National Savings and Investments Annual Report and Accounts and Product Accounts 2011–12

HC 61

£21.25

National Savings and Investments Annual Report and Accounts and Product Accounts 2011–12

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

Annual Report presented to the House of Commons by Command of Her Majesty

Ordered by the House of Commons to be printed on 18 December 2012

HC 61 London: The Stationery Office £21.25

This is part of a series of departmental publications which, along with the Main Estimates 2012-2013 and the document Public Expenditure: Statistical Analyses 2012, present the Government's outturn and planned expenditure for 2012-13.

Any enquiries regarding this publication should be sent to us at National Savings and Investments, Glasgow, G58 1SB, or alternatively email us at enquiries@nsandi.com.

This publication is also available for download at www.official-documents.gov.uk and also available from our website at www.nsandi.com.

ISBN: 9780102978452

Printed in the UK by The Stationery Office Limited
on behalf of the Controller of Her Majesty's Stationery Office

ID: 2493473 07/12

Printed on paper containing 75% recycled fibre content minimum.

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Who we are

NS&I (National Savings and Investments) is one of the largest savings organisations in the UK with 26 million customers and more than £102 billion invested. 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 over 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. NS&I offers 100% security on all deposits.

Our vision

Service, Value and Trust

Our mission

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

Our values

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.

Chairman's statement

Since I first joined the board of NS&I in January 2010, I have been consistently struck by the exceptional commitment of NS&I staff to the organisation and its values. That commitment has been repeatedly demonstrated in a year which saw NS&I embrace substantial structural and cultural change and respond responsibly to complex and evolving market conditions to ensure our performance targets were met.

As my predecessor, Martin Gray, wrote last year, 2011-12 was a pivotal point in NS&I's future development, with the introduction of business-to-business services for the very first time. This expansion of our activities is crucial to enable NS&I to meet the budgetary requirements set out in the 2010 Spending Review and to deliver our core retail savings business.

The cultural shift involved in moving from a purely retail environment to one that also delivers for business-to-business clients is a significant one. The needs, concerns and priorities of business clients are very different: from their expectations to their requirements for detailed information. So the NS&I team had to introduce a different service model, without compromising in any way the service delivered to retail customers. The approach taken has been exemplary and the learning curve impressively swift: the business-to-business operations are already delivering to plan.

But while business-to-business services are an important addition to NS&I, we undertake them only to finance our retail business and deliver additional value to the Government and to taxpayers. As our performance against our service delivery measures shows, we have continued to run our operations extremely efficiently and equally importantly, maintained the very high standards of customer service we have set over recent years. That has remained absolutely focal throughout all the changes of 2011-12 and reflects a trait embedded deeply within the NS&I culture: customer needs are understood and prioritised.

This is something that reflects extremely positively on staff both within NS&I and our delivery partner Atos, and on the management team that have helped instil and maintain this belief.

In mentioning Atos, I would also commend those responsible both within NS&I and Atos for ensuring no disruption to customer service, after the latter acquired Siemens IT Solutions and Services in July 2011. It stands as strong testimony to the quality of the management processes in place and once again, of a commitment to the bigger picture. The fact that this has taken place at the same time as we began the re-tender of our Public Private Partnership, which has already necessitated a number of changes in the way Atos and NS&I work together at a strategic level, makes this all the more impressive.

These internal changes took place against a background of considerable uncertainty in the global financial markets – which by the end of 2011 began to have a significant impact on savings patterns. As soon as that impact became clear, we took steps to limit the additional inflows we were experiencing. I am pleased to report that the steps we took, combined with calmer market conditions in February and March, meant that, the final figure for Net Financing was £4.02 billion, just £18 million above the top end of our target range for the year.

Looking ahead, it is clear that the next year will be equally challenging. Savings levels generally appear to be volatile, uncertain global market conditions look set to continue and competition for deposits is fierce. The re-tender process is gathering pace and we have been clear that the final stages of our long-term modernisation programme must be completed before our new Public Private Partnership contract commences in April 2014. The ongoing dedication of NS&I staff will be essential to delivering this change, as well as ensuring we meet our performance targets.

I believe we are well placed to achieve all of this, something that is in no small part a reflection on the calm influence that Martin Gray had as Chairman and on behalf of the board, I thank him for his input over seven years, both as Chairman and Non-executive Director.

Sir John de Trafford Bt. MBE
Chairman
NS&I

For details of the board's composition, committees and activities, please see the section Board, committees and how we operate on page 22 to 31.

Chief Executive's review

I am pleased once again to be reporting on a successful year for NS&I. We met our targets bar the Net Financing target which we narrowly missed and achieved significant progress in terms of our modernisation strategy. However, our headline performance results do not tell the full story of a year, or more specifically of a few weeks in the last third of a year, where fluctuations in the savings market pushed us well above our Net Financing range. Our swift response, combined with a return to more normal market conditions, reduced the overrun significantly and we ended up delivering Net Financing of £4.02 billion – just £18 million above the top end of our target range.

For the first time since 2008-09, for 2011-12 HM Treasury had set us a positive Net Financing target of £2 billion (with a range of £2 billion either side). One of the main reasons for this was to enable us to meet market demand and reintroduce Index-linked Savings Certificates which we had taken off sale in July 2010. We knew that demand would be high for this product so at the start of the year we focused closely on preparing for their reintroduction to ensure they could remain on sale for a sustained period.

Successful sales of Savings Certificates

Savings Certificates went back on sale on 12 May 2011 and while demand overall was in line with our expectations, it is fair to say we saw a greater initial spike in sales than we had expected. Over a quarter of all purchases of this Issue of Savings Certificates took place in the first week. In preparation, extra staff had been deployed in our contact centres and, having made the decision to make this Issue only available to buy via our direct channels, a pleasingly large proportion of sales went through our website.

Our stated intention was to ensure the products were on sale for a sustained period, and we did so, keeping sales open until 7 September 2011. This meant that our Savings Certificates were on the market for almost three times as long as comparable products. According to Moneyfacts, an independent provider of financial information, the average length of time fixed-term bonds were on sale in summer 2011 was just 37 days. In total, over 445,000 customers took the opportunity to invest.

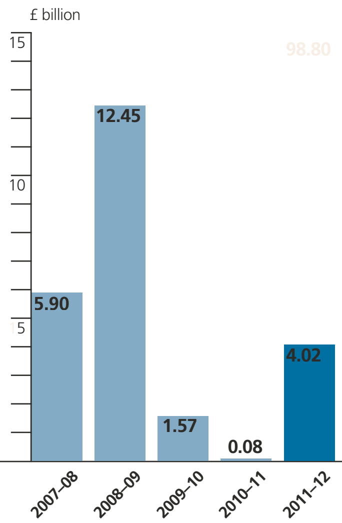
The impact of shifting market conditions

When we took the decision to take Savings Certificates off sale, we expected that, based on our sales and repayment forecasts for the second half of the year, we would finish within our Net Financing target range – as was acknowledged in the Chancellor's Autumn Statement. However, in December 2011, we experienced a number of high value deposits into our Direct Saver account. In addition, across our entire product range, levels of customer withdrawals were substantially lower than expected. When the cash deposit market figures for December 2011 were released in January 2012, it was clear that this experience was not confined to NS&I: in uncertain market conditions, saving deposit levels had been unseasonably high.

This led to a significant increase in Net Financing for December, which pushed our forecast for the year over the top end of our agreed range and we needed to take action. All discretionary marketing was immediately stopped and in January, after examining a range of options, we made the decision to reduce the interest rate offered on Direct Saver from 1.75% to 1.5%. At the same time we brought forward the publication of our third quarter results and issued a revised end-of-year Net Financing forecast to ensure that banks and building societies understood fully what the impact of the unforeseen market conditions had been on our Net Financing. The publication of this figure was in line with our commitment to act transparently towards the wider savings market and to balance the interests of our savers, taxpayers and the stability of the broader financial services sector.

As we said at the time, while we wanted to do all we could to moderate inflows, we recognised that the actions we were able to take would not, on their own, bring our Net Financing figure within our target range, unless more normal savings patterns returned.

Net Financing



Our efficiency ratio - the ratio of total NS&I costs to average funds invested by customers – was 17 basis points, which compares extremely favourably to our competitors in the private sector.

The final quarter of 2011-12 did indeed bring less turbulent market conditions, which ensured that our actions were effective in reducing Net Financing. High value deposits over the last few months reduced and there was a modest increase in repayment levels. This enabled us to revise our forecast, cautiously, from the figure published in January. By the time of the Budget in March, we had already announced a lower predicted figure of £4.3 billion – again as part of our commitment to keep the savings market informed. By the end of the year, the combined impact of our actions and the changes in the wider market led to a final Net Financing figure of £4.02 billion: just £18 million above our target range. As a consequence of NS&I narrowly missing its Net Financing target, the pool for performance-related pay in respect of NS&I's targets was reduced from its maximum.

What happened after December vindicated the decisions we had made, but at the same time, it underlines the challenges we face in anticipating and responding to the ongoing uncertainty and volatility in the wider economy. Our ability to meet these challenges will be key as we work towards our 2012-13 Net Financing target of £0 in a range of -£2.0 billion to £2.0 billion. The target was subsequently revised – see note 1 on page 9 for further details.

Delivering value for taxpayers

While Net Financing is rightly a focal point for any assessment of our performance, it is not the only measure. Our overall aim as an organisation is to help reduce the cost to the taxpayer of government borrowing now and in the future: something we seek to measure via the Value Indicator which compares the costs of raising funds via NS&I with the costs of raising an equivalent amount on the gilt markets.

This year we achieved our objective of delivering a positive Value Indicator figure, with a total value of £420 million. This is a pleasing performance in a year when the comparator rates have been materially depressed as a result of falling gilt yields which were not anticipated in the Office for Budget Responsibility's March 2011 forecast. The external factors affecting comparators, including gilt yields, are why we term our value measure only an 'indicator', but we will continue to use it while the markets continue to recover from the banking and foreign debt crises.

We have also maintained our efficiency ratio, another of our service delivery measures, which is essential to maintaining our low operating costs. Our efficiency ratio – the ratio of total NS&I costs to average funds invested by customers – was 17 basis points, which compares extremely favourably to our competitors in the private sector.

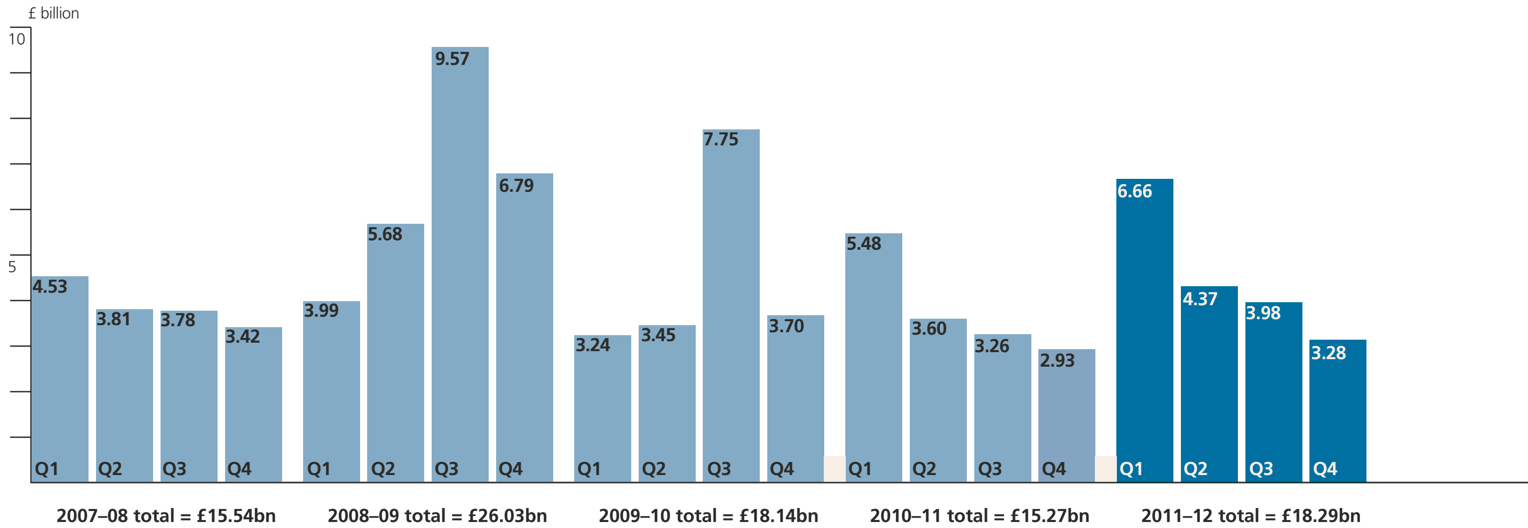
Launching business-to-business services

As highlighted last year, a key element of achieving the cost reductions set out in the 2010 Spending Review target was the authorisation to start leveraging our infrastructure to provide transaction processing services to other government departments, which will help us become in part self-funding. We have both learned and achieved a great deal in this first year of business-to-business service delivery. I am delighted with the progress we have made, having successfully taken over transaction processing for the Court Funds Office and delivered the first year of the Equitable Life Payment Scheme.

In July 2011, Atos formally completed the acquisition of Siemens IT Solutions and Services, which had held the operational delivery contract to operate our back office and customer facing activity for 12 years. We engaged closely with senior management within Atos to ensure that the change would not impact on our customers. Atos has also been highly committed to the success of our business-to-business services and we have developed a good working relationship with their executive team: from a day-to-day perspective, the account team has remained largely in place.

All of this took place against the backdrop of our formal announcement of the re-tender of our operational delivery contract. The current contract expires in March 2014 and we are following best practice guidance on the re-tender process. We were delighted with the strong responses we received to our pre-qualification questionnaire and after a careful and thorough evaluation, selected a shortlist of three providers to enter the next stage of the tender process.

Gross inflows to NS&I (including reinvestments)



Maintaining Customer Service Excellence

As I said last year, our overriding concern remains delivering the level of service our customers expect. We have met our targets for accuracy, timeliness and customer satisfaction and were delighted to achieve full accreditation under the independent Customer Service Excellence standard. Last year, although accreditation was achieved, we were 'partially compliant' in four areas. Having successfully addressed those areas, we became only the second public sector organisation to achieve full accreditation across all 57 categories. Equally satisfying was the fact that we are deemed to demonstrate 'best practice' in 10 areas.

These measures of service are essential as we continue to see more customers using our direct channels. While this helps deliver cost savings, more importantly it also reflects the needs and expectations of our customers. As already mentioned, a large proportion of customers chose to purchase Savings Certificates online. We have also seen a significant shift to online and telephone channels for managing Premium Bonds. By March 2012, more than 750,000 customers had registered to manage their Premium Bonds this way. Considering this capability was only launched in December 2010, this represents rapid progress.

Evolving our product range

As part of our long-term strategy to grow the number of customers investing and managing their money with us directly, which is also integral to meeting the terms of the Spending Review 2010, we announced in early November 2011 that we would be closing the Easy Access Savings Account in July 2012 and repositioning our Investment Account to become postal-only from May 2012. No new sales were accepted from 28 November 2011 while we began the process of writing to affected customers explaining the changes and their options. We also placed tailored information brochures in Post Offices® across the UK.

Both products were previously offered through the Post Office®. Our relationship with the Post Office® has been evolving over a number of years, reflecting not only our business direction but also theirs. Today, the Post Office® provides a broad range of financial services products, including very similar savings products to the two accounts we are changing. Post Office® senior management were kept well informed of our plans.

We analysed which customers would be affected and identified additional steps to support particular customer groups. These include providing specific information for customers in certain circumstances, such as those who do not have a bank account.

We are confident that the changes will simplify further our product range and offer our customers a better deal, with a higher interest rate available to both those customers who switch to our Direct Saver account and those who choose to remain in the postal-only Investment Account.

An organisation ready for the future

Alongside the changes to our product range, we have also made some important changes to our organisational structure, enabling us to deliver our business-to-business services. At the start of the year, we created a new directorate of Risk and Assurance, with a single accountable board director, ensuring we are in line with leading practice of our counterparts across the financial services sector. We also established a Business-to-business sub-directorate and created a new, integrated, Corporate Services directorate.

Together, these changes meant some jobs disappeared, others were created and a number of our people changed roles. I am delighted, that despite this restructure, staff engagement within NS&I has remained very high. The Civil Service-wide staff survey showed that NS&I exceeded the high performance benchmark by a considerable margin in virtually every category within the survey and we were third overall in terms of employee engagement out of 97 government departments and agencies. I am very grateful, as always, to the staff of both NS&I and Atos who have made such a huge contribution and enabled us to achieve so much during the year.

I would also like to thank Martin Gray, who stepped down as Chairman this year having served on the NS&I board since 2005 and as Chair since 2009. His steady hand, direction and support through what has been a period of not only significant organisational change but also turbulence in the financial services sector, has been a great asset. He is succeeded as Chair by Sir John de Trafford, who has already brought his own style to board proceedings.

John has been the Chair of our Appointments and Remuneration Committee since joining NS&I in January 2010 as a Non-executive Director. He was also involved in the appointment of James Furse as a new Non-executive Director to our board in January 2012. James brings us retail experience from a long career with the John Lewis Partnership. This gives us a very strong board, with a complementary range of skills, as we continue to ensure NS&I is an organisation equipped not only to serve our customers today but equally importantly to continue to meet their needs tomorrow.

Jane Platt

Jane Platt
Chief Executive
NS&I
13 December 2012

Management commentary

Strategy and performance

Our strategy

NS&I direct+ is our business strategy, announced following the Spending Review 2010. It sets out NS&I's role in delivering the Coalition's programme for government. It seeks to balance the needs of our customers, taxpayers and the stability of the wider financial services sector. The table below summarises progress made during 2011-12 against the core objectives of the strategy.

Objective	Progress during 2011-12
Delivering the agreed Net Financing target each year	Net Financing is the measure of the net change of NS&I funds: total inflows from deposits, plus retention of maturing monies and capitalised and accrued interest, less the total outflows from withdrawals and interest or Premium Bond prize draw payments. As the performance table shows, we delivered a Net Financing figure of £4.02 billion just £18 million above our target range for 2011-12. For more detailed commentary on this, please see the Chief Executive's review (page 4 to 7).
Delivering positive value as measured by the Value Indicator	The Value Indicator is a 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. These comparator rates have been materially depressed as a result of falling gilt yields over the course of the year. On this basis, we delivered £420 million of value this year, achieving our target. For more detailed commentary on this, please see the Chief Executive's review (page 4 to 7).
Accelerating the move to direct channels for our retail customers	During 2011-12, we announced that by March 2013 Premium Bonds will be the only NS&I product available at the Post Office®. Our other products will be available via our direct channels: post, telephone and online. For more detailed commentary on this, please see Our customers (page 10 to 13).
Completing our modernisation programme to ensure that we have a low-cost business model	Premium Bonds, Direct Saver and Direct ISA all now run on our new banking system.
Delivering the business-to-business plan, providing services to other government departments and third parties	We have commenced full operations on our first two business-to-business contracts, delivering payments for the Equitable Life Payment Scheme and the Court Funds Office and are covering an increasing percentage of our costs. We have also made the necessary changes to our internal processes and structure to enable the growth of our business-to-business services, including the appointment of a new business team and the creation of marketing materials and a dedicated website (**www.nsandi-gps.com**) for the services, under the new NS&I Government Payment Services product name. See Our customers on page 14 for further details on the progress of our business-to-business plan.
Ensuring the continuation of high-quality, cost-effective operational services beyond the 2014 re-tender	Since 1999 NS&I's contact centres, IT and processing operations have been delivered under a highly successful Public Private Partnership (PPP) contract. This contract expires in 2014 and this year we formally launched the re-tender. After a strong response to our initial pre-qualification questionnaire, we have selected a shortlist of three bidders to take forward to the next stage. For further details on the partnership, see Operational delivery on page 15.
Continuing our risk and compliance plan	We have an established risk management framework and on a voluntary basis, aim to comply with Financial Services Authority requirements where applicable and appropriate. This year, we created a new directorate of Risk and Assurance, as part of the restructure to deliver our strategy and achieve our targets. We have undertaken an extensive review of risk policies to ensure they are aligned with the way we operate. Further details of our risk and compliance plan are included in our Governance statement on page 38 to 43.

Our performance in 2011–12

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 2010–11	Target 2011–12	Performance 2011–12	Target 2012–13
1. Net Finance To raise an amount of Net Financing within an agreed range	Absolute amount of Net Financing from NS&I products	£0.08 billion	£2 billion (+/– £2 billion)	£4.02 billion	£0 billion (+/– £2 billion) (1)
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	£0.8 billion	Deliver positive value	£420 million	Deliver positive value (2)
3. Customer satisfaction (3) 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?'	89%	At least 87%	88%	At least 87%
4. Customer service – timeliness To meet a consistently high timeliness target	Average performance against timeliness key performance indicator (KPI) targets	98.1%	At least 97%	97.9%	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%	99.2%	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	17 basis points	Less than 19 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	Accreditation achieved	Maintain accreditation	Full accreditation achieved across all 57 areas	Maintain accreditation
8. Financial Ombudsman Service (FOS) (4) To minimise the incidence where FOS intervention is justified	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.	Achieved	Less than 0.5% of total complaints raised found against us by FOS	0.07%	Less than 0.5% of total complaints raised found against us by FOS
9. Fraud (5) To mimimise the cost of fraud	The cost of fraud as a percentage of total stock	£23 per £1 million repayments	Below 0.001% of average funds invested by customers	0.00042%	Below 0.001% of average funds invested by customers

(1) NS&I's original Net Financing target for 2012-13 was £0 (in a range of £2 billion either side of this, from -£2 billion to £2 billion). NS&I's latest forecast, published in the Autumn Statement (5 December 2012), is that it will deliver Net Financing of -£2 billion in 2012-13. This has been driven by a decrease in new deposits. Customer retention levels remain high and outflows (money withdrawn by savers) remain low and in line with forecasts. To reflect these changing market conditions, the Autumn Statement confirmed that NS&I's 2012-13 Net Financing target has been revised to -£1 billion (in a range of £2 billion either side of this, from -£3 billion to £1 billion).

(2) NS&I's original Value Indicator (a measure of NS&I's cost effectiveness in raising finance for the government in comparison to it raising funds through the wholesale markets) target for 2012-13 was to deliver positive value. However, gilt yields have since fallen and remained at historically low levels – well below the assumed levels on which NS&I's Value Indicator target for the year was based. If NS&I were to deliver a positive Value Indicator figure for 2012-13 then to do so it would have to reduce its interest rates to levels that were unfair to its savers. In recognition of this, the Autumn Statement confirmed that, while NS&I's overall 2012-13 Value Indicator target remains positive, a new lower limit of -£320 million has been set.

(3) From April 2011 this metric covered those using NS&I's website as well as those using post, telephone and the Post Office®. This measure will exclude the Post Office® from 1 April 2012, following the announced withdrawal of account based products from this channel during the year.

(4) In 2010-11 this metric was measured as 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).

(5) In 2010-11 fraud losses were measured by the ratio of net fraud losses to total customer repayments.

Our customers

2011-12 saw the further acceleration of our shift towards direct channels, with a growing number of customers choosing to interact with us via the telephone and internet. This reflects positively on the high quality customer service experience we continue to deliver across all channels. This year, we also launched our first ever business-to-business services.

Over a number of years, our retail business has evolved to make greater use of direct channels: the telephone, online and post. This evolution has been in line with customer demand, reflecting the way customers interact with other financial services providers and has also been essential to helping us to become an even more efficient and effective organisation.

Increasing customer usage of direct channels

Following the successful introduction of new Premium Bonds services in December 2010, we began promoting the opportunity for holders to manage their Premium Bonds fully by telephone or online. We have emphasised the new services in our direct marketing activity during the year and, by March 2012 this has led to more than 750,000 customers registering to manage their Premium Bonds in this way. All of our Direct Saver and Direct ISA customers manage their accounts online or by telephone.

We now offer Index-linked Savings Certificates and Fixed Interest Savings Certificates – when on sale – only via direct channels. This move has helped manage demand – crucial to enabling us to keep Savings Certificates on sale for a sustained period in the summer – and also reflects our long-term aim to grow the number of customers investing with us directly. 54% of all investment transactions during the most recent Issue came via **www.nsandi.com**, which played a particularly significant role during the initial surge in demand: in the first week, almost three-quarters of purchases were online. This was particularly important as the exceptionally high levels of demand meant that some customers were initially unable to get through to our contact centre, in spite of the extra staff and longer shifts we had deployed. We recognised this was a source of some frustration and are investing in increasing the flexibility of the UK contact centre to respond to future surges in call volumes.

Despite this short-term performance issue, customer satisfaction with our direct channels remains very high overall. This is essential as the move to direct channels continues, with the closure of the Easy Access Savings Account (EASA) and repositioning of the Investment Account to become postal-only. These changes were announced in early November 2011 and the products were closed to new savers at the end of November. However, the Investment Account did not become postal-only until May 2012 and the Easy Access Savings Account did not close completely until late July 2012, allowing customers sufficient time to consider their options. We have taken significant steps to ensure customers have been fully informed of the changes and, in line with our brand values, have had their options explained to them in clear, everyday language.

Before announcing the changes, we carefully analysed the behaviour of customers of both of these products, including understanding how the accounts have been used by savers in recent years. Our findings underlined the observed trend in customer behaviour to move to direct channels: for example, only 10% of EASA customers used the product's cash card facility three or more times in 2010-11.

Our assessment highlighted that certain customer groups needed specific additional information, which we provided. This included guidance on opening a bank account for those who do not have one and offered help on setting up standing orders. We have also developed a series of online videos to help customers use our online services. These are available on nsandi.com.

As announced in November 2011, Children's Bonus Bonds was also removed from sale at the Post Office® during 2012-13. This means that from 20 September 2012 the only NS&I product available for sale via the Post Office® was Premium Bonds. These changes are in line with both our strategy and the ongoing development of the Post Office's own financial services portfolio. This year, the Post Office® accounted for 29% of our total sales by value, against 42% the previous year.

Delivering Customer Service Excellence

A key consideration in our move to direct channels has been to ensure that the service we provide to customers is of the highest quality. We were therefore delighted to achieve full accreditation under the independent Customer Service Excellence standard – making us only the second public sector organisation to achieve this. Of the 57 areas that are assessed, we were deemed to exhibit best practice in ten of them – two of which reflect specifically the efforts we have made to support customers through the transition towards direct channels. These are:

- providing customers with the information they need in ways which meet their needs and preferences, using a variety of appropriate channels
- making particular efforts to identify disadvantaged groups and individuals and developing tailored services in response to their specific needs.

As the performance figures on page 9 show, we have also met our headline targets for customer satisfaction, timeliness and accuracy and continued to receive a very low level of

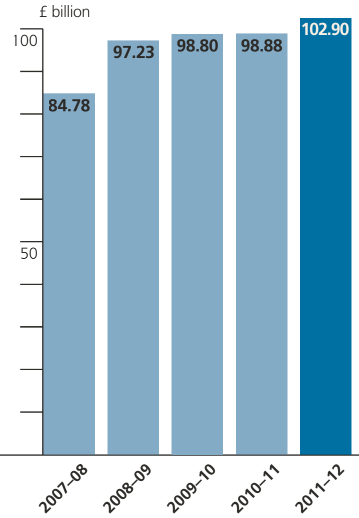
Unclaimed assets*

	Estimate: held at 1 January 2012 £ million	Estimate: held at 1 January 2011 £ million
Accounts	522	504
Certificates	575	562
Bonds	2	2
Other products**	28	28
Unclaimed Premium Bond prizes	9	9
Total	**1,136**	**1,105**

*'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



customer complaints. When issues do occur – and there were a small number during the year – we seek to remedy them as soon as possible. For example, in January 2012 there was a delay in the publication of Premium Bond prize winning numbers to the online prize checker. A related problem meant some users were unable to access our website. The Premium Bond Prize Checker was updated the following day and within a day of the incident the website was operating as normal. No Premium Bond prizes were paid late as a result.

In December 2011, a printing error meant that warrants (a type of payment similar to cheques) sent to around 1,400 Investment Account customers had the wrong sort code on them. This meant customers were unable to pay them in to their bank or building society. As soon as we realised the error we apologised to all customers affected and printed new warrants. The majority of customers received their payment within a matter of days; unfortunately, a few had to wait a little longer.

When we do have customer issues they are managed swiftly and effectively. This helps us to keep the number of complaints escalated to the Financial Ombudsman Service to a very low level. Only 47 new cases were accepted by the Ombudsman between 1 January and 30 June 2012 – a figure that compares extremely positively against all other financial services providers of comparable size.

We also continue to operate within the parameters of the Financial Services Authority's Treating Customers Fairly (TCF) agenda. TCF is well embedded within our organisational culture. It is monitored and managed through the NS&I Risk Management Framework and reported through the governance committee structure which feeds into the Executive Committee and the board.

During 2011-12 a TCF Assurance Review was completed by the Compliance Monitoring and Assurance team which incorporated tests to validate the design and effectiveness of key controls used to manage the TCF risks for NS&I. The results showed that the existing approach to TCF is well established across both NS&I and Atos, with staff in both organisations demonstrating a good understanding of and commitment to the six desired consumer outcomes. Some areas for improvement were identified and actions have been agreed to address these.

We constantly strive to find ways of improving fair outcomes for our customers. An example of this is an overall review of our complaints handling processes and systems, including extensive training for our complaints teams. Although we have been rating highly in the Financial Ombudsman Service complaints data publication scheme, we identified ways in which we could improve the speed and quality of our complaints handling. This has included introduction of a 'Rapid Response Team' of highly skilled staff who respond to complaints via the telephone and resolve issues quickly.

Maintaining our brand, with minimal marketing

Delivering excellent customer service is integral to the NS&I brand and all of our measures suggest that brand health remains very strong. The marketing effort through 2011-12 has been largely focused on targeted communication supporting 'channel shift' objectives, plus of course explaining the changes we are making to products. In November 2011 and at the end of March 2012 we ran short targeted advertising campaigns to promote our enhanced telephone and online services, with the positioning 'NS&I. Always changing, always the same'.

We continued in 2011-2012 to sponsor Classic FM as their listenership overlaps closely with NS&I's customer demographic. In response to guidance from the Cabinet Office's Efficiency and Reform Group this relationship ended on 31 August 2012. We used this relationship on air and online to promote awareness of our brand and direct channels.

Our partnership with WHSmith has played a key role in raising the profile of our direct channels and the extra services we offer online. However, we are now entering the final stages of our move to a predominantly direct business and it is therefore right that we re-position our marketing activity on key aspects of the new model. Accordingly, we ended our marketing partnership with WHSmith on 31 August 2012.

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 IFAs have the right information about our products, so they can provide the best possible advice to their customers, we send regular communications about rates and product changes to registered recipients in the IFA community.

We continue to engage in marketing and sponsorship activity with the IFA sector to maintain NS&I's profile and strengthen our relationships with IFAs who we estimate advise a significant proportion of our higher value customer base.

We support elements of the annual conferences held by the Institute of Financial Planning (IFP) and the Personal Finance Society, professional bodies representing large parts of the intermediary sector. In 2011-12 we again supported the IFP's Financial Planning Week and were pleased with the interest it generated. However, as a result of budget prioritisation we have decided not to sponsor this event in 2012-13.

NS&I had sponsored an award at the Money Management Awards for a number of years to ensure we maintained the association of NS&I as the cornerstone of a client portfolio. However, again as a result of budget prioritisation we have decided not to participate in the 2012-13 event.

We continue to use the Assureweb IFA online portal to deliver marketing and information messages quickly and at a low cost to large IFA audiences. We also have a relationship with Unbiased.co.uk, the leading consumer resource for those looking for financial advice – run by an independent not-for-profit body. We deploy their 'Find an IFA' tool on various parts of our website for customer use, and now have open access to their comprehensive IFA email database. This coincided with our decision to cease all postal mailings to IFAs from April 2012, and concentrate on email communication, in order to save costs and deliver a more efficient and timely way of communicating to IFAs.

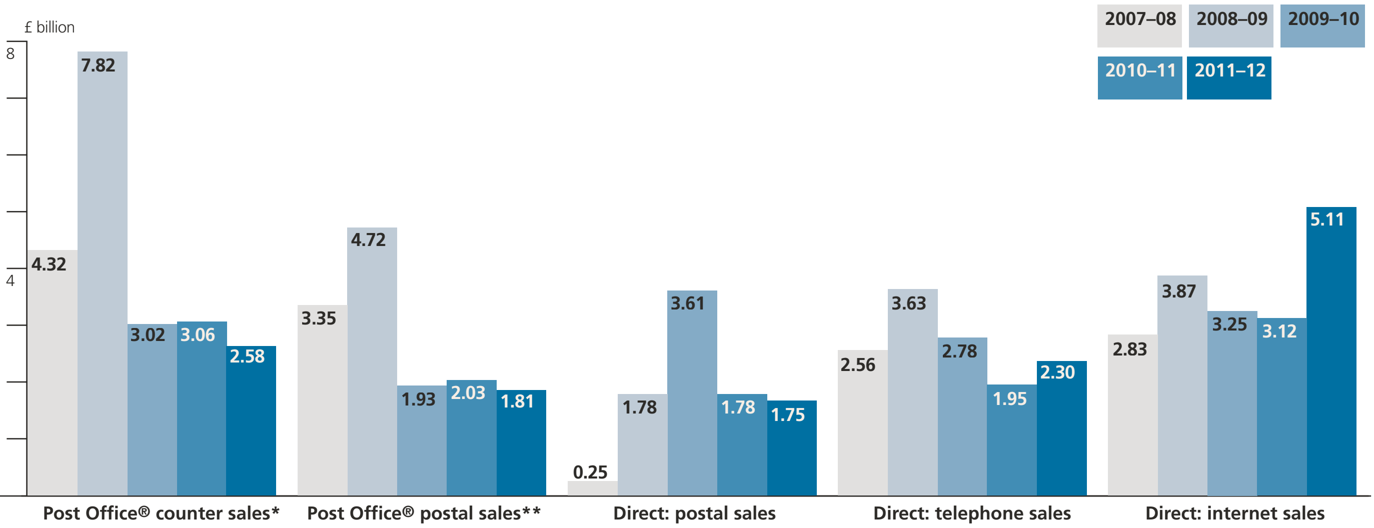
Our product range

Our product range is designed to offer options that meet customers' different savings needs and evolves in line with market conditions and customer demand. The changes to our products this year have already been highlighted. During 2012-13, we continued to modernise our range; in September 2012 we began migrating our fixed-term products onto our new banking infrastructure which will allow us to introduce full online and telephone management services for them. As different Issues of products have different maturity terms, the changes will be phased. New sales will be held on the new infrastructure and visible when customers log-in to view their accounts on nsandi.com. Existing holdings will only be transferred as they reach the end of the current term and are reinvested for a further term. We also took the opportunity to standardise terms and conditions across our range of fixed term products.

At the time of production (December 2012) of the 2011-12 Annual Report we have six products on general sale. The pricing and nature of our range is determined by our operating framework which is to balance the interests of our savers, taxpayers and the stability of the broader financial services sector.

Our full product range and the key benefits of each are shown on the next page. Due to the requirement to balance the interests of our savers, taxpayers and the stability of the broader financial services sector, the full range is not always available.

Sales performance by principal channels



*Figures differ slightly from those in Product Accounts note 15, 'Related party transactions', due to timing differences (see page 93).
**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 product range

Product	Status at 31 March 2012	Tax-free	Fixed rate	Monthly income	Manage online and by telephone	Growth potential linked to FTSE 100	Passbook	Tiered rates
Children's Bonus Bonds	On sale Renamed Children's Bonds and available directly from NS&I only from 20 September 2012	√	√					
Direct ISA	On sale	√			√			
Direct Saver	On sale				√			
Easy Access Savings Account	Closed to new sales; product formally closed on 27 July 2012							√
Fixed Interest Savings Certificates*	Not currently on sale	√	√					
Guaranteed Equity Bonds	Not currently on sale					√		
Guaranteed Growth Bonds*	Not currently on sale		√					
Guaranteed Income Bonds*	Not currently on sale		√	√				
Income Bonds	On sale			√				
Index-linked Savings Certificates*	Not currently on sale	√						
Investment Account	Closed to new sales; reopened as a postal only account on 21 May 2012						√	
Premium Bonds	On sale	√			√			

*Reinvestment at maturity still permitted.

The main product to date in our business-to-business portfolio is payment processing, which we have named NS&I Government Payment Services.

Business-to-business services
We developed a business-to-business product portfolio, of which the main product to date has been payment processing – which we have named NS&I Government Payment Services. This involves using our infrastructure to provide transaction processing services to other government departments and public sector organisations. This will help us deliver the cost reduction targets set out in our 2010 Spending Review settlement (which requires NS&I to deliver a 10% reduction in its budget in real terms over the duration of the Spending Review period), while continuing to invest in our business. It also offers an opportunity for other government bodies to use our proven services to reduce their operating costs.

To support the introduction of business-to-business services, we created a dedicated sub-directorate within NS&I and realigned other aspects of our operations to ensure core functions are provided centrally such as IT, business continuity, marketing and procurement. We set up a website that explains NS&I Government Payment Services, **www.nsandi-gps.com**, and have secured our first two clients, the Court Funds Office and the Equitable Life Payment Scheme. Operations on both commenced during the year, indicating the speed with which we have progressed with service development.

Delivering for our clients

The Court Funds Office provides a banking and administration service for some 140,000 customers with a total of £3.3 billion cash and £0.2 billion securities held under the control of the civil courts in England and Wales, including the Court of Protection. It also acts as custodian for any investments made with that money. It had been looking to modernise the service offered to customers, improving customer satisfaction and eliminating some of the operational challenges around its legacy systems.

We worked closely with the Court Funds Office team to understand their processes and priorities and developed a 'Model Office' – a full prototype of operations which enabled us to simulate the working environment and test capabilities. Our approach is helping increase the efficiency of the Court Funds Office's operations, with an estimated saving of around 30% on previous running costs. The service went live on schedule in December, with little disruption to customers, who interact with the Court Funds Office in exactly the same way as they did previously.

Eddie Bloomfield, Head of the Office of the Accountant General, commented: '*Transferring the Court Funds Office banking and administration business for over 140,000 clients with assets of circa £3 billion was a very challenging programme. It has been successfully delivered through close co-operation between the parties involved. We have enjoyed working with colleagues from NS&I throughout the transition programme and look forward to building on that relationship as we work together to deliver an important service to vulnerable clients*.'

The Equitable Life Payment Scheme was established by the Government to '*implement the Parliamentary and Health Ombudsman's recommendation to make fair and transparent payments to Equitable Life policy holders, through an independent payment scheme, for their relative loss as a consequence of regulatory failure*'. It was announced in October 2010 and we were formally appointed by HM Treasury in May 2011 to deliver payments and services for the scheme.

The scheme was launched in June 2011 with commitments to contact all eligible individual policyholders by June 2012 to inform them of their status within the Scheme, to start to make payments to holders of With-Profit Annuities by June 2012 and to prioritise payments to estates of deceased policyholders.

The first payments were made in June 2011 and the volume of payments increased substantially from December onwards. The Scheme reported that, by the end of June 2012, we had processed payments to 288,823 individual policyholders, with a total amount of £277,727,668 paid out.

Developing our business-to-business services

Although we have two Government Payment Services clients, their requirements are very different. The Court Funds Office contract involved the transfer and transformation of an existing service, to increase its effectiveness, while the Equitable Life Payment Scheme required us to design and build a new system and operation from scratch. Together they demonstrate the breadth of our capability to leverage our existing platform and deliver effective business-to-business services.

The two contracts have ensured we have met our targets in this area to date and we are well on the way to achieving our targets for 2012-13. We are also in discussion with a number of other government organisations to examine what value we can bring to them.

Operational delivery

Our operations maintained the very high service standards of previous years as well as ensuring that all efficiency targets were met, in a year of considerable change behind the scenes.

Since 1999 NS&I's call centre, IT and processing operations have been delivered under a highly successful Public Private Partnership contract. The contract was originally held by Siemens IT Solutions and Services (SIS), which was formally acquired by Atos in July 2011.

We worked closely with Atos during the acquisition process to ensure that our operations would not be disrupted and to understand their future plans for SIS clients and staff. We welcomed the engagement of senior Atos executives, who made it clear that they understood the importance of our contract. Their commitment to its success was evidenced through their agreement that key members of the contract management team would stay in post and that all SIS staff working for NS&I, across all four sites, would transfer across.

Meeting operational targets

Even though the change of ownership took place at relatively short notice, there was no disruption to service – as our delivery performance demonstrates. Customer satisfaction across all channels remains consistently high, at an average of over 88% during 2011-12. Once again, we exceeded targets for accuracy and timeliness.

That is not to suggest there were no operational issues: the enormous demand for Index-linked Savings Certificates in their first fortnight on sale created significant pressure on our contact centres. Even though we had carefully prepared for the launch, callers experienced a longer than usual wait before they could speak to an adviser.

We re-allocated resources to increase the number of contact centre staff available, by redeploying staff from other functions and extending working hours, but unsurprisingly, satisfaction with the telephone channel dropped at this time to around 79%. Although this quickly rebounded, we are investing in additional flexible capacity and new technologies for the contact centre so that we are better equipped to respond to future peaks in demand.

Behind the scenes our operations continue to absorb and deliver change to ensure we offer the best service possible to our customers. Anticipating the increasing use of direct channels, we have changed some processes. We can respond more rapidly to customer complaints and queries, linking customer records, moving work to make space for business-to-business activities in the most efficient way and commenced training to put us in the best position to cope with the challenges we know we will face next year.

A partnership that remains strong

The decision to invest in additional capacity in the contact centre was made jointly by NS&I and Atos and is a good example of what we mean by partnership working.

The annual partnership survey, conducted as before by independent provider Service Matters, examined 18 areas across the partnership. The survey asked the same 22 questions to over 30 key staff from each organisation. Respondents identified a positive change, from what – as has been highlighted in previous years – is already a high-performing partnership compared to industry benchmarks. The overall partnership score increased from 7.4 to 7.5 out of 10.

Not only is it very gratifying to see that, after 12 years in partnership, we are still making improvements to the way we work together, but it is even more satisfying in a year which not only saw the change of control from SIS to Atos, but also the development of our new business-to-business services.

Atos has been closely involved in that development, setting up its own dedicated business-to-business team to support ours and retraining a core of experienced operational staff to handle the different transaction types. While the systems and infrastructure are unchanged, the processes are different and the Atos team has been highly supportive and responsive in ensuring that we meet the business-to-business service levels we have agreed.

Beginning procurement for the new contract

This willingness to adapt and work together is notable given the fact that the current operational delivery contract expires in 2014. As planned, the procurement exercise began this year, with an 'Industry Day' in July 2011 designed to provide information and seek feedback from prospective suppliers. The procurement process was formally launched in November 2011 and is being conducted in accordance with Public Procurement Regulations.

The response to the Pre-Qualification Questionnaire was very strong. A robust and quality assured process enabled us to select, in February, a shortlist of three organisations to take forward to the next stage: Atos, Capita and Hewlett-Packard. We are committed to a fair and open competition that delivers best value for HM Treasury and Government, but also recognises the costs and commitment required of organisations to participate in a tender process of this scale. The procurement is expected to be completed by April 2013 in time to allow a managed transition to the new contract and services.

To ensure fair and open competition, there has been a formal separation between the Atos bid team and operational delivery team. Atos has been excluded from NS&I discussions that relate to the period beyond the contract end-date. Because our core IT infrastructure is managed by Atos, we have introduced a completely separate IT network for the NS&I team managing the procurement exercise. We have also ensured that all bidders receive the same information, including relevant operational details.

In the independent Civil Service staff survey… our overall engagement level rose from last year's figure of 68% to 71%, which saw us rank third of the 97 organisations surveyed.

Our people

In 2011-12, we restructured our organisation to ensure we were best equipped to meet our strategic objectives and performance targets. Despite the disruption that comes with any restructure and the ongoing backdrop of public sector austerity, staff engagement and commitment have risen.

The restructure saw the creation of six new directorates, with responsibilities more clearly aligned with our NS&I direct+ strategy and Spending Review targets. These new directorates are:

- Retail Customer
- Business-to-Business and Change
- Operations and Commercial Management
- Corporate Services
- Finance and Business Insight
- Risk and Assurance.

These directorates replaced existing structures. To staff them, a number of people were moved to different roles or into a different directorate and one chose to take voluntary redundancy in 2011–12, in addition to those noted in the Accounts as having left in 2010–11 (see page 62).

These structural changes reflect the fact that we now have two distinct customer operations within the overall business. To maximise our efficiency, many of the supporting services for both customer operations and for NS&I as a whole – such as procurement, communications and the management of corporate IT applications – are integrated within Corporate Services.

Any restructure brings with it an element of disruption, so we have been delighted with the response of our people, which has been highly positive. This was reflected both in our overall business performance and in the results of the staff engagement survey. As in previous years, we participated in the independent Civil Service staff survey which asks the same questions of staff across government. Our overall engagement level rose from last year's figure of 68% to 71%, which saw us rank third of the 97 organisations surveyed.

We reached the high performers benchmark, the score achieved by the top quartile of organisations covered by the survey, in every category. We were particularly pleased with the significant improvements in our scores for line management (74%) and learning and development (54%), both of which were identified as areas to target following last year's survey. In terms of management, we have sought to clarify the manager's role and the standards we expect and extended our leadership development programme to line managers across the organisation. For leadership and managing change, we came second, which means for the last three years we have been in the top two of all organisations that have participated in the survey. During a time of considerable organisational change, this is very satisfying.

As ever, the survey provides valuable insights to learn from: this year the detailed results indicated some important differences between the engagement of levels of staff in different directorates. We are examining these in detail and will work closely with the individual directorates on the most relevant areas.

Learning and development

In the current climate of public sector austerity, learning and development has been an important focal point for employee satisfaction, as well as being essential to supporting the restructure.

This year, while our overall learning and development budget remained unchanged, we have improved our method of allocation. Training is increasingly focused on learning requirements identified in individuals' 'Personal Development Plans' and we have developed a number of internal programmes for development of core, common skills that reduce our reliance on external training. We continue to invest in specialist skills and this year a number of staff have studied for and achieved the Certificate in Financial Planning (CF2), a qualification held by Independent Financial Advisers and other finance professionals.

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, and
- providing mentoring to colleagues across the business.

Learning and development opportunities 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.

Pay and reward

The Civil Service pay freeze continued throughout the year and for NS&I, ended in July 2012, beyond which we shall adhere to the guidelines laid out by HM Treasury.

At NS&I, we are committed to being wholly transparent about executive pay and performance-related pay and details of these can be seen in the Remuneration report on page 32. Details of our board directors' expenses can also be found online at **www.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. This includes performance-related pay.

Pension liabilities

The majority of our current and previous employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS). This is set to change from a final salary scheme to a career average scheme in 2015 and employee contributions rose from April 2012, as announced in the 2010 Spending Review. Full details of the changes to the PCSPS can be found on the Cabinet Office website.

We used internal communications channels, in particular the NS&I intranet, to provide staff with up-to-date information about the forthcoming changes to the PCSPS. The rate of the employer's contribution is determined by the Government Actuary and advised by HM Treasury. For 2011–12 the rates were between 16.7% and 24.3% (2010–11: 16.7% and 24.3%) of pensionable pay, depending on salary.

See the Remuneration report (page 32 to 36) for further details.

Recruitment monitoring

The Civil Service-wide freeze on recruitment continued throughout 2011-12. However, we agreed with HM Treasury and with the Cabinet Office a process whereby our Chief Executive had delegated authority to recruit into vacancies in business-critical roles. This was particularly important as we set up our business-to-business services, where we needed to acquire or develop new skills in areas such as account management and business development. While a number of internal appointments were made, we also used external recruitment and interim appointments to ensure we had the skills to provide business-to-business services. During the year, we undertook an external recruitment exercise for the selection of a new Non-executive Director and an executive Director of Finance who joined NS&I in July 2012.

Overall, staff turnover remained very low, which partly reflects conditions in the wider labour market, but also the efforts we have made to make NS&I a great place to work. In the year, there were a total of 25 permanent and fixed-term appointments and these are summarised in the table on the next page. Full details of staff numbers can be found in Table 5 of the Departmental Report on page 100.

We operate fair and open competition for all recruitment campaigns, in line with the Civil Service Commissioners' guidelines. Appointments are made against robust criteria, which are applied throughout the recruitment and assessment process. There were 12 permitted exceptions to the recruitment principle of fair and open competition, which were temporary appointments to meet short-term business needs (i.e. maternity covers or roles to cover a short-term resource requirement).

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.

Permanent and fixed-term appointments in 2011–12

	Non-executive Directors	Senior Civil Servants*	Grade 1	Grade 2	Grade 3	Grade 4	Grade 5	Grade 6	Grade 7
Male	1	0	0	0	1	2	3	5	4
Female	0	0	0	0	0	6	3	0	0
White	1	0	0	0	1	7	4	5	2
Non-white	0	0	0	0	0	1	2	0	2
Disabled	0	0	0	0	0	0	0	0	0

* Equivalent since October 2011

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

Equal opportunities

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

As an employer, the Department seeks to be open and inclusive in its management policies and processes and seeks to recruit and develop a diverse and talented workforce that is representative of the society it serves. Our Equality Information Statement provides full details of diversity of NS&I's employees, it is available here:
www.nsandi.com/files/asset/pdf/equality-information-statement.pdf

Sick absence data

The average number of sick days per person in the 12 months ending 31 March 2012 was 3.57 days (2010–11: 4.24). This figure includes all absences including long-term absence. Short-term absences were 2.45 days (2010–11: 2.71).

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 which 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 one major incident in 2011-12 involving one member of staff.

We follow government standards for sustainable procurement and use appropriate environmental criteria as part of the tender evaluation process.

Sustainability report

NS&I recognises the need to adapt to climate change and we have made continued progress towards our medium-term carbon reduction plan this year, under which we already exceed government sustainability targets. To ensure sustainability is fully embedded within our operations and governance structure, we have developed a People and Corporate Social Responsibility Risk Policy within our overall risk management framework.

The carbon reduction plan, developed with the support of the Carbon Trust, sets out how against the 2009-10 baseline, we will reduce our carbon emissions by over 7,000 tonnes a year from the end of March 2015. This equates to over 50% of our emissions, significantly ahead of both our own initial target and those set centrally by government. Progress towards this has been steady this year, with a reduction in emissions of 1,427 tonnes, equivalent to more than 12%. Total carbon dioxide emissions were 9,772 tonnes. KPMG continues to support us in enhancing our existing sustainability reporting processes and controls by evaluating our key reporting systems (energy, waste, water and carbon dioxide emissions) and providing recommendations supporting our continuous improvement. We have retained ISO14001 accreditation.

Important progress has been made in terms of future developments at our sites in Durham, Blackpool and Glasgow. We also further embedded Corporate Social Responsibility (CSR) within our overall business with the creation of a People and CSR risk policy. This not only underlines the importance of CSR to NS&I but also ensures sustainability performance is monitored within our core governance structure.

As mentioned in last year's report, our carbon reduction plan will also deliver an annual cost saving to the business in excess of £900,000 from March 2015, which is an important part of reducing the total cost of operations in line with the 2010 Spending Review. One essential element in this cost reduction is the move towards direct channels, which amongst other benefits also reduces the amount of paper we consume. We have retained the Sustainable Mail™ accreditation for the third year in a row.

As in previous years, the role of our operational delivery partner has proved vital to delivering continuous improvement in our sustainability performance. Atos is strongly committed to CSR and we have taken steps to ensure their sustainability reporting mechanisms meet our requirements. Some new facilities management contractors have been appointed following the change of ownership, but this has not affected our performance.

Our estate

We made substantial progress toward our long-term goal of moving our Durham operation from its current site to a new purpose-built facility. The new premises will meet the Building Research Establishment Environmental Assessment Method (BREEAM) 'Excellent' standard, as required by our CSR policy and enable us to reduce our emissions further and achieve greater savings. Plans have been put forward for the redevelopment of the current site and Carillion has been appointed as the preferred developer for the new smaller building. Public consultation has been undertaken and we have ensured that the staff working at Durham and the local MP have been kept fully informed.

In the coming years we will ensure the operations staff who support NS&I are all housed in modern, efficient and fit for purpose accommodation. This process is well advanced at Blackpool as we already have most operations staff housed in the recently extended 'Moorland' building and in Glasgow we plan to move to ready-built accommodation elsewhere in Glasgow. Our current Glasgow site contains a Civil Service Sports Club facility which has been disused for a number of years. A local community group has been looking to set up a community sports club in the area and we have agreed to sub-let the facility to the community group for a minimal fee.

As well as larger scale projects to reduce carbon emissions, we also continue to encourage more energy-efficient working practices across our estate, such as temperature controls and low-energy lighting.

Our people

Our network of CSR Green Champions, which include representatives from each team across the business, continues to encourage sustainable and responsible working practices and generate new ideas on how to improve our sustainability performance. In particular, the Green Champions have been instrumental in ensuring recycling performance continues to be strong.

Our staff charity for 2011-12 was Sebastian's Action Trust, which provides respite holidays as well as practical support to very sick children and their families. Staff took part in a range of fundraising activities and several members of staff volunteered with the charity, helping prepare its purpose-built facility in Hampshire for the opening in July 2011. Almost one in eight people at our London office have taken up staff volunteering – an option within the overall employee benefits package. Payroll Giving levels also remained high.

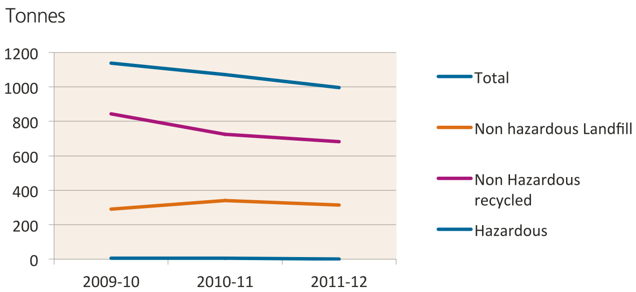
Working with others

As well as our partnership with Atos, 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 – reducing the amount of paper we use.

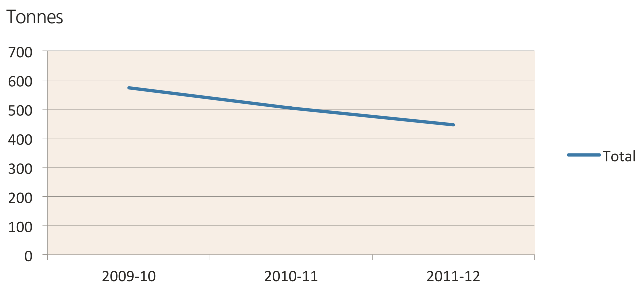
In terms of suppliers, we follow government standards for sustainable procurement and use appropriate environmental criteria as part of the tender evaluation process. We also actively seek to use our status and activities to influence our suppliers and partners to act in more sustainable ways.

The input from the Carbon Trust in developing our carbon reduction plan was invaluable. Having completed the carbon management programme, our engagement with them is now reduced, but we will continue to use their advisory services as required.

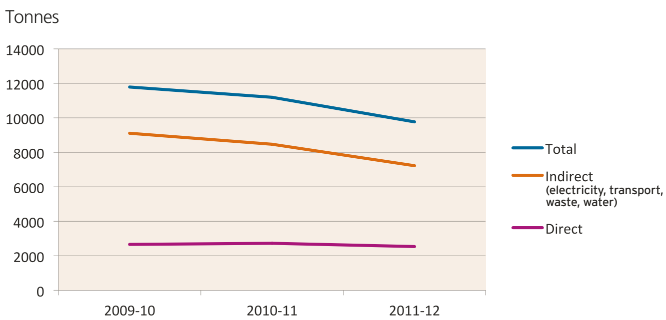
Waste (four sites)



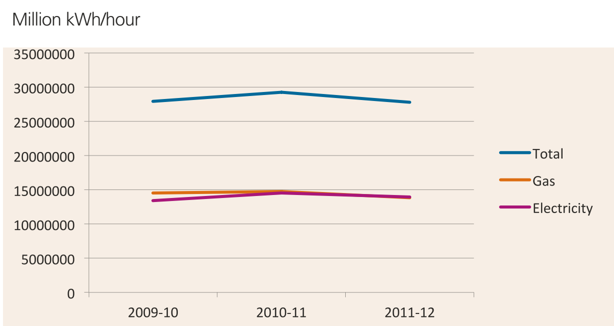
Travel CO2e emissions



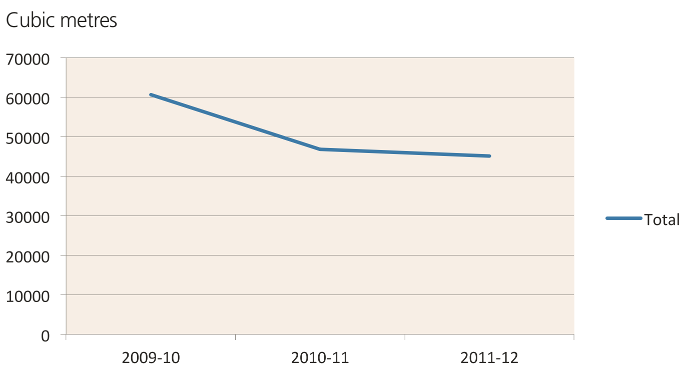
CO2e emissions (four sites)



Energy consumption (four sites)



Water consumption (four sites)



We are making progress in key areas of sustainability, as shown below:

Energy (CO2e)

	2009-2010	*2010-2011*	*2011-2012*
Location			**Tonnes**
Blackpool	2,839	3,796	3,232
Durham	3,451	3,616	3,300
Glasgow	2,249	2,852	2,476
London	355	366	300
Total	**8,894**	**10,630**	**9,308**

Percentage of waste recycled

	2009-2010	*2010-2011*	*2011-2012*
Location			**%**
Blackpool	71	48	46
Durham	66	70	59
Glasgow	85	79	84
London	73	86	85
Total recycled	**74**	**68**	**68**

Water

	2009-2010	*2010-2011*	*2011-2012*
Location			**Cubic metres**
Blackpool	30,197	21,376	16,318
Durham	12,346	13,459	19,576
Glasgow	14,308	10,958	9,162
London	3,784	1,076	59
Total	**60,635**	**46,869**	**45,115**

CO2e conversion factors are sourced from Department for Enviroment, Food and Rural Affairs (Defra) July 2011 Guidelines to Defra / DECC's GHG Conversion Factors for Company Reporting.

Waste

	2009-2010	*2010-2011*	*2011-2012*
Location			**Tonnes**
Blackpool	191	227	157
Durham	482	529	379
Glasgow	395	251	416
London	71	65	45
Total	**1,139**	**1,072**	**997**

Board, committees and how we operate

NS&I's remit and policies are decided by ministers, on advice from officials. The NS&I board provides collective strategic and operational leadership and advises on the operational implications and effectiveness of policy proposals, as well as scrutinising performance and challenging Executive Directors on how well NS&I is achieving its objectives.

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

- Strategic Clarity: setting the NS&I vision
- Commercial Sense: scrutinising the allocation of financial and human resources
- Talented People: ensuring NS&I has the capability to meet current and future needs
- Results Focus: agreeing the Corporate Plan; and
- Management Information: ensuring clear, consistent, comparable performance information is used to drive improvements.

There is a formal schedule of matters reserved to the board which is reviewed annually. Operating within instructions and guidance from HM Treasury and in support of the Chief Executive in the achievement of the Agency's objectives, the NS&I board is responsible for:

- approving the annual planning criteria and timetable
- assisting in developing NS&I's vision, strategy and corporate policies
- reviewing annually the five-year strategic plan
- approving the annual business plan, ensuring consistency with five-year strategic plan
- ensuring that we have robust systems in place for compliance with legal, regulatory and government security requirements
- adopting the Annual Report and Accounts and giving support to their signature by the Accounting Officer, taking into account the recommendations and comments from the Audit Committee, and
- ensuring the existence of adequate succession plans for senior management.

Other specific responsibilities are delegated to the board committees which operate within clearly defined terms of reference. Details of the responsibilities delegated to the committees are given on page 26.

Terms of reference for the board can be found on our website at
www.nsandi.com/files/asset/pdf/board_termsofref.pdf

NS&I is committed to achieving the highest standards of corporate governance, integrity and business ethics. The Governance Statement on page 38 details the governance framework adopted by NS&I.

In July 2011, HM Treasury and the Cabinet Office published a revised version of the Code for Corporate Governance in Central Government Departments (the Code) which replaces the earlier 2007 version. We reviewed our governance framework against the revised Code and introduced additional elements of governance and internal control processes as appropriate. For example, in accordance with the Code's recommendation, this year NS&I adopted a Board Operating Framework. Throughout 2011-12, NS&I complied with the provisions of the 2007 corporate governance code and the Code except as detailed below.

Our board

The NS&I board consists of the Chief Executive (who is also the Accounting Officer); six Executive Directors; four Non-executive Directors, including the Non-executive Chairman; and two representatives from HM Treasury. 31% of board members are women.

The Lead Non-executive Director is the Chairman; his report is at the start of this document, but the description of the activities of the board and its committees, along with details of changes to Non-executive personnel, are included within this section.

Members of the board as at 31 March 2012 were:

- Jane Platt, Chief Executive
- Peter Cornish, Risk and Assurance Director
- Julian Hynd, Business-to-Business and Change Director

We reviewed our governance framework against the revised Code for Corporate Governance in Central Government Departments and introduced additional elements of governance and internal control processes as appropriate.

- Gillian McGrattan, Corporate Services Director
- Steve Owen, Operations and Commercial Management Director
- John Prout, Retail Customer Director
- Dharmesh Tailor, Finance and Business Insight Director (acting until end June 2012)
- Sir John de Trafford Bt. MBE, Non-executive Chairman and Chairman of the Appointments and Remuneration Committee
- David Hulf, Non-executive Director and Chairman of the Audit Committee
- Simon Ricketts, Non-executive Director
- James Furse, Non-executive Director
- Sam Beckett, HM Treasury
- Clare Roberts, HM Treasury.

See page 25 for details of Committee membership

During the year, Martin Gray ended his term as a Non-executive Director and Chairman. Sir John de Trafford was appointed Chairman in his place, with effect from 1 January 2012. James Furse joined the board as a Non-executive director on the same date. After serving on the NS&I board since 2005, this year Sarah Tebbutt stepped down as the nominated representative of the Debt and Reserves Management Team at HM Treasury on 11 May 2011. She was replaced on an informal basis by Donna Leong before the appointment of Clare Roberts with effect from 1 October 2011. From July 2012, Rodney Norman joined NS&I as Finance Director. In July 2012 Sam Beckett stepped down from the NS&I board and was replaced by James Richardson of HM Treasury.

All Directors uphold the seven principles of public life: selflessness, integrity, objectivity, accountability, openness, honesty and leadership. Each Director brings a valuable range of experience and expertise to the board. The profiles of the Non-executive Directors can be found on page 27 and 28.

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

Chairman and Chief Executive

As Chairman, Sir John de Trafford is responsible for:

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

As Chief Executive, Jane Platt is responsible for:

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

The Chief Executive is also Accounting Officer and the Director of Savings. The Statement of Accounting Officer's responsibilities is on page 37.

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

Lead Non-executive board member
The board has decided not to follow the Code in relation to the appointment of a Lead Non-executive board member. 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 Lead Non-executive board member other than the Chairman.

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

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

Board meetings and attendance
Board meetings are held every two months and additional board workshops are held to discuss specific issues such as strategy and effectiveness. Board meetings are structured to allow open discussion of the strategy, trading and financial performance and risk management of NS&I.

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

The attendance of the individual Directors at board and Committee meetings of which they were members during 2011-12 is shown in the table on the next page.

Board appointments
All Executive Directors, including the Chief Executive, were appointed, where applicable, in accordance with the Civil Service Commissioners' Recruitment Code. Each Executive Director 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 for two terms of office, subject to satisfactory performance and business need.

Board effectiveness
On joining the board, Directors are given background information describing NS&I and its activities. They receive information on all the governance processes of NS&I, the roles and responsibilities of the board, committees and officers and a range of other appropriate information about NS&I, its activities and relationship with HM Treasury. Meetings are arranged with a range of key people from across the stakeholder group on a structured basis to assist with a Director's induction.

During 2011-12, the board members were engaged in a range of training and professional development activities. The Appointments and Remuneration Committee considers the training needs of the Executives. All board members are encouraged to attend relevant training courses at NS&I's expense.

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

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

Board attendance

Name	Board (six meetings)		Audit Committee (six meetings)		Appointments and Remuneration Committee (four meetings)	
	Possible	Actual	Possible	Actual	Possible	Actual
Martin Gray[1]	5	5	n/a[2]		3	3
Sir John de Trafford Bt. MBE[3]	6	6	n/a		4	4
David Hulf	6	6	6	6	n/a	
Simon Ricketts	6	5	6	6	n/a	
James Furse[4]	1	1	n/a		1	1
Sam Beckett (HM Treasury)	3	3	n/a		n/a	
Sarah Tebbutt (HM Treasury)[5]	1	1	n/a		n/a	
Clare Roberts (HM Treasury)[6]	2	2	3	3	n/a	
Jane Platt	6	6	n/a		4	4
Peter Cornish	6	6	n/a		n/a	
Julian Hynd	6	6	n/a		n/a	
Gillian McGrattan	6	6	n/a		4	4
Steve Owen	6	5	n/a		n/a	
John Prout	6	6	n/a		n/a	
Dharmesh Tailor	6	6	n/a		n/a	

1 Martin Gray ended his term as Non-executive Chairman on 31 December 2011.

2 n/a means that the specified director is not a member of that committee, although he or she may attend meetings at the invitation of the chairman of the committee.

3 Sir John de Trafford was appointed Chairman with effect 1 January 2012.

4 James Furse was appointed a Non-executive Director on 1 January 2012.

5 Sarah Tebbutt stepped down from the NS&I board on 11 May 2011.

6 Clare Roberts was appointed HMT's nominated representative on 1 October 2011.

Only one HM Treasury representative is expected to attend each board or Audit Committee. During the period from May 2011 to 30 September 2011, Donna Leong attended board and Audit Committee meetings on an informal basis.

Conflicts of interests
NS&I's Board Operating Framework includes provisions that reflect recommended practice concerning conflicts of interest. The board has procedures in place for Directors to report any potential or actual conflicts to the other members of the board for their authorisation where appropriate. Any such conflicts or potential conflicts considered by the board are recorded in the board minutes. NS&I's Register of Directors' Interests is published on our website, **www.nsandi.com/about-nsi-who-we-are-our-board-and-committees**.

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

Board committees
The board has delegated authority to three permanent committees that deal with specific matters, in accordance with written terms of reference which can be found at **www.nsandi.com/about-nsi-who-we-are-our-board-and-committees**. The terms of reference for all committees are reviewed on a regular basis to ensure that they are still appropriate and reflect any changes in good practices and governance.

Given the size of the organisation, NS&I has decided not to establish a governance committee as proposed by the Code. The board is responsible for corporate governance arrangements and is supported by the Audit Committee in terms of the provision of assurances.

Audit Committee
The Audit Committee consists solely of Non-executive Directors. It is chaired by David Hulf and comprised at 31 March 2012, Simon Ricketts and Clare Roberts. As required by the Code, the Chairman of the Committee has recent and relevant financial experience for this role.

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 Atos
- 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 Atos, including internal audit arrangements within NS&I and the NS&I account within Atos
- processes in place to ensure appropriate compliance with regulation
- anti-fraud policies, whistle-blowing processes and arrangements for special investigations.

The Audit Committee met six times during the year. At the invitation of the Committee, the Chief Executive, Finance Director and Director of Risk and Assurance also attend, as well as the Head of Internal Audit, the director from the National Audit Office (NAO) and a representative from the external audit partner (under the NAO's framework agreement). All Directors have access to the minutes of the Audit Committee meetings.

During 2011-12, the Audit Committee discharged fully its responsibilities listed above and in doing so, considered the following:
- the Annual Report and Accounts and the Governance Statement
- the internal and external audit plans and progress against these plans, as well as the adequacy of management's responses to any issues identified
- implementation progress on compliance, risk and fraud strategies, including developments to the risk assurance framework
- business continuity, disaster recovery and physical and data arrangements
- review of the Audit Committee and the achievement of its terms of reference.

Appointments and Remuneration Committee
Details of the Appointments and Remuneration Committee and its policies together with Directors' remuneration and emoluments are set out in the Remuneration report on page 32.

Executive Committee
The Executive Committee consists of all Executive Directors and is chaired by the Chief Executive. The Account Director for Atos is invited to attend relevant sections of these meetings.

The Executive Committee meets twice monthly to discuss issues relating to strategy, people, risk and financial results. Representatives from across NS&I and Atos are invited to the meetings, as appropriate, to discuss aspects of their business or give presentations on specific topics.

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 £698,800 (2010–11: £703,000) and Accounts statutory audit of £160,000 (2010–11: £58,500). The Accounting Officer has taken all the steps that ought to have been taken to make herself aware of any relevant audit information and to establish that NS&I's auditors are aware of that information. So far as she is aware, there is no relevant audit information of which NS&I's auditors are unaware.

NS&I's internal audit service provides an independent appraisal service for management by measuring and evaluating the adequacy, reliability and effectiveness of management and financial control systems. Internal audit make recommendations based on the appraisal of each system reviewed. An annual assurance report is provided to the Accounting Officer and considered by the Audit Committee. The report confirms that NS&I has adequate and effective risk management, control and governance processes to manage the achievement of its objectives.

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.

Public Bodies directory

From autumn 2012, the Cabinet Office will produce a comprehensive annual Public Bodies directory providing details of Non-Departmental Public Bodies (NDPBs) and similar public bodies. This information will be published online.

Non-executive Directors' biographies

Sir John de Trafford Bt. MBE
Non-executive Chairman

John became a Non-executive Director in January 2010 and was appointed Chairman on 1 January 2012. His early career was spent 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 six 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.

David Hulf
Non-executive Director, Chairman of the Audit Committee

David was appointed a Non-executive Director in 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.

Simon Ricketts
Non-executive Director

Simon 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.

James Furse
Non-executive Director, Chairman of the Appointments and Remuneration Committee

James was appointed as Non-executive Director in January 2012. He enjoyed a long and distinguished career with the John Lewis Partnership, which he joined in 1981, progressing through a series of roles to become a managing director within the retail operation. He later moved to managing outsourced relationships, including a key contract with HSBC, and subsequently became Director of Card Services reporting directly to the Chairman. His final role with the John Lewis Partnership was as Managing Director of Greenbee.com, now John Lewis Financial Services. In 2010, James was appointed Executive Director of The Prince's Social Enterprises Ltd and became a member of a number of related boards, including Duchy Originals Ltd.

Sam Beckett
Non-executive Director

Sam 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. Sam is responsible for the fiscal policy framework, fiscal policy advice and analysis and for government debt, cash and reserves management. Prior to this she was Director of Policy and Planning and Director of Operations, and has three years' experience as an HM Treasury board member, plus over 20 years' experience in macro and micro-economic policy-making.

Sam Beckett stepped down from NS&I's board in July 2012 and was replaced by James Richardson, HM Treasury.

Clare Roberts
Non-executive Director
Clare Roberts is Deputy Director, and Head of the Debt and Reserves Management Team at HM Treasury where she is responsible for government debt (wholesale and retail) and foreign exchange reserves management. She has worked in HM Treasury since 1997 on fiscal, expenditure and international finance policies, and for two years as an economic adviser for the Department for International Development based in Beijing, PR China.

What we spend our money on

NS&I's budget is voted 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 Atos, our operational delivery partner, under a Public Private Partnership (PPP) contract and the payments made to the Post Office®.

The basic payment for services to Atos (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. Atos also receives variable payments based on transaction volumes, new product and service channel developments, and its performance.

A breakdown of NS&I expenditure is shown in the charts on the next two pages.

Expenditure

Resource costs	2011–12 £000 Outturn Net total	2011–12 £000 Estimate Net total	2011–12 £000 Net total outturn compared with estimate	2010–11 £000 Outturn Net total	2010–11 £000 Estimate Net total	2010–11 £000 Net total outturn compared with estimate
Spending in Departmental Expenditure Limits (DEL)						
Central Government Spending	172,465	173,610	1,145	169,103	172,344	3,241
Spending in Annually Managed Expenditure (AME)						
Central Government Spending	639	7,300	6,661	3,747	5,300	1,553
Non-budget	3,477	-	(3,477)	(10,449)	22,500	32,949
Total	**176,581**	**180,910**	**4,329**	**162,401**	**200,144**	**37,743**

Capital expenditure	2011–12 £000 Outturn Net total	2011–12 £000 Estimate Net total	2011–12 £000 Net total outturn compared with estimate	2010–11 £000 Outturn Net total	2010–11 £000 Estimate Net total	2010–11 £000 Net total outturn compared with estimate
Spending in Departmental Expenditure Limits (DEL)	191	477	286	1,415	1,464	49
Non-budget	24,414	-	(24,414)	26,368	27,000	632
Total	**24,605**	**477**	**(24,128)**	**27,783**	**28,464**	**681**

NS&I's Non budget expenditure is not subject to a Parliamentary control total following the implementation of HM Treasury's Clear Line of Sight (CLoS) initiative.

Difference between resource outturn and estimate

	2011–12 £000	2011–12 £000
Higher than expected transaction volume costs	(115)	
Project costs brought forward	(420)	
Lower depreciation charges	837	
Deferred professional fees and marketing costs	890	
Other differences	(47)	
Total DEL underspend		**1,145**
Lower than expected requirement for provisions	605	
Lower than expected impairment charge for NS&I properties	6,056	
Total AME underspend		**6,661**
Total underspend against estimate		**7,806**

	2011–12 £000	2010–11 £000
Net Resource Outturn (Estimates)	**173,104**	**172,850**
Adjustments to remove:		
Total Resource Budget Outturn	**173,104**	**172,850**
of which:		
Departmental expenditure limit (DEL)	172,465	169,103
Annually managed expenditure (AME)	639	3,747
Adjustments for Non budget items	3,477	(10,449)
Net operating costs (accounts)	**176,581**	**162,401**

Suppliers

Payment of suppliers: policy and performance

NS&I is committed to a policy of prompt payment and is a signatory to the Better Payment Practice Code. We endeavour to pay all suppliers within 30 days of acceptance of the relevant goods and services, or receipt of a legitimate invoice if that is later. For 2011-12, the average time taken to pay suppliers was 10 days.

In 2011-12 NS&I paid 96.1% (2010-11: 96.4%) of bills within this standard. The Government made a commitment to speed up the payment process for small or medium size enterprises (SMEs). HM Treasury's *Managing Public Money* guidance states that '*Public sector organisations should aim to pay suppliers wherever possible within 10 days*.' NS&I has followed this commitment and implemented a process to pay SMEs within 10 days of acceptance of the relevant goods or services or receipt of a legitimate invoice if that is later. Details of all expenditure over £25,000 can be found on our website along with a list of all contracts with a value of over £75,000, in line with government guidelines.

Jane Platt

Jane Platt
Chief Executive
National Savings and Investments
13 December 2012

Remuneration report

Appointments and Remuneration Committee

The Appointments and Remuneration Committee comprised Non-executive Directors Martin Gray (up until December 2011), Sir John de Trafford Bt. (as Chairman) and James Furse (from January 2012). It also comprised two Executive Directors: the Chief Executive and the Corporate Services 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. 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 rolling three-year fixed-term contract (now extended until September 2015). 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 and performance-related pay

'Salary' includes: gross salary; and any other allowance to the extent that it is subject to UK taxation. Performance-related payments are made as part of NS&I's performance management system. The payments reported in 2011–12 relate to performance in 2011–12 and the comparative payments reported for 2010–11 relate to performance in 2010–11.

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

Audited

	2011–12 Salary £000	2011–12 Performance-related pay £000	2010–11 Salary £000	2010–11 Performance-related pay £000
Jane Platt *Chief Executive*	190–195	15–20[1]	190–195	15–20
Mike Chilton[2] *Finance and Risk Director*	5–10 (140–145 annualised equivalent)	N/A	140–145	10–15
Peter Cornish[3] *Risk and Assurance Director*	105–110	15–20	100–105	10–15
Julian Hynd[3] *Business-to-Business and Change Director*	115–120	15–20	100–105	10–15
Steve Owen *Operations and Commercial Director*	115–120	15–20	115–120	10–15
Gillian McGrattan *Corporate Services Director*	105–110	15–20	105–110	10–15
John Prout *Retail Customer Director*	115–120	15–20	115–120	10–15
Dharmesh Tailor *Acting Finance and Business Insight Director*	90–95	10–15	N/A	N/A
Band of highest paid Director	190–195	15–20	190–195	15–20
Remuneration median for workforce	37,665		45,317	
Ratio of highest paid Director to median salary of the workforce	5.6		4.6	

[1] 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. In view of the economic background, the Chief Executive chose to limit her variable pay for 2011–12 and 2010–11 to the maximum performance-related amount set for Senior Civil Servants, regardless of her contractual entitlement.

[2] Mike Chilton left NS&I on 20 April 2011.

[3] Change in salary band as a result of increase in role weight following organisational restructure.

Pay multiples

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

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

The banded remuneration of the highest-paid director in NS&I in the financial year 2011-12 was £190,000-£195,000 (no change in band from 2010-11). This was 5.6 times (2010-11, 4.6 times) the median remuneration of the workforce, which was £37,665 (2010-11, £45,317).

No employee received remuneration in excess of the highest-paid director in either 2011-12 or 2010-11. Remuneration ranged from £20,000-£25,000 to £140,000-£145,000 in 2011-12 (2010-11 £15,000-£20,000 to £150,000-£155,000).

The remuneration median for the workforce reduced in 2011-12 compared with 2010-11, due to recruitment activity being largely confined to key roles at lower grades in 2011-12.

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

Audited

	Real increase in pension at retirement	Real increase in pension related lump sum at 31 March 2012	Total accrued pension at retirement at 31 March 2012	Pension- related lump sum at retirement at 31 March 2012	Cash equivalent transfer value (CETV) at 31 March 2011 (1)	Cash equivalent transfer value (CETV) at 31 March 2012	Real increase in CETV as funded by employer
	£000	£000	£000	£000	£000	£000	£000
Jane Platt *Chief Executive*	2.5–5	0	15–20	0	202	270	32
Mike Chilton *Finance and Risk Director*	0–2.5	0	10–15	0	132	133	1
Peter Cornish *Risk and Assurance Director*	0–2.5	2.5–5	15–20	50–55	279	324	21
Julian Hynd *Business-to-Business and Change Director*	2.5–5	0	15–20	0	154	209	37
Steve Owen *Operations and Commercial Director*	0–2.5	2.5–5	45–50	140–145	779	859	8
Gillian McGrattan *Corporate Services Director*	0–2.5	0	5–10	0	61	88	19
John Prout *Retail Customer Director*	0–2.5	0	20–25	0	399	451	12
Dharmesh Tailor *Acting Finance and Business Insight Director*	2.5–5	0	15–20	0	167	227	43

(1) The actuarial factors used to calculate CETVs were changed in 2011–12. The CETVs at 31 March 2011 and 31 March 2012 have both been calculated using the new factors, for consistency. The CETV at 31 March 2011 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

	2011–12 £000	2010–11 £000
Martin Gray (left December 2011)	15–20 (20–25 full time equivalent)	20–25
Simon Ricketts (joined in July 2007, renewed in July 2010)	15–20	15–20
Sir John de Trafford Bt. (Chairman from January 2012)	15–20	15–20
David Hulf	15–20	15–20
James Furse (joined in January 2012)	0–5 (15–20 full time equivalent)	–

Civil Service Pensions

Pension benefits are provided through the Civil Service pension arrangements. From 30 July 2007, civil servants may be in one of four defined benefit schemes; either a final salary scheme (Classic, Premium or Classic Plus); or a whole career scheme (Nuvos). These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under Classic, Premium, Classic Plus and Nuvos are increased annually in line with Pensions Increase legislation. Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a 'money purchase' stakeholder pension with an employer contribution (partnership pension account).

Employee contributions are set at the rate of 1.5% of pensionable earnings for Classic and 3.5% for Premium, Classic Plus and Nuvos. Increases to employee contributions will apply from 1 April 2012. Benefits in Classic accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years initial pension is payable on retirement. For Premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike Classic, there is no automatic lump sum. Classic Plus is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per Classic and benefits for service from October 2002 worked out as in Premium. In Nuvos a member builds up a pension based on his pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with Pensions Increase legislation. In 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% and 12.5% (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of three providers. The employee does not have to contribute, but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

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

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

Cash equivalent transfer values

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

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

Real increase in CETV

This reflects the increase in CETV 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.

Compensation for loss of office

Details of compensation paid due to loss of office are included in note 7.1 on page 62.

Jane Platt

Jane Platt
Chief Executive
National Savings and Investments
13 December 2012

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 2012 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 accounts, the Accounting Officer is required to comply with the requirements of the *Government Financial Reporting Manual* and in particular to:

- observe the Accounts Direction issued by HM Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards as set out in the *Government Financial Reporting Manual* have been followed, and disclose and explain any material departures in the accounts; and
- 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 the Accounting Officer is answerable, for keeping proper records and for safeguarding NS&I's assets, are set out in *Managing Public Money* published by HM Treasury.

The Accounting Officer'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.

Governance statement

This Governance Statement provides a record of the stewardship of NS&I in terms of the use of public resources and the control structure employed.

Scope of responsibility

NS&I is both a government department and an Executive Agency of the Chancellor of the Exchequer. The Chancellor of the Exchequer is responsible for determining the policy and financial framework within which NS&I operates. Since May 2010 the Minister with the portfolio responsible for NS&I has been the Commercial Secretary to the Treasury, Lord Sassoon.

The Chancellor of the Exchequer delegates management of NS&I to the Chief Executive who is accountable for the performance of NS&I. The Chief Executive is appointed by HM Treasury as Accounting Officer for NS&I. As Accounting Officer, the Chief Executive is accountable for NS&I's Annual Report and Accounts, the proper, effective and efficient use of public funds, ensuring that the requirements of government accounting are met and that NS&I observes any general guidance issued by central departments.

The Accounting Officer is supported by the board, which is advisory in the sense that it provides advice to the Agency on issues within its terms of reference. The board is supervisory in the sense that it scrutinises reporting on performance and challenges Executive Directors on how well NS&I is achieving its objectives. The board does not decide policy or exercise the powers of the Minister. The board advises on the operational implications and effectiveness of policy proposals.

NS&I has adopted a Board Operating Framework consistent with the principles of the Corporate Governance in Central Government Departments: Code of Best Practice 2011 ('the Code'). Further details of NS&I's board and committees and their compliance with the Code are detailed on pages 22 to 26.

The purpose of NS&I's governance framework

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

The system of internal control is a significant part of the governance framework and is designed to manage risk to 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 NS&I's policies, aims and objectives, to evaluate the likelihood of those risks being realised and their potential impact and to manage them efficiently, effectively and economically. The system of internal control has been in place in NS&I throughout the year ended 31 March 2012 and up to the date of approval of the accounts.

The governance framework

NS&I's governance framework is overseen by the board which provides collective strategic and operational leadership. More detail about the board can be found on pages 22 to 28. NS&I's governance framework is based on:

- a clear organisational structure, a strategic plan and accountability structures
- strong business planning processes including appropriate evaluation and performance metrics
- financial management protocols, risk management and administrative procedures including delegated authority levels
- strong financial governance and management including the embedded transformation of the Agency's services and products
- rigorous appraisal of any new or changed projects prior to approval, project delivery monitoring and project evaluation
- proper management supervision including receiving regular management information on business as usual, continuing projects, the transfer of projects and closing projects

- close monitoring of performance by the Chief Executive, the board and its committees including key performance indicators
- effective stakeholder engagement and feedback mechanisms.

NS&I optimises its resources through measuring the quality of its services for its customers and stakeholders in accordance with its Corporate Plan, by:

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

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

Partnership working

NS&I incorporates good governance arrangements in respect of partnerships, particularly with Atos by:

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

Risk management

NS&I employs the following structured approach to the risk management process:

Responsibilities and culture

The Executive Committee has responsibility for the management of NS&I's Risk Management Framework including NS&I's risk appetite and its strategic risks. The board ensures NS&I's compliance with the Risk Management Framework protocols by reviewing at least bi-annually NS&I's risk appetite, key operational and strategic risks as well as NS&I's compliance with best corporate governance.

The Audit Committee is responsible for assuring the Accounting Officer and the board on the adequacy of the processes for risk control, governance, security and accounting policies adopted. In addition the Audit Committee assures the adequacy of internal audit arrangements including resourcing to provide the level of independent assurances. Details of the Audit Committee are on page 26.

NS&I ensures a positive risk management culture whereby risk management is embedded in day-to-day operations. The 'tone at the top', clear ownership, training, performance measurement through individual contribution agreements and knowledge sharing are regarded as essential elements of NS&I's risk management culture and the foundation for sound decision making. In addition, NS&I's corporate governance structure enables delegation of responsibilities to ensure there are appropriate flows of information in relation to the business, the use of resources, responses to risks and the extent to which year end budgets and targets are met. This includes ensuring that all risks identified across NS&I are reviewed, understood and actioned at an appropriate level.

Approach

NS&I's approach to risk management is guided by the standards set out by the Financial Services Authority (FSA) and 'Management of Risk – Principles and Concepts' (the Orange Book) issued by HM Treasury. NS&I has established a risk appetite that addresses the risks NS&I will tolerate and manage and those that should be transferred or eliminated. This forms the basis for decision making and is central to NS&I's Risk Management Framework.

Progress on the Risk Management Framework is reported on a monthly basis to the Risk Management Committee, a formal committee of the Executive Committee, according to an agreed set of priorities and strategy assured by the Audit Committee on a bi-annual basis.

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

- identify and prioritise risks to the achievement of NS&I's aims, objectives and business priorities that reflect the interests of all stakeholders
- manage and reduce risk as far as is reasonably practicable or achievable rather than to eliminate all risk of failure
- identify new risks as they arise and remove those risks that are no longer relevant.

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

Risk identification
The primary purpose of risk identification is to identify risks to NS&I that will reduce or remove the likelihood of NS&I meeting its objectives. NS&I's risk environment encompasses both internal and external risks. Internal risks include significant business, operational, financial or other risks. Externally, NS&I is subject to political, economic, social and technological changes. Both these dimensions are brought together in a top down and bottom up approach which links strategic to operational levels.

Risk assessment
The potential effect of each identified risk on the achievement of our business priorities and the wider stakeholders is assessed according to the likelihood of something happening and the impact which arises should it happen (the 'inherent risk') and responding to them in line with the risk profile based on NS&I's risk appetite for that area of policy.

Risk planning and control
Each identified and assessed risk is assigned to a risk owner, who is responsible for controlling, managing and developing a robust and effective plan to reduce or mitigate the risk. The impact of the risk is then reassessed against NS&I's risk appetite in the light of risk planning and control activity (the 'residual risk').

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

Managing and mitigating risk
Some of our key management controls are set out below:

- our delegation manual and committee governance structure reflect the principles of clear delegation of authority and segregation of duties
- our governance committees ensure that we have a monthly, systematic review of risks and controls across the NS&I's operations, including those areas of significant expenditure, and that these are reviewed, understood and actioned at an appropriate level. In addition NS&I conducts independent and objective reviews of all activities relating to financial planning, cost improvement and financial performance of projects
- the management of information risk is a key priority for NS&I, based on a set of related IT and information management policies and procedures, covering corporate and personal data. Controls are in place to mitigate the risks of incorrect disclosure, loss and destruction in line with our obligations under the Data Protection Act 1998 and Cabinet Office guidance.
- selective recruitment, succession planning and other human resource policies and practices ensure that staff skills are aligned with NS&I's current and future needs
- robust project management and change implementation disciplines are applied to all major projects including new technology applications, change programmes and other major initiatives
- in terms of procurement, NS&I is subject to the European Public Contracts Directive which sets out detailed procedures for the award of contracts above a specific threshold. Below the £75,000 threshold either a formal or informal tender process is employed. A list of contractors with a contract value of £75,000 or more is available on **www.nsandi.com/files/asset/pdf/ojeu-contracts-oct11.pdf**
- staff can report illegal, dishonest or unethical activities to a confidential reporting service. This process was enhanced and relaunched in 2011
- we employ a range of internal controls to mitigate our fraud risk which are reviewed regularly
- business continuity and disaster recovery plans are in place to manage crisis events.

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

The first line of defence is represented by line management who are responsible for complying and for managing compliance. The second line of defence consists of risk policy owners, NS&I's oversight committees and NS&I and Atos functions including control and assurance. The third line comprises the internal and external audit functions who are independent of day to day business and who report to the Audit Committee on the effectiveness of overall risk framework.

To gain assurance that risk management is effective and to identify when further action is necessary, the Risk Management Framework is subject to regular review including, for example, arrangements to assess:

- *ownership and oversight:* the clarity in the apportionment and delegation of roles and responsibilities for operational management and the effectiveness of NS&I's committees in responding to the risk profile as reported by policy owners
- *clarity of strategy and policies:* NS&I's strategy for developing and implementing an operational risk framework and the comprehensiveness of its policy documentation and its communication within NS&I
- *risk profile:* the effectiveness of the risk management process, encompassing the extent of understanding of the types of operational risks faced by NS&I, its exposure to them and the adequacy of the control environment.

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, NS&I is expected by HM Treasury to comply fully with 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, some of the detailed rules which make up the FSA regulatory regime are not directly relevant.

NS&I is continuing to progress its programme of work to implement and embed compliance with the relevant regulatory requirements and this is discussed periodically with the FSA. Progress against the programme is tracked with updates provided to the Audit Committee.

Significant governance issues

Details of customer service incidents are detailed on pages 10 to 11. Effective governance arrangements and senior oversight are maintained to ensure appropriate and timely responses to such issues that arise.

In preparing the 2011-12 Resource Accounts, NS&I established that the financial information that Atos (formerly Siemens IT Solutions and Services Ltd) had provided from its information technology asset register contained errors. In response, NS&I asked Atos to carry out investigations with the aim of seeking confirmation of the corrected information that Atos subsequently provided. NS&I also asked Atos to indicate why these errors had occurred; and what action it had taken to correct any procedural weaknesses to ensure that such errors could not occur again. In addition, NS&I engaged internal audit to review the corrected information provided by Atos.

We can confirm that this issue was confined to the non-current asset information in the NS&I Resource Accounts. It has no impact on the integrity of NS&I's customers' savings, which are reported in the separate Product Accounts.

The Audit Committee has received assurance that there has been no systemic breakdowns in internal controls, no material loss and that there are no major weaknesses in the governance systems that has exposed, or continues to expose, NS&I to an unacceptable risk.

Principal risks and uncertainties

The principal risks and uncertainties facing NS&I which could cause its financial results or operational delivery to materially differ from expected results are set out on pages 42 to 43 along with a summary of how we managed to these risks in 2011-12 where relevant.

Assurances

NS&I's governance framework is subject to an annual review by independent internal auditors who report to the Audit Committee on its effectiveness. This annual audit enables the Audit Committee to gain assurance that NS&I's risk profile is being monitored and provides independent verification on the appropriateness of the risk management and assurance processes in place.

In addition, the Audit Committee is provided with an independent evaluation of the governance framework through:

- a risk based internal audit programme agreed by the Audit Committee and which has been delivered during the year 2011–12 primarily by KPMG, NS&I's internal audit provider. From this programme, internal audit reports including management responses to the recommendations were generated, summarised and submitted for consideration by the Audit Committee. A comprehensive tracker system is used to monitor delivery of the control improvements. In particular, the Audit Committee has considered and relied on the internal audit's annual opinion for the year ended 31 March 2012
- discussion, where appropriate with the responsible NS&I and Atos executives on any key control issues
- external third party evidence through, for example: NS&I measuring progress against external standards/ requirements; and discussion with the FSA on the compliance agenda and government security policy framework.

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

In addition to the assurances detailed above, the Audit Committee receives, from the external auditors, an audit completion report and management letter which include observations and recommendations on internal control arising from the annual audit of the financial statements.

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

Principal risks and uncertainties facing NS&I

Principal Risk Factor	Key Factors	Mitigation
Net Financing Risk Net Financing risk is the risk of failing to meet the annual Net Financing target agreed annually with HMT.	NS&I's 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.	Mitigating actions include pricing, taking products on or off sale and managing retention rates and marketing activity. This risk materialised in 2011–12. For information on mitigating actions taken by NS&I see pages 4 to 5.
Change Programme Risk Change programme risk is the failure to deliver NS&I's change programme within agreed cost, time and quality parameters.	As part of the NS&I direct+ strategy, NS&I continues to upgrade and modernise its infrastructure and product range.	To manage the risks associated with this, NS&I has put the requisite programme and project management disciplines in place, including enhanced joint working with Atos, project and programme tracking processes, and associated joint governance of the end-to-end project lifecycle.
Brand Risk Brand risk is the failure to manage the gap between what NS&I wants to communicate about its brand (e.g., brand values, product range, pricing policy) and what others (e.g., customers, industry competitors, consumer groups, etc.) think and understand about NS&I.	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 NS&I needs 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 and delivering for its business-to-business clients.	In line with its overall risk management process, NS&I actively monitors a variety of indicators (e.g. through customer and media monitoring) and also places great importance on the anticipation, avoidance and management of risk events.
Outsourcing Risk Outsourcing risk is the failure to manage the transfer of the provision of key functions to a third party supplier whether or not there is any transfer of staff or assets.	NS&I's business model relies on Atos for operational delivery and on the Post Office® as a sales channel for a proportion of its sales. NS&I will always retain ultimate accountability and responsibility for service provision.	In order to manage the risks associated with these partners, NS&I has 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.

Principal Risk Factor	Key Factors	Mitigation
Business-to-business rIsk Business-to-business risk is the failure to achieve the revenue targets set as part of the NS&I direct+ strategy.	The new NS&I direct+ strategy brings with it uncertainties inherent in the sourcing of business-to-business income while maintaining NS&I's core business and conducting the re-tender programme.	NS&I 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. NS&I will continue to monitor the strategy and revised structure to ensure that it remains on track.
Operations Risk Operations risk is the failure of NS&I's outsourced provider to process customer transactions to meet the requirements of NS&I's customers and stakeholders to agreed standards, regulations and quality measures.	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.	Some of NS&I's key management controls used to manage these risks are highlighted earlier in this Statement on pages 39 and 40.
Information Risk Information risk is the failure to control, protect, deliver and enhance the value of NS&I's data and information assets.	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 NS&I 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), a board and Executive Committee member, supported by a network of Information Asset Owners. The SIRO reports 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. As in 2010–11, no serious or untoward incidents were reported during the year.

Jane Platt

Jane Platt
Chief Executive
National Savings and Investments
13 December 2012

Accounts 2011–12

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 for the year ended 31 March 2012 under the Government Resources and Accounts Act 2000. The financial statements comprise: the Statement of Comprehensive Net Expenditure, the Statement of Financial Position, Statement of Cash Flows, Statement of Changes in Taxpayers' Equity; and the related notes. I have also audited the Statement of Parliamentary Supply 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 Chief Executive and Director of Savings, as 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 circumstances of National Savings and Investments and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Accounting Officer; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

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

Opinion on regularity

In my opinion, in all material respects

- the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary control totals for the year ended 31 March 2012 and shows that those totals have not been exceeded; and
- the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on Financial Statements

In my opinion:

- the financial statements give a true and fair view of the state of the affairs of National Savings and Investments as at 31 March 2012 and of its net operating cost for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

Opinion on other matters

In my opinion:

- the 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 and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Amyas C E Morse
Comptroller and Auditor General

Date: 17 December 2012

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

Statement of parliamentary supply

Summary of resource and capital outturn 2011–12

								2011-12	Restated 2010-11
		Estimate			Outturn			Voted outturn compared with Estimate: saving/ (excess)	Outturn
	Note	Voted	Non-Voted	Total	Voted	Non-Voted	Total		Total
		£000	£000	£000	£000	£000	£000	£000	£000
Departmental Expenditure Limit									
- Resource	2.1, 3.2	173,610	-	173,610	172,465	-	172,465	1,145	**169,103**
- Capital	2.2	477	-	477	191	-	191	286	**1,415**
Annually Managed Expenditure									
- Resource	2.1	7,300	-	7,300	639	-	639	6,661	**3,747**
- Capital		-	-	-	-	-	-	-	-
Total Budget		**181,387**	**-**	**181,387**	**173,295**	-	**173,295**	**8,092**	**174,265**
Total		**181,387**	**-**	**181,387**	**173,295**	-	**173,295**	**8,092**	**174,265**

Total Resource		180,910	-	180,910	173,104	-	173,104	7,806	172,850
Total Capital	2.2	477	-	477	191	-	191	286	1,415
Total		**181,387**	**-**	**181,387**	**173,295**	**-**	**173,295**	**8,092**	**174,265**

Net cash requirement 2011–12

				2011–12	2010–11
		2011–12 Estimate	Outturn	Net total outturn compared with estimate: saving	Outturn
	Note	£000	£000	£000	£000
	4	**173,907**	**161,588**	**12,319**	**178,013**

Administration costs 2011–12

				Restated
		2011–12	2011–12	2010–11
		Estimate	Outturn	Outturn
	Note	£000	£000	£000
	3.2	**173,610**	**172,465**	**169,103**

Figures in the areas outlined in bold are voted totals or other totals subject to Parliamentary control

Explanations of variances between Estimate and outturn are given in Note 2 and in the Management Commentary

Restatement for 2010-11 removes non budget expenditure from the Statement of parliamentary supply to provide consistency with 2011-12 and in accordance with HM Treasury's CLoS

The notes on pages 52 to 75 form part of these accounts.

Statement of comprehensive net expenditure

for the year ended 31 March 2012

	Note	2011–12 £000	Restated 2010–11 £000
Administration costs			
Staff costs	7	11,490	10,261
Other administration costs	8	192,032	170,206
Operating income	10	(31,255)	(11,756)
Net administration costs		**172,267**	**168,711**
Programme expenditure			
Programme expenditure	9	(10,345)	(10,788)
Operating income	10	14,659	4,478
Net programme expenditure		**4,314**	**(6,310)**
Net operating costs for the year ended 31 March		**176,581**	**162,401**
Total expenditure		193,177	169,679
Total income		(16,596)	(7,278)
Net operating costs for the year ended 31 March		**176,581**	**162,401**
Other comprehensive expenditure			
Net loss/(gain) on revaluation of property	19	3,642	(633)
Total comprehensive expenditure for the year ended 31 March		**180,223**	**161,768**

All income and expenditure is derived from continuing operations.

The notes on pages 52 to 75 form part of these accounts.

Statement of financial position

as at 31 March 2012

	Note	31 March 2012 £000	31 March 2012 £000	Restated 31 March 2011 £000	Restated 31 March 2011 £000
Non-current assets					
Property, plant and equipment	11	28,677		38,877	
Intangible assets	12	66,915		55,726	
			95,592		94,603
Other receivables	14		5,245		-
Total non-current assets			100,837		94,603
Current assets					
Trade and other receivables	14	6,835		3,653	
Cash and cash equivalents	15	554		872	
Client Funds	16	332,908		-	
Total current assets			340,297		4,525
Total assets			441,134		99,128
Current liabilities					
Trade and other payables	17	(378,201)		(31,330)	
Provisions	18	(126)		(424)	
Total current liabilities			(378,327)		(31,754)
Non-current assets plus net current assets			62,807		67,374
Non-current liabilities					
Provisions	18	(16)		(23)	
Trade and other payables	17	(20,832)		(7,616)	
Total non-current liabilities			(20,848)		(7,639)
Total assets less liabilities			**41,959**		**59,735**
Taxpayers' equity					
General Fund			29,824		43,958
Revaluation reserve			12,135		15,777
Total equity			**41,959**		**59,735**

The notes on pages 52 to 75 form part of these accounts.

Jane Platt

Jane Platt
Chief Executive
National Savings and Investments
13 December 2012

Statement of cash flows

for the year ended 31 March 2012

	Note	2011–12 £000	2010–11 £000
Cash flows from operating activities			
Net operating cost		(176,581)	(162,401)
Adjustment for non-cash transactions	8, 9	20,727	13,965
Increase in trade and other receivables	14	(8,427)	(3,428)
Increase/(decrease) in trade and other payables	17	25,715	1,120
less movements in payables relating to items not passing through the Statement of comprehensive net expenditure	17	(17)	19
Use of provisions-losses	18	–	(73)
Use of provisions-early retirements	18	(190)	(288)
Use of provisions-Glasgiow sports ground	18	(8)	(31)
Net cash outflow from operating activities		**(138,781)**	**(151,117)**
Cash flows from investing activities			
Purchase of property, plant and equipment	11	(1,050)	(3,960)
Purchase of intangible assets	12	(23,556)	(23,823)
Increase in trade and other payables	17	1,780	905
Net cash flows from investing activities		**(22,826)**	**(26,878)**
Cash flows from financing activities			
From the Consolidated Fund (Supply) – current year		162,142	178,885
From the Consolidated Fund (Supply) – prior year		(872)	(629)
Net financing		**161,270**	**178,256**
Net (decrease)/increase in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund		(337)	261
Receipts due to the Consolidated Fund which are outside the scope of the Department's activities		(56)	(37)
Payments of amounts due to the Consolidated Fund		75	19
Net (decrease)/increase in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund	15	(318)	243
Cash and cash equivalents at the beginning of the period	15	**872**	**629**
Cash and cash equivalents at the end of the period	15	**554**	**872**

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

The notes on pages 52 to 75 form part of these accounts.

Statement of changes in taxpayers' equity

for the year ended 31 March 2012

	Note	General Fund (1) £000	Revaluation reserve (2) £000	Total reserves £000
Balance at 1 April 2010		**27,584**	**15,144**	**42,728**
Changes in taxpayers' equity 2010–11				
Net Parliamentary Funding – drawn down		178,885	–	178,885
Net Parliamentary Funding – deemed	15	(854)	–	(854)
CFERs payable to Consolidated Fund	15	(18)	–	(18)
		178,013	**–**	**178,013**
Comprehensive net expenditure for the year		(162,401)		(162,401)
Non-cash adjustments				
Auditor's renumeration	8	762	–	762
Net gain on revaluation of property, plant and equipment	19	–	633	633
		(161,639)	633	(161,006)
Balance at 1 April 2011		**43,958**	**15,777**	**59,735**
Changes in taxpayers' equity 2011–12				
Net Parliamentary Funding – drawn down		162,142	–	162,142
Net Parliamentary Funding – deemed	15	(552)	–	(552)
CFERs payable to Consolidated Fund	15	(2)	–	(2)
		161,588	–	**161,588**
Comprehensive net expenditure for the year		(176,581)		(176,581)
Non-cash adjustments				
Auditor's renumeration	8	859	–	859
Net loss on revaluation of property, plant and equipment	19	–	(3,642)	(3,642)
		(175,722)	(3,642)	(179,364)
Balance at 31 March 2012		**29,824**	**12,135**	**41,959**

(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 52 to 75 form part of these accounts.

Notes to the accounts

1 Statement of accounting policies

These financial statements have been prepared in accordance with the 2011–12 Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of NS&I for the purpose of giving a true and fair view has been selected. The particular policies adopted by NS&I for the Accounts are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

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

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).

Restatements

The total comprehensive expenditure for the year ended 31 March 2011 has been reduced by £1.2m to reflect the gain on revaluation of property rather than the loss reported in this statement in the prior year.

Non-current provisions included in the Statement of financial position as at 31 March 2011 have been reduced by £424k and current provisions increased by the same to reflect the expected timing of discounted cashflows disclosed in note 18(b).

1.1 Standards in issue but not in force

Certain standards, amendments and interpretations to existing standards have been published that may be mandatory for NS&I's accounting periods beginning on or after 1 April 2012 or later periods. NS&I has not early adopted the standards, amendments or interpretations described below:

1.1.1 Amendments to IAS 1 Presentation of Financial Statements - Other Comprehensive Income (effective for annual periods beginning on or after 1 June 2012)

The amendment requires items of other comprehensive income (OCI) to be grouped on the basis of whether they might at some point be reclassified from (OCI) to profit (cash flow hedges) or not (gains on property revaluations) , to make it clearer to users what their potential impact will be in future periods notably in light of improved disclosure of financial instruments and pensions. The standard has not yet been endorsed by the EU.

1.1.2 Amendments to IAS 19 Post Employment Benefits - Pensions (effective for annual periods beginning on or after 1 January 2013)

The amendment eliminates the option for recognising deferred gains and losses resulting from defined benefit plans and also presenting those gains and losses in financial statements. It also improves disclosure requirments as characteristics of the plans are more accurately reflected. The amendment also modifies accounting for termination benefits, including distinguishing between benefits provided in exchange for service and benefits provided in exchange for the termination of employment and affects the recognition and measurement of termination benefits. The standard has not yet been adopted by the EU.

1.1.3 IFRS 13 Fair value measurement (consistent guidance on fair value measurement for all relevant balances and transactions covered by IFRS except where IFRS 13 explicitly states otherwise, effective on or after 1 January 2013)

The standard defines fair value and provides guidance on fair value measurement techniques and sets out disclosure requirements. The standard has established a hierarchy for input quality. Level 1 inputs (highest quality) to Level 3 (lowest quality). NS&I will be required to use the most appropriate inputs available to them in determining fair value. The inference is that the higher the quality, the more appropriate the input. The application of IFRS 13 is subject to further review by HM Treasury and the other relevant authorities before due process consultation.

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).

In the application of NS&I's accounting policies, management has made a number of judgements that have a significant effect on the amounts recognised in the financial statements. The most significant of these are:

Intangible assets - under IFRIC 12, substantial amounts of software development costs have been capitalised since IFRIC 12 was implemented. Capitalisation of these costs requires considerable judgement. The development work is being carried out to modernise NS&I's infrastructure, simplify its products and to develop its business-to-business capability. NS&I capitalises the implementation costs of developments where future benefits will accrue. Management judgement has been applied in quantifying the benefit expected to accrue to NS&I over the useful life of the relevant assets. The benefits relate to the fact that such software allows NS&I to carry out its functions more efficiently and to leverage its capability. Where the software does not produce the expected benefits in terms of NS&I not achieving its objectives then the carrying value would require adjustment.

Property, plant and equipment - under IFRIC 12 IT, plant and machinery costs were capitalised during the year. NS&I obtains information regarding movements of assets either additions or disposals directly from its outsourced provider.

Impairments - NS&I carries out a comprehensive review of the value of its assets at the each year end. Asset values are assessed as to whether the carrying value on the Statement of financial position is overstated in comparison to market value. Also, an assessment is carried out to ensure that the assets are performing to the levels determined in business cases and also on the organisation as a whole. NS&I management ensures in as far as is possible that asset carrying values reflect current values.

Depreciation and amortisation - under IFRIC 12, depreciation costs have risen substantially since NS&I has included these assets on its Statement of financial position. Depreciation is dependent on the carrying values and useful economic lives that NS&I uses for its assets. NS&I management ensures as far as is possible that the values used reasonably reflect NS&I's position.

1.4 Service concession arrangements (Public Private Partnership (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 Atos falls within the scope of the FReM interpretation of this standard. Accordingly, the assets created or acquired under the contract are treated as assets of NS&I and recorded as non-current assets in the accounts.

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

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

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

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

Further information regarding NS&I's service concession arrangements with Atos is provided in Note 22.

1.5 Property, plant and equipment (PPE)
Property, plant and equipment is initially recorded at cost. It is 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 initially stated at cost until construction or development is complete, at which time it is classified as property. Assets under construction values are reviewed at year end for impairment even though the asset is not in use.

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

Where appropriate, and where active markets exist for assets in all asset categories 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 except to the extent that it reverses a previous deficit on the same asset. 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 machinery	5 to 10 years
Furniture and fittings	5 to 10 years
Information technology	3 to 5 years

The majority of purchased plant and machinery has been capitalised over a ten year period and the majority of information technology assets are capitalised over a five year period.

1.7 Intangible assets

1.7.1 Software licences
Computer software licences are carried at cost less accumulated amortisation and any impairment loss. Externally acquired computer software licences are capitalised and amortised on a straight line basis over their useful economic lives of three to five years.

1.7.2 Information technology 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 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. The software is amortised on a straight line basis.

1.7.3 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. The website is amortised on a straight line basis.

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 will flow from its use over more than one year. NS&I has capitalised a number of development assets connected with the modernisation, simplification and leveraging of is capabilities.

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.

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 a 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 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.

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 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 discount rate of 3.5%. 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 Administration costs
The Statement of comprehensive net expenditure is analysed between administration costs and programme expenditure. The classification of expenditure as administration costs or as programme expenditure follows the definition of administration costs set out in FReM by HM Treasury.

NS&I's administration costs in the Statement of comprehensive net expenditure are broadly consistent with the amount shown as DEL expenditure in the Statement of parliamentary supply. The one item that causes a difference is the inclusion of cash payments that are made to cover liabilities on provisions. These amounts are not included in the Statement of comprehensive net expenditure.

1.17 Programme expenditure
NS&I recognises the majority of its costs as administration costs. NS&I also accounts for certain costs as programme expenditure. These include costs covered in AME such as property revaluation, increases to provisions which are included in the Statement of parliamentary control totals and also IFRIC 12 impacts which no longer form part of a control total following the implementation of HM Treasury's Clear Line of Sight (CLoS) requirements. These include depreciation, amortisation and impairment of assets covered by IFRIC 12. Programme costs are reduced by Atos project costs capitalised under IFRIC 12. The transfer of costs to capital reduces NS&I's operating costs and increases the level of assets held on the Statement of financial position.

NS&I accounts for all its business-to-business activity costs in resource DEL in the first instance. Such costs include feasibility costs which are expensed within resource DEL. Programme expenditure is reduced by business-to-business activity development costs capitalised under IFRIC 12.

1.18 Operating income
All operating income received is recognised in full in net administration costs initially. In net administration costs operating income is income which relates directly to the operating activities of NS&I. It comprises rent from external tenants including Atos, loss recoveries due from Atos for external fraud, income from business-to-business feasibility and development activities. Adjustments are made through programme income to transfer income received for development work to deferred income. These amounts are released back to operating income over the useful life of the development asset as programme income. The result of the adjustment is to reduce the level of operating income in the Statement of comprehensive net expenditure.

1.19 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. NS&I's business-to-business activities are also exempted VAT under the same terms of the VAT legislation.

1.20 Operating segments

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

NS&I's Product Accounts are reported separately in this Annual Report 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.

1.21 Client Funds

NS&I is holding £333 million on behalf of HM Treasury for the payment of amounts to former Equitable Life policy holders. These amounts are held in a separate bank account and segregated from NS&I's voted monies.

2 Net outturn

2.1 Analysis of net resource outturn by section

	2011–12									2010–11 Outturn
	Outturn							Estimate		
	Administration			Programme						
	Gross £000	Income £000	Net £000	Gross £000	Income £000	Net £000	Total £000	Net total £000	Net total compared to estimate £000	Total £000
Spending in Departmental Expenditure Limits (DEL)										
Voted										
Administration	203,720	(31,255)	172,465	–	–	–	172,465	173,610	1,145	169,103
Spending in Annually Managed Expenditure (AME)										
Voted										
Administration	–	–	–	639	–	639	639	7,300	6,661	3,747
	203,720	**(31,255)**	**172,465**	**639**	**–**	**639**	**173,104**	**180,910**	**7,806**	**172,850**

Difference between resource outturn and estimate	2011–12 £000	2011–12 £000
Higher than expected transaction volume costs	(115)	
Project costs brought forward	(420)	
Lower depreciation charges	837	
Deferred professional fees and marketing costs	890	
Other differences	(47)	
Total DEL underspend		1,145
Lower than expected requirement for provisions	605	
Lower than expected impairment charge for NS&I properties	6,056	
Total AME underspend		6,661
Total underspend against estimate		**7,806**

NS&I in common with all other government departments adopted the principles of HM Treasury's Clear Line of Sight (CLoS) alignment project. The outcome impacted considerably in the presentation of NS&I's financial statements. In 2010-11 NS&I's Budget and Estimates included non budget items such as IFRIC 12 depreciation, IFRIC 12 amortisation, IFRIC 12 asset impairment and transfer of running costs to development. However for 2011-12 these items are no longer included on the face of NS&I's Supply Estimate and hence do not form part of a control total. Administration costs include all DEL related expenditure and programme expenditure includes AME elements (revaluation of property and increases to provisions) that form a control total and also non budget elements that are detailed in Note 3.1 below.

2.2 Analysis of net capital outturn by section

	2011–12					2010–11 Outturn
	Outturn			Estimate		
	Gross £000	Income £000	Net £000	Net £000	Net total compared to estimate £000	Net £000
Spending in Departmental Expenditure Limits (DEL)						
Voted						
Administration	191	–	191	477	286	1,415
	191	**–**	**191**	**477**	**286**	**1,415**

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

Following the implementation of HM Treasury's CLoS, non budget IFRIC 12 capital expenditure has been excluded from 2010-11 numbers for consistency with 2011-12 amounts.

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

3.1 Reconciliation of net resource outturn to net operating cost

	Note	2011–12 Outturn £000	2010–11 Outturn £000
Total resource outturn in Statement of Parliamentary Supply	2	173,104	172,850
		173,104	**172,850**
Add:			
Income recognised in budget but transferred to deferred income	10	15,580	4,478
Income transferred from deferred income to operating income	10	(921)	–
PPP asset depreciation	9	2,855	1,584
PPP asset amortisation	9	12,138	5,336
PPP asset impairment	9	791	1,117
PPP asset reduction	9	1,655	–
PPP asset loss on disposal	9	29	–
		32,127	**12,515**
Less:			
Transfer of PPP costs to capital	9	(28,650)	(22,964)
		(28,650)	**(22,964)**
Net operating cost in Statement of comprehensive net expenditure		**176,581**	**162,401**

3.2 Outturn against final administration budget and administration net operating cost

	Note	2011–12 Outturn £000	2010–11 Outturn £000
Administration costs limit		**173,610**	**172,344**
Administration costs		203,720	180,859
Income relating to administration costs	10	(31,255)	(11,756)
Net outturn - administration costs		**172,465**	**169,103**
Provision cash release	18	(198)	(392)
Administration net operating costs		**172,267**	**168,711**

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

	Note	2011–12 Outturn £000	2010–11 Outturn £000
Net cash requirement outturn		(161,588)	(178,013)
From the Consolidated Fund (Supply) - current year		162,142	178,885
From the Consolidated Fund (Supply) - prior year		(852)	(611)
Amounts due to the Consolidated Fund and not paid over		(2)	(18)
Amounts due to the Consolidated Fund received in the prior year and paid over in the current year		(18)	–
(Decrease)/Increase in cash held	15	**(318)**	**243**

5 Analysis of income payable to the Consolidated Fund

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

	Outturn 2011–12		Outturn 2010–11	
	Income	*Receipts*	Income	*Receipts*
	£000	£000	£000	£000
Operating income outside the ambit of the Estimate	58	*58*	37	*37*
Total income payable to the Consolidated Fund	**58**	***58***	**37**	***37***

6 Fees and Charges: Business to business

The Spending Review 2010 challenged NS&I to find substantial reductions in costs. Investments that have been made in NS&I's direct channel capabailities, have enabled NS&I to offset some of its costs by offering government and third parties payment processing services within agreed spending limits. From 2010-11 NS&I started developing its business-to-business activities with HM Treasury and Ministry of Justice (OAG) re: the Equitable Life Payment Scheme (ELPS) and Court Funds Service.

The financial objective of business-to-business was to recover the costs of providing the payment services and making a contribution towards financing other costs. For 2011-12 the objective was for full cost recovery. The intial service for ELPS went live in June 2011 followed by an automated solution which went live in November 2011. The Court Funds Service went live in December 2011. NS&I's departure from the requirements from the FReM to report its fees and charges, is due to the commercial sensitivities in publishing the information pertinent to its two existing clients.

7 Staff numbers and related costs

	2011–12 Permanently employed UK staff	2011–12 Others	2011–12 Total	2010–11 Total
	£000	£000	£000	£000
Staff costs comprise:				
Wages and salaries	7,650	1,795	9,445	8,098
Social security costs	637	–	637	723
Other pension costs	1,408	–	1,408	1,440
Total net costs	**9,695**	**1,795**	**11,490**	**10,261**

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 2011–12, employers' contributions of £1,377,389 were payable to the PCSPS (2010–11: £1,418,726) at one of four rates in the range 16.7% to 24.3% (2010–11: 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 2011–12 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, which is a stakeholder pension with an employer contribution. Employer's contributions of £30,944 (2010–11: £21,303) 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% (2010–11: 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 £2,095, 0.8% (2010–11: £1,503, 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.

	2011–12 Permanently employed UK staff	2011–12 Others	2011–12 Total	2010–11 Total
Administration of NS&I	148	25	173	166
Total	**148**	**25**	**173**	**166**

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

Exit package cost band	Number of compulsory redundancies 2011–12	Number of other departures agreed 2011–12	Value of exit packages by cost band (total cost) (1) 2011–12 £000	Number of compulsory redundancies 2010–11	Number of other departures agreed 2010–11	Value of exit packages by cost band (total cost) (1) 2010–11 £000
< £10,000	–	–		–	2	
£10,000 – £25,000	–	1		–	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)	–	1		–	8	
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.

8 Other administration costs

	Note	2011–12 £000	2011–12 £000	2010–11 £000	2010–11 £000
Public Private Partnership provider		149,026		126,314	
Selling agents (1)		17,828		22,120	
Banking charges		1,161		1,346	
			168,015		149,780
Marketing and research costs					
Marketing		4,930		4,473	
Research (2)		1,663		1,633	
			6,593		6,106
Other expenditure					
Consultancy, internal audit contract and personnel costs		4,305		3,944	
Professional services		7,846		5,687	
Other costs		1,404		1,669	
Losses and special payments	25	595		457	
Rentals under operating leases		852		774	
			15,002		12,531
Non-cash items					
Depreciation	11	1,545		1,011	
Amortisation	12	18		15	
Loss on disposal	11	–		1	
Notional external audit fees (3)		859		762	
			2,422		1,789
Total			**192,032**		**170,206**

(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 notional external audit fees include fees for the Product Accounts statutory audit of £698,800 (£703,000 in 2010–11) and for the Resource Accounts statutory audit fees of £160,000 (£58,500 in 2010–11).

9 Programme costs

	Note	2011–12 £000	2011–12 £000	2010–11 £000	2010–11 £000
Transfer of Public Private Partnership provider costs to capital (1)		(28,650)		(22,964)	
			(28,650)		(22,964)
Non-cash items					
Depreciation	11	2,855		1,584	
Amortisation	12	12,138		5,336	
Impairment (2)	11	1,660		3,659	
Reduction in non-current assets	11, 12	1,655		–	
Reversal of previous downward revaluation (2)	11	(716)		–	
Impairment of EOI asset (3)	11	–		1,117	
Impairment of IP Telephony system (4)	11	791		–	
Increase in early departure provision (5)	18	–		275	
Reversal of early departure provision (5)	18	(9)		–	
Increase in fraud losses provision provided in year (5)	18	39		175	
Reversal of fraud losses (5)	18	(137)		(10)	
Increase in Glasgow sports ground lease provision (5)	18	–		40	
Loss on disposal	12	29		–	
			18,305		12,176
Total			**(10,345)**		**(10,788)**

(1) Capitalisation of Atos costs for infrastructure purchase and development work. These costs are negative as they are a transfer of service costs to capital. This transfer is carried out through non budget which forms part of programme costs. The overall impact of the transfer is to reduce NS&I's operating costs but increase NS&I's assets on its Statement of financial position. The treatment is outlined in accounting policy note 1.17.

(2) NS&I carried out a revaluation of its properties at the year end. The Moorland building, and Glasgow were impaired. Land at Glasgow was also 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. The impairment was carried out through non budget.

(4) NS&I impaired its IP telephony system as planned further development to the system could not be undertaken. This was carried out through non budget.

(5) Reversal of provisions and provision increases are carried out in AME and form part of programme costs.

(6) NS&I recognises all costs in Note 9 as programme costs because they are either AME costs or non budget. If they are not administration costs they should be programme costs. This year following CLoS, non budget non voted costs do not feature on the front of the Supply Estimate. This is a significant change from last year as all the non budget costs are no longer subject to a control total.

10 Income

Operating income comprises:

	2011–12 £000	2010–11 £000
Contracted loss recovery from Atos	337	478
Rent from external tenants	6,383	5,686
Business-to-business	24,535	5,592
Total income (net administration costs)	**31,255**	**11,756**
Transfer to deferred income	(15,580)	(4,478)
Transfer from deferred income to operating income	921	-
Total operating income (net programme expenditure)	**(14,659)**	**(4,478)**
Total operating income	**16,596**	**7,278**

Total income is accounted for within net administration costs and the transfer of income to deferred income is accounted for in non budget and form a part of programme expenditure. The treatment is outlined in accounting policy note 1.18.

Non-operating income and receipts not classified as income comprise amounts which relate to prior years, including prior year loss recoveries. The actual receipts surrenderable to the Consolidated Fund were £57,984 (2010-11: £37,392).

11 Property, plant and equipment

11(a) Current year

	Land £000	Buildings £000	Information technology £000	Plant and machinery £000	Furniture and fittings £000	Total £000
Cost or valuation						
At 1 April 2011	12,336	20,160	22,345	2,680	6,409	63,930
Additions	–	(24)	1,031	1	42	1,050
Disposals	–	–	(560)	(6)	(14)	(580)
Upward revaluation (2)	140	3,199	–	–	–	3,339
Downward revaluation (2)	(2,230)	(979)	–	–	–	(3,209)
Impairment of IP telephony system	–	–	(1,310)	–	–	(1,310)
Reclassifications (4)	–	–	(556)	614	(614)	(556)
Reduction adjustments (4)	–	–	(8,127)	(856)	(2,374)	(11,357)
Increase adjustments (4)	–	–	1,469	–	619	2,088
At 31 March 2012	**10,246**	**22,356**	**14,292**	**2,433**	**4,068**	**53,395**
Depreciation						
At 1 April 2011	–	(8,677)	(9,962)	(2,245)	(4,169)	(25,053)
Charged in year	–	(999)	(2,846)	(176)	(379)	(4,400)
Disposals	–	–	543	3	8	554
Backlog depreciation (2)	–	(4,716)	–	–	–	(4,716)
Impairment of IP telephony system	–	–	519	–	–	519
Reclassifications (4)	–	–	129	(614)	614	129
Reduction adjustments (4)	–	–	6,094	840	2,287	9,221
Increase adjustments (4)	–	–	(488)	(202)	(282)	(972)
At 31 March 2012	**–**	**(14,392)**	**(6,011)**	**(2,394)**	**(1,921)**	**(24,718)**
Carrying amount						
At 31 March 2012	**10,246**	**7,964**	**8,281**	**39**	**2,147**	**28,677**

11(b) Prior year

	Land	Buildings	Information technology	Plant and machinery	Furniture and fittings	Total
	£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
Reclassification (1)	–	–	703	–	(703)	–
Disposals	–	–	–	(47)	(1,217)	(1,264)
Upward 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)
Charged in year	–	(734)	(1,367)	(200)	(294)	(2,595)
Disposals	–	–	–	47	1,216	1,263
Backlog depreciation	–	1,289	–	–	–	1,289
At 31 March 2011	**–**	**(8,677)**	**(9,962)**	**(2,245)**	**(4,169)**	**(25,053)**
Carrying amount						
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 (£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.

(2) The freehold land and buildings at Blackpool, Durham and Glasgow were revalued as at 31 March 2012 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. NS&I also re-lifed the remiaining useful economic life on its buildings. None of its properties has a remaining useful life of more than five years.

(3) The land and buildings are owned by NS&I but leased to Atos under an operating lease.

(4) In its Statement of comprehensive net expenditure, NS&I reports resources used under its Public Private Partnership as administration costs. It then, in accordance with IFRIC 12 and under the heading of programme costs, transfers amounts spent on non-current assets to capital. Such assets are referred to as IFRIC 12 assets.

As described in the Governance Statement, in preparing these accounts NS&I established that the financial information that Atos (formerly Siemens IT Solutions and Services Ltd) had provided from its information technology register contained errors. In response, NS&I asked Atos to carry out investigations with the aim of seeking confirmation of the information that was provided. A number of reclassifications, reduction adjustments and increase adjustments then had to be made to align the amounts included in the accounts with the revised underlying accounting records. The adjustments impacted mostly on IFRIC 12 information technology assets.

Reclassifications were made between tangible non-current asset categories and between tangible and intangible non-current assets. The reductions to IFRIC 12 information technology asset values were caused by the removal of assets no longer used in the business and duplications in the records. The reduction in plant and machinery and furniture and fittings were mainly the write off of assets that were no longer used following the move of its headquarters to its new location, which were at nil net book value. The increases to cost or valuation were the result of bringing assets onto the Statement of financial position that were not previously included. The overall impact of the review was to reduce the carrying value of property, plant and equipment by £1.447 million, of which £0.427 million arose from assets being reclassified as intangible rather than tangible non-current assets. The balance of £1.020 million has been charged to programme costs in the Statement of comprehensive net expenditure. There has been no change to administration costs, there has been no effect on cashflows and no impact on the delivery of our retail or business-to-business activities.

12 Intangible assets

12(a) Current year

	Information technology Software £000	Software Licences £000	Website £000	Assets under construction (1) £000	Total £000
Cost or valuation					
At 1 April 2011	49,614	1,434	886	11,703	63,637
Additions	2,724	1,647	–	19,185	23,556
Transfer from 'assets under construction' on implementation	19,648	–	–	(19,648)	–
Disposals	–	(5)	–	–	(5)
Reclassifications (4)	556	–	–	–	556
Reduction adjustments (4)	(192)	(1,955)	–	(1,367)	(3,514)
Increase adjustments (4)	5	5,291	–	–	5,296
At 31 March 2012	**72,355**	**6,412**	**886**	**9,873**	**89,526**
Amortisation					
At 1 April 2011	(6,653)	(1,031)	(227)	–	(7,911)
Charged in year	(11,406)	(572)	(178)	–	(12,156)
Disposals	–	2	–	–	2
Reclassifications (4)	(129)	–	–	–	(129)
Reduction adjustments (4)	67	950	–	–	1,017
Increase adjustments (4)	(132)	(3,302)	–	–	(3,434)
At 31 March 2012	**(18,253)**	**(3,953)**	**(405)**	**–**	**(22,611)**
Carrying amount					
At 31 March 2012	**54,102**	**2,459**	**481**	**9,873**	**66,915**

12(b) Prior year

	Restated Information technology Software (3) £000	Restated Software Licences (3) £000	Website £000	Assets under construction (1) £000	Total £000
Cost or valuation					
At 1 April 2010	21,348	1,149	773	17,661	40,931
Additions	3,373	285	–	20,165	23,823
Transfer from ‘assets under construction’ on implementation	24,893	–	113	(25,006)	–
Disposals	–	–	–	–	–
Impairment of EOI Services development work	–	–	–	(1,117)	(1,117)
At 31 March 2011	**49,614**	**1,434**	**886**	**11,703**	**63,637**
Amortisation					
At 1 April 2010	(1,593)	(891)	(76)	–	(2,560)
Charged in year	(5,060)	(140)	(151)	–	(5,351)
Disposals	–	–	–	–	–
At 31 March 2011	**(6,653)**	**(1,031)**	**(227)**	**–**	**(7,911)**
Carrying amount					
At 1 April 2010	19,755	258	697	17,661	38,371
At 31 March 2011	**42,961**	**403**	**659**	**11,703**	**55,726**

1) During 2010-11 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 had been transferred to IT intangibles on implementation of the first part of the programme. The remaining amounts are linked to further product migration and other developments.

2) Assets under construction during 2011-12 mainly included development work for NS&I’s business-to-business projects. This involved transferring £14.91 million to IT intangibles once the development was ready to be used. The remainder of development work was for modernising existing infrastructure and simplifying products.

3) Software was restated because of the requirement to show separately software licences and software.

4) As described in Note 11 a review was carried out of non-current assets. A number of reclassifications, reduction adjustments and increase adjustments then had to be made to align the amounts included in the accounts with the revised underlying accounting records. The adjustments to intangible assets impacted only on IFRIC 12 assets. The reductions to asset values were caused by the removal of assets no longer used in the business and duplications in the records. The increases to cost or valuation were the result of bringing assets onto the Statement of of financial position that were not previosly included. The overall impact of the reclassifications was to increase the carrying value of intangible assets by £0.427 million. The overall effect of the increase and reduction adjustments was to reduce the carrying value of intangible non-current assets by £0.635 million, which has been charged to programme costs in the Statement of comprehensive net expenditure. There was no change to administration costs, there has been no effect on cashflows and no impact on the delivery of our retail or business-to-business activities.

13 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 which includes income and expenditure on its business-to-business activities. NS&I's Resource Accounts are not, therefore, exposed to significant liquidity risks.

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

NS&I is not exposed to any credit or liquidity risk in its performance of business-to-business services for both OAG and HM Treasury. NS&I receives funds from HM Treasury into its bank accounts to cover payments to ELPS policy holders and the payment services operated for OAG are carried out using OAG's bank accounts.

14 Trade receivables and other current assets

14(a) Trade and other receivables

	31 March 2012 £000	31 March 2011 £000
Amounts falling due within one year:		
Trade receivables	966	3,545
Deposits and advances	62	57
Other receivables	–	15
Prepayments	87	36
Accrued income	5,720	–
Sub total	**6,835**	**3,653**
Amounts falling due after more than one year:		
Trade receivables	5,245	–
Total trade and other receivables	**12,080**	**3,653**

14(b) Intra-Government balances - trade and other receivables

	31 March 2012 £000	31 March 2011 £000
Amounts falling due within one year		
Balance with other central government bodies	5,888	3,545
Balance with public corporations and trading funds	–	–
Subtotal: intra-government balances	5,888	3,545
Balance with bodies external to Government	947	108
Sub total	**6,835**	**3,653**
Amounts falling due after more than one year:		
Balance with other central government departments	5,245	–
Total receivables at 31 March	**12,080**	**3,653**

15 Cash and cash equivalents

	2011–12 £000	2010–11 £000
Balance at 1 April	872	629
Net change in cash and cash equivalent balances	(318)	243
Closing cash and cash equivalents balance	**554**	**872**
The following balances are held at:		
Government Banking Service	554	872
Balance at 31 March	**554**	**872**

16 Client Funds

	2011–12 £000	2010–11 £000
Balance at 1 April		
Net increase in cash and cash equivalent balances	332,908	–
Closing cash and cash equivalents balance	**332,908**	**–**
The following balances are held at:		
Government Banking Service	332,908	–
Balance at 31 March	**332,908**	**–**

Client Funds are being held on behalf of HM Treasury for the payment of sums through NS&I to Equitable Life policy holders as part of business-to-business activities under the Equitable Life Payment Scheme.

17 Trade payables and other current liabilities

17(a) Trade and other liabilities

	31 March 2012 £000	31 March 2011 £000
Amounts falling due within one year:		
Taxation and social security	246	210
Trade payables	15,004	3,127
Other payables	154	124
Accruals	25,782	26,679
Deferred income	3,551	299
Consolidated Fund extra receipts due to be paid to the Consolidated Fund	2	19
Amounts issued from the Consolidated Fund for Supply but not spent at year end	554	872
Payments to be made on behalf of HMT	332,908	–
Subtotal	**378,201**	**31,330**
Amounts falling due after more than one year:		
Trade payables	5,245	3,437
Deferred income	15,587	4,179
Subtotal	**20,832**	**7,616**
Total trade and other payables	**399,033**	**38,946**

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

	31 March 2012 £000	31 March 2011 £000
Amount falling due within one year		
Balance with other central government bodies	337,571	1,560
Balance with public corporations and trading funds	145	–
Subtotal: intra-government balances	**337,716**	**1,560**
Balance with bodies external to government	40,485	29,770
Subtotal	**378,201**	**31,330**
Amounts falling due after more than one year:		
Balance with other central government bodies	15,587	4,179
Trade payables	5,245	3,437
Subtotal	**20,832**	**7,616**
Total trade and other payables	**399,033**	**38,946**

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

18 Provisions for liabilities and charges

18(a) Movements in provisions

	Early departure costs (1) £000	Provision for fraud losses (2) £000	Provision for Glasgow sports ground (3) £000	Total £000
Balance at 1 April 2011	199	209	39	447
Provided in the year	–	39	–	39
Provisions written back	(9)	(137)	–	(146)
Provisions utilised in the year	(190)	–	(8)	(198)
Balance at 31 March 2012	**–**	**111**	**31**	**142**
Balance at 1 April 2010	212	117	30	359
Provided in the year	275	175	40	490
Provision written back	–	(10)	–	(10)
Provisions utilised in the year	(288)	(73)	(31)	(392)
Balance at 31 March 2011	**199**	**209**	**39**	**447**

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

	Early departure costs (1)	Provision for fraud losses (2)	Provision for Glasgow sports ground (3)	Total
	£000	£000	£000	£000
No later than one year	–	111	15	126
Later than one year and not later than five years	–	–	16	16
Balance at 31 March 2012	**–**	**111**	**31**	**142**
No later than one year	199	209	16	424
Later than one year and not later than five years	–	–	23	23
Balance at 31 March 2011	**199**	**209**	**39**	**447**

(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 sealed 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.

19 Net loss/(gain) on revaluation of property

	31 March 2012	31 March 2011
	£000	£000
Revaluation on property charges to reserve;		
Downward revaluation	3,209	5,385
Revaluation of property: charges to Statement of comprehensive net expenditure	(944)	(3,659)
Upward revaluation	(3,339)	(1,070)
Backlog depreciation adjustment	4,716	(1,289)
Movement in revaluation reserve	**3,642**	**(633)**

20 Capital commitments

	31 March 2012	31 March 2011
	£000	£000
Contracted for but not provided	9,195	5,840
Authorised but not contracted	–	–
Total	**9,195**	**5,840**

21 Commitments under leases

21(a) Operating leases with tenants

NS&I leases all of its properties to Atos 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 RPIX annually. RPIX is the Retail Prices Index excluding mortgage payments.

	31 March 2012 £000	31 March 2011 £000
Buildings		
Not later than one year	5,948	5,310
Later than one year and not later than five years	5,747	10,088
Later than five years	–	–
Total	**11,695**	**15,398**
Land (1)		
Not later than one year	–	–
Later than one year and not later than five years	47	–
Later than five years	207	–
Total	**254**	**–**

21(b) Commitments under operating leases

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

	31 March 2012 £000	31 March 2011 £000
Obligations under operating leases comprise:		
Buildings		
Not later than one year	823	823
Later than one year and not later than five years	3,023	3,024
Later than five years	520	1,363
Total	**4,366**	**5,210**
Land (1)		
Not later than one year	16	16
Later than one year and not later than five years	62	41
Later than five years	369	223
Total	**447**	**280**

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 £16,000 rent to the landlord annually. This will be increased to £20,000 from 2014. The lease has been subleased to another party from July 2011. NS&I will pay the lease costs to March 2014 after which the other party will reimburse NS&I the rent costs for a further 22 years to March 2036.

22 Commitments under the Public Private Partnership (PPP) contract

NS&I entered into a 10-year PPP contract with Siemens IT Solutions and Services (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. SIS were acquired by Atos Origin (Atos) in July 2011.

On the commencement of the contract on 1 April 1999, over 4,000 NS&I staff were transferred to the outsourced provider. 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 (from July 2011 to Atos) over the life of the contract.

Under the same contract, Atos 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 21 to these accounts.

NS&I is committed to making annual payments to Atos 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.

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 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 Atos' performance. It is also uplifted each year in line with movements in the RPIX (Retail Prices Index excluding cost of mortgages). If Atos 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	109,523
Net present value of amounts falling due within two to three years	92,747
Total	**202,270**

	£000
Comparable figures at 31 March 2011 were:	
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 five.

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

Atos' performance is measured through a set of detailed Key Performance Indicators (KPIs) on a monthly basis. Under the terms of the contract, Atos 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 Atos but which NS&I have recognised in the Statement of financial position will transfer to NS&I. Atos 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, Atos 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.

The capital commitments as disclosed in note 20 are included in the total PPP commitments shown above.

23 Other financial commitments

There were no other financial commitments at 31 March 2012.

24 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 sealed letter of consent on 17 June 2011 authorising NS&I to sublease the sports ground to another party. The ground has been sub leased to another party for a period of 25 years commencing in July 2011. NS&I is covering rent costs until March 2014 after which NS&I will be reimbursed rent costs for 22 years. However, a possibility remains that NS&I has a contingent liability of around £130,000.

25 Losses and special payments

	Number of cases	31 March 2012 £000	Number of cases	31 March 2011 £000
Compensation payments (1)	2	191	4	–
Fraud loss	188	404	158	456
Fruitless payments	–	–	–	–
Special payments	–	–	–	–
Other	–	–	2	1
Total	**190**	**595**	**164**	**457**

(1) Special payment of £190,000 relates to settlement of a legal case.

26 Related party transactions

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

The Post Office® is a major distributor of NS&I products and, as a public body, the Post Office® is a related party. NS&I had a significant number of transactions with the Post Office® during the accounting period. NS&I's Post Office® costs during 2011–12 were £17,149,107(2010-11: £21,264,145) for contract services and £0 for non-contract services (2010–11: £0).

In addition NS&I has carried out a number of significant transactions with the Government Banking Service, Ministry of Justice (Office of Accountant General), 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.

	2011–12 £000	2010–11 £000
Executive Directors and Non-executive Directors	1,829	1,820

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.

27 Events after the reporting date

There are no reportable events between the Statement of financial position date and 17 December 2012, the date on which these accounts are authorised for issue. The financial statements do not reflect events after that date.

Product Accounts 2011–12

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

I certify that I have audited the financial statements which constitute the Product Accounts of National Savings and Investments for the year ended 31 March 2012 under the Government Resources and Accounts Act 2000. These financial statements 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 Chief Executive and Director of Savings, as 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 circumstances of National Savings and Investments and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Accounting Officer; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

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

Opinion on regularity

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

Opinion on the financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the affairs of the Product Accounts of National Savings and Investments as at 31 March 2012 and of the net operating results for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

Opinion on other matters

In my opinion the information given in the 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 and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Amyas C E Morse
Comptroller and Auditor General

Date: 17 December 2012

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

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 an Annex to these accounts.

Scope of the Product Accounts
These accounts record transactions for the year ended 31 March 2012 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. 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 at 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 are 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 page 77.

Statement of comprehensive income

for the year ended 31 March 2012

	Note	2011–12 £000	2010–11 £000
Income			
Interest and prizes financed by the NLF (excluding revaluation of embedded derivatives)		2,410,545	2,580,415
(Loss)/Gain on revaluation of embedded derivatives		(5,659)	265
Interest and prizes financed by the NLF		2,404,886	2,580,680
Cost			
Interest and prizes earned by investors (excluding revaluation of embedded derivatives)		(2,410,545)	(2,580,415)
Gain/(Loss) on revaluation of embedded derivatives		5,659	(265)
Interest and prizes earned by investors	2	(2,404,886)	(2,580,680)
Income less cost		–	–

The notes on pages 83 to 93 form part of these accounts.

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

Statement of financial position

as at 31 March 2012

	Note	31 March 2012 £000	31 March 2011 £000
Current assets			
Held by the NLF	4	102,427,202	98,338,931
Other receivables	5	104,081	86,167
Cash and cash equivalents	9	378,559	468,318
Total current assets	10	102,909,842	98,893,416
Current liabilities			
Liability to investors	6	(102,710,047)	(98,639,604)
Other payables	7	(6,458)	(7,879)
Total current liabilities		(102,716,505)	(98,647,483)
Net current assets		**193,337**	**245,933**
Non-current liabilities			
Liability to investors	6	(193,337)	(245,933)
Total non-current liabilities		**(193,337)**	**(245,933)**
Assets less liabilities		–	–

The notes on pages 83 to 93 form part of these accounts.

Jane Platt

Jane Platt
Chief Executive
National Savings and Investments
13 December 2012

Statement of cash flows

for the year ended 31 March 2012

	Note	2011–12 £000	2010–11 £000
Cash flows from operating activities			
Income less cost		–	–
(Increase) in net funds held by the NLF	8	(4,080,145)	(209,101)
(Decrease) in amortisation of Guaranteed Equity Bonds' principal liabilities	4	(8,126)	(9,691)
(Increase)/Decrease in other receivables	5	(17,914)	93,949
Increase in total funds invested	2	4,017, 847	81,583
(Decrease) in other payables	7	(1,421)	(10,490)
Net cash flow from operating activities		(89,759)	(53,750)
Net (decrease) in cash and cash equivalents in the period	9	(89,759)	(53,750)
Cash and cash equivalents at beginning of the period	9	468,318	522,068
Cash and cash equivalents at end of the period	9	**378,559**	**468,318**

The notes on pages 83 to 93 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 subject to exemptions outlined in clause 4 of the product accounts direction issued by HM Treasury, which is disclosed in the Annex. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context.

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

1.1 Accounting convention

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

1.2 Standards in issue but not in force

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for NS&I's accounting periods beginning on or after 1 April 2012 or later periods. NS&I has not early adopted the standards, amendments and interpretations described below:

1.2.1 IFRS 9 - Financial instruments (effective from annual periods beginning on or after 1 January 2015)

IFRS 9 will replace IAS 39 - Financial Instruments: Recognition and Measurement. IFRS 9 will address classification and measurement issues and impairments; in particular how impairments of financial assets should be calculated and recorded. The standard will address hedge accounting with more detailed guidance and principles on hedge accounting. The standard has not yet been endorsed by the EU.

1.2.2 IFRS 13 - Fair value measurement (Consistent guidance on fair value measurement for all relevant balances and transactions covered by IFRS except where IFRS 13 explicitly states otherwise, effective from annual periods beginning on or after 1 January 2013)

The standard defines fair value and provides guidance on fair value measurement techniques. It also sets out disclosure requirements. The standard will establish a hierarchy for input quality: Level 1 inputs (highest quality) to Level 3 (lowest quality). NS&I will be required to use the most appropriate inputs available to them in determining fair value. The inference is that the higher the quality, the more appropriate the input. The application of IFRS 13 is subject to further review by HM Treasury and the other relevant authorities before due process consultation.

1.3 Interest and prizes recognition

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

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

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

Interest has been recognised and disclosed in accordance with IAS18 and IAS1 in these accounts.

1.4 Financed by the NLF

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

1.5 Cash and cash equivalents

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

1.6 Financial liabilities

Financial liabilities primarily comprise the deposits and investments made by customers in NS&I's products. All financial liabilities are measured at amortised cost using the effective interest method with the exception of GEB embedded derivatives which are measured at fair value, with the movements recognised through the Statement of comprehensive income. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest income over the relevant period up to the date of maturity. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial liability, or, where appropriate, a shorter period. Financial liabilities are derecognised when the obligation is discharged and also 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. Repayments to investors are recognised as a reduction in the liability to the investor on the date of the payment instrument. Where payment instruments are not cashed by the investor within their stipulated time limit, the liability to the investor is reinstated 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. The undiscounted maturity profiles for the total liability for all products is disclosed in note 12.

1.7 Relationship with the NLF

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

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

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

1.8 Financial assets

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

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

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

1.9 Derivative financial instruments

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

In March 2002, NS&I began to issue GEBs in partnership with the 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 under-written by HM Treasury.

The GEB embedded derivative is an Asian option on the FTSE 100. The value is determined by the use of a local volatility model, which includes the following standard factors for options: FTSE 100 strike; FTSE dividend yield; time to maturity; implied FTSE volatility; and the risk-free yield. Note 14 details the fair value hierarchy disclosures.

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

2 Transactions with investors by product

(2a) Current year

	Received from investors	Interest and prizes earned by investors	Paid to investors including tax deducted at source	Transfer to Residual Account	Increase/ (decrease) in investors' funds	Invested 31 March 2012
	£000	£000	£000	£000	£000	£000
Capital Bonds	–	16,023	(170,298)	(8,694)	(162,969)	251,058
Children's Bonus Bonds	27,465	36,965	(129,825)	–	(65,395)	1,169,175
Direct Saver	2,421,721	36,727	(1,086,721)	–	1,371,727	3,062,272
Easy Access Savings Account	464,602	8,879	(1,393,321)	–	(919,840)	905,685
First Option Bonds	–	1,652	(57,638)	–	(55,986)	52,335
Guaranteed Equity Bonds	(1)	(3,217)	(55,795)	–	(59,013)	248,421
Guaranteed Income Bonds and Guaranteed Growth Bonds	1,273,059	217,054	(2,624,551)	–	(1,134,438)	5,839,199
Income Bonds	985,176	138,622	(1,525,289)	–	(401,491)	7,983,009
Individual Savings Account	486,683	70,859	(718,281)	–	(160,739)	3,341,641
Investment Account	320,596	9,980	(998,978)	–	(668,402)	3,766,207
Pensioners' Guaranteed Income Bonds	–	20,940	(335,829)	(11,563)	(326,452)	288,342
Premium Bonds	6,317,080	642,638	(5,936,085)	–	1,023,633	44,138,720
Residual Account	67,024	433	(71,455)	20,257	16,259	464,726
Savings Certificates	5,928,417	1,207,331	(1,574,795)	–	5,560,953	31,392,594
Total	**18,291,822**	**2,404,886**	**(16,678,861)**	–	**4,017,847**	**102,903,384**

Amounts paid to investors include both capital and interest payments.

First Option Bonds, Guaranteed Income Bonds and Guaranteed Growth Bonds are the only products that have tax deducted at source. The total tax deducted as at 31 March 2012 was £46,992,000 (2010–11: £74,846,000).

The GEB interest earned figure includes a revaluation loss from the embedded derivative at 31 March 2012 of £5,659,000 (31 March 2011: gain £265,000) and accrued interest of £2,442,000.

A repayment of capital with a value of £1,000 was made from GEB during the year.

(2b) Prior year

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

3 Interest and prizes

	2011–12 £000	2010–11 £000
Total interest earned in year	(2,404,886)	(2,580,680)
Less accrued interest opening balance	(1,061,793)	(961,744)
Less interest capitalised in year	1,720,128	1,671,694
Less prizes & dividends paid in year	801,920	811,524
Add movements in out of date warrants/outstanding prizes in year	(2,593)	(2,587)
Accrued interest at 31 March	**(947,224)**	**(1,061,793)**

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

4 Amounts held by NLF

	2011–12 £000	2010–11 £000
As at 1 April	98,338,931	98,120,139
Interest and prizes financed by the NLF	2,404,886	2,580,680
Received from the NLF	(15,012,309)	(16,309,669)
Paid to the NLF	16,687,568	13,938,090
Net funds held by the NLF	102,419,076	98,329,240
Amortisation movements of GEB principal liabilities	8,126	9,691
As at 31 March	**102,427,202**	**98,338,931**

The amount held by the NLF as at 31 March 2012 includes interest and prizes accrued in 2011-12 of £881,995,000 (31 March 2011: £998,930,000).

The difference in the amounts held by the NLF and the total amount invested at 31 March 2012 (note 2) is explained in note 1.7.

5 Other receivables

	31 March 2012 £000	31 March 2011 £000
Agents	60,303	44,288
Post Office®	40,218	37,276
Other receivables	3,560	4,603
Total	**104,081**	**86,167**

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

6 Liability to investors

(6a) Current year

	Principal liability £000	Accrued interest and prizes £000	Liability 31 March 2012 £000
Current liabilities			
Capital Bonds	242,512	8,546	251,058
Children's Bonus Bonds	1,128,348	40,827	1,169,175
Direct Saver	3,062,272	–	3,062,272
Easy Access Savings Account	905,685	–	905,685
First Option Bonds	51,681	654	52,335
Guaranteed Equity Bonds	55,084	–	55,084
Guaranteed Income Bonds and Guaranteed Growth Bonds	5,792,184	47,015	5,839,199
Income Bonds	7,960,210	22,799	7,983,009
Individual Savings Account	3,274,878	66,763	3,341,641
Investment Account	3,763,959	2,248	3,766,207
Pensioners' Guaranteed Income Bonds	285,234	3,108	288,342
Premium Bonds	44,034,499	104,221	44,138,720
Residual Account	464,340	386	464,726
Savings Certificates	30,770,746	621,848	31,392,594
	101,791,632	**918,415**	**102,710,047**
Non-current liabilities			
Guaranteed Equity Bonds	164,528	28,809	193,337
	164,528	**28,809**	**193,337**
Total liability to investors	**101,956,160**	**947,224**	**102,903,384**

Principal liability comprises initial investment plus capitalised interest that has been added to the holding where applicable. Accrued interest and prizes comprise only interest and prizes earned in 2011-12 that has not yet been paid out or capitalised and added to the holding. The accrued interest disclosed above (£947,224,000) is accrued interest in respect of the principal liability to investors. Note 4 discloses accrued interest (£881,995,000) in respect of balances held by the NLF.

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 2012 of £28,809,000 (31 March 2011: £34,468,000) represents the fair value of the embedded derivative contained within the GEB products. Accordingly, the GEB principal liability is amortised using the effective interest method as described in note 1.6.

(6b) Prior year

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

7 Other payables

	31 March 2012	31 March 2011
	£000	£000
NLF	116	168
HM Revenue and Customs	27	8
Agents	594	92
Other payables including sales accruals and evidence of identity refunds	5,721	7,611
Total	**6,458**	**7,879**

8 Movement in net funds held by the NLF

	2011–12 £000	2010–11 £000
NLF		
Received from the NLF	15,012,309	16,309,669
Paid to the NLF	(16,687,568)	(13,938,090)
Net NLF (inflow)/outflow	(1,675,259)	2,371,579
Interest and prizes payable to investors	(2,404,886)	(2,580,680)
Increase in net funds held by the NLF	**(4,080,145)**	**(209,101)**

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

9 Cash and cash equivalents

	2011–12 £000	2010–11 £000
Balance at 1 April	468,318	522,068
Net change in cash and cash equivalent balances	(89,759)	(53,750)
Closing Balance	**378,559**	**468,318**
The following balances at 31 March are held at:		
Bank of England	456,850	486,858
Government Banking Service (items in transit)	(78,291)	(18,540)
Balance at 31 March	**378,559**	**468,318**

10 Categorisation of financial assets and liabilities

	31 March 2012 £000	31 March 2011 £000
Assets		
Financial assets measured at fair value through Statement of comprehensive income (note 14)	28,809	34,468
Loans and receivables	102,502,474	98,390,630
Cash and cash equivalents	378,559	468,318
Total	**102,909,842**	**98,893,416**
Liabilities		
Financial liabilities measured at fair value through Statement of comprehensive income (note 14)	(28,809)	(34,468)
Financial liabilities measured at amortised cost	(102,881,033)	(98,858,948)
Total	**(102,909,842)**	**(98,893,416)**

11 Market, liquidity and credit risk

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

NS&I's banking services provider is the Government Banking Service (GBS). GBS has contracted the Royal Bank of Scotland Group (RBSG) and Citigroup to provide transaction processing services for NS&I. Monies held at RBSG and Citigroup are transferred to the Government's accounts at the Bank of England during, and/or at the end of, each day to mitigate credit risks to both NS&I and HM Treasury. In the event that either of the banks were unable to meet their obligations, HM Treasury would step in to provide NS&I with the necessary funds to meet its liabilities to investors as part of the HM Treasury underwritten guarantees. Therefore, NS&I does not face any material credit risk. Credit risk relating to the agents and other debtors is 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 account at the NLF to ensure a smooth flow of funds between the NLF and NS&I. Interest rate risk belongs to the UK Government and is managed by the NLF in conjunction with the DMO. There is no currency exposure, as all assets and liabilities are denominated in sterling.

12 Product maturity profile

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 2012	Fixed rate products 31 March 2012	Non-interest bearing products 31 March 2012	Total 31 March 2012
	£000	£000	£000	£000
Maturing in one year or less or repayable on demand	89,944,205	12,651,088	115,494	102,710,787
Maturing in more than one year but not more than two years	112,343	–	–	112,343
Maturing in more than two years but not more than five years	89,059	–	–	89,059
Total	**90,145,607**	**12,651,088**	**115,494**	**102,912,189**
There are no products maturing in more than 5 years				

	Variable rate, prize-based and index-linked products 31 March 2011	Fixed rate products 31 March 2011	Non-interest bearing products 31 March 2011	Total 31 March 2011
	£000	£000	£000	£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
Total	**83,958,497**	**14,861,979**	**81,888**	**98,902,364**

There are no products maturing in more than 5 years.

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

Fixed rate products include Children's Bonus Bonds, First Option Bonds, Guaranteed Growth Bonds, Guaranteed Income Bonds, Pensioners Guaranteed Income Bonds and Fixed Interest Savings Certificates.

Non-interest bearing products are historical balances on products which have been closed.

13 Fair values of assets and liabilities

	Total per accounts 31 March 2012 £000	Fair value 31 March 2012 £000
Assets		
Held by the NLF – all products apart from GEB	102,179,907	102,589,488
Held by the NLF – GEB	247,295	254,642
Cash and cash equivalents	378,559	378,559
Other receivables	104,081	104,081
Total	**102,909,842**	**103,326,770**
Liabilities		
Fixed rate products	(12,651,088)	(13,060,669)
GEB	(248,421)	(255,768)
Variable rate products – apart from GEB	(89,888,381)	(89,888,381)
Non-interest bearing products	(115,494)	(115,494)
Other payables	(6,458)	(6,458)
Total	**(102,909,842)**	**(103,326,770)**

	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
Total	**98,893,416**	**98,985,033**
Liabilities		
Fixed rate products	(14,861,979)	(14,948,551)
GEB	(307,434)	(312,479)
Variable rate products – apart from GEB	(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)**

Note 12 discloses products in each of the above categories.

There is no material difference between the carrying value and the fair value of the variable rate products, non-interest bearing products, other payables and receivables. The variable rate products in the fair value table include all variable rate, prize-based and index-linked products apart from the GEB product which has been disclosed separately. The rates for variable rate products are determined by taking into account factors highlighted on page 12 (Our product range) including the base rate, therefore they are deemed to be at fair value. The fixed rate products are products with rates being fixed for the duration of the products term. The fair value of the fixed rate products is derived by discounting future expected cash flows using the relevant gilt rates obtained from Thomson Reuters Datastream. Any impact of early repayments is ignored, as their impact is immaterial. Subject to timing differences, the fair value of the assets held by the NLF is a mirror of the related liabilities which it guarantees.

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

IFRS 7 requires financial instruments measured at fair value to be classified into 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.

	Note	Level 2 31 March 2012 £000	Total 31 March 2012 £000	Level 2 31 March 2011 £000	Total 31 March 2011 £000
Assets					
GEB embedded derivative	(a)	28,809	28,809	34,468	34,468
		28,809	**28,809**	**34,468**	**34,468**
Liabilities					
GEB embedded derivative	(a)	(28,809)	(28,809)	(34,468)	(34,468)
		(28,809)	**(28,809)**	**(34,468)**	**(34,468)**

(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 (note 4 contains details of the NLF transactions) and HM Treasury (NS&I's relationships with these parties are mentioned in the 'Product Accounts background' and the 'Board, committees and how we operate section'), 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 2011-12 was £2.58 billion (2010-11: £3.12 billion) and the total amount transferred to the Post Office® for repayment during 2011-12 was £0.22 billion (2010-11: £0.19 billion). The outstanding amount due from the Post Office® at 31 March 2012 is £40.22 million (31 March 2011: £37.28 million).

NS&I has carried out transactions with HM Revenue and Customs (HMRC) on behalf of investors, in respect of tax deducted (2011-12 £46.99 million: 2010-11 £74.85 million) at source on interest earned on First Option Bonds, Guaranteed Income Bonds and Guaranteed Growth Bonds. In this regard as a public body, HMRC is a related party.

Neither 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 deposits of Executive and Non-executive Directors, with the exception of Premium Bonds, are disclosed on page 75 of this Annual Report and Accounts and Product Accounts.

16 Events after the reporting period

There are no reportable events between the Statement of financial position date and 17 December 2012, the date on which these accounts are authorised. The financial statements do not reflect events after that date.

Annex 1: Product Accounts Direction

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

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

2. The Department of National Savings and Investments shall prepare accounts for its Product Accounts for the year ending 31 March 2012 (and each subsequent financial year) that give a true and fair view of the state of affairs of the Product Accounts at the reporting date and of their income and expenditure and cash flows for the year then ended.

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

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

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

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

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

6. This Accounts Direction supersedes that issued on 21 January 2011.

Chris Wobschall

Chris Wobschall
Deputy Director,
Assurance and Financial Reporting Policy
HM Treasury
6 January 2012

Annex 2: Departmental Report information

The 2011–12 Departmental Report information shown in the tables below is not consistent with the information shown in the 2011–12 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 2012–13 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 2007–08 £000	Outturn 2008–09 £000	Outturn 2009–10 £000	Outturn 2010–11 £000	Outturn 2011–12 £000	Plans 2012–13 £000	Plans 2013–14 £000	Plans 2014–15 £000
Resource DEL	153,533	183,766	179,189	169,103	172,465	169,950	154,636	154,736
Section A: Administration	153,533	183,766	179,189	169,103	172,465	169,950	154,636	154,736
Total resource DEL	**153,533**	**183,766**	**179,189**	**169,103**	**172,465**	**169,950**	**154,636**	**154,736**
of which:								
Pay	7,993	8,922	9,514	9,770	9,695	10,530	10,827	11,101
Net current procurement (1)	141,991	171,108	167,696	157,545	160,348	156,121	140,389	140,095
Current grants and subsidies to the private sector and abroad	–	–	–	–	–	–	–	–
Current grants to local government	–	–	–	–	–	–	–	–
Depreciation (2)	2,894	3,002	1,211	1,026	1,563	2,500	2,600	2,700
Other	655	734	768	762	859	799	820	840
Resource AME								
Section B: Administration	(181)	(4)	1,502	3,747	639	5,300	5,300	5,300
Total resource AME	**(181)**	**(4)**	**1,502**	**3,747**	**639**	**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	73	203	93	480	(107)	300	300	300
Release of provisions	(254)	(207)	(277)	(392)	(198)	–	–	–
Depreciation (2)	–	–	1,686	3,659	944	5,000	5,000	5,000
Other	–	–	–	–	–	–	–	–
Total resource budget	**153,352**	**183,762**	**180,691**	**172,850**	**173,104**	**175,250**	**159,936**	**160,036**
of which:								
Depreciation (2)	2,894	3,002	2,897	4,685	2,507	7,500	7,600	7,700

Table 1: Total departmental spending *(continued)*

	Outturn 2007–08 £000	Outturn 2008–09 £000	Outturn 2009–10 £000	Outturn 2010–11 £000	Outturn 2011–12 £000	Plans 2012–13 £000	Plans 2013–14 £000	Plans 2014–15 £000
Capital DEL								
Section A: Administration	45	926	4,991	1,415	191	239	215	273
Total capital DEL	**45**	**926**	**4,991**	**1,415**	**191**	**239**	**215**	**273**
of which:								
Net capital procurement (4)	45	926	4,991	1,415	191	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	**45**	**926**	**4,991**	**1,415**	**191**	**239**	**215**	**273**
Total departmental spending (5)	**150,503**	**181,686**	**182,785**	**169,580**	**170,788**	**167,989**	**152,551**	**152,609**
of which:								
Total DEL	150,684	181,690	181,283	165,833	170,149	162,689	147,251	147,309
Total AME	(181)	(4)	1,502	3,747	639	5,300	5,300	5,300

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

(2) Includes impairments.

(3) Pension schemes report under FRS 17 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 2007–08 £000	Outturn 2008–09 £000	Outturn 2009–10 £000	Outturn 2010–11 £000	Outturn 2011–12 £000
Current spending	–	–	–	–	–
of which:					
financed by grants from budgets above	149,984	180,030	177,210	167,315	170,043
Capital spending	–	–	–	–	–
of which:					
financed by grants from budgets above	45	926	4,991	1,415	191

Table 2: Public spending control

	Supply Estimate					Winter supplementary			Final provision	Final outturn	Differences
	Admin £000	Other Current £000	Gross total £000	A in A £000	Net total £000	Change in gross provision £000	Change in A in A £000	Change in net provision £000	£000	£000	£000
Resources											
Spending in departmental expenditure limit (DEL)	185,275	–	185,275	(7,875)	177,400	19,210	(23,000)	(3,790)	173,610	172,465	1,145
Spending in annually managed expenditure (AME)	–	5,300	5,300	–	5,300	2,000	–	2,000	7,300	639	6,661
	185,275	**5,300**	**190,575**	**(7,875)**	**182,700**	**21,210**	**(23,000)**	**(1,790)**	**180,910**	**173,104**	**7,806**

	Supply Estimate	Winter supplementary			Final provision	Final outturn	Differences
	Capital £000	Change in gross provision £000	Change in A in A £000	Change in net provision £000	£000	£000	£000
Capital							
Spending in departmental expenditure limit (DEL)	237	240	–	240	477	191	286
	237	**240**	**–**	**240**	**477**	**191**	**286**

Table 3: NS&I capital employed

	Outturn 2005–06 £000	Outturn 2006–07 £000	Outturn 2007–08 £000	Outturn 2008–09 £000	Outturn 2009–10 £000	Outturn 2010–11 £000	Outturn 2011–12 £000	Plans 2012–13 £000	Plans 2013–14 £000	Plans 2014–15 £000
Assets on balance sheet at end of year										
Non-current assets										
Intangible	222	144	1,897	16,637	38,371	55,726	66,915	58,000	52,000	52,000
Property, plant and equipment	25,318	25,204	29,608	35,185	40,539	38,877	28,677	33,000	33,000	33,000
of which:										
Land and buildings	22,842	23,139	25,156	27,159	27,642	23,819	18,210	20,000	20,000	20,000
Information technology	140	137	1,373	5,075	9,793	12,383	8,281	11,000	11,000	11,000
Plant and machinery	340	260	1,151	893	634	435	39	400	400	400
Furniture and fittings	1,996	1,668	1,928	1,208	2,470	2,240	2,147	1,600	1,600	1,600
Assets under construction	–	–	–	850	–	–	–	–	–	–
Other receivables	–	–	–	–	–	–	5,245	4,371	3,497	2,623
Current assets	9,145	4,641	2,054	1,576	855	4,525	340,297	3,000	3,000	3,000
Creditors <1 year	(23,161)	(26,356)	(20,113)	(25,498)	(34,146)	(31,330)	(378,201)	(28,000)	(28,000)	(28,000)
Provisions <1 year	–	–	–	(345)	(287)	(424)	(126)	–	–	–
Creditors >1 year	–	–	–	–	(2,532)	(7,616)	(20,832)	(12,000)	(9,000)	(6,000)
Provisions >1 year	(1,045)	(728)	(547)	(198)	(72)	(23)	(16)	–	–	–
Capital employed within main department	**10,479**	**2,905**	**12,899**	**27,357**	**42,728**	**59,735**	**41,959**	**58,371**	**54,497**	**56,623**

Table 4: Administration budget

	Outturn 2007–08 £000	Outturn 2008–09 £000	Outturn 2009–10 £000	Outturn 2010–11 £000	Outturn 2011–12 £000	Plans 2012–13 £000	Plans 2013–14 £000	Plans 2014–15 £000
Section A: Administration	153,533	183,766	179,189	169,103	172,465	169,950	154,636	154,736
Total administration budget	153,533	183,766	179,189	169,103	172,465	169,950	154,636	154,736
of which:								
Paybill	7,993	8,922	9,514	9,770	9,695	10,530	10,827	11,101
Expenditure	151,165	180,592	175,507	171,089	194,025	169,317	155,606	155,332
Income	(5,625)	(5,748)	(5,832)	(11,756)	(31,255)	(9,897)	(11,797)	(11,697)

Table 5: NS&I staff numbers

Staff numbers at:	1 April 2007	1 April 2008	1 April 2009	1 April 2010	1 April 2011	1 April 2012
Permanent	129	135	141	143	140	140
Casual	4	1	6	13	17	15
Total	**133**	**136**	**147**	**156**	**157**	**155**

(1) The staff numbers shown in the table for 2011–12 above do not agree with the table in Note 7 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 2007–08 £000	Outturn 2008–09 £000	Outturn 2009–10 £000	Outturn 2010–11 £000	Outturn 2011–12 £000
Consultancy services	1,585	2,042	1,903	1,435	1,776
Professional services	2,345	4,016	4,186	5,687	7,846
Contract staff	943	908	717	491	1,795
Other services	950	1,031	1,463	1,656	1,476
	5,823	**7,997**	**8,269**	**9,269**	**12,893**

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
A 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.

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

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. www.cse.cabinetoffice.gov.uk

Departmental expenditure limit (DEL)
Expenditure limit within which a Government department has responsibility for 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.

Faster Payments
The Faster Payments Service allows customers to make faster automated payments, typically using the telephone or online banking, enabling the payments to get to the destination within a couple of hours. It is used by the majority of UK banks and building societies. NS&I began accepting Faster Payments from customers making deposits in December 2011.

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. In 2013, the FSA will be replaced by two new regulatory bodies: the Prudential Regulation Authority, which will be responsible for promoting the stable and prudent operation of the financial system through regulation of all deposit-taking institutions, insurers and investment banks, and the Financial Conduct Authority, which will be responsible for regulation of conduct in retail, as well as wholesale, financial markets.

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

Issue
Our fixed term 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.

Net Financing
Net Financing is the measure of the net change of NS&I funds, meaning total inflows from deposits, retention of maturing monies and capitalised and accrued interest less the total outflows from withdrawals and interest or Premium Bond prize draw payments.

Public Private Partnership (PPP)
A long-term partnership between a public sector and private sector organisation, designed for mutual benefit. Our PPP with Atos 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 (ONS) each month.

Spending Review
Spending Reviews set firm and fixed multi-year budgets for government departments. 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
When used in the context of NS&I products, 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
NS&I's 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
A measure of our cost-effectiveness in raising finance for the Government. It compares the total cost of delivering Net Financing and servicing existing customers' deposits with how much it would cost the Government to raise funds through the wholesale market via equivalent maturity gilts 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.

Internet
Visit our website at **nsandi.com**

Telephone
- For general enquiries, call us free on **0500 007 007**
- To buy our products, call us free on **0500 500 000**

Our customer service team is available every day from 7am until midnight. Calls from mobiles and some landline providers may not be free. Calls may be recorded.

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

Post
Write to us at National Savings and Investments, Glasgow G58 1SB.

Email
enquiries@nsandi.com

Thank you
NS&I would like to thank all staff for their contribution to the 2011–12 Annual Report and Accounts and Product Accounts.

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ISBN 978-0-10-297845-2

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