increasingly challenging targets	Average performance against Timeliness Key Performance Indicator targets	At least 97%
To improve the effectiveness of fraud management	To minimise the proportion of fraud resulting in actual loss	Ratio of net fraud losses after blame assessment to total fraud detected	Less than 18%
Ratio of total NS&I administrative costs to average funds invested by customers	To invest in capability and subsequently return the efficiency of administering total funds to the level achieved in 2002-03	Ratio of total NS&I administrative costs to average funds invested by customers	Less than 24.5 basis points
To maintain Banking Code and Financial Ombudsmad (FOS) compliance	To ensure compliance with the Banking Code	Self assessment of compliance checked by Banking Code Standard Board	Agreement by Banking Code Standards Board that NS&I remain compliant
	To ensure compliance with the FOS	Percentage of complaints not escalated to FOS	At least 98%

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 £79 billion of investors' money at the end of March 2007 (representing 15% of the National Debt) and annual cash-flows in excess of £20 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 rather than these Resource Accounts. HM Treasury is responsible for the operation of the NLF.

Aims

NS&I help 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

To be recognised as the UK's leading and most trusted savings and investment organisation.

Strategy

Direction 2007

NS&I developed a five-year strategy in 2002/03, aimed at growing the business through a greater emphasis on meeting the needs of the customers while still continuing to modernise the business and delivering cost-effective financing. This strategy was known as Direction 2007.

The overall strategic intent of the five-year strategy was to raise £15 billion in net financing and £1.3 billion of Value Add between 2003/04 and 2007/08.

During 2006/07 the five-year Net Financing figure was exceeded (£15.8 billion) and Value Add reached £1.12 billion. Although the overall Value Add target was not achieved at the end of the fourth year (2006/07), it was clear that the target would be exceeded in the following financial year.

The outturn for 2006/07 was £5.6 billion in Net Financing and £337 million Value Add.

The total stock of debt raised by NS&I had grown during this period in support of Government Net Financing requirements. This growth was possible due in particular to:

- The Public/Private Partnership (PPP) with Siemens (signed in 1999 and due to run until 2014) under which NS&I outsourced its operations. This has facilitated the modernisation of the business and improved customer service; and
- Market conditions favourable to NS&I's brand strengths.

NS&I adding value

By the end of 2006/07 NS&I had delivered all of the Net Financing and most of the Value Add targets under Direction 2007. HM Treasury therefore agreed to close the strategy a year early. A new five-year strategy, **NS&I adding value**, was launched on 1 April 2007. The new strategy will deliver sustainable long-term value to stakeholders by simplifying, modernising and diversifying the business.

The strategy will deliver:

- More than £1.6 billion of Value Add over five years
- Around £13 billion in Net Financing over five years and
- A substantially lower whole business unit cost positioning the business for continued successful delivery of Value Add in the future.

By:

- Building low cost channel capabilities that satisfy the long-term needs and expectations of the customer
- Revitalising the product range
- Shifting sales and fulfilment towards low-cost channels
- Maintaining a strong relationship with the Post Office as a distributor
- Delivering our compliance strategy, and developing a compliance culture
- Engaging and developing our people and capabilities so that we can attract and retain the best talents

The implementation of **NS&I adding value** is focused around six strategic themes, which will be used within the corporate balanced scorecard to monitor progress against deployment. The strategic themes that support the 2007/08 business objectives are:

- Customer Focus – deliver to target customers an experience that makes them feel valued and creates a high level of loyalty and advocacy
- Product Mix – create a distinctive and straightforward product range that reduces dependence on Premium Bonds
- Channel Optimisation – shift the balance from face-to-face and paper to internet and telephone in terms of sales, fulfilment and after sales service
- Low Cost Business – build a sustainable low-cost, integrated multi-channel business that satisfies the needs and expectations of our stakeholders;
- Skills and Capability – engage and develop our people to deliver the changing business needs
- Compliance – embed a compliance culture across the business in everything that we do.

The implementation of the strategy is to be tracked by metrics relating to both the sales and back-office operations that are embedded throughout the corporate balanced scorecard, reflecting the integrated management approach used within NS&I. NS&I uses the balanced scorecard methodology at a corporate and business unit level to ensure strategy is delivered to plan.

The new strategy is therefore a shift in emphasis from growth (under Direction 2007) to maximising Value Add within a defined Net Financing range. To support the new strategy, NS&I has reorganised into three separate customer business units (Customer Offer, Customer Sales and Retention and Channel Delivery) supported by three support units (Finance and Risk, People and Environment and Change and Strategy Support).

Net Financing and Value Add defined

Value Add (VA) is the principal measure of cost effectiveness of raising debt finance through NS&I at a lower cost than through wholesale borrowing such as gilts and Treasury bills. It is calculated by subtracting NS&I's total operating costs from the costs of comparable alternative sources of debt finance.

Market and competitive environment

NS&I competes for retail savings in the highly competitive cash-deposit market.

Market conditions have been relatively stable which has benefited NS&I. The 2007/08 plan assumes a continuation of this low but steady growth over the next 12 months although the downside risk increases as disposable income continues to decline.

2006/07 performance

NS&I met most Service Delivery Measures (SDMs) targets set by HM Treasury during 2006/07. SDMs were agreed with HM Treasury as part of the 2004 Spending Review and replaced the previous Service Delivery Agreement.

The NS&I SDMs are shown in the 'Aiming even higher' section on page 46.

2006/07 developments

In 2006/07 NS&I continued its operational change programme which is aimed at modernising the organisation and providing customers with greater choice in how they transact with us.

Additionally there was also a significant improvement in sales through the direct channels (internet and telephone) both in number of customers and also percentage of overall sales, consistent with our strategy for improving sales through lower-cost channels. These two channels now account for over 40% of new sales. This channel diversification has, however, been achieved without compromising either service levels to customers or impacting negatively on the other channels such as the Post Office (who remain the major channel for NS&I products).

Other key developments during 2006/07:

- NS&I maintained its television advertising campaign, raising customer awareness of the brand, increasing sales and retention as well as attracting a number of new customers
- Launch of the Premium Bonds 50th anniversary campaign which increased sales substantially. During October (closing date of the enhanced prize draw), internet sales for all products was over £500 million compared to monthly average of about £160 million
- A Direct ISA product was launched successfully on 6 April 2006 to coincide with the new tax season

Targets for 2007/08

NS&I's targets for 2007/08 are to raise £2.8 billion of Net Financing (within a range of +/- £500 million) and create at least £275 million Value Add.

NS&I's SDMs remain in place for 2007/08 and are shown in the 'Aiming even higher' section on page 47.

Landscape Review

During 2005 HM Treasury conducted a Landscape Review of NS&I and concluded that NS&I was fit for purpose and was delivering the targets it was set up to do. It also reconfirmed the single strategic objective of raising cost-effective financing for the next five years.

Expenditure

The NS&I Vote is approved by Parliament. For 2006/07 Parliament approved a resource budget of £179.294 million, a capital budget of £0.500 million and a net cash requirement of £176.747 million.

The resource outturn was £168.615 million, capital outturn £0.068 million and the net cash outturn was £157.603 million.

The difference between the resource budget and the resource outturn was £10.679 million. The following table shows the key differences between the Resource Budget and Outturn during 2006/07.

Difference between Resource Budget and Resource Outturn

Overspend/(Underspend)	Difference between estimate and outturn £ million
Increase in transaction costs due to higher volumes at Post Office	3.0
Higher volume costs payments to Siemens	3.0
Changes to project timings/costings	(3.1)
Advertising expenditure postponement due to early achievement of targets	(5.6)
Projects deferred to future years	(3.5)
Third party partner payments	(2.4)
Change in project specification	(1.3)
Cost of capital costs lower than estimate	(0.6)
Other	(0.2)
Total Underspend	(10.7)

The difference between capital budget and outturn was £0.432 million. Capital expenditure was lower than estimated.

The difference between the net cash requirement and the net cash outturn was £19.144 million. This was partly due to the savings and postponements discussed previously and also due to the increase in the level of creditors at the year end.

Matters covered in the Departmental Report

The NS&I Departmental Report contain NS&I's expenditure plans and the main estimates for 2007/08. The report provides details of NS&I's objectives and Service Delivery Agreement targets and its achievements and plans in respect of the modernising government agenda. It also provides details of NS&I recruitment practice, public appointments and senior civil service salaries. The report was published in May 2007 and is available on www.nsandi.com.

Ministerial responsibility

NS&I is an Executive Agency of the Chancellor of the Exchequer. The Government Minister with portfolio for NS&I is the Economic Secretary to the Treasury (EST). The position was held by Ivan Lewis MP to May 2006. From May 2006 to July 2007 this position was held by Ed Balls MP. The EST from July 2007 is Kitty Ussher MP. Details of the ministers' salary and pension entitlements are shown in the Treasury's 2006/07 Resource Accounts.

Code of Good Practice for Corporate Governance in Central Government

The NS&I Board reviewed its composition and practices against the Code of Good Practice for Corporate Governance in 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 is in the appointment of a Senior Independent Director. The Board has identified the Treasury as NS&I's main stakeholder and feels that HM Treasury representation on the Board together with agreement that the Non-Executives will meet the responsible minister annually means that there is no need for a separate Independent Director other than the Chairman.

The Board comprises the Chief Executive, 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-executives are fully independent. The HM Treasury members, representing as they do 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 they see this as conflicting with their 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 the Treasury, and in support of the Chief Executive in the achievement of the Agency's objectives, the Board sets the NS&I overall culture and ethics. It assists in developing NS&I's vision, strategy and corporate policies for the NS&I business. It also approves the annual plans and ensures consistency with the five-year strategic plan.

Post Balance Sheet Event

There were no post balance sheet events.

Executive Members of the Board who served during the year

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

Trevor Bayley (Finance Director), appointed in June 2001. Appointed Acting Chief Executive on Alan Cook's departure (February 2006) until Jane Platt's appointment. Retired December 2006.

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

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

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

Sandra Postles (People and Environment Director), appointed in July 2003.

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

Representatives of HM Treasury:

Tamara Finkelstein (Head of Government Treasury Management).

Lowri Khan (Debt and Reserves Management Team Co-Leader).

Sarah Tebbutt (Debt and Reserves Management Team Co-Leader).

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.

Non-executive Members of the Board

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

Michael Medicott, joined September 2003 as Non-executive Director, appointed Chairman of the Audit Committee January 2005. He has accepted a contract extension to September 2009.

Martin Gray, appointed 1 January 2005 for a three year term.

Maria Stafford appointed 1 January 2002. Reappointed 1 January 2005 for three years but resigned in February 2007. Simon Ricketts has been appointed as her replacement.

Audit Committee

The main responsibility of the Audit Committee is to advise the Accounting Officer and 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 adequacy of the risk mitigation policies for residual red top risks, on which it reports bi-annually to the Board
- Assurances relating to the system of internal control both within NS&I and Siemens (including internal audit arrangements within NS&I and the NS&I account within Siemens)

The Audit Committee of NS&I meets quarterly. Membership of the Audit Committee during 2006/07 comprised Michael Medicott (Chair), Martin Gray, a member of HM Treasury’s Debt and Reserves Management team, the Chief Executive and the Finance and Risk Director. The other Executive Directors have a standing invitation to attend as do the NS&I’s Head of Internal Audit, HM Treasury Exchequer Funds and Accounts, the National Audit Office (NAO) and PriceWaterhouseCoopers, who complete the audit of NS&I’s product accounts under contract to the NAO. Siemens also have a standing invitation for appropriate matters.

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 54 to 57.

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 (2005/06, £58,000). There was no auditor’s 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. Our current provider is Deloitte who were appointed following a competitive process.

Signed 3 July 2007

Jane Platt
Chief Executive
National Savings and Investments

Board Attendance

Name	Board (6 Meetings)		Audit Committee (4 meetings)		Appointments and Remuneration Committee (3 meetings)	
	Possible	Actual	Possible	Actual	Possible	Actual
Jane Platt	3	3	3	3	2	2
Trevor Bayley	5	5	3	3	1	1
Mike Chilton	1	1	1	1		
Peter Cornish	5	4				
Steve Owen	6	6				
Sandra Postles	6	5				
John Prout	6	6				
Paul Spencer	6	6			3	3
Martin Gray	6	5	4	4	1	1
Michael Medicott	6	6	4	4		
Maria Stafford	6	3			2	2
Tamara Finkelstein (HMT)	2	2				
David Howes (HMT)	2	2	3	3		
Lowri Khan (HMT)	4	4				
Sarah Tebbut (HMT)	2	2	1	1		

Remuneration report

Appointments and Remuneration Committee

The Appointments and Remuneration Committee comprises two Non-Executive Directors, Maria Stafford, (as Chair to 28 February 2007), and Paul Spencer, (temporary Chair from 28 February 2007). It also comprises two Executive Directors: the Chief Executive and the People and Environment Director, Sandra Postles. Support to the Committee is provided by Paul Farley (Group Head of Reward Lloyds TSB plc) in an independent advisory capacity.

The Committee's role is to determine NS&I's pay strategy for Senior Civil Service (SCS) members. This includes making final decisions 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 Committee also advises on the role and appointment of Executive NS&I Board members. It also assesses the relative contribution of NS&I's SCS in achieving corporate objectives.

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 with reference to the guidelines laid down by the Cabinet Office on the basis of the Senior Salaries Review Body Report (2006). Salaries are adjusted on the basis of performance.

Under the Chief Executive's contract, provided performance is satisfactory, their salary is adjusted by the Treasury, with reference to the annual increase in salary bands for 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 dependent on the achievement of targets set by the 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' in these Resource Accounts. The details of their payments are shown in Table C.

Salary and pension entitlements

The salary and pension entitlements of the most senior members of staff are shown opposite. There were no taxable benefits in kind paid. Bonuses for 2006/07 were accrued. Trevor Bayley (until his departure) was a member of the Civil Service Supplementary (Earnings Cap) Scheme.

The salary and bonus entitlements of the Executive Members of NS&I were as follows:

Table A

£000s	2006/07 Salary £000s	Bonus £000s	Total £000s	2005/06 Salary £000s	Bonus £000s	Total £000s
Alan Cook (1) Chief Executive	-	-	-	145-150	-	145-150
Jane Platt (2) Chief Executive	100-105	15-20	115-120	-	-	-
Trevor Bayley (3) Finance Director	110-115	15-20	125-130	125-130	15-20	145-150
Mike Chilton (4) Finance and Risk Director	25-30	0-5	25-30	-	-	-
Peter Cornish (5) Customer Offer Director	90-95	10-15	105-110	-	-	-
Karen Jones (6) Marketing Director	-	-	-	110-115	-	110-115
Steve Owen Channel Delivery Director	100-105	15-20	115-120	100-105	15-20	115-120
Sandra Postles People and Environment Director	85-90	10-15	100-105	80-85	10-15	95-100
John Prout Customer Sales and Retention Director	105-110	15-20	120-125	100-105	15-20	115-120

(1) Resigned 28 February 2006, (2) Appointed 30 September 2006, (3) Retired 31 December 2006, (4) Appointed 22 January 2007, (5) Appointed Acting/Marketing Director 1 April 2006. Appointment made permanent from 1 April 2007, (6) Resigned 31 March 2006

Pension benefits of the Executive Members of NS&I were as follows:

Table B

Name and Title	Real increase in pension at age 60	Real increase in pension related lump sum at age 60 at 31 March 2007	Total accrued pension at age 60 at 31 March 2007	Pension related lump sum at age 60 at 31 March 2007	Cash equivalent transfer value (CETV) at 31 March 2006	Cash equivalent transfer value (CETV) at 31 March 2007	Employee contributions and transfers-in	Real increase in CETV after adjustment for inflation and changes in market investment factors
	2006/07 £000s	£000s	£000s	£000s	£000s	£000s	£000s	2006/07 £000s
Jane Platt Chief Executive	0-2.5	-	0-5	-	2	16	0-2.5	12
Trevor Bayley Finance Director	0-2.5	2.5-5	5-10	20-25	132	161	0-2.5	19
Mike Chilton Finance and Risk Director	0-2.5	-	0-5	-	-	5	0-2.5	4
Peter Cornish Customer Offer Director	0-2.5	5-7.5	5-10	25-30	111	151	0-2.5	37
Steve Owen Channel Delivery Director	0-2.5	2.5-5	30-35	95-100	502	531	5-7.5	16
Sandra Postles People and Environment Director	0-2.5	2.5-5	5-10	15-20	77	102	0-2.5	21
John Prout Customer sales and Retention Director	2.5-5	-	5-10	-	118	167	15-20	29

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

The remuneration of Non-executive Directors in bands, is as follows:

Table C

Name	2006/07 £000s	2005/06 £000s
M Gray	10-15	10-15
M Medlicott	10-15	10-15
P Spencer (Chairman)	15-20	15-20
M Stafford	10-15	10-15

Salary

‘Salary’ includes gross salary; performance pay or bonuses; 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 (CSP) arrangements. From 1 October 2002, civil servants may be in one of three statutory based ‘final salary’ defined benefit schemes (classic, premium, and classic plus). The schemes are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, and classic plus are increased annually in line with changes in the Retail Prices Index. New entrants after 1 October 2002 may choose between membership of premium or joining a good quality ‘money purchase’ stakeholder arrangement with a significant employer contribution (partnership pension account).

Employee contributions are set at the rate of 1.5 per cent of pensionable earnings for classic and 3.5 per cent for premium and classic plus. Benefits in classic accrue at the rate of 1/80th of pensionable salary 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 (but members may give up (commute) some of their pension to provide a lump sum). Classic plus is essentially a variation of premium but with benefits in respect of service before 1 October 2002 calculated broadly as per classic.

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3 and 12.5 per cent (depending on the age of the member) into a stakeholder pension product chosen by the employee. The employee does not have to contribute but where they do make contributions the employer will match these up to a limit of 3 per cent of pensionable salary (in addition to the employer’s basic contribution). Employers also contribute a further 0.8 per cent of pensionable salary to cover the cost of centrally provided risk benefit cover (death in service and ill health retirement).

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

Cash Equivalent Transfer Values

Table B opposite 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 Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member’s accrued benefits and any contingent spouse’s pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The CETV figures, and from 2003/04 the other pension details, include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the CSP arrangements and for which the CS Vote has received a transfer payment commensurate to the additional pension liabilities being assumed. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme 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 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.

Signed 3 July 2007



Jane Platt
Chief Executive
National Savings and Investments

Sustainability report

Environmental policy

NS&I has done a lot to make the organisation more socially and environmentally responsible, and has developed a Sustainable Development policy to help measure its performance and manage its activities in this area. The Sustainable Development policy and model can be found in full on page 32.

Suppliers

Payment of suppliers, Policy and Performance

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

During 2006/07, NS&I paid 88.5 per cent (2005/06 85.5 per cent) of bills within this standard.

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 (IiP) standards, which encourages a 'learning culture' and strives for continuous improvement.

The Executive Management Team (EMT – comprising the Executive Directors and the Company Secretary) and Business Unit Leaders fully support the training and development of its staff through:

- Providing resources such as finance, equipment, time and opportunities to ensure that all employees have the right skills and 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; and

- 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 criteria or circumstances.

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 which is both safe and without risk to health.

NS&I will comply with current health and safety legislation, approved codes of practice, guidance documentation and British Standards, and will satisfy 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 our disabled staff. NS&I also provides any special equipment or assistance required by disabled staff to help them perform their job.

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 the Treasury. For 2006/07 the rates were between 17.1 and 25.5 per cent (2005/06 16.2 and 24.6 per cent) 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 the balance sheet.

Equal opportunities

NS&I is committed to equality of opportunity in all of its employment practices, policies and procedures. No employee or potential employee will therefore receive less favourable treatment due to their race, creed, colour, nationality, ethnic origin, age, language, religion, political or other opinion affiliation, gender, gender reassignment, sexual orientation, marital status, connections with a national minority, national or social origin, 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 Civil Service Commissioners guidelines. Appointments are made against robust criteria which are applied throughout the recruitment and assessment process.

NS&I's recruitment campaign files are independently audited annually through a reciprocal agreement with The Office of the Rail Regulator (a Civil Service Commissioners requirement). This includes comparing CV's to the selection criteria and reviewing diversity breakdowns to ensure it was fair and robustly applied. NS&I submit an annual audit return to the office of the Civil Service Commissioners which summarises campaigns, policy and processes. All activities may then be subject to a further audit review by the Civil Service Commissioners and campaign files are kept for 12 months to comply with this requirement. NS&I has a monitoring system in place to ensure that recruitment is carried out on a basis of fair and open competition and selection on merit in accordance with the guidelines laid down by the Civil Service Commissioners.

During 2006/07 there were a total of 20 permanent and fixed term appointments which are summarised in the table below. There were no permitted exceptions to the recruitment principle of fair and open competition.

	Non Executive Directors	Senior Civil Servants*	Range A	Range B	Range C	Range D
Male	0	1	4	2	1	0
Female	0	1	1	5	3	2
White	0	2	4	7	3	0
Non White	0	0	1	0	1	2
Disabled	0	0	0	0	0	0

* includes executive directors

Statement of Accounting Officer’s responsibilities

Under the Government Resources and Accounts Act 2000, NS&I is required to prepare Resource Accounts for each financial year, in conformity with an HM Treasury direction, detailing the resources acquired, held, or disposed of during the year and the use of resources by the department during the year.

The Resource Accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of NS&I, the net resource outturn, resources applied to objectives, recognised gains and losses, and cash flows for the financial year.

In preparing the accounts, the Accounting Officer is required to comply with the **Government Financial Reporting Manual (FReM)** prepared by HM Treasury, and in particular to:

- Observe the Accounts Direction issued by HM Treasury including 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 of NS&I as Accounting Officer of NS&I with responsibility for preparing NS&I’s accounts and for transmitting them to the Comptroller and Auditor General.

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 the Department’s assets, are set out in the Accounting Officers’ Memorandum issued by the HM Treasury and published in **Government Accounting**.

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, whilst safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting.

Although, 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 NS&I 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 Treasury Ministers.

The Minister, whilst 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. I and my senior staff 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.

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. It enables management to evaluate the likelihood of those risks being realised and the impact should they be realised; and to manage them efficiently, effectively and economically to an overall level acceptable to NS&I. The system of internal control has been in place in NS&I for the year ended 31 March 2007 and up to the date of approval of the accounts, and accords with Treasury guidance.

3 Capability to handle risk

The Board, Audit Committee and Executive Management Team (EMT) have primary responsibility for identifying and monitoring key risks that face NS&I. At each meeting the EMT considers whether there are any new risks to the business to be registered; and regularly discusses the key risks as part of its quarterly risk review, and the Board formally reviews the key risks at least annually to ensure 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 policy and agreed risk management reporting protocols which are approved annually by the Board.

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 the part 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 reciprocal Siemens representation at the NS&I EMT meetings and NS&I representation at Siemens NS&I Account senior management team meetings; 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.

In recognition of the strategic importance of Compliance, 2006/07 saw the establishment of two formal steering groups: The Compliance Steering Group and the Fraud Management Group, both of which include Siemens representation.

The risk management process is led by the Executive Management Team, comprising the Executive Directors and the Siemens Account Director responsible for the NS&I account, who are responsible for:

- Implementation of the risk management strategy
- Developing and overseeing the risk management policy
- Identifying and evaluating strategic risks
- Designing, operating and monitoring a suitable system of internal control.

4 The risk process

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 Business Unit Leaders or 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 Board reviews the key risks annually to ensure they remain valid and complete in the light of business plans for the coming year. For each key 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 organisation risk appetite as approved annually by the Board. Reviews of risks and their risk scores are performed regularly, and at least quarterly by executive directors, Business Unit Leaders, and the Executive Management Team.

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. Progress on the action is tracked and missed completion dates on residually red risks are reported monthly through to the Executive Management Team and bi-monthly to the Board via the Corporate Balanced Scorecard. Risks where exposure remains unacceptably high despite controls are flagged as red, are reviewed quarterly by Business Unit Leaders, the Executive Management Team and the Audit Committee, and bi-annually by the Board.

As part of the annual planning cycle, Business Unit Leaders are required to identify the significant risks which 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.

Our management of risk is embedded in policymaking, planning and delivery by Executive Directors and Business Unit Leaders who are responsible for ensuring the proper management of risks; and cascading implementation of the risk management strategy and policy within their directorates and teams respectively. Business Unit Leaders are responsible for implementation of self assessment processes. 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, Executive Management Team and the Board.

Business Unit Leaders provide written sign offs to the relevant Executive Directors that they are satisfied that all their sub-risks are either adequately controlled, or that plans are in place to provide that control. In addition, EMT members provide me with equivalent written sign offs for the key risks for which they have responsibility. Executive Directors also provide written 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.

These approaches continue to be refined to further embed risk management within NS&I's business, and during 2006/07 training was provided to all key risk and sub-risk owners in the use of new risk management software which came into use during the year. The new software and associated processes will provide greater ownership of risk and risk management processes.

During 2006/07, considerable progress continued to be made on enhancing our business continuity plans.

Compliance policies and procedures have been strengthened during 2006/07. This has led to:

- Further review of the evidence of identity policy to enhance anti-money laundering procedures including a risk based approach to anti-money laundering
- Strengthening the Compliance resources by recruiting more staff
- Formalising Compliance governance by the implementation of the Compliance Steering Group with membership from across the business including Siemens
- The appointment of a Compliance manager by Siemens
- Implementation of a financial promotions policy development group to provide a consistent approach across media channels
- Computer based training for awareness on Data Protection Act, Freedom of Information Act and Money Laundering in the operational areas
- Implementing a comprehensive compliance focused audit programme to give assurance to EMT
- Working closely on partnership programmes with Post Office including a review of outsourced arrangements and an extensive Post Office audit

Plans for 2007/08 include recruitment of increased central resources to further strengthen the risk management process, an enhanced overall risk framework and the establishment of more formal compliance reviews to complement the internal audit approach.

5 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 the Executive Directors and managers within the department and Siemens, who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports.

The Board satisfies itself on 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 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 Management Team conducts quarterly reviews of the risk register and reports on residually red risks to the Audit Committee, which in turn reviews residually red risks each quarter, and reviews annually the assurance on the overall system of internal control provided by the Head of Internal Audit, and advises the Board of its assessment of the internal control system.

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

The overall audit plan and 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 2007/08.

Signed 3 July 2007



Jane Platt
Chief Executive
National Savings and Investments

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 2007 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 Operating Costs by Departmental Aim and Objectives 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, certain information given in the Annual Report, which comprises the Ministerial Responsibility, Executive Members of the Board who served during the year, Non Executive Members of the Board, Audit Committee, and Appointments and Remuneration Committee sections, 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. 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

Audit Opinion

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 the Department's affairs as at 31 March 2007, and the net cash requirement, net resource outturn, net operating cost, operating costs applied to objectives, recognised gains and losses and cashflows 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 given within the Annual Report, which comprises the Ministerial Responsibility, Executive Members of the Board who served during the year, Non Executive Members of the Board, Audit Committee, and Appointments and Remuneration Committee sections, is consistent with the financial statements.

Audit 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.

Signed 6 July 2007



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

Statement of Parliamentary supply

Summary of Resource Outturn 2006/07 (£000s)

	Estimate			Outturn				Prior year outturn
	Gross Expenditure	A in A	Net Total	Gross Expenditure	A in A	Net Total	Net total Outturn compared with estimate: saving	
Request for resources 1 To provide retail funds for the Government that are cost-effective in relation to funds raised on the wholesale market	184,641	(5,347)	179,294	173,962	(5,347)	168,615	10,679	175,203

Net Cash Requirement 2006/07 (£000s)

	Note	Estimate	Outturn	2006/07 £000s Net total Outturn compared with estimate: saving	2005/06 £000s Prior Year Outturn
Net Cash requirement	3	176,747	157,603	19,144	170,270

Summary of income payable to the Consolidated Fund (£000s)

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

Forecast 2006/07				Outturn 2006/07	
Note	Income	Receipts		Income	Receipts
Operating Income and receipts – excess A in A	2(a),4,5	-	-	125	-
Other non-operating income and receipts not classified as A in A	4,6	-	-	152	152
Total	4			277	152

The actual receipts surrendered to the Consolidated Fund were £152,323.
Explanation of the variation between Estimate and Outturn are provided in the Management Commentary.
The notes on pages 70 to 82 form part of these accounts.

Operating cost statement

For the year ended 31 March 2007

	Notes	Staff Costs	Other Costs	2006/07 £000s Income	2005/06 £000s
Administration Costs					
Request for resources:					
Staff Costs	7	8,275			8,167
Other Administration Costs	8		165,687		172,248
Operating Income	9			(5,472)	(5,212)
Totals		8,275	166,687	(5,472)	175,203
Net Operating Costs				168,490	175,203

All income and expenditure are derived from continuing operations.

Statement of recognised gains and losses

For the year ended 31 March 2007

	Notes	2006/07 £000s	2005/06 £000s
Net gain on revaluation of tangible fixed assets	16	970	1,450
Total recognised gains for the financial year		970	1,450

The notes on pages 70 to 82 form part of these accounts.

Balance sheet
As at 31 March 2007

	Notes	£000s	31 March 2007 £000s	£000s	31 March 2006 £000s
Fixed assets					
Tangible fixed assets	10(a)	25,204		25,318	
Intangible fixed assets	10(b)	144		222	
Total fixed assets			25,348		25,540
Debtors falling due after more than one year	11(a)		1,539		3,079
Current assets					
Debtors	11(a)	4,452		1,742	
Cash at bank and in hand	12	189		7,403	
		4,641		9,145	
Current liabilities					
Creditors (falling due within one year)	13(a)	(26,356)		(23,161)	
Net current liabilities			(21,715)		(14,016)
Total assets less current liabilities			5,172		14,603
Provisions for liabilities and charges	14		(728)		(1,045)
Total assets less liabilities			4,444		13,558
Taxpayer's Equity:					
General Fund	15		(4,107)		5,977
Revaluation Reserve	16		8,551		7,581
			4,444		13,558

The notes on pages 70 to 82 form part of these accounts.

Signed 3 July 2007

Jane Platt

Jane Platt
Chief Executive
National Savings and Investments

Cashflow statement
For the year ended 31 March 2007

	Notes	2006/07 £000s	2005/06 £000s
Net cash outflow from operating activities	17(a)	(157,535)	(170,035)
Capital expenditure	17(b)	(68)	(235)
Receipts due to the Consolidated Fund which are outside the scope of the department's activities	4	277	208
Payments of amounts due to the Consolidated Fund		(7,680)	(2,665)
Financing	17(c)	155,503	175,973
Increase/(decrease) in cash in the period	17(d)	(9,503)	3,246

The notes on pages 70 to 82 form part of these accounts.

Statement of operating costs by departmental aim and objective for the year ended 31 March 2007

Aim: To help reduce the cost to the taxpayer of Government borrowing now and in the future.

NS&I's strategic objective is:

- To provide retail funds for the Government that are cost-effective in relation to funds raised on the wholesale market.

During 2006/07 NS&I incurred the following resource costs in pursuit of its objective:

	Gross £000s	2006/07 Income £000s	Net £000s	Gross £000s	2005/06 Income £000s	Net £000s
Resource Cost of Objective	173,962	(5,347)	168,615	180,415	(5,212)	175,203
Operating Income and receipts – excess A in A	-	(125)	(125)	-	-	-
Net Operating Cost	173,962	(5,472)	168,490	180,415	(5,212)	175,203

The notes on pages 70 to 82 form part of these accounts.

Notes to the accounts

1 Statement of accounting policies

These financial statements have been prepared in accordance with the 2006/07 *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 Cost by Departmental Aim and Objectives* and supporting notes analyse NS&I's income and expenditure by the objective agreed with the Minister.

Where the *FReM* permits a choice of accounting policy, the accounting policy which 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 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 Treasury guidance, an additional charge is made for backlog depreciation. This ensures that assets which are revalued 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 and design 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 and a discount receivable.

1.9 Administration expenditure

Administration costs reflect the costs of running NS&I. These include those administrative costs and associated operating income controlled under the administration cost-control regime (through the Departmental Expenditure Limits). 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 – 3.5% for 2006/07– on the average carrying amount of all assets less liabilities except for:

- Cash balances with the Office of the Paymaster General (OPG) where the charge is nil, and
- 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 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.

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. NS&I provides for this cost when it has entered into contractual arrangements with the early retirees and creates a corresponding provision for its future payments in the balance sheet. In accordance with the requirements of FRS 12 this provision has been discounted. NS&I may, in certain circumstances, settle some or all of its liability in advance by making a payment to the Paymaster General's account at the Bank of England for the credit of the Civil Superannuation Vote.

1.13 Other provisions

NS&I 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

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

	Notes	Outturn	Supply Estimate	2006/07 £000s Outturn compared with Estimate	2005/06 £000s
Net Resource Outturn		168,615	179,294	10,679	175,203
Non-supply income (CFERS)	4,5	(125)	-	-	-
Net Operating Cost		168,490	179,294	10,804	175,203

2(b) Outturn against final Administration Budget

	Notes	Budget	2006/07 £000s Outturn	2005/06 £000s Outturn
Gross Administration Budget		184,641	173,962	180,415
Income allowable against final Administration Budget	5	(5,347)	(5,347)	(5,212)
Net Outturn against Administration Budget		179,294	168,615	175,203

3 Reconciliation of resources to cash requirement

	Notes	Estimate £000s	Outturn £000s	Net total outturn compared with estimate: saving/(excess)
Resource Outturn		179,294	168,615	10,679
Capital:				
• Acquisition of fixed assets	10	500	68	432
• Investments		-	-	-
Non Operating A in A				
Proceeds of fixed asset disposals		-	-	-
Accruals adjustments				
• Non – cash items	8	(5,547)	(3,803)	(1,744)
• Changes in working capital other than cash		1,600	(7,700)	9,300
Use of provision	14	900	423	477
Net cash requirement		176,747	157,603	19,144

4 Analysis of income payable to the Consolidated Fund

	Notes	Income £000s	Receipts £000s	2006/07 Forecast Income £000s	2006/07 Outturn Receipts £000s
Operating Income and receipts-excess A in A	5	-	-	125	-
Other non-operating income and receipts not classified as A in A	6	-	-	152	152
Total		-	-	277	152

5 Reconciliation of income recorded within the Operating Cost Statement to operating income payable to the Consolidated Fund

	Notes	2006/07 £000s	2005/06 £000s
Operating income	9	5,472	5,212
Income authorised to be appropriated-in-aid		(5,347)	(5,212)
Operating income payable to the Consolidated Fund		125	-

6 Non Operating income not classified as A in A

	Income £000s	Receipts £000s
Prior year fraud recoveries	135	135
Bank compensation for late settlement	17	17
Total Non Operating income not classified as A in A	152	152

7 Staff numbers and related costs

Staff costs comprise:

	2006/07 £000s	2006/07 £000s Permanently Employed Staff	2006/07 £000s	2005/06 £000s
	Total		Others	Total
Wages and Salaries	6,558	5,975	583	6,524
Social security costs	560	560		535
Other pension costs	1,157	1,157		1,108
Total Net Costs	8,275	7,692	583	8,167

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 2003. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk)

For 2006/07 contributions of £1,157,369 were paid to the PCSPS (2005/06 £1,084,624) at rates determined by the Government Actuary and advised by the Treasury. These rates were in the range 17.1-25.5 per cent (2005/06, 16.2-24.6 per cent) of pensionable pay based on salary bands. The scheme's Actuary reviews employer contributions every four years following a full scheme valuation. The salary bands and contribution rates were revised for 2005/06 and will remain unchanged until 2008/09. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employer's contributions of £14,112 (2005/06, £23,451) were paid to one or more of a panel of four stakeholder pension providers. Employer contributions are age related and range from 3 to 12.5 per cent (2005/06: 3 to 12.5 per cent) of pensionable pay. Employers also match employee contributions of up to 3 per cent of pensionable pay. In addition, employer contributions of £998, 0.8 per cent (2004/05: £1,414, 0.8 per cent) of pensionable pay, were payable to the PCSPS to cover the cost of future provision of lump sum benefits on death in service and ill health retirement of these employees. Contributions due to the partnership pension providers at the balance sheet date were nil. Contributions prepaid at that date were nil.

Average number of persons employed

The average number of whole time equivalent staff employed by NS&I, (including senior management and agency and interim staff), during 2006/07 year was 143. (2005/06, 146).

Objective	2006/07			2005/06
	Total	Permanently employed staff	Others	Total
Administration of National Savings and Investments	143	123	20	146
Total	143	123	20	146

8 Other administration costs

	Notes	2006/07 £000s	2005/06 £000s
Operational Contract Costs			
PPP Provider Costs	23	101,080	107,628
Selling Agents		32,242	29,031
Giro fees, Link line, ATMOS and banking		1,272	3,128
		134,594	139,787
Marketing and Research Costs			
Marketing		17,062	19,500
Research		2,467	2,466
		19,529	21,966
Other expenditure			
Consultancy, internal audit contract and personnel costs		3,936	3,193
Professional Services		2,152	2,067
Other Costs		1,391	1,048
Losses and special payments		224	215
Audit of Ordinary Deposits White Paper Account		58	58
		7,761	6,581
Non Cash items			
Tangible fixed assets depreciation	10(a)	1,110	1,033
Intangible fixed assets amortisation	10(b)	54	53
Prepayment amortisation	11(a)	1,539	1,539
Diminution in fixed assets		66	41
Loss on disposal of fixed assets		-	1
Changes in provisions	14	106	164
Cost of capital charge	15	321	517
Notional audit fees: Product Accounts		549	508
Notional audit fees: Resource Accounts		58	58
		3,803	3,914
Administration Costs		165,687	172,248

Selling agents include Post Office Counters Limited (POCL) and other minor agents.

The audit fees relating to Ordinary Deposits White paper Account of £58,000 (2005/06, £58,000) are paid in cash.

NS&I's auditors received no remuneration for non-audit work.

9 Operating Income

Operating income comprises:

	2006/07 £000s	2005/06 £000s
Rent from external tenants	5,472	5,212
Total Operating Income	5,472	5,212

Non-operating income and receipts not classified as Appropriations in Aid comprises amounts which relate to prior years, including prior year loss recoveries and advance recoveries. The actual receipts surrenderable were £152,323.

The 2006/07 Appropriations in Aid limit for rent from external tenants was £5,347,000. The excess Appropriations in Aid (£124,932) will be paid into the Consolidated Fund.

10 Fixed assets

10(a) Tangible fixed assets

	Freehold land and buildings £000s	Information Technology £000s	Plant and Machinery £000s	Furniture and fittings £000s	Total £000s
Cost or valuation					
At 1 April 2006	27,542	293	741	3,635	32,211
Additions		64		4	68
Disposals		(11)			(11)
Revaluation	1,074			82	1,156
Downward Revaluation		(20)	(17)		(37)
At 31 March 2007	28,616	326	724	3,721	33,387
Depreciation					
At 1 April 2006	(4,700)	(153)	(401)	(1,639)	(6,893)
Provided in year	(591)	(42)	(63)	(414)	(1,110)
Disposals		11			11
Backlog depreciation	(186)				(186)
Downward revaluation adjustment		(5)			(5)
At 31 March 2007	(5,477)	(189)	(464)	(2,053)	(8,183)
Net book value					
At 31 March 2007	23,139	137	260	1,668	25,204
At 31 March 2006	22,842	140	340	1,996	25,318

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.

10(b) Intangible fixed assets

	Software licences 31 March 2007 £000s	Software licences 31 March 2006 £000s
Cost or valuation		
At 1 April	421	287
Additions		150
Disposals	(158)	
Revaluation	49	(16)
At 31 March	312	421
Amortisation		
At 1 April	(199)	(146)
Provided in year	(54)	(53)
Disposals	158	
Revaluation adjustment	(73)	
At 31 March	168	(199)
Net Book Value At 31 March	144	222

11(a) Debtors

Notes	31 March 2007 £000s	31 March 2006 £000s
Amounts due within one year:		
Consolidated Fund Debtor	15	2,100
Deposits and Advances		33
Prepayments and accrued income		233
PPP contract prepayment from asset transfer		1,539
Other debtors		547
	4,452	1,742
Amounts due after more than one year:		
PPP contract prepayment from asset transfer		1,539
Total debtors	5,991	4,821

The number of employees with advances for season tickets and house purchases in excess of £2,500 at 31 March 2007 was two.

Under a contract signed with Siemens in January 1999 for the provision of operational services the majority of the department's assets were re-classified as a prepayment at 31 March 1999 and subsequently transferred to Siemens on 1 April, 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 is being amortised over the initial life (10 years) of the contract on a straight line basis.

11(b) Intra-Government Balances

	Amounts falling due within one year £000s		Amounts falling due after more than one year £000s	
	2006/07 £000s	2005/06 £000s	2006/07 £000s	2005/06 £000s
Balances with other central government bodies	2,100		-	-
Balances with public corporations and trading funds	-		-	-
Subtotal: intra government balances	2,100		-	-
Balances with bodies external to government	2,352	1,742	1,539	3,079
Total Debtors at 31 March	4,452	1,742	1,539	3,079

12 Cash at bank and in hand

Notes	31 March 2007 £000s	31 March 2006 £000s
Balance at 1 April	7,403	4,158
Movement in Cash Balance		
(Decrease)/Increase	17(d) (9,503)	3,245
Exclude overdrawn HM Paymaster		
Balance	13 2,289	
Net change in cash balances	(7,214)	3,245
Closing Cash Balance 31 March	189	7,403
The following balances at 31 March are held at:		
Office of HM Paymaster General	-	7,399
Commercial banks	189	4
	189	7,403
The balance at 31 March comprises:		
Cash due to be paid to the Consolidated Fund	189	7,403

The balance at HM Paymaster General was overdrawn by £2,289,491 on the 31 March 2007. This amount has been shown in creditors due within one year. A debtor balance with the Consolidated Fund has also been set up to reflect the net overdrawn balance £2,099,822. The difference being balances held at a local bank of £189,668.

13(a) Creditors (amounts falling due within one year)

	31 March 2007 £000s	31 March 2006 £000s
HM Paymaster overdrawn bank balance	2,289	-
Taxation and social security	233	181
Trade Creditors	11,250	11,070
Other Creditors	119	263
Accruals	12,340	4,244
Consolidated Fund Creditor	125	-
Amounts issued from the Consolidated Fund for supply but not spent at year end	-	7,403
Total Creditors	26,356	23,161

At 31 March 2007 there were no creditors falling due after more than one year.

13(b) Intra-Government Balances

	Amounts falling due within one year £000s		Amounts falling due after more than one year £000s	
	2006/07 £000s	2005/06 £000s	2006/07 £000s	2005/06 £000s
Balances with other central government bodies	253	246	-	-
Balances with public corporations and trading funds	3,823	239	-	-
Subtotal: intra government balances	4,076	485	-	-
Balances with bodies external to government	22,280	22,646	-	-
Total creditors at 31 March	26,356	23,131	-	-

14 Provisions for liabilities and charges

	£000s	31 March 2007 £000s	31 March 2006 £000s
Movements in the provision for early departure costs:			
Balance at 1 April		1,045	1,575
Applied	(423)		(694)
Increase in provision	106		164
		(317)	(530)
Total early departure costs provision		728	1,045
Provisions for liabilities and charges		728	1,045

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 the balance sheet

15 General Fund

	Notes	£000s	31 March 2007 £000s	31 March 2006 £000s
Balance at 1 April			5,977	9,827
Parliamentary Funding				
Drawn down	17(c)	155,503		175,973
Deemed Supply		-		1,700
			155,503	177,673
Net transfer from Operating Activities				
Net Operating Cost		(168,490)		(175,203)
CFERS repayable to Consolidated Fund		(125)		
			(168,615)	(175,203)
Year end adjustment				
Consolidated Fund Debtor		2,100		
Consolidated Fund Creditors for cash unspent unspent				(7,403)
Non cash charges				
• Cost of capital		321		517
• NAO		607		566
			928	1,083
Balance at 31 March			(4,107)	5,977

16 Revaluation Reserve

	31 March 2007 £000s	31 March 2006 £000s
Balance at 1 April	7,581	6,131
Arising on revaluation during the year (net)	970	1,450
Balance at 31 March	8,551	7,581

17 Notes to Cashflow statement

(a) Reconciliation of operating cost to operating cash flows

	2006/07 £000s	2005/06 £000s
Net operating cost	168,490	175,203
Adjustments for non-cash transactions	(3,803)	(3,914)
(Increase)/Decrease in Debtors	610	135
Decrease/(Increase) in Creditors	(8,185)	(2,083)
Use of provisions	423	694
Net cash outflow from operating activities	157,535	170,035

(b) Analysis of capital expenditure and financial investment

	2006/07 £000s	2005/06 £000s
Tangible fixed asset additions	68	87
Intangible fixed asset additions	150	
Proceeds of disposal of fixed assets		(2)
Net cash outflow from investing activities	68	235

(c) Analysis of financing

	Notes	2006/07 £000s	2005/06 £000s
From the Consolidated Fund (Supply) current year	17(d)	155,503	175,973
Cash surrender of part of prior year's unspent supply	17(d)	(7,403)	(2,457)
Net Financing		148,100	173,516

(d) Reconciliation of Net Cash Requirement to increase/(decrease) in cash

	2006/07 £000s	2006/07 £000s
Net Cash requirement	(157,603)	(170,270)
From the Consolidated Fund (Supply)		
Current Year	155,503	175,973
	(2,100)	5,703
Cash surrender of part of prior year's unspent supply	(7,403)	(2,457)
(Decrease)/Increase in cash	(9,503)	3,246

18 Capital commitments

The following capital commitments existed at the balance sheet date:

	31 March 2007 £000s	31 March 2006 £000s
Contracted but not provided for	-	-
Authorised but not contracted	-	-
Total Capital Commitments	-	-

19 Commitments under operating leases

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

Land and Buildings:	31 March 2007 £000s	31 March 2006 £000s
Leases expiring within:		
• One year		
• Two to five years	402	443
• After five years		
	402	443
Other:	31 March 2007 £000s	31 March 2006 £000s
Leases expiring within:		
• One year	5	19
• Two to five years	3	6
• After five years	11	9
	16	34

The lease payments due under the contract which expires after five years relate to land. None of these leases relates 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 the department'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 will also be uplifted each year in line with movements in the Retail Prices Index. If Siemens was to meet 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:

	£000s
Amounts falling due within one year	80,453
Net present value of amounts falling due within two to five years	283,622
Net present value of amounts falling due within six to seven years	120,089

A discount rate of 3.5% has been used to derive the NPV of the payment stream in years two to seven.

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 2007.

22 Post Balance Sheet events
There were no post balance sheet events.

23 Related party transactions
NS&I is an Executive Agency of the Chancellor of the Exchequer and a whole government department.

Post Office Counters Limited (POCL) is a major distributor of NS&I products and, as a public body, POCL is a related party. NS&I had a significant number of transactions with POCL during the accounting period. NS&I's POCL costs during 2006/07 were £28,917,000 for contract services and £1,085,000 for non-contract services (2005/06 £27,504,000) for contract services and an additional 2005/06 £1,200,000 (2004/05 £1,060,000) for non contract services.

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 paid and payable under the contract during 2006/07 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 three operational sites in return for a monthly rent. Details of the amounts received and 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 has 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 NS&I had only one aim and one objective as noted on page 66. This has subsequently been confirmed in the Landscape Review in 2005. To comply with the Financial Reporting Manual (*FReM*) and the accounts direction in these accounts, the resources by departmental aims contains one 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 2007 £000s	No of Cases	31 March 2006 £000s
Compensation Payments	18	2	57	28
Fraud Loss	161	192	243	178
Operational Losses	2	-	2	7
Other	3	2	2	2
Constructive Losses	2	28	-	-
Total Losses and special payments	186	224	304	215

26 Financial Instruments

FRS 13, *Derivatives and Other Financial Instruments*, requires disclosure of the role which financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities. Due to the way in which Government departments are financed, the Department’s resource accounts are not exposed to the degree of financial risk faced by business entities.

NS&I does not have powers to borrow or invest surplus funds.

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

Glossary

AER (Annual Equivalent Rate)

A notional rate which illustrates what the rate of interest would be if the interest was compounded each time it was paid. Where interest is paid annually, the quoted rate and the AER are the same.

BACS (Bankers’ Automated Clearing Service)

An electronic payment system that allows us to make direct credits to the customer’s bank or building society account.

Banking Code

A voluntary code that sets standards of good banking practice. NS&I and most banks, building societies and credit card companies subscribe to the Code.

Basis points

This is usually one hundredth of a percentage point, and is used in quoting movements in interest rates of yields on securities.

Bonds

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

Capital

The total amount of deposits in the customer’s account, or the original investment in the customer’s Bond or Certificate.

Capitalised interest

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

Delagged

In relation to our Value Add (see below), this is a measure which allows for timing differences between product interest rate changes being announced and the rate coming into effect.

Director of Savings

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

Dormant holdings

Savings or investments belonging to a customer with whom we’ve lost contact.

Equities

Investments (shares) in a company listed on a stock market.

Executive Agency

NS&I is a Government department and an Executive Agency of the Chancellor of the Exchequer. Executive Agencies have greater autonomy in making management decisions to ensure the effective delivery of their services.

Independent Financial Advisers (IFAS)

Financial intermediaries are professional advisers on investments and financial products, regulated by the Financial Services Authority.

Financial Ombudsman Service (FOS)

The Independent service for settling disputes between businesses that provide financial services and their customers

Financial Services Authority (FSA)

The regulator for the financial services industry in the UK.

Fixed or guaranteed rate products

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

Freedom of Information (FOI)

Under the Freedom of Information Act 2000, each public authority is required to produce a Publication Scheme outlining the different types of information it will publish, or intends to publish, how the information will be published, and whether it is free to access the information or if there is a charge. People have the right to request this information.

Gilts (or gilt-edged stock)

The name given to marketable UK Government securities. The name came from the original certificate issued for these securities which had gilded edges.

Gross interest

The taxable rate of interest without deduction of UK Income Tax.

Growth

How the customer’s savings grow through the addition of interest.

Hedge

Using our Guaranteed Equity Bond as an example, the Exchequer’s exposure to paying an equity-linked return is covered by entering a swap (exchanging a variable rate of interest for the equity-linked return) with a third-party bank.

Index-linking

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

Inflation beating

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

Investment term (or term)

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

ISAs (Individual Savings Accounts)

Tax-free savings accounts that allow investment in cash or stocks and shares up to a certain limit in each tax year. NS&I offers a cash mini ISA and a Direct ISA.

Issue/Series

Our fixed rate products are sold in either Issues or Series, each with its own guaranteed interest rate(s). We bring out a new Issue/Series whenever the fixed rate on offer changes.

Marketable

Securities, including Gilts, which can be bought and sold at any time at current market prices.

Net interest

This is the rate of interest payable after the deduction of UK Income Tax at the rate specified by law.

Net Financing

Net Financing (NF) is the measure of the net change of NS&I funds, ie total inflows from new deposits and retention of maturing monies, less the total outflows from withdrawals and interest or prize draw payments. A positive Net Financing figure represents a positive contribution to Government financing.

Power of Attorney

A legal document that authorises a particular person to act on behalf of someone else, for example to make investment decisions on their behalf.

Public/Private Partnership (PPP)

A long-term partnership between a public sector and private sector organisation, designed for mutual benefit. Our 10-15 year PPP with Siemens encompasses the provision of transaction processing together with front and back office operations.

Retail market

The market for the sale of securities or banking facilities to members of the public.

Repo rate

The rate set by the Bank of England Monetary Policy Committee, which is generally referred to as base rate.

RPI (Retail Price Index)

The most frequently used measure of price inflation, calculated by the Office for National Statistics each month.

Siemens

Siemens is our partner responsible for improving the efficiency and effectiveness of our business operations and call centres.

Swaps

An exchange of payments between two parties. For example, an interest rate swap could be the payment by one party to the other of a fixed interest rate (based on an agreed sum) in exchange for payment of a variable or floating rate at pre-determined intervals (see Hedge).

Tax-free

This means the interest is exempt from UK Income Tax and Capital Gains Tax.

Tiered interest rates

Where the interest rates increase according to how much money you have invested.

Treasury Bills

Treasury Bills are short-term government bonds. They don't earn interest. Instead, they are sold at a discount to their face value.

Trust deed

A formal document that lays down the terms of a trust.

Trust holding

How one or more person(s), the 'trustee(s)', look after the investments of others. The trustees are the legal owners of the assets but they must use them for the benefit of the other person, usually called the beneficiary, in accordance with the trust deed.

UK Debt Management Office (DMO)

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

UK Government Securities

Our bonds and certificates are UK Government Securities issued by HM Treasury under the National Loans Act 1968.

Value Add

A measure of our cost-effectiveness in raising finance for Government. The total cost of NS&I raising funds is compared to how much it would cost the Government to raise funds through the wholesale market via gilts and Treasury Bills.

Variable rate products

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

Warrant

A type of payment – similar to a cheque.

Wholesale markets

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

Contacts and more information

We want to make it easy as possible for you to contact us at any time in a way that is convenient to you.

Telephone

- For general enquiries call us on 0845 964 5000.*
- To buy our products call us free on 0500 500000.**

Internet

Visit our website at www.nsandi.com

Textphone

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

Post

Write to us at National Savings and Investments, Blackpool FY3 9YP

Banking Code

As a voluntary code, the Banking Code allows competition and market forces to work to encourage higher standards for the benefit of customers.

Key commitments of the Banking Code are to:

- act fairly and reasonably in all our dealings with you
- help you to understand how our financial products and services work
- deal with things that go wrong quickly and sympathetically
- publicise the code, have copies available and make sure our staff are trained to put into practice

If you would like a copy of the Banking Code brochure please see our website or call on 0845 964 5000.

Head Office

NS&I
Charles House
375 Kensington High Street
London W14 8SD
Tel: 020 7348 9200

Thank you

NS&I would like to thank all staff and customers for their contribution to the 2006/07 Annual Report.

* Our UK customers service team is available every day from 7am until midnight. We don't use premium rate numbers – maximum call charge 4p per minute from a BT landline; charges from other providers may vary. For your security, and to maintain the highest levels of service, calls may be recorded.

** Calls from mobiles may be chargeable.

