National Savings and Investments Annual Report and Accounts and Product Accounts 2010–11

ns&i

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National Savings and Investments Annual Report and Accounts and Product Accounts 2010–11

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Who we are

NS&I (National Savings and Investments) is one of the largest savings organisations in the UK, with more than £98 billion invested on behalf of over 26 million customers. NS&I is both a government department and an Executive Agency of the Chancellor of the Exchequer. Its origins can be traced back to the Post Office Savings Bank, established 150 years ago in 1861.

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

Our vision

Service, value and trust

Our mission

Our overall aim is to help reduce the cost to the taxpayer of government borrowing now and in the future.

Our values

Our values are at the heart of everything we do:

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

Our Chairman's statement

It is now over six years since I joined the board of NS&I, and in that time the changes to the organisation have been immense. It has been a period of significant modernisation, carried out at an increasing pace, and that has equipped the organisation to compete even more effectively in today's financial services market and to operate at a level of efficiency that is the envy of others in both the public and private sectors.

This was vital during a year when – as this report shows – tough decisions were required to ensure that we met our Net Financing target of £0, within a range of £2 billion either side of that figure, and to continue to act transparently and balance the interests of our customers, taxpayers and the stability of the wider financial services sector.

It was also a year when we passed a major landmark in our modernisation programme, with the introduction of a range of new online and telephone services for Premium Bond holders. The importance of this lies not only in the additional benefits to customers and in the potential to reduce operational costs, but also in the concrete evidence it provides of the reliability and capacity of our banking infrastructure. We are now poised at a pivotal point in NS&I's future as we look to harness that infrastructure to create a complementary 'business-to-business' service that will enable NS&I to deliver additional value to the taxpayer. This was an important element of our Spending Review 2010 settlement, which confirmed this new and challenging direction for NS&I.

Yet alongside all this change, the most important qualities of the organisation have remained: the commitment of our staff to ensuring that NS&I delivers exceptional customer service; and the strength and effectiveness of our operating model, based on a Public Private Partnership that is now in its 12th year of delivering value to customers and taxpayers.

I also believe that we have benefited from continuity in terms of the organisation's leadership, which – as this year's staff survey showed – is exceptionally well-regarded by those who work for NS&I. This is not only a credit to the Executive team, but also a reflection of the stability of our key organisational relationships both with our delivery partner Siemens IT Solutions and Services and with the team at HM Treasury. There is a real understanding across the board of what NS&I wants to achieve and how it needs to do that – whether in terms of making complex operational decisions or planning the future direction of the organisation.

Throughout this year – my first full year as Chairman – I have been privileged to gain an even greater insight into the business at every level, which has underlined to me that NS&I has the people, infrastructure and partnerships in place to succeed in this new direction. I was delighted to accept an extension of my contract by a year to oversee this period of evolution and, by this time next year, when I will have handed over the reins to the next Chairman, look forward to seeing the results.

Martin Gray
Chairman
NS&I

Our Chief Executive's review

There are two types of challenges businesses face: the ones that come from outside, whether predicted or not; and the ones you set yourselves. This year, we faced significant challenges of both types, and I'm delighted to report that we not only met them successfully but in doing so achieved all our objectives and targets.

But delivering these results was no simple matter. It involved taking a number of tough decisions while operating in the context of a complex macroeconomic environment. Like the rest of the public sector, we began the year with the uncertainty of a forthcoming election and the prospect of belt-tightening, whatever the outcome. The financial services sector remained relatively stable but interest rates were still at a historically low level, even though inflation was rising. By mid-May, a new Government was in office and a Spending Review had been announced, while inflation continued its upward trend.

With so much uncertainty in the wider economic environment, we agreed with HM Treasury that we would retain our Net Financing target of £0 (within a range of £2 billion either side of that figure) and would continue to set our rates to balance the interests of our customers, taxpayers and the stability of the wider financial services sector. As last year, this did not mean that the business remained static: it actually required us to generate some £12 billion worth of sales to balance outflows.

Responding to rising inflation

To achieve our Net Financing target in 2009–10, we introduced some competitively priced one-year Guaranteed Growth Bonds and Guaranteed Income Bonds to secure the necessary inflows in a very challenging market. This year, however, we were in the opposite position. The rise in inflation – as measured by the Retail Prices Index – made our Index-linked Savings Certificates exceptionally attractive in a low interest rate environment. Sales were so high in the first quarter of the year that, without appropriate action, we were likely to exceed our Net Financing target and could have risked destabilising the wider financial services market.

Having analysed the different options available, with the backing of HM Treasury we concluded that the best and fairest course of action to bring Net Financing back into our target range was to remove Index-linked Savings Certificates from sale to new customers. We protected our existing customers who already held the product by allowing them to continue to reinvest at the end of their term. It was not a decision that was taken lightly, not least given the lack of comparable products available to customers at the time.

To ensure that we ended the year within our target range we also took action to manage the significant volumes of money maturing in our one-year Guaranteed Bonds during the autumn of 2010. We set a rate for reinvesting customers so that those savers whose focus was solely on maximising returns could choose to look elsewhere. Those who wished to do so could still invest and achieve a fair return. This action, combined with the withdrawal of Index-linked Savings Certificates, helped us achieve the financial target we were set, with a final Net Financing figure for the year of £0.08 billion.

One of the consequences of the withdrawal of Index-linked Savings Certificates is that at the end of the reporting year we are in a position where we had no fixed term products available for new sales. This came about as a result of exceptional market conditions since 2008 – the 'flights to safety' followed by historically low base rates, as well as the wider macroeconomic context – but this was not a long-term change. In the March 2011 Budget, the Chancellor confirmed that our Net Financing target for 2011–12 will be to deliver £2 billion in a range of £0 to £4 billion. This positive Net Financing target allowed us to plan the reintroduction of Index-linked Savings Certificates for general sale in May 2011. However, we recognise that the pent-up demand for the product needs to be assessed and managed carefully on an ongoing basis to ensure that we maintain appropriate service standards.

Maintaining our service standards

This year, we have once again achieved the high service standards we have set for ourselves, as performance against our customer service targets shows. Overall customer satisfaction was 89%, while our timeliness and accuracy

This year we will do something we have never done before. We will start to make payments to the customers of our first business-to-business clients.

scores were 98.1% and 99.4% respectively. I'm particularly proud of the fact that when the Financial Ombudsman Service published its complaints league tables in March 2011, NS&I was in the top 2% of businesses for good management of complaint handling for the period July to December 2010. This was out of more than 160 financial services businesses which were covered.

Our people

This performance reflects the ongoing commitment of all our staff – among whom I naturally include those working for our delivery partner Siemens IT Solutions and Services (SIS) – to customer service. Our people remain an enormous asset to NS&I, and we made sure that they were kept well-informed throughout the Spending Review 2010 process.

I also enjoyed the opportunity to meet SIS staff at all of our UK sites and at SIS' sites in Chennai, India, where operations are going very well. The flexibility that this multi-site approach gives us is a significant strength in terms of our back office capability, which is increasingly important as our online operations grow.

Delivering value to taxpayers

The value we deliver to taxpayers is measured by our Value Indicator – this compares the cost of raising funds via NS&I against HM Treasury raising an equivalent amount on the gilt markets. This year we delivered £827 million (this is explained in more detail on page 30).

The savings we deliver to taxpayers are also illustrated by our efficiency ratio – the ratio of total costs to assets entrusted to us. This stood at 17 basis points this year, already significantly below that of comparative organisations in the private sector.

Data migration on a huge scale

This leads me to one of the challenges we had set ourselves this year: the transfer of Premium Bonds onto our new banking infrastructure. 'New' is perhaps a relative term, as the infrastructure has now been operational for a couple of years, but product transfer has been deliberately managed at a controlled pace – ensuring that risks are identified and managed, and customer service remains unaffected. The infrastructure enables customers to manage their products and accounts themselves, offering full online and telephone banking capabilities in a highly secure environment. The successful launch of our Direct Saver product on the infrastructure in March 2010 demonstrated that the system was working well, and so we were ready to take the biggest step.

Transferring Premium Bonds involved moving over 2.3 billion records, across more than 23 million customer holdings. The transfer plans had been developed over a number of years by a joint NS&I and SIS team. In the summer of 2010, we finalised those plans and set the date, at a time when transaction volumes would be lowest and customer disruption kept to a minimum: the Christmas holiday period.

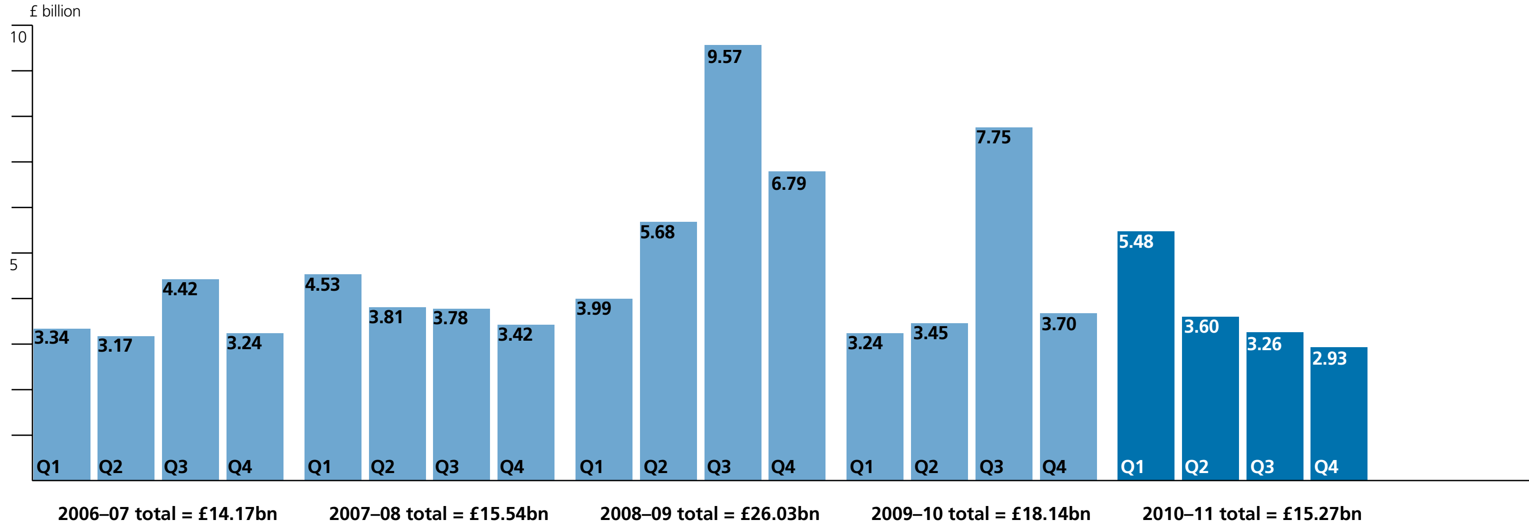
Naturally, this meant a large number of people working very long hours over Christmas, coping with the added complexities of the severe winter weather. I'm very proud of the work they put in to ensure that the transfer went smoothly, to time and within budget, and everything was in place for the next Premium Bond prize draw to go ahead as scheduled – a great credit to the dedication of all involved.

The benefits of the move are considerable. Not only does it enable us to operate our largest product as cost-effectively as possible – meaning it's good news for taxpayers – but it also gives customers the functionality they've been requesting. This includes managing their bonds by telephone and online, and receiving prize payments direct into their bank accounts if they want. Inevitably, with a project of such scale there will always be some issues at launch. I'm pleased to report that these problems were relatively minor, identified quickly and resolved promptly.

The new economic reality

In some ways the migration of Premium Bonds was a natural conclusion to our NS&I adding value strategy and its goals of simplification, modernisation and diversification. It proved we had a modern IT infrastructure, encouraged and enabled a shift to our direct channels and helped simplify the product. It also helps us manage Premium Bonds more efficiently – a vital step as we move forward from the Spending Review 2010.

Gross inflows to NS&I (including reinvestments)



The Spending Review 2010 challenged us to find substantial reductions in our costs. NS&I could demonstrate that it was already a very efficient organisation, but the investments that we have made in our direct channel capabilities and the acceptance of a proposal that we should be able to offset some of our costs by offering services to third parties gave us the opportunity to put forward a clear proposal for operating within a budget approximately 10% lower in real terms than our 2010–11 baseline costs over the next four years.

So at the heart of our new strategy are two important changes: an acceleration in the transition to our lower-cost direct channels; and a move to becoming part self-funding through leveraging our infrastructure to provide cost-effective transaction-processing services to other government departments and businesses. We have begun the process of working with other government departments to examine how we can help – saving them money and so delivering more value for the taxpayer. This builds on the work we are doing with the Court Funds Office and the Equitable Life Payment Scheme on behalf of HM Treasury.

Looking ahead

While the creation of a business-to-business service is an exciting opportunity for us, our priority remains our core retail customer business – particularly ensuring that we deliver the service and products our customers need. That further reinforces the need to transfer the remainder of our products to our new banking infrastructure as soon as we practically can, meeting expectations and simplifying the customer experience. This is at the core of our refocused strategy, NS&I direct+.

Of course, the coming year also brings another significant development with the formal launch of the re-tender process for our current operational delivery contract with SIS, which expires in 2014. The background work has been comprehensive and is a vital part of ensuring that the tender meets the highest standards of propriety and delivers the best solution for NS&I, our customers and taxpayers.

The success of our partnership with SIS creates its own challenges. We have been accustomed to working alongside SIS in terms of governance and strategy, as well as operations. This has had to change because of the re-tender process. We have already taken steps to distance ourselves from SIS in appropriate ways and to ensure that it is not privy to any information that could compromise the objectivity of the process. For instance, the re-tender team is using separate email and document management systems, run by an independent third party. We have been wholly transparent with SIS about the process, as it has been with us with regard to its proposed acquisition by Atos Origin.

At the date of this report's publication, it is expected that Atos Origin will have completed its acquisition of SIS. NS&I has been in contact with Atos Origin and SIS in recent months to help to ensure that the acquisition does not cause any disruption to our business or customer service and that our positive working relationship is maintained.

The year 2011 marks the 150th anniversary of NS&I, when we were founded as the Post Office Savings Bank by the Chancellor of the Exchequer, William Gladstone, in 1861. Just as today's world is totally different from the Victorian world of our first savers, so is NS&I. This year we will do something we have never done before. We will start to make payments to the customers of our first business-to-business clients. While the business model is changing as we make this first step in self-financing, the commitment to customer service is still our overriding concern. It is that service which underpins our key asset: the NS&I brand.

Jane Platt

Jane Platt
Chief Executive
NS&I
24 June 2011

Management commentary

Our strategy

Following the Spending Review 2010 we reassessed the NS&I adding value strategy against our new targets. The result is that this year we are announcing a successor strategy, NS&I direct+. Chief Executive Jane Platt, Change and Strategy Support Director Julian Hynd and Customer Sales and Retention Director John Prout explain why.

Last year you announced an extension of your strategy, yet this year you've announced a new one. Why the change?

Jane: The Spending Review 2010 settlement meant that we needed to reassess our strategy against our new targets. But it's important to underline that NS&I direct+ is a refocusing of our strategy, rather than a completely new approach. It aims to accelerate progress in directions we were already taking, and is a response to the fact that the circumstances in which we operate have changed. We knew that post-election there would be reductions in public spending but, of course, we didn't know the nature and extent of these. Once the Spending Review 2010 process began, we were able to agree some specific aims for NS&I. To achieve those within our new financial limits, we needed to make some strategic changes.

Julian: As well as this, we had also achieved most of the goals of NS&I adding value.

What were those achievements?

Julian: The most obvious is the migration of Premium Bonds onto our new banking infrastructure. It required huge volumes of customer data to be moved from one system to another, with significant consequences in terms of customer perception and media scrutiny if anything had gone wrong. It had to be done over a fixed period as we couldn't operate with the data on both systems. We had conducted multiple tests, but to complete the transfer we effectively closed the business down over the Christmas holiday period. By the new year, the transfer was complete, meaning that three products – Premium Bonds, Direct Saver and Direct ISA – and some 49% of our total deposits are now running on the new banking infrastructure, as are the majority of our customer records.

Jane: The groundwork for this change had been laid with the installation of the new banking infrastructure over previous years. The launch of Direct ISA and Direct Saver on the new system had proved its stability and reliability. At the start of this year, we also began to use our second data centre, which ensured that we had the back-up we needed to complete the transfer. While we could have chosen to move other products first – with smaller data volumes and so lower risk – we decided, based on the growing customer demand for new services that we had received, that Premium Bonds should be the next to move.

John: From the customer perspective, the benefits are very significant. It's now possible to fully manage Premium Bonds online, change contact details, choose to reinvest prizes, get prizes paid directly into your bank account and receive prize notification by email. You can view your full record of Premium Bond holdings, and all transactions over the last two years. In addition, when customers buy more Premium Bond holdings or redeem part of their holding, either online or offline, they will receive a new Bond record detailing their complete holding. There is therefore no longer any need for customers to retain multiple certificates. The three strands of NS&I adding value (our previous strategy) were simplify, modernise and diversify, and these changes to our most popular product absolutely demonstrate each of those strands. Over the next three years we anticipate moving all of our other products onto the new banking infrastructure so that customers can benefit from the same range of functions across our product range.

Julian: For us as a business, it also provides the proof that we can cope with projects of real scale – which is important for our future direction. It almost gets forgotten, but alongside the Premium Bond data migration we also took the opportunity to undertake another significant task that we knew had the potential to disrupt operations: changing our clearing bank. This was not so much a strategic move as a long-expected change, given the Bank of England's decision back in 2004 to stop acting as a clearing bank for government. It was simply a question of when to make the change, and this seemed a good opportunity to implement it with minimal impact on our customers.

Three products – Premium Bonds, Direct Saver and Direct ISA – and some 49% of our total deposits are now running on the new banking infrastructure, as are the majority of our customer records.

What other strategic advances did you make in 2010–11?

John: The other really significant change was the launch of a more modern website – improving the service we offer online, which is essential as we build our direct channels. As well as serving as the gateway to online account management facilities, it also includes enhanced product information and is much easier to navigate. It's part of our ongoing commitment to improving the end-to-end customer experience.

Jane: I think the reality, however, is that these changes are the culmination of all the work we've done over the previous years on our strategy. We now have a much more modern, multi-channel operation that has not only improved service to our customers but also enabled us to reduce our baseline costs. We had successfully adjusted our financial targets after our business grew during the 'flights to safety', and met the new targets year on year. It was the right time to look forward, and the Spending Review 2010 provided a catalyst for that.

So how did the Spending Review 2010 influence your future strategy?

Julian: Like other government departments, we were challenged to find ways to operate within a reduced budget. In consultation with HM Treasury, we proposed a plan that would enable a 10% budget cut in real terms from our 2010–11 baseline costs over the next four years. To deliver the necessary efficiencies, we need to accelerate the transition to direct channels and leverage our core infrastructure and operating platform to provide transaction-processing services to other government departments. This will deliver investment to fund our total operating costs. In fact, the Spending Review 2010 requires that a growing percentage of our total budget each year must come from business-to-business activities.

Jane: As I mentioned earlier, we were already moving in this direction. It's now a case of increasing the pace of change. We have all the foundations in place for our new strategy, which we have called NS&I direct+, and have made some organisational changes to put us in the best position to achieve our new targets. We have created a new business-to-business directorate to sit alongside our retail offer, and have strengthened our commitment to risk and compliance with a dedicated directorate.

NS&I direct+ at a glance

NS&I direct+ will balance the needs of our customers, taxpayers and the stability of the wider financial services sector, by:

- delivering the agreed Net Financing target each year
- delivering positive value as measured by the Value Indicator
- accelerating the move to direct channels for our retail customers
- completing our modernisation programme to ensure that we have a low-cost business model
- delivering the business-to-business plan, providing services to other government departments and third parties
- ensuring the continuation of high-quality, cost-effective operational services beyond the 2014 re-tender
- continuing our risk and compliance plan.

NS&I direct+ is designed to deliver the Spending Review 2010, which sets out NS&I's role in delivering the Coalition's programme for government.

Our performance in 2010–11

The table below shows our performance against our Service Delivery Measures (SDMs). These were agreed by NS&I and HM Treasury as part of our reporting process and measure our performance in relation to our overall objectives.

Goals and objectives	Measure	Performance 2009–10	Target 2010–11	Performance 2010–11	Target 2011–12
1. Net Finance To raise an amount of Net Financing within an agreed range	Absolute amount of Net Financing from NS&I products	£1.6 billion	£0 billion (+/– £2 billion)	£0.08 billion	£2 billion (+/– £2 billion)
2. Value Indicator To create at least an agreed minimum amount of value, measured using the Value Indicator	Absolute amount of value from NS&I products	£1.4 billion	Forecast £0.8 billion	£0.8 billion	Deliver positive value
3. Customer satisfaction* To exceed a threshold level of customer satisfaction with NS&I	Average level of satisfaction against question 'Taking everything into account, how would you rate NS&I's customer service?'	91.5%	At least 87%	89%	At least 87%
4. Customer service – timeliness To meet a consistently high timeliness target	Average performance against timeliness key performance indicator (KPI) targets	99.5%	At least 97%	98.1%	At least 97%
5. Customer service – accuracy To meet a consistently high accuracy target	Average performance against accuracy KPI targets	99.4%	At least 98.5%	99.4%	At least 98.5%
6. Efficient administration of funds To improve the efficiency of administering total funds	Ratio of total NS&I administrative costs to average funds invested by customers	18.5 basis points	Less than 20 basis points	17 basis points	Less than 19 basis points
7. Customer Service Excellence accreditation To maintain our current Customer Service Excellence accreditation following the annual assessment	A Cabinet-approved external assessment body confirming overall accreditation following its annual assessment	New objective for 2010–11	Customer Service Excellence accreditation	Accreditation achieved	Maintain accreditation
8. Financial Ombudsman Service (FOS)** To minimise the incidence where FOS intervention is justified	The relative performance of NS&I in the FOS performance tables, based on the percentage of complaints resolved in favour of the customer (from lowest to highest)	New objective for 2010–11	Within the top 25% of FOS performance tables	Achieved	Less than 0.5% of total complaints raised found against us by FOS
9. Fraud*** To improve the effectiveness of fraud management	Ratio of net fraud losses to total customer repayments	£31 per £1 million repayments	Less than £35 per £1 million repayments	£23 per £1 million repayments	Below 0.001% of average funds invested by customers

*From April 2011 this metric will cover those using NS&I's online channel as well as those using post, telephone and the Post Office®.

**From April 2011 this metric will be measured by the ratio of the number of complaints upheld by FOS in favour of the complainant to the total number of complaints closed by NS&I.

***From April 2011 fraud losses will be measured against average funds invested by customers.

Our customers

The shift in recent years towards our direct channels for customer sales has been gradual, but 2010–11 saw the launch of the full range of automated services for Premium Bonds – offering very tangible benefits of our modernisation programme to the majority of our over 26 million customers.

Communication with customers about the new ways in which Premium Bond holders can manage their savings is vital. We updated our Premium Bond product brochure and online content to explain the changes. We also sent out over one million leaflets in our normal communications to customers who buy Premium Bonds regularly explaining that we were introducing a new Bond record which would detail their complete holding and replace the need for them to retain many Premium Bond certificates. These were previously acquired each time they made an investment in the product.

In addition, we made some small changes to modernise the product, including ending the facility to receive prizes by a cash warrant. We wrote individually to the very small number of customers who still used this service to alert them to the change and explain their options. One new option for customers is that they can now choose to have prizes paid directly into their bank account and receive prize notification by email.

With any modern direct business security is vital, so customers go through an authentication process before accessing the full range of online and telephone capabilities. We have deliberately adopted robust security systems for the online and telephone services, which we enhanced slightly from those initially introduced for Direct Saver in March 2010, following customer feedback. To help the transition to the new authentication system we allow customers to complete one purchase using existing processes before they have to register through the new system.

Demand to register for the new service has been extremely high. To process the large number of requests, we took a number of steps, including deploying extra staff and additional shift-working. Though we have not processed all applications as quickly as we would have liked, we believe these extra measures will enable us to meet demand and ensure that customers can benefit from the new services.

Meeting our customer service targets

Our call centre staff received additional training on all the new Premium Bond services to help customers through the transition period and, as expected, there has been an increase in calls requesting support and guidance. The effectiveness of this support can be seen through the continued high levels of customer satisfaction, as measured against our core Service Delivery Measures. Some 89% of customers surveyed rated NS&I's customer service highly, between 7 and 10, and only 3% rated it between 1 and 4 (where 1 means does not meet their needs at all and 10 means completely meets their needs).

This was a positive result given that this has been a year of considerable change for customers. In addition to the launch of the new Premium Bonds services, we made the difficult decision to withdraw Index-linked Savings Certificates from sale to new customers. This is discussed in detail in Our products (page 12); however, it is worth reiterating that the product remained open to existing customers who were able to reinvest at the end of their term.

Customer Service Excellence

Independent verification of service quality came through our retention of the Customer Service Excellence accreditation. In several areas, we are now rated as achieving 'compliance plus' – with our customer segmentation described by assessors as among the best they've seen within the public sector. There now remain just four areas where we are partially compliant, which we will be working on in the coming year.

In addition to customer satisfaction ratings, we received a very low level of customer complaints throughout the year, with even fewer being escalated to the Financial Ombudsman Service (FOS). For the period July to December 2010 just 30 new NS&I cases were accepted by the Ombudsman.

Responding to service issues

That is not to suggest that there were no service issues during the year. In January 2011 there was a delay in sending out

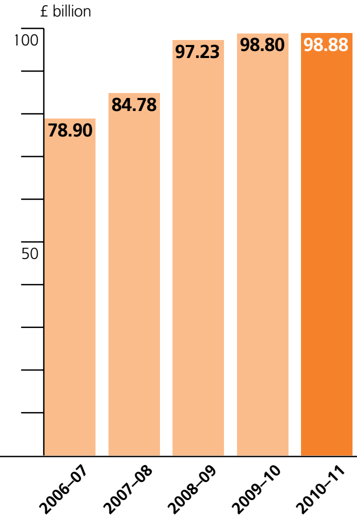
Unclaimed assets*

	Estimate: held at 1 January 2011 £ million	Estimate: held at 1 January 2010 £ million
Accounts	504	490
Certificates	562	546
Bonds	2	2
Other products**	28	28
Unclaimed Premium Bond prizes	9	9
Total	**1,105**	**1,075**

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

**'Other products', e.g. SAYE, Yearly Plan, Deposit Bonds, Savings Stamps, Gift Tokens, British Savings Bonds.

Total amount invested by customers at the end of the year



Premium Bond prize warrants due to an error in production. We rectified this promptly, and made sure that no incorrect warrants were sent out and that correctly printed ones arrived with prize winners within our usual stated timescales. In March 2011 a failure in the system used by a supplier to process debit card transactions meant that we incorrectly debited around 1,600 customers twice for payments they made on our website. We acted quickly to reverse the error and have taken up the issue with our supplier.

There was also an issue regarding the maturity of Guaranteed Growth Bonds and Guaranteed Income Bonds. The attractive rates we offered in autumn 2009 meant that some of these bonds were purchased by customers who previously had little or no contact with NS&I and were therefore unfamiliar with our standard processes at maturity – namely, writing to customers whose bonds are maturing to inform them of their options. For some customers, this meant an insufficient time period to confirm their instructions, which led to a number of complaints. As a result, we decided to change our terms and introduce, as a temporary measure, a 20-day 'grace' period after the maturity date during which customers could still choose from all options available on maturity. In May 2011, we changed the notice period up front to give customers a longer time period to make their decisions.

This was one of a number of improvements we have made to customer communications during the year, including ensuring that interest rates are published on statements and of course the extensive changes to our website. We believe that the new site is easier to navigate, and it also brings financial information, previously on the separate You and Your Money site, onto **nsandi.com**

Treating Customers Fairly

The inclusion of interest rates on statements is part of our ongoing commitment to operate within the parameters of the Financial Services Authority's (FSA's) Treating Customers Fairly (TCF) agenda. Our compliance with TCF was once again formally audited by our internal auditors KPMG who confirmed that we have continued to take positive steps towards the implementation of TCF within both NS&I and Siemens IT Solutions and Services. This was also borne out by a recent *Which?* report examining the quality and transparency of information given to customers about their savings rates. In its table of 20 leading savings providers, we came second, scoring 27 out of a maximum 28. We will study the findings in full to see if there are any further improvements we can make.

Another aspect of fairness is ensuring that customers are able to access their money swiftly. This year, the watchdog group Consumer Focus raised a 'super complaint' about the financial services sector as a whole regarding the speed of ISA transfers. Following investigation, the Office of Fair Trading issued new guidance stating that transfers must be conducted within 15 days of customer requests. We set ourselves a target of managing any such transfers inside six days and have consistently met that over recent years. That said, a further *Which?* report in March 2011 looked at the quality of information on ISA transfers provided over the telephone by financial services providers. We did not score as highly as we would have wanted and have taken steps to ensure that the specific areas identified in the report are addressed.

We see reuniting customers with their unclaimed assets as an important aspect of TCF. This year, the website **mylostaccount.org.uk** – set up in partnership with the British Bankers' Association and the Building Societies Association – reached its third anniversary. Through the site and our tracing service, we conducted almost 50,000 successful traces in 2010–11 and reunited customers with over £102 million.

Marketing and sponsorship

In light of government austerity measures, this year we reviewed all marketing activity. We have now ended our support of the Royal Horticultural Society's Grow Your Own campaign and our sponsorship of the Classic BRIT Awards. We have a sponsorship arrangement with the Institute of Financial Planning and the Personal Finance Society. We are also reviewing how to get best value from our long-standing contracts with Classic FM and the Science Museum, particularly in supporting our direct channel ambitions. We continue to provide printed You and Your Money guides and details of our product range on the high street through over 300 WHSmith stores.

Our products

Our product range is designed to offer options that meet customers' different savings needs and evolve in line with market conditions and customer demand.

That has meant that over recent years we have sought to simplify and modernise our product range, with a particular emphasis on making products available to manage online and by telephone. In March 2010 we launched our Direct Saver product, which offers full online management of savings and easy access at a competitive rate, with an upper limit of £2 million per saver. Demand has been high and the product is now an important part of our range.

This, together with the changes to Premium Bonds, played a significant role in fulfilling our prediction that 2010–11 would see a change in the way customers could manage their savings and investments with us. Over the coming years, in line with NS&I direct+, the progress to make more of our products available through direct channels will continue.

We also continue to ensure that we provide customers with clear and up-to-date information about our products. For instance, this year we redesigned our Premium Bond brochures, improving the presentation of terms and conditions to make them look less like 'the small print' and easier to read.

Meeting our financial and performance targets

Undoubtedly the most challenging product decision we made during 2010–11 was the withdrawal of Index-linked Savings Certificates from general sale. As communicated at the time of the withdrawal, it was a difficult decision made entirely within the context of our Net Financing target and our aim to act transparently and balance the interests of three groups: our customers – offering them a fair rate; taxpayers – with our remit to raise cost-effective finance for government; and supporting stability in the wider financial services sector. An integral part of this involves being transparent about the volume of business we will generate, measured by our Net Financing target, which was set at £0 (+/– £2 billion) for 2010–11.

During the first few months of 2010–11, demand for Index-linked Savings Certificates reached an exceptionally high level. As inflation rose, and the Bank of England base rate remained at a historical low, the potential returns available through Index-linked Savings Certificates became very attractive to savers, particularly compared with other products available. The consequence was that by the end of June 2010 it was clear that, were we to leave the product on general sale, we would almost certainly take in a volume of business significantly above our target and therefore adversely impact the wider financial services savings market. By contrast, just the year before, during a period of deflation, customer interest in Index-linked Savings Certificates was very low.

Though the product remained open to existing customers, who are able to reinvest at the end of their term, we made the difficult decision to withdraw Index-linked Savings Certificates from sale to new customers from 19 July 2010. At the same time we also withdrew Fixed Interest Savings Certificates from sale and reduced interest rates on Direct Saver and Income Bonds. We communicated these changes extensively through the media, to our customers directly and to Independent Financial Advisers (IFAs) and IFA representative organisations.

Although these changes helped ensure that we would meet our Net Financing target, cumulatively they meant that our product portfolio had effectively narrowed in the short term: as at the end of March 2011 we had just seven products available for new investors. This also reflects the fact that we did not release any new Issues of Guaranteed Growth Bonds or Guaranteed Income Bonds during the year. From the outset we were aware that this was not a position we wanted to be in and actively sought to identify an appropriate opportunity to restore some of these products to general sale. Our 2011–12 Net Financing target, set by the Chancellor, is to deliver £2 billion in a range of £0 to £4 billion. This positive Net Financing target enabled us to reintroduce Index-linked Savings Certificates and Fixed Interest Savings Certificates in May 2011.

Over recent years we have sought to simplify and modernise our product range, with a particular emphasis on making products available to manage online and by telephone.

Funds invested by product type

	Invested at 31 March 2011 £ million	Invested at 31 March 2010 £ million
Premium Bonds	43,115	41,572
Fixed rate bonds	13,789	17,508
Variable rate products	40,396	37,759
Products no longer on sale	1,586	1,965
Total	**98,886**	**98,804**

Our product range

Product	**Tax-free**	**Fixed rate**	**Monthly income**	**Manage online and by phone**	**Growth potential linked to FTSE 100**	**Passbook**	**Tiered rates**
Children's Bonus Bonds	√	√					
Direct ISA	√			√			
Direct Saver				√			
Easy Access Savings Account							√
Fixed Interest Savings Certificates*	√	√					
Guaranteed Equity Bonds*					√		
Guaranteed Growth Bonds*		√					
Guaranteed Income Bonds*		√	√				
Income Bonds			√				√
Index-linked Savings Certificates*	√						
Investment Account						√	√
Premium Bonds	√			√			

*Not on sale at 31 March 2011. Reinvestment at maturity still permitted (with the exception of Guaranteed Equity Bonds).

Our partners

Our business model means that we are dependent on our partners for our operational success and effectiveness. By working openly and transparently with them at all levels, we have continued to meet all our sales and service targets in 2010–11.

Our delivery partnership with Siemens IT Solutions and Services

Since 1999 NS&I's contact centres, IT and processing operations have been delivered by Siemens IT Solutions and Services (SIS) under a highly successful Public Private Partnership (PPP) contract. The contract has delivered in terms of both the standards of service delivered to customers and the efficiencies that have been achieved for taxpayers. The year 2010–11 proved no exception to that, with financial and performance targets met and service levels maintained throughout a period of considerable change.

This includes not only the ongoing move to new infrastructure, but also some more subtle evolution in the nature of the operational work we do. The introduction of increased online and telephone services, for example, promises to change the balance of our sales channels in the long term as customers are increasingly able to 'self-serve'. In the short term, however, it has led to a significant shift in the types of call our contact centres handle, with many customers seeking clarification of how to register, authenticate themselves online and use the new functionality.

As a result, contact centre staff have increasingly been required to provide service and support, rather than focusing on sales. The proof of this is an increase in average call duration of about 7% over the previous year. In particular, the call duration increased after the launch of the full direct capability for Premium Bonds in December 2010, which at the same time saw a significant rise in overall call volumes.

It is to the considerable credit of all involved, therefore, that contact centre performance remained strong, even in a more complex service-based scenario. Overall satisfaction for dealing with telephone calls averaged 94% over the year, despite staff having to deal with complex business and service changes.

Such results are the outcome of a true partnership approach, which ensures that staff on the front line are prepared and equipped to handle operational changes effectively. Changes are jointly planned, communicated thoroughly and carefully timed around customer and business needs. For example, we agreed with SIS that we would carry out the Premium Bond data transfer over the Christmas period, after careful analysis showed that this was a time when transaction volumes are traditionally lower and customers would be least inconvenienced. This meant that many NS&I and SIS staff were required to work over Christmas, and we are very grateful for their commitment in ensuring the project's success.

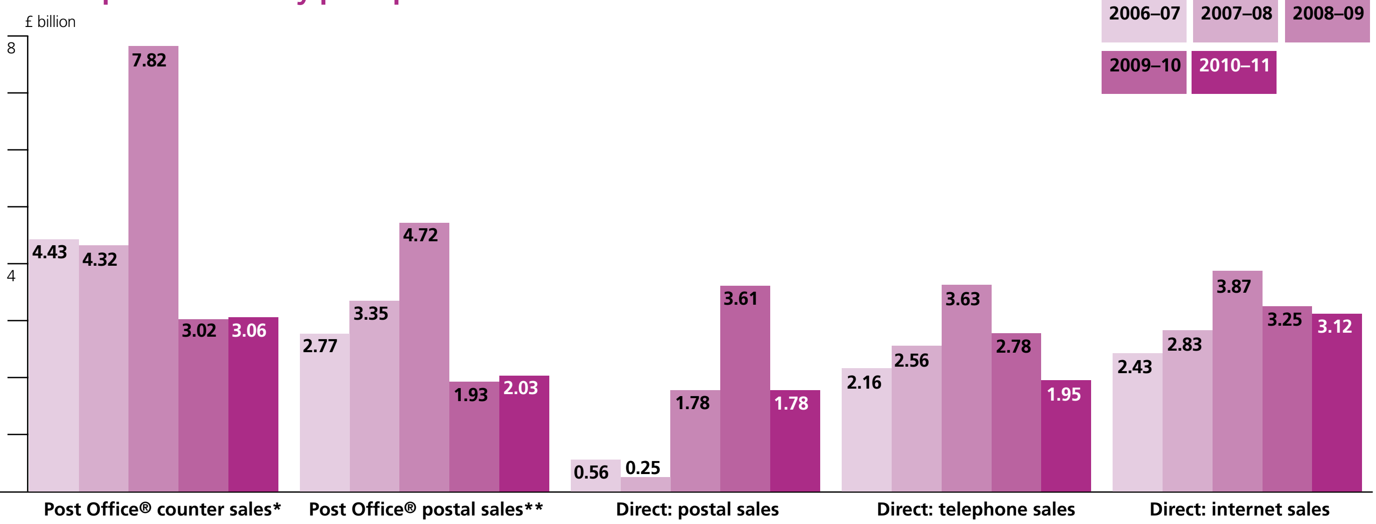
Shared risks, joint governance

That success depended on rigorous project management, comprehensive risk-sharing and a collaborative and transparent way of working – characteristics of the partnership as a whole. That transparency also extends to the financial management of the contract, which is based on an open book approach and clear parameters. Costs are directly linked to transaction volumes and SIS' performance, as measured monthly against agreed targets: the basic annual fee payable to SIS reduces over the length of the contract to reflect increases in operating efficiency. This ensures value for money from the contract as a whole and gives us greater ability to predict and control our cost base.

We recognise that the success of a PPP is in part dependent on the profitability of our partner, and a key part of the open book approach involves us monitoring and understanding SIS' margin. Where an initiative or project has not delivered the anticipated financial benefit for SIS (as well as NS&I), we seek to learn from this.

Established joint governance structures are an integral part of the contract, and SIS staff are involved in both operational and strategic decision-making. For example, the SIS Account Director attends our operating committee meetings, and SIS has a standing invitation to NS&I's Audit Committee for appropriate matters. Forecasting and operational planning are carried out jointly, and frontline staff are engaged early in developing training materials and designing processes for future changes – such as the

Sales performance by principal channels



processes we will use in managing transactions for other government customers as we leverage NS&I's infrastructure, an important opportunity for the future.

A common purpose

This open approach could only work in the context of a strong and open partnership, and our annual partnership survey showed an overall score of 7.4 out of 10 this year – the same as 2009–10 and a figure that compares exceptionally well with industry benchmarks. The survey is conducted by an independent third party, Service Matters, and poses the same 22 questions each year to members of both organisations. As well as commenting on the outstanding overall score, Service Matters noted that '*there is a continuing sense of common purpose and strong commitment to the interests of NS&I and its customers*', adding that '*a significant feature of the partnership is that, from the answers alone, it is almost impossible to tell which organisation the survey participants work for*'.

There are also strong internal communication links. In addition to a regular newsletter, our Chief Executive and members of the senior management team are highly visible to SIS staff, many of whom transferred from NS&I at the start of the contract and continue to work at our sites in Blackpool, Durham and Glasgow. As last year, a series of management roadshows took place during 2010–11, including to the SIS back office sites in Chennai, India. These were well-attended and helped provide important reassurance to staff, not only about our future strategy but also in the build-up to 2014, when the current contract ends. They also offered an opportunity to discuss the proposed acquisition of SIS by Atos Origin forecast to be complete by 1 July 2011.

The tender process for the new PPP contract has now begun and as a result we have started to make changes in contract management practices, with SIS being excluded from strategic discussions that relate to the period beyond the contract end-date. However, we are confident that the excellent service standards and taxpayer value-for-money delivered over previous years will be maintained through to the end of the contract.

Our distribution partnership with the Post Office®

This year has seen an increase in the proportion of our sales through the Post Office®, up from 34% in 2009–10 to 42%.

To help Post Office® employees provide the best possible service to our customers, we continue to invest in the development of bespoke training for the Post Office®, with a particular emphasis on compliance with the Financial Services Authority's Treating Customers Fairly agenda. This is particularly important given the increased range of financial services products available through the Post Office®, including its own products, many of which are similar to NS&I's. The goal is to ensure that customers understand the key features and differences between the products and can therefore make the right decisions for themselves.

As with our delivery partner, we continue to operate transparently with the Post Office®, particularly in terms of our respective strategic directions. The Post Office® is therefore fully aware of the evolution of our strategy to focus more on increasing sales through direct channels – online, by telephone and by post – and we actively inform it of any proposed changes to our business which may affect its own business, such as changes to our rates or product range.

Intermediaries

Although we have no commercial relationship with Independent Financial Advisers (IFAs), we know that a significant number of our customers use them to help manage their finances. To ensure that IFAs have the right information about our products – so that they can provide the best possible advice to their customers – we send regular communications about rates and product changes to nearly 35,000 registered IFA recipients. We continue to work closely with the Institute of Financial Planning and the Personal Finance Society.

*Figures differ slightly from those in Product Accounts note 15, 'Related party transactions', due to timing differences (see page 102).

**These are sales where a customer picks up an NS&I application form at the Post Office® and then sends this by post to NS&I.

Our people

In a year of considerable change and uncertainty, staff engagement and commitment has remained high – which has been a vital asset in achieving our goals and maintaining service levels.

Across the whole of the public sector, this has been a very challenging year. As well as the Civil Service pay freeze, organisations have been operating against a backdrop of uncertainty in terms of budgets and potential reductions in staffing levels. For NS&I this was no different.

During this period of uncertainty, internal communications played a pivotal role. We conducted regular business briefings for staff, ensured that regular updates were posted on the intranet – which now sees very high usage levels across the organisation – and, once the outcomes were known, briefed all our staff on what they meant for NS&I's direction and for our people. We also made extensive use of our existing communication channels to keep Siemens IT Solutions and Services staff informed.

The results of this commitment to communication can perhaps best be seen in the responses to this year's staff engagement survey, which again was a cross-government study. Our overall engagement score was 68%, 11% above Civil Service average levels and 6% above the high performance benchmark for the top quartile of Civil Service organisations. In particular NS&I performed strongly in the area of leadership and managing change, where we were ranked first overall across the Civil Service survey. Given the context of the year – which featured significant operational change as well as the complex external factors mentioned above – this was very pleasing, and is important for our future direction.

Learning from the staff survey

Of course, any such survey highlights areas for improvement, and in our case the issues we need to address concern pay and benefits, and career development. While satisfaction with our pay and benefits remains broadly consistent with that of other Civil Service organisations, we know from our own benchmarking that it has dropped compared with the wider financial services sector. We are therefore investigating what steps we can take to ensure that our overall reward packages remain competitive within the resource available to us, and in particular are seeking to offer more flexible benefits to staff.

Despite some upturn in the financial services industry, staff turnover this year remained very low until the latter part of the year, meaning that there were fewer opportunities for internal progression within NS&I. The changes in our organisational structure, in line with the refocused strategy, have created some new roles and opportunities which have provided career development opportunities for staff in the organisation.

Another area where the survey indicated scope for improvement was in line management, where we were marginally below the high performance benchmark. As part of an ongoing strategy to further strengthen management throughout the organisation, we have introduced a new set of management standards. We are also extending elements of the successful leadership programme we have run over the last two years for senior managers to all line managers.

NS&I performed strongly in the area of leadership and managing change, where we were ranked first overall across the Civil Service survey.

Moving to our new premises

One of the significant changes for our staff during the year was the move to our new offices in Pimlico, London, as our old building in west London was being demolished. We found an alternative tenancy in a vacant, government-owned building. The project was delivered on time and under budget, and within an hour of arriving in our new offices staff were working as normal.

The new premises are smaller and more open than our previous offices, which has encouraged greater cross-team working. It has also led to significant reductions in our energy consumption, as detailed in the Sustainability report (pages 26–29).

Learning and development

Learning and development remain a priority for us, and this year saw some changes to the way training is offered to focus resources on learning requirements identified in individuals' personal development plans. We have also sought to standardise the courses available for common training needs.

Our learning and development framework follows Investors in People standards, which encourages a 'learning culture' and strives for continuous improvement. We continue to hold Investors in People accreditation.

NS&I supports the training and development of employees by:

- providing the time, equipment and opportunities to ensure that our people have the right skills and the knowledge required to carry out their roles
- ensuring that all managers are aware of their role in supporting their team's training and development, and that managers themselves have the skills and knowledge required to help their team in identifying and fulfilling learning and development needs
- encouraging our people to pursue development over and above their job role and to give consideration to career development
- providing mentoring to colleagues across the business.

Learning and development are offered on a fair basis to all employees. Senior managers are responsible for ensuring that no employee receives less favourable treatment or consideration in relation to training and development on the grounds of their gender, sexual orientation, racial group, marital status, disability, age, religion or religious beliefs, working pattern or any other unlawful criterion or circumstances.

To unify the structure of pay and grading across NS&I and to facilitate career development, NS&I moved out of the Senior Civil Service. From 1 October 2010 onwards the only Senior Civil Servant at NS&I has been the Chief Executive. This means that remuneration for senior staff is overseen by HM Treasury pay guidance rather than by the Cabinet Office as was the case previously. We have also taken the opportunity to review our grading structure and change the organisational design to reflect the wider capabilities needed to deliver NS&I direct+.

Pay and reward

At NS&I we are committed to being wholly transparent about executive rewards, and details of these can be seen in the Remuneration report on page 43. Details of our board directors' expenses can also be found online at **nsandi.com/about-nsi-who-we-are-our-board-and-committees**. Reward for individual senior staff members is approved by our Appointments and Remuneration Committee. For NS&I as a whole we have an agreed salary budget from HM Treasury called our delegated pay remit, which we allocate in line with our reward principles (available on request) and within Civil Service guidelines. As noted earlier, 2010–11 saw a Civil Service-wide pay freeze.

Sick absence data

The average number of sick days per person in the 12 months ending 31 March 2011 was 4.24 days (2009–10: 5.02). This figure includes all absences, including long-term absence. Short-term absences were 2.71 days (2009–10: 2.5).

Health and safety

We recognise and accept our responsibility as an employer for ensuring that, as far as is reasonably practical, every employee has a safe workplace that does not pose risks to their health. We comply with current health and safety legislation and approved codes of practice and are committed to continuous assessment and improvement of the health and safety culture of the organisation. We had no material issues.

Pension liabilities

The majority of our current and previous employees are covered by the provisions of the Principal Civil Service Pension Scheme – a defined benefit scheme which, in the main, provides benefits based upon length of service and final salary (career average earnings for those joining after 2007). See the Remuneration report (pages 43–48) for further details.

The rate of the employer's contribution is determined by the Government Actuary and advised by HM Treasury. For 2010–11 the rates were between 16.7% and 24.3% (2009–10: 16.7% and 24.3%) of pensionable pay, depending on salary.

Equal opportunities

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

Our full equal opportunities policy is published on our website.

Disabled employees

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

Permanent and fixed term appointments in 2010–11

	Non-executive Directors	Senior Civil Servants*	Range A	Range B	Range C	Range D
Male	0	0	0	3	1	0
Female	0	0	0	3	2	1
White	0	0	0	3	2	0
Non-white	0	0	0	3	1	1
Disabled	0	0	0	0	0	0

* Equivalent since October 2010

NS&I operate a broad-banded pay system, with roles allocated to ranges dependent on agreed job evaluation criteria.

Recruitment monitoring

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

We have a monitoring system in place to ensure that recruitment is carried out on the basis of fair and open competition and selection on merit.

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

During 2010–11 there was a Civil Service-wide freeze on recruitment. However, we agreed with HM Treasury and with the Cabinet Office a process where our Chief Executive had delegated authority to recruit to fill vacancies in business-critical roles. In the year there were a total of 10 permanent and fixed term appointments, and these are summarised in the table above. There were five permitted exceptions in 2010–11 to the recruitment principle of fair and open competition, which were short-term appointments to meet short-term business needs (i.e. maternity covers or roles to cover a short-term resource requirement).

Our governance and board

Ministerial responsibility

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

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

The Chancellor may delegate these responsibilities to another Minister within HM Treasury.

Since May 2010 the Minister with the portfolio responsible for NS&I has been the Commercial Secretary to the Treasury, Lord Sassoon. This is a new role, created after the 2010 General Election. Prior to the election, the responsible Minister for NS&I was the Financial Services Secretary and Minister for the City, Paul Myners CBE.

Details of the Ministers' salary and pension entitlements are shown in HM Treasury's 2010–11 Annual Report and Accounts.

Our board

The NS&I board is comprised of the Chief Executive (who is also the Accounting Officer), six Executive Directors, four Non-executive Directors (appointed by the Chancellor of the Exchequer following an open recruitment process) and two representatives from HM Treasury.

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

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, the Directors support high standards of governance and, in so far as is practicable given its size and status, have together with HM Treasury continued to develop the governance of the business in accordance with best practice guidelines.

NS&I's Non-executive Directors are expected to spend up to 20 days per year on NS&I business. A generic Non-executive Director contract is available on request.

Board members

Executive members of the board who served during the year

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

Representatives of HM Treasury

Sam Beckett (Director of Fiscal Policy), appointed in April 2008.
Sarah Tebbutt (Deputy Director, Debt and Reserves Management Team), appointed in April 2009.

Only one HM Treasury representative is expected to attend each board meeting or Audit Committee.

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.

Non-executive members of the board
Martin Gray joined in January 2005 as Non-executive Director. He was appointed Chairman effective from September 2009 to run until December 2010. In August 2010 his term as Chairman was extended by one year to December 2011.
David Hulf was appointed in January 2010 for a three-year term.
Simon Ricketts was appointed in July 2007 for a three-year term, now extended for a further three years.
Sir John de Trafford Bt. was appointed in January 2010 for a three-year term.

See board attendance table on page 25.

The year 2010–11 saw no changes to our board. In April 2011 NS&I implemented a new organisational structure designed to deliver the NS&I direct+ strategy, including the new business-to-business activity. The current executive board – bar the Chief Executive – assumed new roles reflecting the new structure. These are:

Jane Platt – Chief Executive, Accounting Officer and Director of Savings
Peter Cornish – Risk and Assurance Director
Julian Hynd – Business-to-Business and Change Director
Gillian McGrattan – Corporate Services Director
Steve Owen – Operations and Commercial Management Director
John Prout – Retail Customer Director

Mike Chilton resigned from NS&I in April 2011 to take on a new role in the private sector. He was replaced on an acting basis by Dharmesh Tailor as Finance and Business Insight Director. Sarah Tebbutt left her role on the NS&I board in May 2011 when she took on a new role within HM Treasury.

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.

Non-executive members of the board are appointed by the Chancellor of the Exchequer and contracted by the Director of Savings. Non-executive Directors have fixed term appointments not exceeding three years. Normally they can serve two terms in office.

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

New board members are encouraged to attend relevant government and private sector training programmes as part of their continuing professional development programmes.

Corporate governance code for central government departments
In 2010–11 the NS&I board reviewed its composition and practices against the corporate governance code for central government departments ('the code') and concluded that it is highly compliant with the code's provisions.

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

Independence of Non-executive Directors
The four Non-executive Directors are fully independent. In reaching that conclusion, the board took into account a number of factors that might appear to affect their independence, including length of service on the board, cross-directorships, whether they have been an employee of the company and whether they have received remuneration other than Directors' fees. In each case, the board is completely satisfied that the independence of the relevant Non-executive Director is not compromised.

The HM Treasury members, representing NS&I's main stakeholder, are also considered to be independent.

Directors' interests
While Directors are permitted to invest in NS&I's products, the board secretary maintains a register of relevant holdings in NS&I products by Directors and their dependants. Directors are mindful of ensuring that they exert no undue influence for their own personal gain as a result of recommending pricing changes to HM Treasury, and have a restricted ability to transact in products where they have access to information that is not yet in the public domain. This restriction applies primarily to new issues or price changes associated with fixed rate products.

Revising the corporate governance code
Work is under way by HM Treasury to revise and refresh the corporate governance code for central government departments. We will review our practices against the revised code once it is published.

Board member performance and effectiveness review

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

Board activities

The board has three key subsidiary committees:

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

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

- the strategic processes for risk control, governance and security within NS&I and also NS&I work outsourced to Siemens IT Solutions and Services (SIS)
- the accounting policies, accounts and Annual Report of NS&I
- internal and external audit plans and the results of this work, along with management's responses to any issues identified
- the system of internal control within both NS&I and SIS, including internal audit arrangements within NS&I and the NS&I account within SIS
- processes in place to ensure appropriate compliance with regulation
- anti-fraud policies, whistle-blowing processes and arrangements for special investigations.

The Audit Committee of NS&I meets at least quarterly and its membership during 2010–11 comprised David Hulf as Chair, Simon Ricketts and a representative of HM Treasury's Debt and Reserves Management Team. The NS&I Chief Executive (as Accounting Officer) and Finance and Risk Director attend all meetings. The NS&I Head of Internal Audit, NAO Director (and, under the NAO's framework agreement, the external audit partner responsible to the NAO for the external audit of NS&I's Product Accounts) are expected to attend all meetings or, where this is not possible, ensure the attendance of a substitute. All other NS&I board members may request to attend meetings; and other members of NS&I, SIS (including the SIS Account Director, SIS Head of Audit and Risk Management) and HM Treasury may be invited to attend meetings for specific agenda items. The Audit Committee may ask any or all of those who normally attend but who are not members to withdraw to facilitate open and frank discussion of particular matters. In addition, the Head of NS&I Internal Audit and the representative of external audit will have free and confidential access to the Chair of the Audit Committee.

During the year under review, the Audit Committee debated a wide range of issues, including the following:

- implementation progress on compliance, risk and fraud strategies, including enhancements to the risk assurance framework
- business continuity, disaster recovery and security arrangements, including data centres
- the annual accounts
- internal and external audit plans and progress against these plans, as well as the adequacy of management's responses to any issues identified
- the effectiveness of the Audit Committee against its terms of reference.

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

Appointments and Remuneration Committee
The Appointments and Remuneration Committee determines the pay strategy for NS&I's senior staff. It also advises on the role and appointment of executive NS&I board members and reviews succession planning arrangements for senior staff (including Executive board members) within NS&I.

The Appointments and Remuneration Committee reviews the Chief Executive's recommendations on pay and performance-related awards to confirm that it is consistent with government policy and HM Treasury pay guidance. As explained earlier in 'Our people' (page 17), from 1 October 2010 NS&I moved out of the Senior Civil Service with the exception of the Chief Executive. This means that remuneration for senior staff is overseen by HM Treasury pay guidance rather than by the Cabinet Office as was the case previously.

Further details of the Committee's membership and role and full details on senior staff salary entitlements are given in the Remuneration report on pages 43–48.

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

Executive Committee
The Executive Committee consists of the Executive Directors of NS&I supported by the board secretary. It meets twice monthly to discuss issues relating to strategy, people, risk and financial results.

Previously, the Executive Committee was called the Executive Management Team and included the SIS Account Director. As the re-tender approaches it is no longer appropriate for SIS to participate in longer-term strategic discussions.

Auditors

The Comptroller and Auditor General is responsible for the audit of the Accounts and Product Accounts, in accordance with section 7 of the Government Resources and Accounts Act 2000. The notional external audit fees include fees for the Product Accounts statutory audit of £703,000 (2009–10: £688,000) and Accounts statutory audit of £58,500 (2009–10: £60,000).The 2009–10 fees also included the Product Accounts International Financial Reporting Standards (IFRS) dry-run audit of £2,000 and the Accounts IFRS dry-run audit of £18,000. The Accounting Officer has taken all the steps that ought to have been taken to make herself aware of any relevant audit information and to establish that NS&I's auditors are aware of that information. So far as she is aware, there is no relevant audit information of which NS&I's auditors are unaware.

NS&I's internal audit service provides an independent appraisal service for management by measuring and evaluating the adequacy, reliability and effectiveness of management and financial control systems. Internal audit makes recommendations based on the appraisal of each system reviewed. An annual assurance report is provided to the Accounting Officer.

To ensure wholly independent and fully professional analysis and recommendations, NS&I chooses to outsource the provision of internal audit. The service is currently provided by KPMG.

Our Non-executive Directors

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

2. David Hulf
David was appointed a Non-executive Director from 1 January 2010. Previously, he held senior financial positions at BP, including responsibilities for finance, strategy and business development, on a regional and global basis. He retired from BP as the Refining and Marketing deputy global Chief Financial Officer. David is a Fellow of the Institute of Chartered Accountants in England and Wales and a Member of the Audit Committee Institute. He is also Chair of the NHS Business Service Authority's Audit and Risk Committee.

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

4. Sir John de Trafford Bt.
Sir John de Trafford became a Non-executive Director from 1 January 2010. His early career was spent in Unilever and at Guinness before he moved into financial services as Head of Consumer Marketing in the UK for American Express. After a spell overseas he was appointed Country Head for the UK and Ireland, before becoming Regional President for Northern Europe and Chair of the company's EMEA Executive. He retired from American Express five years ago and currently has a portfolio of not-for-profit and commercial activities. He retired as Chair of the Pension, Disabilities and Carers Service at the end of 2010.

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

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

Our Executive Directors

7. Jane Platt, Chief Executive

8. Mike Chilton, Finance and Risk Director

9. Peter Cornish, Customer Offer Director

10. Julian Hynd, Change and Strategy Support Director

11. Gillian McGrattan, People and Environment Director

12. Steve Owen, Channel Delivery Director

13. John Prout, Customer Sales and Retention Director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Board attendance

Name	Board (eight meetings)		Audit Committee (five meetings)		Appointments and Remuneration Committee (four meetings)	
	Possible	Actual	Possible	Actual	Possible	Actual
Martin Gray	8	8			4	3
David Hulf	8	7	5	5		
Simon Ricketts	8	8	5	5		
Sir John de Trafford Bt. MBE	8	8			4	4
Sam Beckett (HM Treasury)	2	2	1	1		
Sarah Tebbutt (HM Treasury)	5	5	4	4		
Jane Platt	8	8			4	4
Mike Chilton	8	8				
Peter Cornish	8	7				
Julian Hynd	8	7				
Gillian McGrattan	8	7			4	4
Steve Owen	8	8				
John Prout	8	7				

An HM Treasury representative attends all board and Audit Committee meetings. Attendance was shared between the HM Treasury officials named above. One meeting in July 2010 was attended by available board directors but no HM Treasury representatives were invited because of the conflict with their role as NS&I's spending team.

Jane Platt

Jane Platt
Chief Executive
National Savings and Investments
24 June 2011

Sustainability report

At NS&I, we see sustainability as an essential part of what makes us an efficient and responsible business. This year has seen us exceed government sustainability targets and develop a medium-term carbon management plan which will see us become a more sustainable organisation over the coming years.

Following the publication of our revised corporate social responsibility (CSR) policy in July 2010, we had a clearer baseline picture of the environmental impacts of our business across our London head office and our UK sites in Blackpool, Durham and Glasgow. This provided an excellent foundation for the development of an organisation-wide carbon management plan, looking at all of our operations to identify specific activities and workstreams which could cut our carbon footprint further. The plan was developed as part of our participation in the pilot of the carbon management programme for central government supported by the Carbon Trust, which seeks to reduce carbon emissions across government. NS&I was one of 20 organisations that chose to participate in the programme.

Larissa Lockwood, Public Sector Manager, Carbon Trust, commented: *'The Carbon Trust is delighted to have supported NS&I in the development of its five-year carbon management plan. As an active participant on our Central Government Carbon Management Service, they have gone through a rigorous process of organisational change and technical innovation. Their carbon management plan now demonstrates a robust whole-organisation approach to carbon reduction and energy efficiency. The engagement with SIS, senior management and a network of green champions has been exemplary, and puts NS&I in good stead to achieve year-on-year carbon and cost savings.'*

In the 2009–10 baseline year, our business emitted 11,770 tonnes of carbon dioxide (CO_2). Some 90% of this was related to the energy requirements of our buildings, 5% to transport and 5% to other sources (waste, water and refrigerant gas). This year, our total emissions were 11,184 tonnes of CO_2 (calculated using the Department for Environment, Food and Rural Affairs/Department of Energy and Climate Change (DECC) guidelines 2009).

Our stated aim is to reduce our carbon emissions by at least 20%, from the 2009–10 baseline, by the end of March 2015. However, the effect of the projects and initiatives set out in the carbon management plan will actually reduce our carbon emissions by over 7,000 tonnes a year from the end of March 2015 against the 2009–10 baseline (over 50%) and create a potential financial saving to the whole business (NS&I and SIS) in excess of approximately £1 million – a significant overachievement against both our own internal target and those set centrally by government. Our sustainability approach and report have been reviewed by KPMG.

Our estate

Many of the workstreams identified in the plan are already under way. For example, during 2010–11 we have made significant changes across our estate that have resulted in major reductions in our carbon emissions.

- We completed the planned move of our head office to a government-owned building in Pimlico, central London. This has led to a reduction of over 3% in our utility bills for our head office. Other benefits of the move have included an increase in the use of public transport to work and rationalisation of IT resources (for example, standardising office printers). We also ensured that the highest environmental standards were met in decommissioning our former premises.
- On our Blackpool site, operational and support staff joined the contact centre teams in the new, greener extension to the Moorland building.
- We successfully mothballed the north block of our Glasgow building, moving the small number of staff who worked there into the main part of the building. This will reduce our CO_2 emissions by some 1,478 tonnes over five years, equivalent to 12% of our annual target, and create financial savings of £40,540 a year.
- Our overall carbon emissions from gas and electricity consumption in 2010–11 show a 5% reduction on the baseline from 2009–10.

The carbon management plan will actually reduce our carbon emissions by over 7,000 tonnes a year from the end of March 2015 against the 2009–10 baseline (over 50%)

At both our Durham and Glasgow sites, the longer-term plan is to move to new purpose-built facilities that will enable us to reduce our emissions further and achieve greater savings. These are important steps given the fact that DECC ratings show that our estate currently falls some way short of the government target for public buildings – reflecting the age and nature of the existing premises. Any such new building would meet the Building Research Establishment Environmental Assessment Method (BREEAM) 'Excellent' standard, as required by our CSR policy. Both the CSR policy and carbon management plan are available on our website at **nsandi.com/about-nsi-what-we-do-our-place-community**

As well as larger-scale projects to reduce carbon emissions, we also continue to encourage more energy-efficient working practices, such as temperature controls and low-energy lighting. A host of initiatives are under way to reduce water consumption and cut waste from what are already low levels, as the tables below show. For example, we continue to reduce waste in our mailing, and have retained the Sustainable Mail™ accreditation we achieved in 2009–10.

Our people

This year, we set up a network of CSR green champions, which includes representatives from each team across the business. Their role is to encourage sustainable and responsible working practices, share information and updates from the CSR working group, and act as a conduit for any new ideas on how to improve our sustainability performance. They meet once a month, and are represented at CSR working group meetings.

To complement these NS&I green champions, Siemens IT Solutions and Services (SIS) has set up a network of sustainability champions who have been closely involved in the development of our carbon management plan and are sponsoring and leading delivery of many of the individual programmes. This reflects the nature of our business and is vital to achieving the sustainability performance we seek. The Durham site won an internal award for being the part of SIS' business that had achieved the greatest reduction in energy consumption across all SIS sites in the UK.

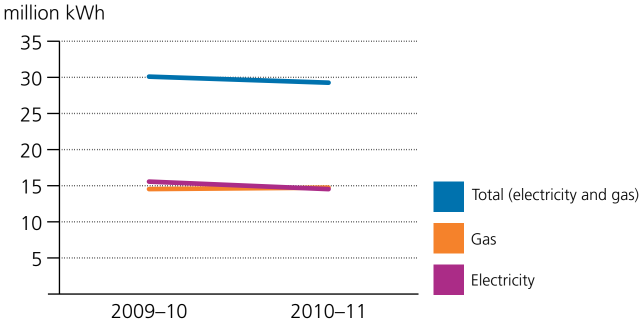
We continue to support various charities both through fundraising events and giving our people volunteering opportunities. The charity chosen by staff for 2010–11 was the National Literacy Trust and the new charity chosen by staff for 2011–12 is Sebastian's Action Trust. The Trust provides respite holidays and practical support for seriously ill children and their families. The children supported by the Trust are battling cancer and other life-limiting conditions. In addition, staff have the opportunity to sign up for Payroll Giving to this and other charities, and to volunteer a set amount of their work time, particularly in areas where their skills are most valuable. NS&I has the Payroll Giving Gold Award with over 25% of our employees participating in the scheme.

Working with others

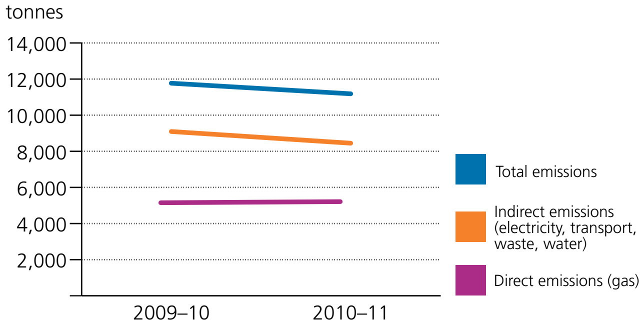
As well as our partnership with SIS, our CSR policy also involves working closely with suppliers and customers. We continue to encourage customers to deal with us online or by telephone, rather than in print – thus reducing the amount of paper we use.

In terms of suppliers, we follow government standards for sustainable procurement, and use appropriate environmental criteria as part of the tender evaluation process. We also actively seek to use our status and activities to influence our suppliers and partners to act in more sustainable ways.

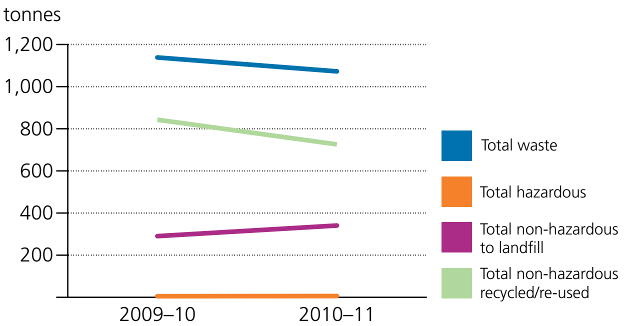
Energy consumption (four sites)



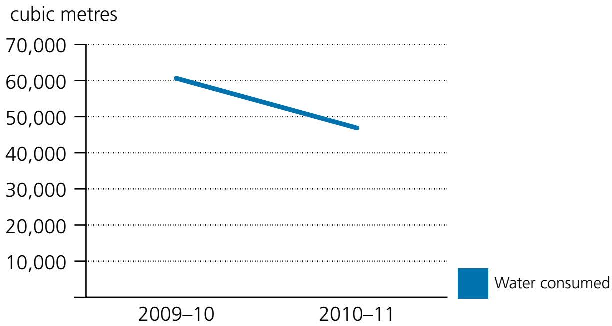
CO_2 emissions (four sites)



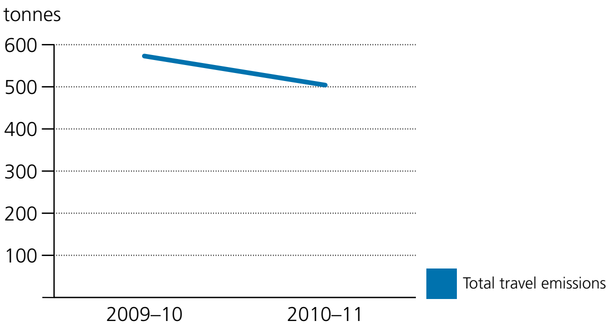
Waste (four sites)



Water consumption (four sites)



Travel CO_2 emissions



Energy (CO_2)

Location	Tonnes
Blackpool	3,796
Durham	3,616
Glasgow	2,852
London	366
Total	**10,630**

Water

Location	Cubic metres
Blackpool	21,376
Durham	13,459
Glasgow	10,958
London	1,076
Total	**46,869**

Waste

Location	Tonnes
Blackpool	227.01
Durham	529.05
Glasgow	251.13
London	65.25
Total	**1,072.44**

Percentage of waste recycled

Location	%
Blackpool	48.26
Durham	69.78
Glasgow	78.96
London	86.49
Total recycled	**67.68**

How we operate

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

NS&I is one of the largest savings organisations in the UK, with over 26 million customers and more than £98 billion of investors' money at the end of March 2011. This represents 7.7% of the UK deposit-based savings market.

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

How we are measured

Our effectiveness in raising funds for the Government is measured in a number of ways, including Net Financing, Value Indicator and efficiency.

Net Financing

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

Value Indicator

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

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

Efficiency

Another useful measure of our efficiency is the ratio of total NS&I administrative costs to average funds invested by customers.

How we set interest rates

We set our rates to act transparently and balance the interests of three groups:

- our customers – offering them a fair rate
- taxpayers – with our remit to raise cost-effective finance for government
- the wider financial services sector – supporting stability.

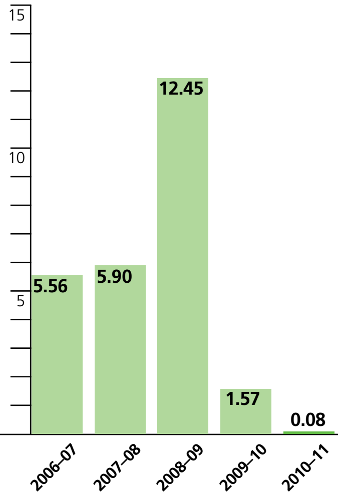
What we spend our money on

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

The basic payment for services to SIS (the unitary fee) reduces over the life of the partnership as a result of the gains from capital investment and operational efficiency brought about by the agreement. SIS also receives variable payments based on transaction volumes, new product and service channel developments, and its performance.

Net Financing

£ billion



NS&I is one of the largest savings organisations in the UK, with over 26 million customers and more than £98 billion of investors' money at the end of March 2011. This represents 7% of the UK savings market.

Full details of our finances and expenditure are in the next section of this report covering both:

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

Expenditure

Resource costs	2010–11 £000 Outturn Net total	2010–11 £000 Estimate Net total	2010–11 £000 Net total outturn compared with estimate	2009–10 £000 Outturn	2009–10 £000 Estimate	2009–10 £000 Net total outturn compared with estimate
Spending in departmental expenditure limit (DEL)						
Central government spending	169,103	172,344	3,241	179,189	182,119	2,930
Spending in annually managed expenditure (AME)						
Central government spending	3,747	5,300	1,553	1,502	7,800	6,298
Non-budget	(10,449)	22,500	32,949	(22,388)	–	22,388
Total	**162,401**	**200,144**	**37,743**	**158,303**	**189,919**	**31,616**

Capital expenditure	2010–11 £000 Outturn Net total	2010–11 £000 Estimate Net total	2010–11 £000 Net total outturn compared with estimate	2009–10 £000 Outturn	2009–10 £000 Estimate (1)	2009–10 £000 Net total outturn compared with estimate
Spending in departmental expenditure limit (DEL)	1,415	1,464	49	4,991	3,178	(1,813)
Non-budget	26,368	27,000	632	29,089	–	(29,089)
Total	**27,783**	**28,464**	**681**	**34,080**	**3,178**	**(30,902)**

(1) Parliamentary supply estimate was not revised due to uncertainties surrounding the application of IFRIC 12 on the PPP contract at the time of the 2009–10 estimate submission process.

Difference between resource outturn and estimate

	2010–11 £000	2010–11 £000	2010–11 £000
Reduction in transaction volume costs	(870)		
Project costs brought forward	970		
Lower depreciation charges	(1,845)		
Deferred professional fees and marketing costs	(570)		
Higher rent receipts than budget	(340)		
Lower pay costs	(230)		
Other differences	(356)		
Total DEL underspend		**(3,241)**	
Lower than expected requirement for provisions	(212)		
Lower than expected impairment charge for Blackpool buildings	(1,341)		
Total AME underspend		**(1,553)**	
Expenditure transferred from expenditure to capital	(22,964)		
Lower than anticipated costs for depreciation	(14,463)		
Business-to-business income transferred to deferred income	4,478		
Total non-budget underspend		**(32,949)**	
Total underspend against estimate			**(37,743)**

Reconciliation of resource expenditure between estimates, accounts and budgets

	2010–11 £000	Restated 2009–10 £000
Net resource requirement (estimates)	**162,401**	**158,303**
Adjustments to remove:		
Provision voted for earlier years	–	–
Adjustments to additionally include:		
Non-voted expenditure in the statement of comprehensive net expenditure	–	–
Consolidated Fund extra receipts in the statement of comprehensive net expenditure	–	–
Reductions in planned spend unable to be included in estimate	–	–
Other adjustments	–	–
Net operating cost (accounts)	**162,401**	**158,303**
Adjustments to remove:		
Gains/losses from sale of capital assets	–	–
Capital grants	–	–
European Union income related to capital grants	–	–
Voted expenditure outside the budget	–	–
Adjustments to additionally include:		
Other Consolidated Fund extra receipts	–	–
Resource consumption of non-departmental public bodies	–	–
Unallocated resource provision	–	–
Other adjustments	10,449	22,388
Resource budget (budget)	**172,850**	**180,691**
of which:		
Departmental expenditure limit (DEL)	169,103	179,189
Annually managed expenditure (AME)	3,747	1,502

Meeting Financial Services Authority requirements

The powers governing the way in which NS&I products are structured and managed are derived from specific NS&I legislation and all strategic decisions affecting our products require Ministerial consent. Additionally, we are expected by HM Treasury to comply fully with Financial Services Authority (FSA) requirements where applicable and appropriate on a voluntary basis. As NS&I holds no capital, has no lending or dealing activities and offers primarily simple, deposit-based products, many areas of the FSA regulatory regime are not directly relevant.

We will operate on the basis that the same principles will apply in terms of complying with any requirements set by the FSA's successors once they are formally established.

We are continuing to progress our programme of work to implement and embed compliance with the relevant regulatory requirements. Progress against the programme is tracked through the Executive Committee and Audit Committee, and is discussed every six months with the FSA.

Of specific relevance to NS&I is the FSA's Banking: Conduct of Business Sourcebook (BCOBS). We have undertaken a full analysis of the BCOBS rules and appropriate arrangements to ensure that we meet the requirements for all NS&I products with the exception of Premium Bonds. Due to the nature of this product, NS&I decided that Premium Bonds should continue to be managed in line with the Premium Bond Regulations and outside of BCOBS.

Some of the other ways in which NS&I has enhanced the embedding of compliance with FSA and other regulations in 2010–11 include the following:

- Continuing to enhance the arrangements to manage the risk of money laundering and protecting our customer and corporate data, including ongoing training programmes and building appropriate controls into new systems.
- Continuing to embed Treating Customers Fairly within our culture through regular reviews across the business, ongoing communications programmes, and analysis and challenge of management information. NS&I's re-accreditation of the Customer Service Excellence award demonstrates our ongoing commitment to good customer service.
- An ongoing review of customer communications, including brochures and call guides, and launch of a more modern website to ensure that we meet the FSA's communication standards of fairness and clarity, and that none of our communications are in any way misleading.
- A greater level of engagement with our key high street distributor, the Post Office®, to gain assurance that NS&I's commitment to compliance is consistent across all channels through which our customers transact with us.
- During the 12 months to March 2011 9,559 complaints were received. This represents 0.03% of the total transactions processed by NS&I, and 93% of these were closed within eight weeks of receipt. In line with Financial Ombudsman Service (FOS) and FSA guidance, NS&I publishes its complaints tables on its website. In the FOS performance tables on complaints, NS&I was in the top 2% of businesses for good management of complaint handling for the period July to December 2010.
- We have a well-defined process to respond to requests under the Freedom of Information Act, which includes our interface with SIS. We have continued to respond to requests for information within the required timescales in the majority of cases (in 2010 5% of responses took longer than the 20 working days permitted). We have continued to publish details of travel and subsistence expenditure incurred, and hospitality given and received by all Executive and Non-executive Directors for 2010–11, and introduced publication of information in line with the Prime Minister's guidance on central government spending.
- The appointment of Executive Directors as compliance champions – each Executive Director has been allocated a specific compliance theme that they have responsibility for championing and embedding within the business. This has increased the level of engagement and escalated the pace of implementation across the business.
- The implementation of an enhanced assurance and monitoring programme – this has given senior management a greater degree of assurance about the level of compliance achieved and will enable us to identify

issues and breaches at an early stage, so they can be addressed quickly with minimal customer impact.

How we manage risk

We have well-established governance structures, including a risk management framework and associated governance committees. Our governance structures are based on both the code of good practice for corporate governance for central government departments and financial services industry standards.

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

Over the past year NS&I monitored closely the recommendations of the Walker Review of corporate governance in the UK banking industry published in November 2009 and the Financial Reporting Council's review of the UK Corporate Governance Code published in June 2010. In line with the spirit of these publications, NS&I has taken the step of appointing a Director of Risk and Assurance reporting directly to the Chief Executive. This appointment is supported by the creation of a new directorate dedicated to risk and assurance, which will play an integral role in meeting the challenges of the NS&I direct+ strategy.

The principal risks and uncertainties facing NS&I which could cause our financial results or operational delivery to materially differ from expected results are set out below, along with a summary of how we managed these risks in 2010–11, where relevant.

Net Financing results

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

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

As mentioned earlier, appropriate action was taken during the year to ensure that we delivered Net Financing within our target range. Mitigating actions include pricing, taking products on or off sale and managing retention rates and marketing activity. The way we use these is shown in our actions last year.

Delivery of the change programme to time and budget

As part of the NS&I adding value strategy, we continued to upgrade and modernise our infrastructure and product range. To manage the risks associated with this, we have put the requisite programme and project management disciplines in place, including enhanced joint working with SIS, project and programme tracking processes, and associated overseeing of the end-to-end project lifecycle. Our successful delivery of the new Premium Bonds services with minimal customer disruption demonstrates our track record in managing this risk.

Brand health

Any national brand needs to actively monitor the way in which its broader reputation (or 'brand health') is perceived – particularly if it operates within the financial services sector – so we need to track brand awareness measures closely. The risks of any negative trends, for whatever reason, are significant. NS&I is no different, but has additional responsibilities given its unique role in ensuring public confidence across the financial sector. Brand risks can arise from a multitude of sources and can be either internally or externally driven. In line with our overall risk management process, NS&I actively monitors a variety of indicators (e.g. through customer and media monitoring), and also places great importance on the anticipation, avoidance and management of risk events.

Reliance on outsourced partners

NS&I's business model relies on SIS for operational delivery and on the Post Office® as a sales channel for a significant proportion of our sales. In order to manage the risks associated with these partners, we have well-developed governance and relationship structures, coupled with formal contract arrangements and targets, so that issues are dealt with promptly and the partnerships remain aligned. We will be working with Atos Origin to establish similarly effective relationship and governance structures once its proposed acquisition of SIS is completed.

Delivering the business-to-business revenues
The new NS&I direct+ strategy will bring with it uncertainties inherent in the sourcing of business-to-business income while maintaining NS&I's core business and conducting the re-tendering programme. Looking ahead to 2011–12, we introduced a new organisational structure to address these issues which included a directorate focused on business-to-business. This took effect from 1 April 2011. We will continue to monitor the strategy and revised structure to ensure that we remain on track.

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

Suppliers

Payment of suppliers, policy and performance
NS&I is committed to a policy of prompt payment and is a supporter of the Better Payment Practice Code. We endeavour to pay all suppliers within 30 days of acceptance of the relevant goods or services, or receipt of a legitimate invoice if that is later. For 2010–11, the average time taken to pay suppliers was 11 days.

In 2010–11 NS&I paid 96.4% (2009–10: 94.4%) of bills within this standard. The Government made a commitment to speed up the payment process for small or medium-sized enterprises (SMEs). HM Treasury's *Managing Public Money* guidance states that *'Public sector organisations should aim to pay suppliers wherever possible within 10 days.'* NS&I has followed this commitment and implemented a process to endeavour to pay SMEs within 10 days of acceptance of the relevant goods or services or receipt of a legitimate invoice if that is later. Details of all expenditure over £25,000 can be found on our website along with a list of all contracts with a value of over £75,000, in line with government guidelines.

Summary of protected personal data-related incidents formally reported to the Information Commissioner's Office in 2010–11

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

Further action on information risk	We hold personal information relating to our customers and readily acknowledge our responsibility to ensure that this information is accurate and up to date, and our duty to ensure that the personal information entrusted to us is properly used and safeguarded from loss, damage and unauthorised access. The overall accountability for information risk lies with the Senior Information Risk Owner (SIRO), who is a board and Executive Committee member and invited to attend the Audit Committee. He is supported by a network of Information Asset Owners whose role is to understand what information is held, what is added and what is removed, how information is moved, and who has access, so as to understand and address risks to the information they use. The SIRO reports quarterly to the board and Audit Committee. Information risk mitigations are provided through a robust security and business continuity programme that aligns with the requirements set out in the HM Government Security Policy Framework covering physical, personnel and information security. Outcomes are reported annually to the Cabinet Office through the Security Risk Management Overview. No serious or untoward incidents were reported during the year. We have recently commissioned an independent IT systems risk assessment to approved government accreditation standards. During 2011–12, we and SIS will be using the findings to commence a programme of accrediting the operational processes and supporting technology.

Departmental Report information

The 2010–11 Departmental Report information shown in the tables below is not consistent with the information shown in the 2010–11 Accounts. As a result there is no direct link to the Statement of comprehensive net expenditure found in the Accounts.

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

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

There are also further changes brought about by changes in HM Treasury's required budgetary framework which are not reflected in the Accounts. The main changes that have impacted are shown below:

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

The above changes have been applied to previous years' figures shown in the Departmental Report and also to plans for 2011–12 to 2014–15. As a result the data shown in this Departmental Report does not directly reconcile to the Accounts.

Table 1: Total departmental spending

	Outturn 2005–06 £000	Outturn 2006–07 £000	Outturn 2007–08 £000	Outturn 2008–09 £000	Outturn 2009–10 £000	Outturn 2010–11 £000	Plans 2011–12 £000	Plans 2012–13 £000	Plans 2013–14 £000	Plans 2014–15 £000
Resource DEL										
Section A: Administration	175,216	168,486	153,533	183,766	179,189	169,103	177,400	166,400	155,400	155,500
Total resource DEL	**175,216**	**168,486**	**153,533**	**183,766**	**179,189**	**169,103**	**177,400**	**166,400**	**155,400**	**155,500**
of which:										
Pay	7,497	7,692	7,993	8,922	9,514	9,769	10,401	10,530	10,827	11,101
Net current procurement (1)	164,487	157,418	141,991	171,108	167,696	157,546	163,819	152,571	141,153	140,859
Current grants and subsidies to the private sector and abroad	–	–	–	–	–	–	–	–	–	–
Current grants to local government	–	–	–	–	–	–	–	–	–	–
Depreciation (2)	2,666	2,769	2,894	3,002	1,211	1,026	2,400	2,500	2,600	2,700
Other	566	607	655	734	768	762	780	799	820	840
Resource AME										
Section B: Administration	(530)	(316)	(181)	(4)	1,502	3,747	5,300	5,300	5,300	5,300
Total resource AME	**(530)**	**(316)**	**(181)**	**(4)**	**1,502**	**3,747**	**5,300**	**5,300**	**5,300**	**5,300**
of which:										
Pay	–	–	–	–	–	–	–	–	–	–
Net current procurement (1)	–	–	–	–	–	–	–	–	–	–
Current grants and subsidies to the private sector and abroad	–	–	–	–	–	–	–	–	–	–
Current grants to local government	–	–	–	–	–	–	–	–	–	–
Net public service pensions (3)	–	–	–	–	–	–	–	–	–	–
Take-up of provisions	164	106	73	203	93	480	300	300	300	300
Release of provisions	(694)	(422)	(254)	(207)	(277)	(392)	–	–	–	–
Depreciation (2)	–	–	–	–	1,686	3,659	5,000	5,000	5,000	5,000
Other	–	–	–	–	–	–	–	–	–	–
Total resource budget	**174,686**	**168,170**	**153,352**	**183,762**	**180,691**	**172,850**	**182,700**	**171,700**	**160,700**	**160,800**
of which:										
Depreciation (2)	2,666	2,769	2,894	3,002	2,897	4,685	7,400	7,500	7,600	7,700

Table 1: Total departmental spending *(continued)*

	Outturn 2005–06 £000	Outturn 2006–07 £000	Outturn 2007–08 £000	Outturn 2008–09 £000	Outturn 2009–10 £000	Outturn 2010–11 £000	Plans 2011–12 £000	Plans 2012–13 £000	Plans 2013–14 £000	Plans 2014–15 £000
Capital DEL										
Section A: Administration	237	68	45	926	4,991	1,415	237	239	215	273
Total capital DEL	**237**	**68**	**45**	**926**	**4,991**	**1,415**	**237**	**239**	**215**	**273**
of which:										
Net capital procurement (4)	237	68	45	926	4,991	1,415	237	239	215	273
Capital grants to the private sector and abroad	–	–	–	–	–	–	–	–	–	–
Capital support for local government	–	–	–	–	–	–	–	–	–	–
Capital support for public corporations	–	–	–	–	–	–	–	–	–	–
Other	–	–	–	–	–	–	–	–	–	–
Capital AME										
Total capital AME	–	–	–	–	–	–	–	–	–	–
of which:										
Capital grants to the private sector and abroad	–	–	–	–	–	–	–	–	–	–
Net lending to the private sector and abroad	–	–	–	–	–	–	–	–	–	–
Capital support for public corporations	–	–	–	–	–	–	–	–	–	–
Other	–	–	–	–	–	–	–	–	–	–
Total capital budget	**237**	**68**	**45**	**926**	**4,991**	**1,415**	**237**	**239**	**215**	**273**
Total departmental spending (5)	**172,257**	**165,469**	**150,503**	**181,686**	**182,785**	**169,580**	**175,537**	**164,439**	**153,315**	**153,373**
of which:										
Total DEL	172,787	165,785	150,684	181,690	181,283	165,833	170,237	159,139	148,015	148,073
Total AME	(530)	(316)	(181)	(4)	1,502	3,747	5,300	5,300	5,300	5,300

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

(2) Includes impairments.

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

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

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

Spending by local authorities on functions relevant to the Department

	Outturn 2005–06 £000	Outturn 2006–07 £000	Outturn 2007–08 £000	Outturn 2008–09 £000	Outturn 2009–10 £000	Outturn 2010–11 £000
Current spending	–	–	–	–	–	–
of which:						
financed by grants from budgets above	171,984	165,110	149,984	180,030	177,210	167,315
Capital spending	–	–	–	–	–	–
of which:						
financed by grants from budgets above	237	68	45	926	4,991	1,415

Table 2: Public spending control

	Supply estimate				
	Administration £000	Other current £000	Gross total £000	A in A £000	Net total £000
Resources					
Spending in departmental expenditure limit (DEL)	158,686	–	158,686	6,278	152,408
Spending in annually managed expenditure (AME)	–	5,000	5,000	–	5,000
Non-budget	–	7,500	7,500	–	7,500
	158,686	**12,500**	**171,186**	**6,278**	**164,908**

	Winter supplementary			Spring supplementary			Final provision	Final outturn	Differences
	Change in gross provision £000	Change in A in A £000	Change in net provision £000	Change in gross provision £000	Change in A in A £000	Change in net provision £000	£000	£000	£000
Resources									
Spending in departmental expenditure limit (DEL)	16,894	900	15,994	11,942	8,000	3,942	172,344	169,103	3,241
Spending in annually managed expenditure (AME)	300	–	300	–	–	–	5,300	3,747	1,553
Non-budget	–	–	–	15,000	–	15,000	22,500	(10,449)	32,949
	17,194	**900**	**16,294**	**26,942**	**8,000**	**18,942**	**200,144**	**162,401**	**37,743**

Table 2: Public spending control *(continued)*

	Supply estimate	Winter supplementary			Spring supplementary			Final provision	Final outturn	Differences
	Capital	Change in gross provision	Change in A in A	Change in net provision	Change in gross provision	Change in A in A	Change in net provision			
		£000	£000	£000	£000	£000	£000	£000	£000	£000
Capital										
Spending in departmental expenditure limit (DEL)	464	–	–	–	1,000	–	1,000	1,464	1,415	49
Non-budget	15,000	–	–	–	12,000	–	12,000	27,000	26,368	632
	15,464	**–**	**–**	**–**	**13,000**	**–**	**13,000**	**28,464**	**27,783**	**681**

Table 3: NS&I capital employed

	Outturn 2005–06	Outturn 2006–07	Outturn 2007–08	Outturn 2008–09	Outturn 2009–10	Outturn 2010–11	Plans 2011–12	Plans 2012–13	Plans 2013–14	Plans 2014–15
	£000	£000	£000	£000	£000	£000	£00	£00	£000	£000
Assets on balance sheet at end of year										
Non-current assets										
Intangible	222	144	1,897	16,637	38,371	55,726	62,000	58,000	52,000	52,000
Property, plant and equipment	25,318	25,204	29,608	35,185	40,539	38,877	38,500	37,000	37,000	37,000
of which:										
Land and buildings	22,842	23,139	25,156	27,159	27,642	23,819	22,600	22,000	22,000	22,000
Information technology	140	137	1,373	5,075	9,793	12,383	13,500	13,000	13,000	13,000
Plant and machinery	340	260	1,151	893	634	435	400	400	400	400
Furniture and fittings	1,996	1,668	1,928	1,208	2,470	2,240	2,000	1,600	1,600	1,600
Assets under construction	–	–	–	850	–	–	–	–	–	–
Current assets	9,145	4,641	2,054	1,576	855	4,526	2,800	3,000	3,000	3,000
Creditors <1 year	(23,161)	(26,356)	(20,113)	(25,498)	(34,146)	(31,330)	(30,000)	(28,000)	(25,000)	(25,000)
Creditors >1 year	–	–	–	–	(2,532)	(7,616)	(8,000)	(6,000)	(4,000)	(4,000)
Provisions	(1,045)	(728)	(547)	(543)	(359)	(448)	(200)	(200)	(200)	(200)
Capital employed within main department	**10,479**	**2,905**	**12,899**	**27,357**	**42,728**	**59,735**	**65,100**	**63,800**	**62,800**	**62,800**

Table 4: Administration budget

	Outturn 2005–06 £000	Outturn 2006–07 £000	Outturn 2007–08 £000	Outturn 2008–09 £000	Outturn 2009–10 £000	Outturn 2010–11 £000	Plans 2011–12 £000	Plans 2012–13 £000	Plans 2013–14 £000	Plans 2014–15 £000
Section A: Administration	175,216	168,486	153,533	183,766	179,189	169,103	177,400	166,400	155,400	155,500
Total administration budget	175,216	168,486	153,533	183,766	179,189	169,103	177,400	166,400	155,400	155,500
of which:										
Paybill	7,497	7,692	7,993	8,922	9,514	9,770	10,401	10,530	10,827	11,101
Expenditure	172,931	166,266	151,165	180,592	175,507	171,089	174,176	165,767	156,370	156,096
Income	(5,212)	(5,472)	(5,625)	(5,748)	(5,832)	(11,756)	(7,177)	(9,897)	(11,797)	(11,697)

Table 5: NS&I staff numbers

Staff numbers at:	1 April 2005	1 April 2006	1 April 2007	1 April 2008	1 April 2009	1 April 2010	1 April 2011
Permanent	123	125	129	135	141	143	140
Casual	4	7	4	1	6	13	17
Total	**127**	**132**	**133**	**136**	**147**	**156**	**157**

(1) The staff numbers shown in the table for 2010–11 above do not agree with the table in Note 8 of the Accounts. The figures in the Accounts are calculated by averaging the staff numbers over the year while the numbers above are shown on spot dates.

Table 6: NS&I consultancy and professional services

	Outturn 2005–06 £000	Outturn 2006–07 £000	Outturn 2007–08 £000	Outturn 2008–09 £000	Outturn 2009–10 £000	Outturn 2010–11 £000
Consultancy services	853	1,341	1,585	2,042	1,903	1,435
Professional services	2,066	2,152	2,345	4,016	4,186	5,687
Contract staff	670	583	943	908	717	491
Other services	977	1,090	950	1,031	1,463	1,656
	4,566	**5,166**	**5,823**	**7,997**	**8,269**	**9,269**

Remuneration report

Appointments and Remuneration Committee

The Appointments and Remuneration Committee comprised Non-executive Directors Martin Gray and Sir John de Trafford Bt. (as Chairman). It also comprised two Executive Directors: the Chief Executive and the People and Environment Director, Gillian McGrattan. Support to the Committee is provided by Gerard Hutchinson (Director of Global Reward, Rolls-Royce plc) in an independent advisory capacity.

The Committee reviews the Chief Executive's recommendations on pay and performance-related awards to confirm that it is consistent with government policy and HM Treasury pay guidance. From 1 October 2010 NS&I moved out of the Senior Civil Service (SCS) with the exception of the Chief Executive (see page 17 for further details). This means that remuneration for senior staff is overseen by HM Treasury pay guidance rather than by the Cabinet Office as was the case previously. The Cabinet Office still gives overall approval to the pay and performance-related award for NS&I's Chief Executive.

Agency performance measures are audited outcomes; individual performance objectives are assessed by the Chief Executive using appropriate measures of outcomes.

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

Service contracts

The remuneration arrangements for senior staff are set out in their contracts and are subject to annual review in line with awards recommended by the Chief Executive. All senior managers are on permanent contracts other than the Chief Executive who is on a three-year fixed-term contract. The notice period for senior staff at NS&I is three months. The arrangements for early termination of senior staff contracts are made in accordance with the service contract of the relevant individual. Compensation for early termination is determined by the Civil Service Compensation Scheme.

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

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

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

Salary and pension entitlements

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

Salary

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

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

Audited

	2010–11 Salary £000	2010–11 Performance-related pay £000	2009–10 Salary £000	2009–10 Performance-related pay** £000
Jane Platt *Chief Executive*	190–195	15–20*	190–195	15–20***
Mike Chilton *Finance and Risk Director*	140–145	10–15	140–145	10–15
Peter Cornish *Customer Offer Director*	100–105	10–15	100–105	10–15
Julian Hynd *Change and Strategy Support Director*	100–105	10–15	100–105	10–15
Steve Owen *Channel Delivery Director*	115–120	10–15	115–120	10–15
Gillian McGrattan *People and Environment Director*	105–110	10–15	105–110	5–10****
John Prout *Customer Sales and Retention Director*	115–120	10–15	115–120	10–15

* The Chief Executive's performance-related pay is agreed by HM Treasury as she is the only NS&I member of the Senior Civil Service. The process for agreeing this element of her pay had not been completed at the date of authorisation of these Accounts. As a result the cash amount paid during 2010–11 for 2009–10 performance-related pay has been included for the Chief Executive only. As soon as the amount is known it will be published on the NS&I website. All other variable pay figures relate to amounts earned by Directors for the reporting period.

** The 2009–10 performance-related payments for Executive board members were approved on 16 July 2010 – after the 2009–10 Annual Report had been authorised and printed. They were then published on **nsandi.com**

*** In view of the economic background, the Chief Executive chose to limit her variable pay for 2008–09 (paid during 2009–10) to the maximum performance-related amount set for Senior Civil Servants, regardless of her contract entitlement.

**** Access to variable pay contractually on a sliding scale from appointment.

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

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

Audited

	Real increase in pension at retirement £000	Real increase in pension-related lump sum at retirement at 31 March 2011 £000	Total accrued pension at retirement at 31 March 2011 £000	Pension-related lump sum at retirement at 31 March 2011 £000	Cash equivalent transfer value (CETV) at 31 March 2010 (1) £000	Cash equivalent transfer value (CETV) at 31 March 2011 £000	Employee contributions and transfers £000	Real increase in CETV as funded by employer £000
Jane Platt *Chief Executive*	2.5–5	–	10–15	–	141	197	15–20	24
Mike Chilton *Finance and Risk Director*	0–2.5	–	5–10	–	85	118	2.5–5	21
Peter Cornish *Customer Offer Director*	0–2.5	2.5–5	15–20	45–50	232	266	0–2.5	13
Julian Hynd *Change and Strategy Support Director*	0–2.5	–	10–15	–	105	128	5–10	7
Steve Owen *Channel Delivery Director*	0–2.5	0–2.5	40–45	130–135	687	751	5–7.5	1
Gillian McGrattan *People and Environment Director*	2.5–5	–	5–10	–	45	86	15–17.5	23
John Prout *Customer Sales and Retention Director*	0–2.5	–	20–25	–	347	417	15–17.5	26

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

(1) The actuarial factors used to calculate CETVs were changed in 2010–11. The CETVs at 31 March 2010 and 31 March 2011 have been calculated using the new factors for consistency. The CETV at 31 March 2010 therefore differs from the corresponding figure in last year's report which was calculated using the previous factors.

Table C: The remuneration of Non-executive Directors

Audited

	2010–11 £000	2009–10 £000
Martin Gray (Chairman from September 2009)	20–25	15–20
Michael Medlicott (left in December 2009)	–	10–15
Paul Spencer CBE (Chairman until August 2009)	–	5–10
Simon Ricketts (joined in July 2007, renewed in July 2010)	15–20	15–20
Sir John de Trafford Bt. (joined in January 2010)	15–20	0–5
David Hulf (joined in January 2010)	15–20	0–5

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

Civil Service pensions

Pension benefits are provided through the Civil Service pension arrangements. Dependent on when they joined, civil servants may be in one of four defined benefit schemes: either a 'final salary' scheme (classic, premium or classic plus) or a 'career average' scheme (nuvos). Since July 2007 the only option has been to join the nuvos scheme. These statutory arrangements are unfunded, with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, classic plus and nuvos are increased annually in line with Pensions Increase legislation. Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a good-quality 'money purchase' stakeholder pension with a significant employer contribution (partnership pension account).

Employee contributions are set at the rate of 1.5% of pensionable earnings for classic and 3.5% for premium, classic plus and nuvos. Benefits in classic accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum. Classic plus is essentially a hybrid, with benefits in respect of service before 1 October 2002 calculated broadly as per classic and benefits for service from October 2002 calculated as in premium. In nuvos, a member builds up a pension based on pensionable earnings during the period of scheme membership. At the end of the scheme year (31 March), the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with the RPI (CPI from 2011–12 onwards). In all cases, members may opt to give up (commute) pension for a lump sum up to the limits set by the Finance Act 2004.

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

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

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

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

For 2010–11, employers' contributions of £1,418,726 were payable to the PCSPS (2009–10: £1,407,628) at one of four rates in the range 16.7% to 24.3% (2009–10: 16.7% to 24.3%) of pensionable pay, based on salary bands. The scheme's actuary reviews employer contributions every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2010–11 to be paid when the member retires and not the benefits paid during this period to existing pensioners.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employers' contributions of £21,303 (2009–10: £20,389) were paid to one or more of a panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 3.0% to 12.5% (2009–10: 3.0% to 12.5%) of pensionable pay. Employers also match employee contributions up to 3.0% of pensionable pay. In addition, employer contributions of £1,503, 0.8% (2009–10: £1,240, 0.8%) of pensionable pay were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees. Contributions due to the partnership pension providers at the balance sheet date were nil. Contributions prepaid at that date were nil.

There were no additional pension liabilities during 2010–11 payable by the Civil Service pension arrangements for individuals who retired early on health grounds.

Cash equivalent transfer values

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

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

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

Real increase in CETV as funded by employer

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

Jane Platt

Jane Platt
Chief Executive
National Savings and Investments
24 June 2011

Statement of Accounting Officer's responsibilities

Accounts

Under the Government Resources and Accounts Act 2000, HM Treasury has directed NS&I to prepare, for each financial year, Accounts detailing the resources acquired, held or disposed of during the year and the use of resources by the Department during the year. The accounts are prepared on an accruals basis and must give a true and fair view of the state of the Department's affairs as at 31 March 2011 and of its net cash requirement, net resource outturn, net operating cost, changes in taxpayers' equity and cash flows for the financial year.

Product Accounts

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

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

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

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

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

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

Statement on internal control

1 Scope of responsibility

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

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

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

2 The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives. It can, therefore, only provide reasonable and not absolute assurance of effectiveness. The system of internal control is an ongoing process designed to identify and prioritise the risks to the achievement of departmental policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in NS&I throughout the year ended 31 March 2011 and up to the date of approval of the accounts, and accords with HM Treasury guidance.

3 Capacity to handle risk

The board, Audit Committee and Executive Committee have primary responsibility for identifying and monitoring the key risks which NS&I faces. The board delegates the responsibility for overseeing the risk management process to the Audit Committee, with the Audit Committee reporting back to the board after each meeting. The Audit Committee, chaired by a Non-executive Director, is responsible for providing assurance, in conjunction with our internal auditors, to the board and to me as the Accounting Officer on the existence and effectiveness of the overall processes for managing risk within NS&I and within those parts of Siemens IT Solutions and Services (SIS) concerned with NS&I business.

The management of risks is delegated through the Executive Committee to subsidiary governance committees, senior managers and risk policy owners. They are responsible for ensuring the proper management of risks and the implementation of the risk management strategy and framework within their respective directorates and teams, including providing guidance, support and training to team members as appropriate to their authority and duties. NS&I's risk function additionally provides any necessary support and guidance in the fulfilment of these activities.

4 The risk and control framework

NS&I has a risk management strategy, a risk management framework and agreed risk management reporting protocols, and these, along with NS&I's risk appetite, are reviewed and approved annually by the Audit Committee. The impact of each key risk and sub-risk identified is assessed both before and after controls using NS&I's risk appetite matrix.

An analysis of key risks and the consequent significant sub-risks has been established through an ongoing programme of individual and collective discussion with the Executive Directors. With very few exceptions where sub-risks have been retained by the Executive Directors, the management of all sub-risks has been allocated to senior managers. An organisation-wide risk register records all significant risks identified, links lower level risks through to the key risks, and records mitigating controls and named risk managers.

The Executive Committee and senior managers consider whether there are any new risks to the business to be registered and discuss these risks as part of monthly risk reviews carried out with NS&I's risk function. Where further action is necessary to reduce exposure, the action, and its intended effect on the status of the risk, is logged, responsibility allocated and a completion date agreed. This ensures that there is ongoing tracking of any risk where exposure remains unacceptably high despite the controls that are in place. These risks are flagged, reviewed monthly by the Executive Committee and reported to the Audit Committee. In addition, the board reviews these risks twice a year. Contingency plans are in place or are being implemented for all sub-risks where exposure is inherently unacceptable.

NS&I's business model means that we are critically reliant on our business partner, SIS, for the delivery of our strategic objectives. Consequently, we have established joint processes with SIS to manage the partnership as one business. Where this does not compromise the integrity of our arrangements for the retender in 2012 (see page 6), these include SIS' representation at relevant governance committees; joint working between project offices; joint project teams; and close co-operation between SIS' Audit and Risk Management team and our own internal auditors. Across the whole business, Executive Directors and operational managers are responsible for embedding risk identification and management within the design, documentation and operation of business processes, in line with agreed risk tolerances.

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

The risk management process is led by the Executive Committee, which comprises the Executive Directors and is responsible for:

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

Senior managers are responsible for implementation of self-assessment processes and ensuring that line management understand and comply with NS&I's policies and relevant legal and regulatory requirements, and provide assurance back to the relevant governance committees that risk is being managed within appetite. Assurance includes reviews of relevant management information, including key risk indicators, service issues and incidents, risk registers and resolving issues raised by internal and external audit issues. As part of the annual planning cycle, senior managers are required to identify the significant risks that could impact on the achievement of each main element of their proposed business plans for the year. These risks are then compared with the existing risk register, which is amended as necessary.

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

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 Committee, Audit Committee and the board. Programme risks are additionally captured in NS&I's organisation-wide risk register.

The risk management process continues to be enhanced.

The key achievements in 2010–11 include:

- winning the Government Finance Profession's 'project of the year' for the finance team's work on IFRS
- continuing the investment in our fraud controls, including introduction of a new methodology for monitoring customer transactions
- movement of all customer data into our new purpose-built data centres, providing a more secure environment and enhanced business continuity
- implementation of an ongoing security awareness programme to complement and enhance the government standard training
- further embedding Treating Customers Fairly within our culture.

Plans for 2011–12 include the continued strengthening of our risk management and compliance assurance processes and increased investment in information security and fraud risk management capabilities.

5 Statement of information risk

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

The overall accountability for information risk lies with the Senior Information Risk Owner (SIRO), who is a board and Executive Committee member and invited to attend the Audit Committee. He is supported by a network of Information Asset Owners whose role is to understand what information is held, what is added and what is removed, how information is moved, and who has access, so as to understand and address risks to the information they use. The SIRO reports quarterly to the board and Audit Committee.

Information risk mitigations are provided through a robust security and business continuity programme that aligns with the requirements set out in the HM Government Security Policy Framework covering physical, personnel and information security. Outcomes are reported annually to the Cabinet Office through the Security Risk Management Overview. No serious untoward incidents were reported during the year.

NS&I has recently commissioned an independent IT systems risk assessment to approved government accreditation standards. During 2011–12 NS&I and SIS will be using the findings to commence a programme of accrediting the operational processes and supporting technology.

6 Review of effectiveness

As Accounting Officer, I 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:

- key governance committees' work (including the board, Audit Committee and Executive Committee) and specifically the Audit Committee's regular reports to the board and the Annual Report to the board and myself
- Executive Directors and senior managers within the Department and SIS who have responsibilities for the development and maintenance of the internal control framework and specifically Executive Directors' annual assurance statements that their key risks are adequately controlled, or plans are in place to provide that control
- internal audit work: the overall internal audit plan and processes, led by KPMG and based on management's assessment of risk throughout the business; internal audit's regular reports to management and the Audit Committee of their activity and recommendations for improvements; and specifically the Head of Internal Audit's independent annual report and opinion that NS&I has adequate and effective risk management, controls and governance processes to manage the achievement of its objectives. As usual, audit work has identified a number of opportunities for improved controls and action is being taken

- external auditors' comments on their management letters and other reports
- other external verifications, including: our performance in the Financial Ombudsman Service tables – see page 33; our accreditation by the new Customer Service Excellence award – see pages 10 and 33; and the retention of the Investors in People accreditation – see page 17.

As explained on pages 10–11, there were two isolated customer service issues of note during the year. I am satisfied with how we managed these incidents, and our response clearly demonstrates that where we have issues we manage them quickly and ensure that customers are treated fairly. I do not consider that either of these incidents to be a significant breakdown of control.

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 2011–12.

Jane Platt

Jane Platt
Chief Executive
National Savings and Investments
24 June 2011

Accounts 2010–11

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 2011 under the Government Resources and Accounts Act 2000. These comprise the Statement of Parliamentary Supply, the Statement of Comprehensive Net Expenditure, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Taxpayers' Equity and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Accounting Officer and auditor

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

Scope of the audit of the financial statements

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

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

Opinion on Regularity

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

Opinion on Financial Statements

In my opinion:

- the financial statements give a true and fair view of the state of the Department's affairs as at 31 March 2011 and of its net cash requirement, net resource outturn and net operating cost, for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

Opinion on other matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000; and
- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

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

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

Report

I have no observations to make on these financial statements.

Amyas C E Morse
Comptroller and Auditor General

Date: 28 June 2011

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

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

Statement of parliamentary supply

Summary of resource outturn 2010–11

		Estimate			Outturn			Net total outturn compared with estimate: saving	Prior year outturn
		Gross expenditure	A in A (1)	Net total	Gross expenditure	A in A	Net total		Net total
	Note	£000	£000	£000	£000	£000	£000	£000	£000
Request for resources (RfR) Reducing the cost to the taxpayer of government borrowing now and in the future and the leveraging of National Savings and Investments' core infrastructure and capabilities	2,3(a),11	215,322	(15,178)	**200,144**	169,679	(7,278)	**162,401**	**37,743**	**159,531**

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

Net cash requirement 2010–11

				2010–11 Net total outturn compared with estimate: saving	2009–10
		Estimate	Outturn		Outturn
	Note	£000	£000	£000	£000
Net cash requirement	4b	184,775	178,013	6,762	174,156

Summary of income payable to the Consolidated Fund

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

			2010–11 Forecast		2010–11 Outturn		2009–10 Outturn
		Income	*Receipts*	Income	*Receipts*	Income	*Receipts*
	Note	£000	£000	£000	£000	£000	£000
Operating income and receipts – excess A in A		–	–	–	–	–	–
Other non-operating income and receipts not classified as A in A	5	–	–	37	*37*	72	*72*
Total		–	–	37	*37*	72	*72*

The notes on pages 63 to 84 form part of these accounts.

Statement of comprehensive net expenditure

for the year ended 31 March 2011

	Note	2010–11 £000	Restated 2009–10 £000
Administration costs			
Staff costs	8	10,261	10,231
Other administration costs	9	170,206	174,513
Operating income	11	(11,756)	(5,832)
Net administration costs		**168,711**	**178,912**
Programme costs			
Programme costs	10	(10,788)	(20,609)
Income	11	4,478	–
Net programme costs		**(6,310)**	**(20,609)**
Net operating costs		**162,401**	**158,303**
Other comprehensive expenditure			
Net gain/(loss) on revaluation of property, plant and equipment	20	633	(1,250)
Total comprehensive expenditure		**163,034**	**157,053**

All income and expenditure is derived from continuing operations.

The notes on pages 63 to 84 form part of these accounts.

Statement of financial position

as at 31 March 2011

	Note	31 March 2011 £000	31 March 2011 £000	31 March 2010 £000	31 March 2010 £000	1 April 2009 £000	1 April 2009 £000
Non-current assets							
Property, plant and equipment	12(b)	38,877		40,539		35,185	
Intangible assets	13(b)	55,726		38,371		16,637	
Total non-current assets			94,603		78,910		51,822
Current assets							
Trade and other receivables	15(a)	3,653		226		241	
Cash and cash equivalents	16	872		629		1,335	
Total current assets			4,525		855		1,576
Total assets			99,128		79,765		53,398
Current liabilities							
Trade and other payables	18(a)	(31,330)		(34,146)		(25,498)	
Total current liabilities			(31,330)		(34,146)		(25,498)
Total assets less current liabilities			67,798		45,619		27,900
Non-current liabilities							
Provisions	19(a)	(447)		(359)		(543)	
Trade and other payables	18(a)	(7,616)		(2,532)		–	
Total non-current liabilities			(8,063)		(2,891)		(543)
Assets less liabilities			**59,735**		**42,728**		**27,357**
Taxpayers' equity							
General Fund			43,958		27,584		10,963
Revaluation reserve			15,777		15,144		16,394
			59,735		**42,728**		**27,357**

The notes on pages 63 to 84 form part of these accounts.

Jane Platt

Jane Platt
Chief Executive
National Savings and Investments
24 June 2011

Statement of cash flows

for the year ended 31 March 2011

	Note	2010–11 £000	Restated 2009–10 £000
Cash flows from operating activities			
Net operating cost (1)	3(a)	(162,401)	(158,303)
Adjustment for non-cash transactions	9,10	13,965	6,603
Decrease/(increase) in trade and other receivables	15(a)	(3,428)	17
Increase in trade payables		1,120	8,023
less movements in payables relating to items not passing through the Statement of comprehensive net expenditure		19	–
Use of provisions – losses	19(a)	(73)	(76)
Use of provisions – early retirements	19(a)	(288)	(201)
Use of provisions – Glasgow sports ground	19(a)	(31)	–
Net cash outflow from operating activities		**(151,117)**	**(143,937)**
Cash flows from investing activities			
Purchase of property, plant and equipment	12(b)	(3,960)	(10,431)
Purchase of intangible assets	13(b)	(23,823)	(23,649)
Increase in payables resulting from investing activities		905	3,861
Net cash flows from investing activities		**(26,878)**	**(30,219)**
Cash flows from financing activities			
From the Consolidated Fund (Supply) – current year		178,885	174,785
From the Consolidated Fund (Supply) – prior year		(629)	(1,335)
From the Consolidated Fund (non-Supply)		–	–
Net financing		**178,256**	**173,450**
Net increase/(decrease) in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund		261	(706)
Receipts due to the Consolidated Fund which are outside the scope of the Department's activities	5	(37)	(72)
Payments of amounts due to the Consolidated Fund		19	72
Net increase/(decrease) in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund	16	243	(706)
Cash and cash equivalents at the beginning of the period	16	**629**	**1,335**
Cash and cash equivalents at the end of the period	16	**872**	**629**

(1) Net operating cost for 2009–10 was restated to remove cost of capital charge of £1,228,000.

The notes on pages 63 to 84 form part of these accounts.

Statement of changes in taxpayers' equity

for the year ended 31 March 2011

	Note	General Fund (1) £000	Revaluation reserve (2) £000	Total reserves £000
Balance at 1 April 2009		**10,963**	**16,394**	**27,357**
Changes in taxpayers' equity 2009–10				
Net loss on revaluation of property, plant and equipment	20	–	(1,250)	(1,250)
Non-cash charges – auditor's remuneration	9	768	–	768
Net operating cost for the year	3(a)	(158,303)	–	(158,303)
Total recognised income and expense for 2009–10		**(157,535)**	**(1,250)**	**(158,785)**
Net Parliamentary Funding – drawn down		174,785	–	174,785
Net Parliamentary Funding – deemed	16	(629)	–	(629)
		174,156	**–**	**174,156**
Balance at 31 March 2010		**27,584**	**15,144**	**42,728**
Changes in taxpayers' equity 2010–11				
Net gain on revaluation of property, plant and equipment	20	–	633	633
Non-cash charges – auditor's remuneration	9	762	–	762
Net operating cost for the year	3(a)	(162,401)	–	(162,401)
Total recognised income and expense for 2010–11		**(161,639)**	**633**	**(161,006)**
Net Parliamentary Funding – drawn down		178,885	–	178,885
Net Parliamentary Funding – deemed	16	(872)	–	(872)
		178,013	**–**	**178,013**
Balance at 31 March 2011		**43,958**	**15,777**	**59,735**

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

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

The notes on pages 63 to 84 form part of these accounts.

Notes to the accounts

1 Statement of accounting policies

These financial statements have been prepared in accordance with the 2010–11 *Government Financial Reporting Manual* (FReM) issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of NS&I for the purpose of giving a true and fair view has been selected. The particular policies adopted by NS&I for the Accounts are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

Accounts direction for these departmental accounts is given by HM Treasury in accordance with section 5(2) of the Government Resources and Accounts Act 2000.

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

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

Certain standards, amendments and interpretations to existing standards have been published that are mandatory for NS&I's accounting periods beginning on or after 1 April 2011 or later periods. NS&I has not early adopted the standards,amendments and interpretations described below:

1.1.1 Amendment to International Accounting Standard (IAS) 24: Related Party Disclosures (effective for annual periods beginning on or after 1 January 2011)

The amendment removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities and it clarifies and simplifies the definition of a related party.

1.2 Accounting convention

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

1.3 Accounting estimates and judgements

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

The accounting policies set out areas involving a higher degree of judgement, complexity, assumptions, estimation techniques, such as note 1.4 (service concession arrangements), note 1.6 (depreciation), note 1.8 (impairments) and note 1.13 (provisions).

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

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

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

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

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

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

1.5 Property, plant and equipment (PPE)

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

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

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

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

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

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

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

1.6 Depreciation

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

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

1.7 Intangible assets

1.7.1 Software

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

1.7.2 Website

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

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

1.7.3 Assets under construction

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

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

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

1.8 Impairments of PPE and intangible assets

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

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

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

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

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

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

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

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

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

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

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

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

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

1.14 Contingent liabilities
Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events

or present obligations where the transfer of economic benefit is uncertain or cannot be reliably measured. Contingent liabilities are not recognised but are disclosed unless they are remote.

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

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

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

1.16 Operating income
Operating income is income which relates directly to the operating activities of NS&I. It is comprised of rent from external tenants including SIS, loss recoveries due from SIS for external fraud and income from business-to-business feasibility activity. Business-to-business development receipts are not treated as operating income immediately. They are treated as deferred income and then transferred to operating income over the asset life.

1.17 Deferred income
Deferred income is income which relates directly to services provided by NS&I that have been prepaid. Deferred income is released to operating income over the period that assets developed to carry out this work are depreciated.

1.18 Value added tax
NS&I's activities are exempted under the terms of the VAT legislation and therefore input VAT is not recoverable. Irrecoverable VAT is charged to the relevant expenditure category or included in the capitalised purchase of non-current assets.

1.19 Programme costs
NS&I recognises the majority of its costs as administration costs. NS&I also accounts for certain costs as programme costs. Programme costs cover property revaluation, increases to provisions and also IFRIC 12 impacts. These include depreciation, amortisation and impairment of assets covered by IFRIC 12. Programme costs also include the reductions to cost due to asset capitalisation.

1.20 Programme income
NS&I recognises that certain income included in appropriations in aid (A in A) is not operating income. This income is recognised as an offset to A in A income in programme and transferred to deferred income.

1.21 Operating segments
There were no components of NS&I that met the IFRS 8 criteria for segmental reporting as determined by:

a) results being separately reportable and reviewed regularly by the chief operating decision maker to assess performance and make decisions about resource allocation

b) meeting the quantitative threshold of 10% of total revenue or assets

c) meeting the aggregated threshold of 75% for similar activities.

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

1.22 Change in accounting policy
NS&I has adopted the FReM amendment to remove the cost of capital charging from annual accounts for periods beginning on or after 1 April 2010. This has had the effect of reducing non-cash costs.

The removal of the cost of capital charging is a change of accounting policy and has resulted in the restatement of prior period costs.

1.23 Business-to-business activities
NS&I accounts for its business-to-business activities in resource DEL for the recognition of costs and receipts. Payments for feasibility remain as costs. Receipts for feasibility are included in operating income. Development costs are capitalised in non-budget as an IFRIC 12 asset. Receipts relating to development work are accounted for as deferred income and transferred to operating income over the asset life.

2 Analysis of net resource outturn by section

	Admin	Other current	Gross resource expenditure	A in A (1)	2010–11 Outturn Net total	2010–11 Estimate Net total	2010–11 Estimate Net total outturn compared with estimate	Restated 2009–10 Prior year outturn (3)
	£000	£000	£000	£000	£000	£000	£000	£000
RfR (2): Reducing the cost to the taxpayer of government borrowing now and in the leveraging of NS&I's core infrastructure and capabilities								
Spending in departmental expenditure limit (DEL)								
Central government spending	180,859	–	180,859	(11,756)	169,103	172,344	3,241	179,189
Spending in annually managed expenditure (AME)								
Central government spending	–	3,747	3,747	–	3,747	5,300	1,553	1,502
Non-budget	–	(14,927)	(14,927)	4,478	(10,449)	22,500	32,949	(22,388)
	180,859	**(11,180)**	**169,679**	**(7,278)**	**162,401**	**200,144**	**37,743**	**158,303**

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

(2) RfR – request for resources.

(3) Prior year outturn 2009–10 differs from the outturn shown in the Statement of Parliamentary Supply (£159,531,000). This is because the above statement and note 3 remove the cost of capital charge from expenditure.

		2010–11	2010–11
		£000	£000
Difference between resource outturn and estimate			
Reduction in transaction volume costs	(870)		
Project costs brought forward	970		
Lower depreciation charges	(1,845)		
Deferred professional fees and marketing costs	(570)		
Higher rent receipts than budget	(340)		
Lower pay costs	(230)		
Other differences	(356)		
Total DEL underspend		**(3,241)**	
Lower than expected requirement for provisions	(212)		
Lower than expected impairment charge for Blackpool buildings	(1,341)		
Total AME underspend		**(1,553)**	
Expenditure transferred from expenditure to capital	(22,964)		
Lower than anticipated costs for depreciation	(14,463)		
Business to business income transferred to deferred income	4,478		
Total non-budget underspend		**(32,949)**	
Total underspend against estimate			**(37,743)**

NS&I controlled its DEL costs very tightly resulting in a modest underspend of £3.2 million (most of which was due to lower depreciation charges and reductions in transaction volume costs). NS&I's AME underspend of £1.5 million is outside NS&I's management control and is dependent on market forces. NS&I's non-budget costs are considerably lower due to a reduction in depreciation charges of £14.5 million and greater capitalisation of development work than originally expected, resulting in a reduction of £22.9 million in resource costs, offset by transferring £4.5 million of income to deferred income.

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

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

	2010–11 Outturn	2010–11 Supply estimate	2010–11 Outturn compared with estimate	Restated 2009–10 Outturn
	£000	£000	£000	£000
Net resource outturn	162,401	200,144	37,743	159,531
Prior period adjustments	–	–	–	(1,228)
Non-supply income (CFERs)	(37)	–	–	(72)
Non-supply expenditure	37	–	–	72
Net operating cost	**162,401**	**200,144**	**37,743**	**158,303**

Prior period adjustment is for the removal of cost of capital charge.

3(b) Outturn against final administration budget

	Note	2010–11 Budget	2010–11 Outturn	Restated 2009–10 Outturn (1)
		£000	£000	£000
Gross administration budget		187,522	180,859	185,021
Income allowable against final administration budget	6	(15,178)	(11,756)	(5,832)
Net outturn against administration budget		**172,344**	**169,103**	**179,189**

(1) 2009–10 outturn has been adjusted to reflect the removal of the administration cost element of the cost of capital charge (£144,000).

The explanation of the variance between estimate and outturn is provided in the management commentary on page 32.

4 Reconciliation of net resource outturn to net cash requirement

4(a) Net cash requirement 2009–10

	Note	Estimate	Outturn	Net total outturn compared with estimate: saving/ (excess)
		£000	£000	£000
Resource outturn (1)		191,549	158,303	33,246
Capital:				
• Addition of property, plant and equipment	12(a)	3,176	10,431	(7,255)
• Addition of intangible assets	13(a)	–	23,649	(23,649)
Accruals adjustments:				
• Non-cash items (2)	9,10	(12,295)	(6,603)	(5,692)
• Changes in working capital other than cash		1,600	(9,369)	10,969
• Changes in payables falling due after more than one year		–	(2,532)	2,532
Use of provisions	19(a)	–	277	(277)
Net cash requirement		**184,030**	**174,156**	**9,874**

(1) As advised by HM Treasury the Statement of Parliamentary Supply has not been revised by the effect of the removal of cost of capital charging (£1,228,000).

(2) Non-cash items for 2009–10 adjusted to reflect removal of cost of capital charge.

4(b) Net cash requirement 2010–11

	Note	Estimate £000	Outturn £000	Net total outturn compared with estimate: saving/ (excess) £000
Resource outturn		200,144	162,401	37,743
Capital:				
• Addition of property, plant and equipment	12(b)	28,464	3,960	24,504
• Addition of intangible assets	13(b)	–	23,823	(23,823)
Accruals adjustments:				
• Non-cash items	9,10	(31,433)	(13,965)	(17,468)
• Changes in working capital other than cash		(12,400)	6,467	(18,867)
• Changes in payables falling due after more than one year	18(a)	–	(5,084)	5,084
Use of provisions	19(a)	–	392	(392)
Excess cash receipts surrenderable to the Consolidated Fund		–	19	(19)
Net cash requirement		**184,775**	**178,013**	**6,762**

The explanation of the variance between estimate and outturn is detailed in note 2.

5 Analysis of income payable to the Consolidated Fund

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

		Forecast 2010–11		Outturn 2010–11	
		Income	*Receipts*	Income	*Receipts*
	Note	£000	£000	£000	£000
Other non-operating income and receipts not classified as A in A	7	–	–	37	*37*
Total		**–**	**–**	**37**	***37***

6 Reconciliation of income recorded within the Statement of comprehensive net expenditure to operating income payable to the Consolidated Fund

		2010–11	2010–11
	Note	£000	£000
Operating income	11	11,756	5,832
Income authorised to be A in A		(11,756)	(5,832)
Operating income payable to the Consolidated Fund		**–**	**–**

7 Non-operating income not classified as appropriations in aid

	2010–11 Income £000	2010–11 Receipt £000	2009–10 Income £000	2009–10 Receipt £000
Prior year fraud recoveries	–	–	72	72
Product Accounts credit interest	37	37	–	–
Total non-operating income not classified as A in A	**37**	**37**	**72**	**72**

8 Staff numbers and related costs

	2010–11 Permanently employed UK staff	2010–11 Others	2010–11 Total	2009–10 Total
	£000	£000	£000	£000
Staff costs comprise:				
Wages and salaries	7,607	491	8,098	8,172
Social security costs	723	–	723	611
Other pension costs	1,440	–	1,440	1,448
Total net costs	**9,770**	**491**	**10,261**	**10,231**

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

For 2010 –11, employers' contributions of £1,418,726 were payable to the PCSPS (2009–10: £1,407,628) at one of four rates in the range 16.7% to 24.3% (2009–10: 16.7% to 24.3%) of pensionable pay, based on salary bands. The scheme's actuary reviews employer contributions every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2010–11 to be paid when the member retires and not the benefits paid during this period to existing pensioners.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employers' contributions of £21,303 (2009–10: £20,389) were paid to one or more of a panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 3.0% to 12.5% (2009–10: 3.0% to 12.5%) of pensionable pay. Employers also match employee contributions up to 3.0% of pensionable pay. In addition, employer contributions of £1,503, 0.8% (2009–10: £1,240, 0.8%) of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees. Contributions due to the partnership pension providers at the Statement of financial position date were nil. Contributions prepaid at that date were nil.

Average number of persons employed

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

	2010–11 Permanently employed UK staff	2010–11 Others	2010–11 Total	2009–10 Total
Administration of NS&I	150	16	166	168
Total	**150**	**16**	**166**	**168**

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

	Number of compulsory redundancies 2010–11	Number of other departures agreed 2010–11	Total number of exit packages by cost band (total cost) (1) 2010–11 £000	Number of compulsory redundancies 2009–10	Number of other departures agreed 2009–10	Total number of exit packages by cost band (total cost) 2009–10 £000
Exit package cost band						
< £10,000	–	2		–	–	–
£10,000–£25,000	–	1		–	–	–
£25,000–£50,000	–	1		–	–	–
£50,000–£100,000	–	2		–	–	–
£100,000–£150,000	–	2		–	–	–
£150,000–£200,000	–	–		–	–	–
Total number of exit packages by type (total cost)	–	–		–	–	–
Total resource cost			**426**			**–**

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

Redundancy and other departure costs have been paid in accordance with the provisions of the Civil Service Compensation Scheme (CSCS), a statutory scheme made under the Superannuation Act 1972. Exit costs are accounted for in full in the year of departure. Where NS&I has agreed early retirements, the additional costs are met by NS&I and not by the Civil Service pension scheme. Ill-health retirement costs are met by the pension scheme and are not included in the table.

9 Other administration costs

	Note	2010–11 £000	2010–11 £000	Restated 2009–10 £000	Restated 2009–10 £000
Public Private Partnership provider costs		126,314		127,352	
Selling agents (1)		22,120		23,293	
Giro fees, Link line, ATMOS and banking charges		1,346		1,358	
			149,780		152,003
Marketing and research costs					
Marketing		4,473		7,823	
Research (2)		1,633		2,048	
			6,106		9,871
Other expenditure					
Consultancy, internal audit contract and personnel costs		3,944		4,392	
Professional services		5,687		4,186	
Other costs		1,669		1,078	
Losses and special payments	26	457		499	
Rentals under operating leases		774		500	
Audit of Ordinary Deposits White Paper Account (3)		–		5	
			12,531		10,660
Non-cash items (5)					
Depreciation	12(b)	1,011		1,163	
Amortisation	13(b)	15		48	
Loss on disposal	12(b)	1		–	
Notional external audit fees (4)		762		768	
			1,789		1,979
Total			**170,206**		**174,513**

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

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

(3) The external audit fees relating to Ordinary Deposits White Paper Account of £5,000 in 2009–10 were paid in cash. The Comptroller and Auditor General is NS&I's external auditor and received no remuneration for non-audit work, as he did not undertake any.

(4) The notional external audit fees include fees for the Product Accounts statutory audit £703,000 (2009–10: £688,000) and Accounts statutory audit £58,500 (2009–10: £60,000). The 2009–10 fees also included the Product Accounts IFRS dry-run audit of £2,000 and the Accounts IFRS dry-run audit of £18,000.

(5) Cost of capital charge removed from 2009–10 non-cash costs. The charge was £1,228,000.

10 Programme costs

	Note	2010–11 £000	2010–11 £000	2009–10 £000	2009–10 £000
Transfer of Public Private Partnership provider costs to capital (1)		(22,964)		(25,233)	
			(22,964)		(25,233)
Non-cash items					
Depreciation	12(b)	1,584		863	
Amortisation	13(b)	5,336		1,304	
Impairment of property (2)	12(b)	3,659		1,686	
Impairment of EOI asset (3)	13(b)	1,117		–	
Impairment of website (4)	13(a)	–		562	
Increase in early departure provision	19(a)	275		30	
Increase in fraud losses provision	19(a)	175		81	
Reversal of fraud losses provision	19(a)	(10)		(48)	
Glasgow sports ground lease provision	19(a)	40		30	
Loss on disposal	12(a)	–		116	
			12,176		4,624
Total			**(10,788)**		**(20,609)**

(1) Capitalisation of SIS' costs for infrastructure purchase and development work.

(2) NS&I carried out a revaluation of its properties for the year end. The Blackpool buildings were impaired. As there was no unrealised balance remaining for this in the revaluation reserve, a charge was made to programme costs.

(3) NS&I impaired the development work carried out on evidence of identity (EOI). This project was deferred due to the impact of the 'flight to safety' during both 2008–09 and 2009–10 to focus on the core programme. Following further review the planned development will not be completed in the way originally determined. Some of the development may be useable in future.

(4) NS&I replaced its existing website when the new website went live in October 2009. The remaining value of the existing website was then written off.

11 Operating income

Operating income comprises:

	2010–11 £000	2009–10 £000
Contracted loss recovery from SIS	478	219
Rent from external tenants	5,686	5,613
Business-to-business	5,592	–
Total income	**11,756**	**5,832**
Transfer of income to deferred income	(4,478)	–
Total operating income	**7,278**	**5,832**

Non-operating income and receipts not classified as A in A comprise amounts which relate to prior years, including prior year loss recoveries. The actual receipts surrenderable were £37,392 (2009–10: £72,183).

12 Property, plant and equipment

12(a) Prior year

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

12(b) Current year

	Land	Buildings	Information technology	Plant and machinery	Furniture and fittings	Assets under construction	Total
	£000	£000	£000	£000	£000	£000	£000
Cost or valuation							
At 1 April 2010	11,266	25,608	18,388	2,726	7,561	–	65,549
Additions	–	(63)	3,254	1	768	–	3,960
Transfer (1)	–	–	703	–	(703)	–	–
Disposals	–	–	–	(47)	(1,217)	–	(1,264)
Revaluation	1,070	–	–	–	–	–	1,070
Downward revaluation	–	(5,385)	–	–	–	–	(5,385)
At 31 March 2011	**12,336**	**20,160**	**22,345**	**2,680**	**6,409**	**–**	**63,930**
Depreciation							
At 1 April 2010	–	(9,232)	(8,595)	(2,092)	(5,091)	–	(25,010)
Provided in year	–	(734)	(1,367)	(200)	(294)	–	(2,595)
Disposals	–	–	–	47	1,216	–	1,263
Downward revaluation	–	1,289	–	–	–	–	1,289
At 31 March 2011	**–**	**(8,677)**	**(9,962)**	**(2,245)**	**(4,169)**	**–**	**(25,053)**
Net book value							
At 1 April 2010	11,266	16,376	9,793	634	2,470	–	40,539
At 31 March 2011	**12,336**	**11,483**	**12,383**	**435**	**2,240**	**–**	**38,877**

(1) Furniture and fittings recognised that (£703,000) in 2009–10 had to be transferred to information technology as the original classification was incorrect. There were no depreciation consequences as a result.

The freehold land and buildings at Blackpool, Durham and Glasgow were revalued as at 31 March 2011 by professional valuers on a market value basis. Chartered surveyors DTZ Debenham Tie Leung Limited carried out the valuations in accordance with the RICS Valuation Standards.

The land and buildings are owned by NS&I but leased to SIS under an operating lease.

13 Intangible assets

13(a) Prior year

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

13(b) Current year

	Software	Website	Assets under construction (1)	Total
	£000	£000	£000	£000
Cost or valuation				
At 1 April 2010	22,497	773	17,661	40,931
Additions	3,658	–	20,165	23,823
Transfer from 'assets under construction' on implementation	24,893	113	(25,006)	–
Impairment of EOI services development work	–	–	(1,117)	(1,117)
At 31 March 2011	**51,048**	**886**	**11,703**	**63,637**
Amortisation				
At 1 April 2010	(2,484)	(76)	–	(2,560)
Provided in year	(5,200)	(151)	–	(5,351)
At 31 March 2011	**(7,684)**	**(227)**	**–**	**(7,911)**
Net book value				
At 1 April 2010	20,013	697	17,661	38,371
At 31 March 2011	**43,364**	**659**	**11,703**	**55,726**

(1) Assets under construction mainly include developments concerning the implementation of the new banking infrastructure. This relates mainly to the migration of Premium Bonds onto a new platform. At the Statement of financial position date, £24.89 million (2009–10: £16.76 million) had been transferred to software on implementation of the first part of the programme. The remaining amounts are linked to further product migration and other developments.

14 Financial instruments

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

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

15 Trade and other receivables

15(a) Trade and other receivables

	31 March 2011 £000	31 March 2010 £000
Amounts falling due within one year		
Trade receivables	3,545	–
Deposits and advances	57	44
Other receivables	15	31
Prepayments and accrued income	36	151
	3,653	**226**

At 31 March 2011 there were no debtors falling due after more than one year.

The number of employees with advances for season ticket purchases in excess of £2,500 at 31 March 2011 was 6.

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

	31 March 2011 £000	31 March 2010 £000
Amounts falling due within one year		
Balance with other central government bodies	3,545	–
Balance with public corporations and trading funds	–	–
Subtotal: intra-government balances	3,545	–
Balance with bodies external to government	108	226
Total receivables at 31 March	**3,653**	**226**

At 31 March 2011, there were no intra-government receivables falling due after more than one year.

16 Cash and cash equivalents

	2010–11 £000	2009–10 £000
Balance at 1 April	629	1,335
Net increase/(decrease) in cash and cash equivalent balances	243	(706)
Closing cash and cash equivalents balance	**872**	**629**
The following balances at 31 March are held at:		
Office of HM Paymaster General	–	576
Commercial banks	–	53
Government Banking Service	872	–
Balance at 31 March	**872**	**629**

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

	2010–11 £000	2009–10 £000
Net cash requirement	(178,013)	(174,156)
From the Consolidated Fund (Supply) – current year	178,885	174,785
From the Consolidated Fund (Supply) – prior year	(629)	(1,335)
Net increase/(decrease) in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund	**243**	**(706)**
Amounts due to the Consolidated Fund received and not paid over	19	–
Increase/(decrease) in cash	**262**	**(706)**

18 Trade and other payables

18(a) Trade and other payables

	31 March 2011 £000	31 March 2010 £000
Amounts falling due within one year:		
Taxation and social security	210	295
Trade payables	3,127	12,245
Other payables	124	262
Accruals	26,679	20,715
Deferred income	299	–
Payments due to the Consolidated Fund	19	–
Amounts issued from the Consolidated Fund for supply but not spent at year end	872	629
Subtotal	**31,330**	**34,146**
Amounts falling due after more than one year:		
Trade payables	3,437	2,532
Deferred income	4,179	–
Subtotal	**7,616**	**2,532**
Total trade and other payables	**38,946**	**36,678**

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

	31 March 2011 £000	31 March 2010 £000
Amount falling due within one year		
Balance with other central government bodies	1,560	1,073
Balance with public corporations and trading funds	–	994
Subtotal: intra-government balances	**1,560**	**2,067**
Balance with bodies external to government	29,770	32,079
Subtotal	**31,330**	**34,146**
Amounts falling due after more than one year:		
Balance with other central government bodies	4,179	–
Trade payables	3,437	2,532
Subtotal	**7,616**	**2,532**
Total trade and other payables	**38,946**	**36,678**

At 31 March 2011, there were two intra-government trade and other payables falling due after more than one year.

Amounts falling due after more than one year refer to payments to be made to SIS and deferred income due from other government departments.

19 Provisions for liabilities and charges

19(a) Movements in provisions

	31 March 2011 £000	31 March 2010 £000
Early departure costs (1)		
Balance at 1 April 2010	212	383
Provided in the year	275	30
Provisions utilised in the year	(288)	(201)
Balance at 31 March	**199**	**212**
Provision for fraud losses (2)		
Balance at 1 April 2010	117	160
Increase in provision	175	81
Provision written back	(10)	(48)
Provisions utilised in the year	(73)	(76)
Balance at 31 March	**209**	**117**
Provision for Glasgow sports ground (3)		
Balance at 1 April 2010	30	–
Increase in provision	40	30
Provisions utilised in the year	(31)	–
Balance at 31 March	**39**	**30**
Provisions for liabilities and charges	**447**	**359**

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

	31 March 2011 £000	31 March 2010 £000
Early departure costs (1)		
Not later than one year	199	160
Between one year and five years	–	52
Balance at 31 March	**199**	**212**
Provision for fraud losses (2)		
Not later than one year	209	117
Balance at 31 March	**209**	**117**
Provision for Glasgow sports ground (3)		
Not later than one year	16	10
Between one year and five years	23	20
Balance at 31 March	**39**	**30**

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

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

(3) NS&I meets its rental obligations in an operating lease agreement with Pollok and Corrour Limited (landlords of Glasgow sports ground) for the hire of the ground. Up until the prior year the payment had been refunded to NS&I by the Sports and Social Association. The association can no longer cover the payments. The lease is an onerous lease. There are still 62 years to run on the lease. The Department for Communities and Local Government has signed a sealing letter of consent on 17 June 2011 authorising NS&I to sublease the sports ground to another party. At most the lease is likely to be held for a further two years. The provision represents the liability to the landlord for that period.

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

	31 March 2011 £000	31 March 2010 £000
Revaluation on property charges to reserve:		
Downward revaluation	(5,385)	(2,718)
Backlog depreciation adjustment	1,289	(1,396)
Upward revaluation	1,070	1,178
	(3,026)	**(2,936)**
Revaluation of property: charges to Statement of comprehensive net expenditure	3,659	1,686
Movement in revaluation reserve	**633**	**(1,250)**

21 Capital commitments

	31 March 2011 £000	31 March 2010 £000
Contracted for but not provided	5,840	1,481
Authorised but not contracted	–	–
Total	**5,840**	**1,481**

22 Leases

22(a) Operating leases with tenants

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

	31 March 2011 £000	31 March 2010 £000
Buildings		
Not later than one year	5,310	5,321
Between one year and five years	10,088	14,877
More than five years	–	–
Total	**15,398**	**20,198**
Land (1)		
Not later than one year	–	10
Between one year and five years	–	9
More than five years	–	–
Total	**–**	**19**

22(b) Commitments under operating leases

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

	31 March 2011 £000	31 March 2010 £000
Obligations under operating leases comprise:		
Buildings		
Less than one year	823	117
Between one year and five years	3,024	–
More than five years	1,363	–
Total	**5,210**	**117**
Land (1)		
Less than one year	16	25
Between one year and five years	41	42
More than five years	223	224
Total	**280**	**291**

None of these leases relates to the hire of plant.

(1) NS&I holds a lease on land in Glasgow with Pollok and Corrour Limited. The lease commenced in 1974. The original lease term was for 99 years. NS&I pays £10,800 rent to the landlord annually. This has been increased to £16,000. The Glasgow Sports and Social Association refunded the rent of £10,800 annually until July 2009. The Department for Communities and Local Government has signed a sealing letter of consent on 17 June 2011 authorising NS&I to sublease the sports ground to another party. At most the lease is likely to be held for another two years.

23 Commitments under the Public Private Partnership (PPP) contract

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

On the commencement of the contract on 1 April 1999, over 4,000 NS&I staff were transferred to SIS. In addition, £15 million of NS&I's assets were transferred to SIS for a nominal sum, which had the effect of reducing charges that would otherwise have been payable to SIS over the life of the contract.

Under the same contract, SIS has entered into an agreement to lease NS&I's three operational sites in return for a monthly rent. Details of the amounts receivable are provided in note 22 to these accounts.

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

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

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

	£000
Amounts falling due within one year	89,784
Net present value of amounts falling due within two to three years	165,871
Total	**255,655**

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

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

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

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

24 Other financial commitments

There were no other financial commitments at 31 March 2011.

25 Contingent liabilities disclosed under IAS 37

NS&I has an operating lease agreement in place with Pollok and Corrour Limited, landlords of the sports ground in Glasgow. There are still 62 years to run on the lease. The lease is an onerous lease. The Department for Communities and Local Government has signed a sealing letter of consent on 17 June 2011 authorising NS&I to sublease the sports ground to another party. The lease is likely to be held for a further two years. A provision has been established to cover that. However, a possibility remains that NS&I has a contingent liability of around £300,000.

26 Losses and special payments

	Number of cases	31 March 2011 £000	Number of cases	31 March 2010 £000
Compensation payments (1)	4	–	14	98
Fraud loss	158	456	180	393
Fruitless payments (2)	–	–	1	8
Other	2	1	–	–
Total	**164**	**457**	**195**	**499**

(1) Four cases in total settled for less than £1,000.

(2) NS&I accrued a payment of £31,000 to Pollok and Corrour Limited, landlords of the sports ground in Glasgow. The initial cost was accounted for as a provision.

27 Related party transactions

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

The Post Office® is a major distributor of NS&I products and, as a public body, the Post Office® is a related party. NS&I had a significant number of transactions with the Post Office® during the accounting period. NS&I's Post Office® costs during 2010–11 were £21,264,145.10 (2009–10: £22,589,439) for contract services and £0 for non-contract services (2009–10: £0).

In addition NS&I has carried out a number of significant transactions with the Government Banking Service, Ministry of Justice (Court Funds Office), Office for National Statistics and HM Treasury, and a small number of various immaterial transactions with other government departments: Treasury Solicitor, HM Revenue and Customs, Cabinet Office, the Government Car and Despatch Agency and the Financial Ombudsman Service.

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

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

	2010–11 £000	2009–10 £000
Executive Directors and Non-executive Directors		
Closing balance	**1,820**	**1,099**

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

28 Events after the Statement of financial position date

At the date of this report's publication, it is expected that Atos Origin will have completed its acquisition of Siemens IT Solutions and Services.

As part of the NS&I direct+ strategy, NS&I went through an organisational restructuring which came into effect on 1 April 2011. This is detailed in the Governance section on pages 20 to 25 of this Annual Report and Accounts and Product Accounts.

During the events after the Statement of financial position date period NS&I became aware of the cost of an obligation for pending litigation. The liability will be no more than £133,000. Due to the sum involved, NS&I treated this amount as an unadjusted event.

The sealing letter of consent from the Department for Communities and Local Government was signed on 17 June 2011 authorising NS&I to sublease the Glasgow sports ground to another organisation.

There are no other reportable events between the Statement of financial position date and 28 June 2011, the date of authorisation of these accounts. The financial statements do not reflect events after that date.

Product Accounts 2010–11

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

I certify that I have audited the financial statements of National Savings and Investments' Product Accounts for the year ended 31 March 2011 under the Government Resources and Accounts Act 2000. These comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Cash Flows, and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Accounting Officer and auditor

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

Scope of the audit of the financial statements

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

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

Opinion on Regularity

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

Opinion on Financial Statements

In my opinion:

- the financial statements give a true and fair view of the state of affairs of National Savings and Investments' Product Accounts as at 31 March 2011 and of the operating result for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

Opinion on other matters

In my opinion the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

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

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

Report

I have no observations to make on these financial statements.

Amyas C E Morse
Comptroller and Auditor General

Date: 28 June 2011

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

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

Product Accounts background

Accounts

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

Scope of the Product Accounts

These accounts record transactions for the year ended 31 March 2011 on retail savings and investment products administered by NS&I and balances in respect of these products as at that date. They do not include:

- *The investment or use of funds*. Customer funds are not directly invested by NS&I. They are passed to the National Loans Fund (NLF) to fund public sector activity and prior to 1 September 2009 certain funds were passed to the Commissioners for the Reduction of the National Debt (CRND), where they were invested mainly in Government securities.
- *NS&I's administration costs.* These are funded by Parliamentary Vote and accounted for separately in the Accounts section in the Annual Report. However, the interest and prizes costs on NS&I products are included in the total cost of servicing the national debt, and these costs are therefore reflected as a charge on both the NLF account and these accounts.
- *Tax foregone.* Some NS&I products are tax free. The notional cost of tax foregone by the Exchequer is not recognised as a cost in these accounts, but is considered as part of NS&I's overall Value Indicator measure when computing how cost-effective NS&I has been in financing the national debt.

The National Loans Fund

The National Loans Fund (NLF) is central government's main borrowing and lending account. The NLF undertakes borrowing and uses the proceeds to meet any deficits on the Consolidated Fund. Most of the NLF's borrowing needs are met indirectly through borrowing on its behalf by NS&I and the Debt Management Office (DMO). The NLF ends each day with a nil balance on its bank account because any cash surpluses or deficits are offset by transfers to or from the Debt Management Account (DMA). HM Treasury is responsible for the operation of the NLF and guarantees to honour NS&I's products' terms and conditions. In legal terms, section 120 of the Finance Act 1980 (in respect of investment deposits) and section 12 of the National Loans Act 1968 (for other NS&I payments) both make provision for such repayments to be issued from the NLF with recourse to the Consolidated Fund. Should the NLF prove insufficient, payment (customer liability) will be a charge on the Consolidated Fund and against the tax revenue being raised.

The Commissioners for the Reduction of the National Debt

Under the National Savings Bank Act 1971, Ordinary Account investments were passed to the Commissioners for the Reduction of the National Debt (CRND), who invested them under section 18 of that Act. The CRND form part of the DMO. Under the National Savings Stock Register Regulations 1976, some unclaimed funds were also passed to the CRND for inclusion in the Unclaimed Dividends Account.

From 1 September 2009, all NS&I funds held by the CRND were transferred to the NLF as part of NS&I's modernising and standardising strategies.

NS&I's products and regulation

NS&I's Product Accounts cover transactions and balances on all NS&I's products.

The products covered by these accounts and their governing legislation and regulations are as follows:

Products governed by the National Debt Act 1972

Capital Bonds	National Savings Stock Register Regulations 1976
Children's Bonus Bonds	Savings Certificates (Children's Bonus Bonds) Regulations 1991
First Option Bonds	National Savings Stock Register Regulations 1976
Guaranteed Income Bonds and Guaranteed Growth Bonds (previously known as Fixed Rate Savings Bonds)	National Savings Stock Register Regulations 1976
Guaranteed Equity Bonds	National Savings Stock Register Regulations 1976
Income Bonds	National Savings Stock Register Regulations 1976
Pensioners' Guaranteed Income Bonds	National Savings Stock Register Regulations 1976
Premium Bonds	Premium Savings Bonds Regulations 1972
Savings Certificates	Savings Certificates Regulations 1991

Products governed by the National Savings Bank Act 1971

Direct Saver Account	National Savings Bank Regulations 1972
Easy Access Savings Account	National Savings Bank Regulations 1972
Individual Savings Account	National Savings Bank Regulations 1972
Investment Account	National Savings Bank Regulations 1972
Residual Account	National Savings Bank Regulations 1972

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

Audit

These accounts have been audited by the Comptroller and Auditor General, whose Certificate and Report appears on pages 86 to 87.

Statement of comprehensive income

for the year ended 31 March 2011

	Note	2010–11 £000	2009–10 £000
Interest and prizes financed by the NLF (excluding revaluation of embedded derivatives)		2,580,415	1,893,492
Gain on revaluation of embedded derivatives		265	17,536
Interest and prizes financed by the NLF		2,580,680	1,911,028
Interest and prizes payable to investors (excluding revaluation of embedded derivatives)		(2,580,415)	(1,893,492)
Loss on revaluation of embedded derivatives		(265)	(17,536)
Interest and prizes payable to investors	3	(2,580,680)	(1,911,028)
Net cost		–	–

The notes on pages 93 to 102 form part of these accounts.

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

Statement of financial position

as at 31 March 2011

	Note	31 March 2011 £000	31 March 2010 £000
Current assets			
Held by the NLF	4	98,338,931	98,120,139
Held by the CRND	5	–	–
Other receivables	6	86,167	180,116
Cash and cash equivalents		468,318	522,068
Total current assets		98,893,416	98,822,323
Current liabilities			
Liability to investors	7	(98,639,604)	(98,511,242)
Other payables	8	(7,879)	(18,369)
Total current liabilities		(98,647,483)	(98,529,611)
Net current assets		**245,933**	**292,712**
Non-current liabilities			
Liability to investors	7	(245,933)	(292,712)
Total non-current liabilities		**(245,933)**	**(292,712)**
Assets less liabilities		**–**	**–**

The notes on pages 93 to 102 form part of these accounts.

Jane Platt

Jane Platt
Chief Executive
National Savings and Investments
24 June 2011

Statement of cash flows

for the year ended 31 March 2011

	Note	2010–11 £000	2009–10 £000
Cash flows from operating activities			
Net costs		–	–
Increase in net funds held by the NLF	9	(209,101)	(1,517,824)
Decrease in amortisation of Guaranteed Equity Bonds' principal liabilities		(9,691)	(4,876)
Decrease in other receivables		93,949	27,771
Increase in total funds invested		81,583	1,573,121
(Decrease)/increase in other payables		(10,490)	6,984
Net cash flow from operating activities		(53,750)	85,176
Net (decrease)/increase in cash and cash equivalents in the period		(53,750)	85,176
Cash and cash equivalents at beginning of the period		522,068	436,892
Cash and cash equivalents at end of the period		**468,318**	**522,068**

The notes on pages 93 to 102 form part of these accounts.

Notes to the accounts

1 Statement of accounting policies

These accounts are prepared in accordance with the *Government Financial Reporting Manual* (FReM) issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context.

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

1.1 Accounting convention

These accounts have been prepared under the historical cost convention modified to account for the revaluation of embedded derivatives.

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

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for NS&I's accounting periods beginning on or after 1 April 2011 or later periods. NS&I has not early adopted the standards, amendments and interpretations described below:

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

IFRS 9 will replace IAS 39 – Financial Instruments: Recognition and Measurement. IFRS 9 allows only two measurement categories for financial assets: amortised cost and fair value. All equity instruments are measured at fair value. A debt instrument is measured at amortised cost only if it is held to collect contractual cash flows and the cash flows represent principal and interest, otherwise it is measured at fair value through profit or loss (FVTPL). For financial liabilities designated as at FVTPL, changes in the fair value due to changes in the liability's credit risk are recognised directly in other comprehensive income. Financial liabilities that are neither held for trading nor elected to be held at FVTPL are measured at amortised cost. Financial liabilities that are held for trading are measured at FVTPL. The standard has not yet been endorsed by the EU.

1.2.2 Amendments to IAS 24 – Related Party Disclosures (effective for annual periods beginning on or after 1 January 2011)

The amendment removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities and it clarifies and simplifies the definition of a related party.

1.3 Interest and prizes recognition

Interest and prizes payable to investors are recognised in accordance with the terms and conditions applicable to each product. Capitalised interest is accrued and included in interest and prizes payable to investors in the Statement of comprehensive income and liability to investors in the Statement of financial position. Interest, where applicable, is accrued from the date of receipt or most recent capitalisation to the end of the accounting period.

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

1.4 Financed by the NLF

The interest and prizes payable to investors are funded by the NLF. The accounting policy for the NLF interest and prizes is as outlined in note 1.3 and is therefore equal and opposite in total, resulting in a net cost of zero.

1.5 Cash and cash equivalents

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

1.6 Financial assets

On initial recognition, financial assets are classified as loans and receivables. Loans and receivables are assets with fixed or determinable repayments that are not quoted in an active market. Loans and receivables are initially recognised at fair value. They are subsequently measured at amortised cost using the effective interest method, with the exception of Guaranteed Equity Bonds (GEBs), which have an embedded derivative. The GEB embedded derivatives are measured at fair value, with the movements recognised through the Statement of comprehensive income. The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period. Derecognition of financial assets only occurs when NS&I transfers both its contractual right to receive cash flows from the financial assets and substantially all the risks and rewards of ownership. Financial assets include other receivables.

1.7 Relationships with the NLF

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

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

1.8 Financial liabilities

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

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

If an investor decides to reinvest funds in the same or another product, this is termed a reinvestment and is recognised as a payment and new receipt. An automatic or default roll-over of funds within the same product, which requires no action by the investor, is not recognised as a payment or receipt.

1.9 Derivative financial instruments

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

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

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

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

2 Transactions with investors by product

	Received from investors £000	Interest and prizes payable to investors £000	Paid to investors including tax deducted at source £000	Transfer to Residual Account £000	Increase/ (decrease) in investors' funds £000	Invested 31 March 2011 £000	Invested 31 March 2010 £000
Capital Bonds	–	22,384	(175,000)	(14,745)	(167,361)	414,027	581,388
Children's Bonus Bonds	32,200	42,497	(113,793)	–	(39,096)	1,234,570	1,273,666
Direct Saver	2,234,211	22,166	(683,769)	–	1,572,608	1,690,545	117,937
Easy Access Savings Account	572,161	12,363	(1,387,430)	–	(802,906)	1,825,525	2,628,431
First Option Bonds	–	3,148	(22,722)	–	(19,574)	108,321	127,895
Guaranteed Equity Bonds	(15)	2,824	(77,384)	–	(74,575)	307,434	382,009
Guaranteed Income Bonds and Guaranteed Growth Bonds	787,720	333,727	(4,052,250)	–	(2,930,803)	6,973,637	9,904,440
Income Bonds	1,292,475	151,920	(1,609,257)	–	(164,862)	8,384,500	8,549,362
Individual Savings Account	605,942	67,898	(758,923)	–	(85,083)	3,502,380	3,587,463
Investment Account	391,492	11,252	(936,532)	–	(533,788)	4,434,609	4,968,397
Pensioners' Guaranteed Income Bonds	–	32,986	(234,709)	4,695	(197,028)	614,794	811,822
Premium Bonds	6,636,591	626,741	(5,720,893)	–	1,542,439	43,115,087	41,572,648
Residual Account	61,605	412	(67,527)	10,050	4,540	448,467	443,927
Savings Certificates	2,656,844	1,250,362	(1,930,134)	–	1,977,072	25,831,641	23,854,569
Total	**15,271,226**	**2,580,680**	**(17,770,323)**	–	**81,583**	**98,885,537**	**98,803,954**

First Option Bonds, Guaranteed Income Bonds and Guaranteed Growth Bonds are the only products that have tax deducted at source. The total tax deducted during 2010–11 was £74,846,000 (2009–10: £43,152,000).

The GEB interest earned figure includes a revaluation gain from the embedded derivative at 31 March 2011 of £265,000 (31 March 2010: gain £17,536,000).

3 Interest and prizes payable to investors

	2010–11 £000	2009–10 £000
National Loans Fund	2,580,680	1,911,028
Total	**2,580,680**	**1,911,028**

4 Amounts held by the NLF

	2010–11 £000	2009–10 £000
As at 1 April	98,120,139	96,551,545
Interest and prizes financed by the NLF	2,580,680	1,911,028
Received from the NLF	(16,309,669)	(17,093,077)
Paid to the NLF	13,938,090	16,745,767
Amortisation movements of GEB principal liabilities	9,691	4,876
As at 31 March	**98,338,931**	**98,120,139**

The amounts held by the NLF include interest accrued of £998,930,000 (31 March 2010: £901,504,000).

The difference in the amounts held by the NLF and the total amount invested at 31 March 2011 (note 2) is explained in note 1.7.

5 Amounts held by the CRND

	2010–11 £000	2009–10 £000
As at 1 April	–	45,894
Received from the CRND	–	(48,345)
Paid to the CRND	–	2,451
As at 31 March	**–**	**–**

6 Other receivables

	31 March 2011 £000	31 March 2010 £000
Agents	44,288	126,675
Post Office®	37,276	49,921
Other debtors	4,603	3,520
Total	**86,167**	**180,116**

Some NS&I products are distributed by the Post Office®. The Post Office® provides face-to-face counter and brochure pick-up services for customers, across its UK network.

7 Liability to investors

	Principal liability	Accrued interest and prizes	Liability 31 March 2011	Liability 31 March 2010
	£000	£000	£000	£000
Current liabilities				
Capital Bonds	400,676	13,351	414,027	581,388
Children's Bonus Bonds	1,186,987	47,583	1,234,570	1,273,666
Direct Saver	1,690,545	–	1,690,545	117,937
Easy Access Savings Account	1,825,525	–	1,825,525	2,628,431
First Option Bonds	106,686	1,635	108,321	127,895
Guaranteed Equity Bonds	59,277	2,224	61,501	89,297
Guaranteed Income Bonds and Guaranteed Growth Bonds	6,911,329	62,308	6,973,637	9,904,440
Income Bonds	8,361,463	23,037	8,384,500	8,549,362
Individual Savings Account	3,438,020	64,360	3,502,380	3,587,463
Investment Account	4,431,993	2,616	4,434,609	4,968,397
Pensioners' Guaranteed Income Bonds	610,938	3,856	614,794	811,822
Premium Bonds	43,014,722	100,365	43,115,087	41,572,648
Residual Account	448,147	320	448,467	443,927
Savings Certificates	25,123,747	707,894	25,831,641	23,854,569
	97,610,055	**1,029,549**	**98,639,604**	**98,511,242**
Non-current liabilities				
Guaranteed Equity Bonds	213,689	32,244	245,933	292,712
	213,689	**32,244**	**245,933**	**292,712**
Total liability to investors	**97,823,744**	**1,061,793**	**98,885,537**	**98,803,954**

All products are payable on demand and therefore are classified as current liabilities, except for GEBs, which have a five-year term and repay at maturity.

The GEB accrued interest figure at 31 March 2011 of £34,468,000 (31 March 2010: £34,203,000) represents the fair value on the hedging derivative contained within the GEB products. Accordingly, the GEB principal liability is amortised using the effective interest rate method as described in note 1.6.

8 Other payables

	31 March 2011 £000	31 March 2010 £000
NLF	168	165
HM Revenue and Customs	8	4
Agents	92	150
Post Office®	–	521
Other creditors including sales accruals and evidence of identity refunds	7,611	17,529
Total	**7,879**	**18,369**

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

	2010–11 £000	2009–10 £000
NLF		
Received from the NLF	16,309,669	17,093,077
Paid to the NLF	(13,938,090)	(16,745,767)
	2,371,579	347,310
CRND		
Received from the CRND	–	48,345
Paid to the CRND	–	(2,451)
	–	45,894
Interest and prizes payable to investors	(2,580,680)	(1,911,028)
Increase in net funds held by the NLF and the CRND	**(209,101)**	**(1,517,824)**

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

10 Categorisation of financial assets and liabilities

	31 March 2011 £000	31 March 2010 £000
Assets		
Financial assets measured at fair value through Statement of comprehensive income	34,468	34,203
Loans and receivables	98,390,630	98,266,052
Cash and cash equivalents	468,318	522,068
Total	**98,893,416**	**98,822,323**
Liabilities		
Financial liabilities measured at fair value through Statement of comprehensive income	(34,468)	(34,203)
Financial liabilities measured at amortised cost	(98,858,948)	(98,788,120)
Total	**(98,893,416)**	**(98,822,323)**

11 Market, liquidity and credit risk

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

In 2004, the Bank of England made a strategic decision to withdraw from the provision of retail banking and clearing services to government (and other corporate) customers, in order to concentrate on its core responsibilities. As a result, NS&I had to procure the banking services of alternative banks. The new banking supplier for NS&I is the Government Banking Service (GBS). GBS has contracted the Royal Bank of Scotland Group (RBSG) and Citigroup to provide transaction processing services for NS&I. Monies held at RBSG and Citigroup will be transferred to the Government's accounts at the Bank of England during, and/or at the end of, each day to mitigate credit risks to both NS&I and HM Treasury. In the event that either of the banks was unable to meet its obligations, HM Treasury will step in to provide NS&I with the necessary funds to meet its liabilities to investors as part of the HM Treasury underwritten guarantees. Therefore, NS&I does not face any material market or credit risk. Credit risk relating to the agents and other debtors is mitigated by the short settlement period.

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

12 Product maturity profile

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

	Variable rate, prize-based and index-linked products 31 March 2011 £000	Fixed rate products 31 March 2011 £000	Non-interest bearing products 31 March 2011 £000	Total 31 March 2011 £000
Maturing in one year or less or repayable on demand	83,696,191	14,861,979	81,888	98,640,058
Maturing in more than one year but not more than two years	57,355	–	–	57,355
Maturing in more than two years but not more than five years	204,951	–	–	204,951
Maturing in more than five years	–	–	–	–
Total	**83,958,497**	**14,861,979**	**81,888**	**98,902,364**

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

13 Fair values of assets and liabilities

	Total per accounts 31 March 2011 £000	Fair value 31 March 2011 £000
Assets		
Held by the NLF – all products apart from GEB	98,033,218	98,119,790
Held by the NLF – GEB	305,713	310,758
Cash and cash equivalents	468,318	468,318
Other receivables	86,167	86,167
	98,893,416	**98,985,033**
Liabilities		
Fixed rate products	(14,861,979)	(14,948,551)
GEB	(307,434)	(312,479)
Floating rate products	(83,634,236)	(83,634,236)
Non-interest bearing products	(81,888)	(81,888)
Other payables	(7,879)	(7,879)
Total	**(98,893,416)**	**(98,985,033)**

	Total per accounts 31 March 2010 £000	Restated Fair value 31 March 2010* £000
Assets		
Held by the NLF – all products apart from GEB	97,739,870	98,782,415
Held by the NLF – GEB	380,269	388,020
Cash and cash equivalents	522,068	522,068
Other receivables	180,116	180,116
Total	**98,822,323**	**99,872,619**
Liabilities		
Fixed rate products	(18,975,238)	(20,017,783)
GEB	(382,009)	(389,760)
Floating rate products	(79,375,050)	(79,375,050)
Non-interest bearing products	(71,657)	(71,657)
Other payables	(18,369)	(18,369)
Total	**(98,822,323)**	**(99,872,619)**

*Prior year balances have been restated due to the accrued interest portion of the fixed rate products which was not accounted for in the fair value calculation. The restatement increased the amount held by the NLF – all products apart from GEB and the fixed rate product liabilities by £324,105,000.

There is no material difference between the carrying value and the fair value of the floating rate products (except GEBs), non-interest bearing products, other creditors and debtors. The floating rate products includes variable rate products, the prizes-based product and index-linked products (except GEBs). The rates for variable rate products are determined with consideration of the base rate, and therefore they are deemed to be at fair value. The fixed rate products are products with rates being fixed for the product term. The fair value of the fixed rate products is derived by discounting future expected cash flows using the relevant gilt rates obtained from Thomson Reuters Datastream. Any impact of early repayments is ignored, as their impact is immaterial. The fair value of the assets held by the NLF is a mirror of the related liabilities which it guarantees subject to timing differences.

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

14 Fair value hierarchy disclosures

The IFRS 7 amendment provides enhanced disclosure about fair value measurement. It requires disclosure of any change in technique used to establish fair value, including reasons, and to classify the financial instrument measured at fair value into hierarchy level. There are three hierarchy levels which are based on the significance of inputs used in measuring the fair value of the financial assets and liabilities. The fair value hierarchy levels are as follows:

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

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

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

The following table presents financial assets and liabilities measured at fair value in the Statement of financial position in accordance with the fair value hierarchy as provided by the DMO.

	Note	Level 2 31 March 2011 £000	Total 31 March 2011 £000	Total 31 March 2010 £000
Assets				
GEB embedded derivative	(a)	34,468	34,468	34,203
		34,468	**34,468**	**34,203**
Liabilities				
GEB embedded derivative	(a)	(34,468)	(34,468)	(34,203)
		(34,468)	**(34,468)**	**(34,203)**

(a) GEB embedded derivative

When active market prices are not available (for example, for the equity leg of equity index/interest rate swaps), fair values are determined by using valuation techniques that refer to observable market data. Such instruments are classified as level 2 in the fair value hierarchy defined by IFRS 7. Note 1.9 contains further details of how the fair value of the GEB embedded derivative is calculated.

15 Related party transactions

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

In addition to the DMO, NLF, CRND and HM Treasury (NS&I's relationships with these parties are mentioned in the 'Product Accounts background' and 'Our governance and board' sections), the Post Office® is a major distributor of NS&I products and, as a public body, the Post Office® is a related party. NS&I had a significant number of transactions with the Post Office® during the accounting period in relation to sales received from investors and repayments made to investors through Post Office® channels. The total amount received from the Post Office® during 2010–11 was £3.12 billion (2009–10: £3.09 billion) and the total amount transferred to the Post Office® for repayment during 2010–11 was £0.19 billion (2009–10: £0.20 billion).

The outstanding amount due from the Post Office® at 31 March 2011 is £37.28 million (at 31 March 2010: £49.92 million) and the outstanding amount due to the Post Office® at 31 March 2011 is £nil million (at 31 March 2010: £0.52 million).

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

The deposits of Executive and Non-executive Directors are disclosed on page 84 of this Annual Report and Accounts and Product Accounts.

16 Events after the Statement of financial position date

At the date of this report's publication, it is expected that Atos Origin will have completed its acquisition of Siemens IT Solutions and Services.

As part of the NS&I direct+ strategy, NS&I went through an organisational restructuring which came into effect on 1 April 2011. This is detailed in the Governance section on pages 20 to 25 of this Annual Report and Accounts and Product Accounts.

There are no other reportable events between the Statement of financial position date and 28 June 2011, the date of authorisation of these accounts. The financial statements do not reflect events after that date.

Annex: Product Accounts Direction

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

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

2. The Department of National Savings and Investments shall prepare accounts for its Product Accounts for the year ending 31 March 2011 (and each subsequent financial year) that give a true and fair view of the state of affairs of the Product Accounts at the reporting date and of their income and expenditure and cash flows for the year then ended.

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

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

    b. the Statement of Parliamentary Supply, the Statement of Operating Costs by Departmental Strategic Objectives, and the Statement of Changes in Taxpayers' Equity are not relevant to the Product Accounts.

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

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

6. This Accounts Direction supersedes that issued on 15 January 2010.

Chris Wobschall
Head, Assurance and Financial Reporting Policy
HM Treasury
26 January 2011

Glossary

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

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

BACS
The UK's most common method of transferring money between bank accounts by direct debit, direct credit or individual payments or settlements. Premium Bond prize warrants can now be paid by BACS direct into winners' accounts.

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

Bond record
A comprehensive record of a customer's Premium Bond holding. It is designed to replace the need for a customer to retain their Premium Bond certificates.

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.

Consolidated Fund
The Consolidated Fund is the Government's general bank account at the Bank of England.

Customer Service Excellence
The UK Government's customer service standard.
cse.cabinetoffice.gov.uk

Departmental expenditure limit (DEL)
Expenditure limit within which a government department has responsibility for spending allocation.

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

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

Financial 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. From 2012, it will be replaced as part of a new financial services regulatory regime in the UK.

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

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

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

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

Growth
How 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. (No NS&I customer is exposed to risk with a third-party bank through this process.)

Index-linked
With Index-linked Savings Certificates, the value of a Certificate moves in line with changes in the Retail Prices Index – a commonly used measure of inflation.

Issue
Our fixed rate products are sold in Issues, each with its own guaranteed interest rate(s). We periodically bring out a new Issue and always do so when the fixed rate on offer changes.

Leveraging
The process of using our operational infrastructure to provide payment processing services to other government departments and businesses.

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

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

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

Spending Review
Spending Reviews set firm and fixed multi-year budgets for government departments. They outline the improvements that the public can expect from government spending. The most recent Spending Review was conducted in 2010.

Tax foregone
As NS&I's tax-free products potentially deprive HM Treasury of tax revenue, this tax foregone is taken into account when calculating the Value Indicator.

Tax-free
This means that interest earned is exempt from UK Income Tax and Capital Gains Tax.

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

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

UK Debt Management Office (DMO)
An Executive Agency of HM Treasury responsible for cash management on behalf of the Exchequer and the sale of government stock (gilts) and Treasury Bills.

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

Unclaimed assets
Savings or investments belonging to a customer with whom we have lost contact. Customers who think they have unclaimed assets can contact us to trace them through **mylostaccount.org.uk**

Value Indicator
An alternative measure of our cost-effectiveness in raising finance for the Government which compares the total cost of delivering Net Financing and servicing existing customers' deposits with how much it would cost the Government to raise funds through the wholesale market via equivalent maturity gilts and Treasury Bills.

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

Warrant
A type of payment similar to a cheque.

Contacts and more information

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

Telephone
- For general enquiries, call us free on **0500 007 007**
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Thank you
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