



Developing for the future...

# **National Savings and Investments**

Annual Report and Accounts 2003-04

national savings  
& investments



**ns&i**

*“Our vision is to be  
recognised as the UK’s  
leading and most trusted  
savings and investment  
organisation”*

Alan Cook  
Chief Executive



National Savings and Investments is backed by HM Treasury

# Facts, figures, progress and success



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## National Savings and Investments

Annual Report and Accounts 2003-04

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

Ordered by the House of Commons to be printed on 20 July 2004

London: The Stationery Office

£16.25

HC 682





One of Alan Cook's main priorities is to meet people across the business, listen to what they have to say and tell them about his plans for NS&I and the partnership.



# Moving forward with our modernisation programme

**2003-04 has been an exciting year for National Savings and Investments – the total funds invested by our customers have increased by £3.4 billion to £66.5 billion, and sales and customer retention targets have both been substantially beaten.**

We have also taken two significant steps forward in accelerating our modernisation programme. The first was migrating our popular Premium Bonds business onto a state-of-the-art technology platform, enabling us to provide an even more efficient and fully integrated service to our customers for them to buy online and cut down on paperwork.

The second was launching our new Easy Access Savings Account as the successor to the Ordinary Account. Apart from being more efficient and convenient for users, the account is also much more cost-effective to administer, a benefit which we can pass on to our customers in the form of much improved interest rates.

## Developing our vision

In addition, we announced that we were aiming to increase the total funds invested in us by £10 billion over the next five years through our Direction 2007 strategic plan. But we are now increasing that figure to £15 billion, in the light of both the successful year we have just experienced and the exciting plans that we have for the future.

Our vision is to be recognised as the UK's leading and most trusted savings and investment organisation and we have made a great start towards achieving that goal.

## Adding value

National Savings and Investments is an Executive Agency of the Chancellor of the Exchequer and a cost-effective source of funding for the Government, financing 17.7% of the national debt as at 31 March this year. We measure our effectiveness by quantifying the saving that we generate each year for the taxpayer, a saving that we refer to as Value Added. In 2003-04 we achieved record Net Financing of £3.4 billion while maintaining Value Added at just over £260 million.

## Investing in our people

But a business is only as successful as the people who support it and we continue to focus on our people who are essential to realising our vision.

At the heart of this investment is our market-leading public private partnership with Siemens Business Services who provide our IT and customer service operations.

We have also invested heavily in our own people, constantly ensuring we maintain our Investors in People standards, and embarking on a highly customised leadership development programme which is receiving very positive feedback.

*"A business is only as successful as the people who support it and we continue to focus on our people."*

We have made a number of key appointments to complement our new, more relevant organisational structure, starting at the top where there have been many changes to the Board. These include two newly-created posts of Human Resources Director and Sales Director.

## Close customer contact

During the year we have dramatically increased our capability to deal with customers over the telephone, investing heavily in our call centres. This was reflected in our success in being a finalist for the Unisys/Management Today Service Excellence Awards at our first attempt.

Sales over the telephone have risen 58%, from £500 million in 2002-03 to £790 million in 2003-04 with a further £300 million being sold through the internet, more than double the previous year's figures.

## Successful offers for customers

Total sales reached £12.7 billion for the year, with Premium Bonds leading the way with sales of £7.5 billion. In May 2003 alone we sold more than £1 billion of Premium Bonds, largely as a result of increasing the maximum individual holding from £20,000 to £30,000.

An increasingly popular product is the Guaranteed Equity Bond which offers investors the chance to benefit from the growth of the Stock Market without compromising security. This new investment gave us a leading position in that market with total sales of £200 million.

## Building our brand

The media have generally been impressed by our modernisation, revitalised offers and fair and consistently priced products backed by great customer service and total security. Last year saw a vast improvement in National Savings and Investments media coverage as

we rose to first position for savings coverage, while our sponsorship of the popular Classic FM Morning Show has also proved highly successful.

## Looking to the future

Over the last 12 months we have begun to show just how much we can achieve by continuing our strategy of modernisation without compromising our core values of security, integrity and straightforwardness while focusing on the needs of our customers. We have undertaken a particularly comprehensive planning exercise for the coming year and set new, even more stretching targets for the next four years. I am confident that by consistently delivering fairly priced products, backed by great customer service, we can meet these targets and continue to deliver cost-effective financing for the Government.



## Our vision and values, mission and objectives

**National Savings and Investments is one of the largest savings organisations in the United Kingdom, offering savings and investment products to personal savers and investors. We are also a Government department and an Executive Agency of the Chancellor of the Exchequer.**

### **Our mission**

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

The money placed with us by customers is used by HM Treasury to help manage the national debt cost-effectively, contributing towards the Government's financing needs. When customers invest with us they are lending money to the Government, which pays them interest, Stock Market linked returns or Premium Bond prizes in return. Our products are backed by HM Treasury, making them the most secure cash deposits in the UK market.

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

### **Our vision**

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

To fulfil our vision we will:

- focus on delivering consistently good value to customers;

### **Our brand values**

Our brand values are security, straightforwardness and integrity – delivered with a human touch. For our customers this means:

- **Security:** our backing by HM Treasury is fundamental to our business and is unique in retail financial services;
- **Straightforwardness:** describing our products and services in easy to understand language;
- **Integrity:** earning the respect and trust of our customers;
- **Delivered with a human touch:** remembering that customers are individuals and should be treated as such. This is our most challenging and aspirational value, and is the most important one in terms of meeting customer expectations.

- build exceptional relationships between the organisations and people involved in delivering the business.

It is by fulfilling our vision that we will achieve our overall objective of reducing the cost of Government borrowing now and in the future.

### **How we add value**

As well as providing value to customers by offering competitive, totally secure savings and investments, we also save taxpayers' money.

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

- by selling Gilts (marketable Government bonds) and Treasury Bills – mostly to the wholesale market, such as pension fund managers or investment companies, through the UK Debt Management Office;
- by selling savings and investment products to the retail market, ie personal savers and investors, through National Savings and Investments.

### **What is Value Added?**

Money borrowed by the Government is called the national debt, and paying interest on this debt accounts for a sizeable part of the Government's annual expenditure. National Savings and Investments helps to keep down this expense by providing funds at a lower overall cost than financing the same amount through Gilts and Treasury Bills.

Value Added is the name given to the way we measure how cost-effective we are at raising finance for the Government. The total cost of raising funds, including our operating costs, is compared with how much it would cost the Government to raise funds through Gilts and Treasury Bills. And the difference is our Value Added.

In order to achieve Value Added we must give customers a fair deal. We operate in a highly competitive market so it is important that we offer products that suit our customers' needs based on security, benefits and returns, backed by excellent service.





The annual staff event plays an integral part in promoting communication across the business and providing motivation for us all to meet our challenging goals.



## A strong performance across all aspects of our business

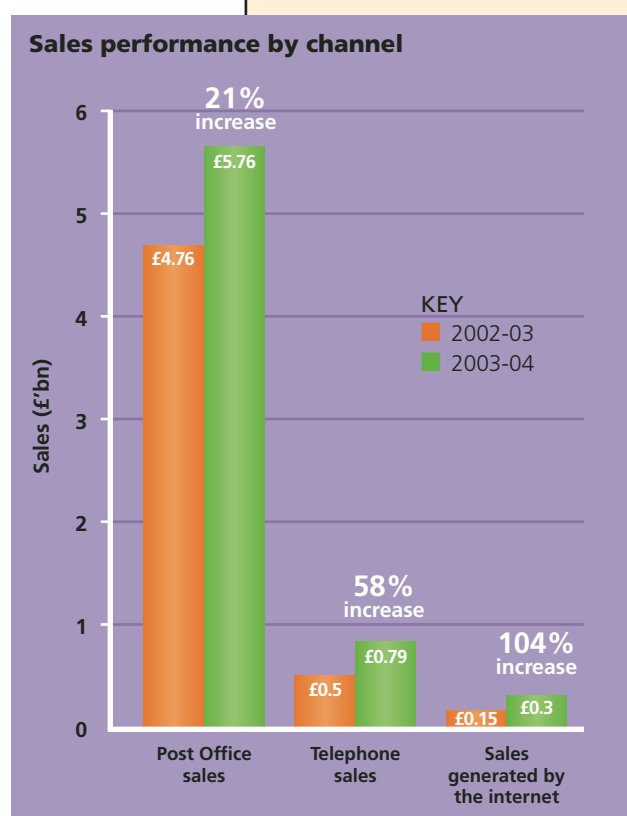
This year was one of the best ever for our business, increasing the total invested by customers and surpassing Net Financing and Value Added targets.

Continuing uncertainty in the Stock Market; the raising of the Premium Bonds maximum holding limit which saw more than £1 billion of Premium Bonds sold in May – a new record; and development of the call centre and the internet, all contributed to making the year 2003-04 one of the most successful the organisation has ever

recorded. Funds raised increased to £3.4 billion boosting our contribution to net financing for the Government by a substantial 400% compared to 2002-03.

2003-04 also saw us make distinct progress in ensuring a more complete alignment of Siemens Business Services strategic objectives with our own and building a

### Key financial figures



Total invested by customers in National Savings and Investments at the end of the year **£66.5 billion**

Net financing for Government during the year **£3.4 billion**

Value Added (delagged) for the year after allowing for operating costs **£260.6 million**

Net operating costs of National Savings and Investments **£172 million**

Gross sales of all National Savings and Investments products **£12.7 billion**

- Telephone sales **\*£790 million**
- Sales generated via the internet **\*£300 million**
- Sales through the Post Office **\*£5.76 billion**
- Sales by direct post **\*£4.25 billion**

\*these sales are part of the gross sales above

National Savings and Investments Premium Bonds sales. More than £1,097 million of Premium Bonds were sold in May 2003, at the time, the highest level of monthly sales recorded since their launch in 1956 **£7.49 billion**

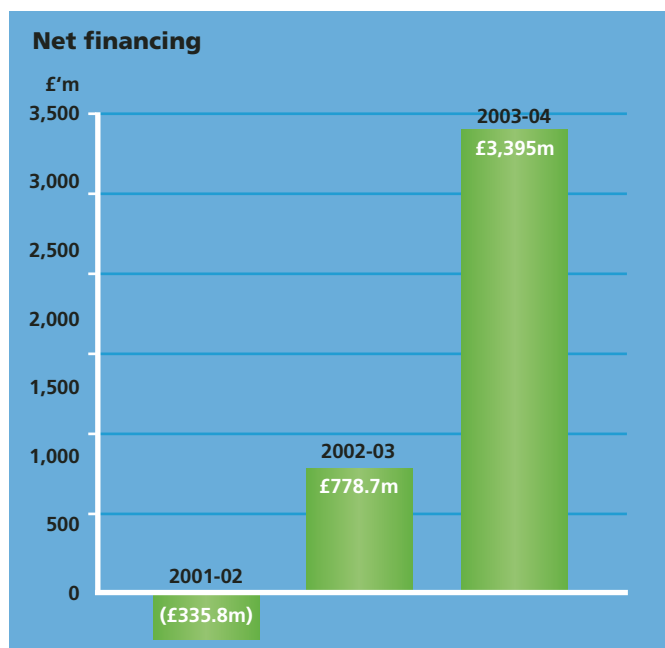
### Levels of transactions

Transactions processed by Siemens Business Services **50.3 million**

Customer transactions via the Post Office **15.99 million**

Calls to the call centre, up 10% on last year **2.2 million**





#### Value Added figures for the last three years

	2003-04 £'m	2002-03 £'m	2001-02 £'m
Value Added	285.6	249.3	76.3
Adjustment for timing and other differences	(25.0)	12.7	100.0
Value Added – delagged	*260.6	*262.0	176.3

\*Value Added for 2003-04 has been calculated using information from the draft Product Accounts shown on page 23. However, Value Added is subject to revision once the Product Accounts are finalised and audited. The Value Added figures for 2002-03 have been revised to reflect the changes arising from the finalisation of the Product Accounts. National Savings and Investments is working closely with Siemens Business Services to bring the production of the Product Accounts forward so that actual values can be used in the Annual Report.

*“Our vision is to be recognised as the UK’s leading and most trusted savings and investment organisation.”*

solid platform on which the partnership can grow and expand. This helped lift telephone sales by 58%.

#### Value Added performance

Our actual cost-effectiveness is also reported as Value Added. As interest movements impact on this, ‘delagged’ Value Added is used to measure and target business performance. The delagged measure allows for timing differences between product interest rate changes being announced and the rate coming into effect.

Over the last three years this ‘delagged’ performance measure of Value Added has increased from £176.3 million in 2001-02 to £260.6 million in 2003-04.

#### Adjusting rates of interest

Products with tax-free returns deprive the Exchequer of revenues. To ensure that the Exchequer is not adversely

affected National Savings and Investments takes account of the amount of tax foregone through the purchase of the products by adjusting the rates of interest offered to the customer.

#### How we set our interest rates

As with any commercial operation a reasonable return must be provided to both customers and owners. For National Savings and Investments the owner is the Government. The return is assessed by comparing our overall cost of funds with two benchmarks:

- The first compares the cost of our variable rate products with the cost of Treasury Bills. These costs are influenced by changes in short-term interest rates, most notably changes to the Bank of England base rate;
- The second compares the cost of our fixed rate products with the yield on equivalent Gilts.

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

We may adjust interest rates at different times and possibly in different directions because we use different benchmarks for fixed rate and variable rate products. We always try to act fairly and not to favour one group of customers over another.

When we set our interest rates our policy is to always be consistent with both our brand values and the requirements of the Banking Code.

## SUCCESSSES

- Our new Easy Access Savings Account offers customers an easy, safe and convenient way to save
- Raising the maximum holding level on Premium Bonds to £30,000 resulted in additional sales of £1.5 billion

# Taking a progressive approach to meeting customer needs

Customers have been impressed by National Savings and Investments' strategy of continuing to modernise its business, while staying true to its core values of security, integrity and straightforwardness. By prioritising our responses to their needs, we have built on customer goodwill to establish a distinct brand that they trust and has a greater appeal for serious investors.

National Savings and Investments recognises that customer needs are constantly changing and, in times of change, we need to understand how our products and services remain appropriate and relevant to all our customers, both old and new.

Being customer focused involves gaining a deeper understanding of our customers by finding out what really matters to them so that we can prioritise our business development activities. Over the past year we have dedicated considerable time and resources to researching and enriching our customer knowledge.

During the year we contacted more than 200,000 customers so that we could develop products in response to their needs. We are now using this information to ensure that our customer offer in future reflects what they have told us.

### Customer feedback and satisfaction

Overall, customer satisfaction is high, with four out of five customers being satisfied or very satisfied with our products and 83% likely to consider us when taking out a new savings or investment product.

We are never complacent and constantly strive to improve these figures, conducting regular mystery shopping exercises as well as monthly telephone surveys to allow customers to feed back their reactions on all aspects of the organisation, from products and services to how valued they feel as a customer.

This year we conducted a review of our customer complaints and compliments procedures, commissioning

independent research to find out why customers had complained about aspects of their experience so that we can identify where we need to make improvements to our current procedures.

### Customer choice

#### Premium Bonds

The maximum level of investment in Premium Bonds had remained unchanged since 1993 and was raised last May from £20,000 to £30,000, resulting in additional sales of £1.5 billion. This proved an overwhelming success with customers who had reached the previous limit and raised awareness among the general public, generating a momentum from which we are still benefiting.

#### Guaranteed Equity Bonds

Building on the success achieved last year, we issued tranches 4, 5 and 6 of Guaranteed Equity Bonds. Issue 6, a new participation product launched in October 2003, was particularly well received by customers and proved our most successful to date. It achieved the highest ever sales volume of more than £100 million, putting it well above the average tranche size for similar structured products offered in the market in 2003.

#### Gift Campaign

November 2003 marked the successful launch of our first ever Gift Campaign, which was specifically aimed at customers looking to buy an alternative present for children at Christmas. The idea came from customer research, which revealed an interest in giving financial products as gifts to children, and the offer highlighted three savings products which were ideal presents: Children's Bonus Bonds, Savings Certificates and Premium Bonds.

### Customer access

#### Easy Access Savings Account

At the beginning of the year we announced that after 143 years, our Ordinary Account would close on 31 July 2004. It has been replaced by the new Easy Access Savings Account (EASA), which was launched on 29 January 2004, offering customers an easy, safe

## SUCCESSES

- There has been tremendous growth in the internet site, [www.nsandi.com](http://www.nsandi.com), generating £300 million in sales
- Guaranteed Equity Bonds have proved highly popular with existing and new customers – attracting a total of £700 million in investments







An increasingly broad range of customers are responding to the appeal of our savings and investments. Our objective is to continue to build on this and increase our market share.



and convenient way to save, better access and improved interest rates. The new account comes with a cash card and dedicated telephone service, which provides greater flexibility than the Ordinary Account.

EASA also enables our customers to withdraw and deposit cash and check their balance, using a plastic card and a PIN number at the Post Office counter. Setting up EASA also involved joining LINK, the Automatic Teller Machine (ATM) network, in January 2004 giving customers access to more than 47,000 cash machines and making it far easier to perform simple financial transactions.

This, combined with 16,000 Post Office branches, gives customers more than 60,000 places where they can withdraw cash without having to complete withdrawal slips as they did in the past.

An extensive communications campaign is underway with Ordinary Account customers to let them know about EASA and encourage them to transfer to the new account.

#### Internet

There has been tremendous growth of interest in the Internet site, [www.nsandi.com](http://www.nsandi.com), which was launched on 17 July 2002. Its popularity has risen significantly during 2003-04, with 20 million hits from more than six million visitors. They don't just browse either: the website generated £300 million sales in 2003-04, more than double the previous year's figures.

We continually seek ways to improve the website and the coming year will see us taking the Internet much further forward, with a new design and new features, plus an improved online sales process.

#### Improved new technology

We are working on a customer authentication system, which will allow customers to identify themselves on the telephone or via the Internet, enabling them to cut down on paperwork by doing far more transactions remotely.

In 2003-04 we started this process with EASA account holders and we plan to extend this to other products, enabling customers to bring all their National Savings and Investments products into a single portfolio.

## Customer communication

### Media reporting

For any financial services organisation, favourable media coverage is a vital means of communicating with existing and potential customers and the industry as a whole. With ever increasing competition, it is crucial that we maintain a high and positive media profile to ensure that we are seen as the first port of call for people with money to save and invest.

2003 saw a marked improvement in National Savings and Investments media coverage. The organisation rose to 1st position for savings coverage and 13th for all financial services providers (up from 2nd and 25th respectively in 2002 and 11th and 78th in 2001) in the Presswatch league tables. The average monthly Premium Bonds coverage also increased by 94% during 2003.

Apart from promoting National Savings and Investments as a whole, including wide coverage of the annual results, the media team also runs consumer based campaigns highlighting issues such as taxation, inflation and savings habits, and constantly promoting the Tracing Service for customers who have lost touch with their savings. We have also focused on promoting the use of the telephone as a means for customers to get fast results without having to leave their home or office and products such as Guaranteed Equity Bonds and the new Easy Access Savings Account.

### Marketing

In 2003-04 record sales of £1.2 billion were directly attributed to our marketing communication campaigns. We successfully used press advertising and direct marketing campaigns to position our brand and products as the safe alternative to potentially riskier investment vehicles. Wary investors continued to stay away from an unpredictable Stock Market, preferring the 100% security we guarantee.

We capitalised on the increase in the Premium Bonds maximum investment limit to £30,000 by mailing existing Premium Bonds customers with high value holdings. The campaign proved our most successful ever and generated more than £550 million of sales.

Marketing of our Guaranteed Equity Bonds went from strength to strength in helping the October issue achieve sales of more than £100 million.

In June 2003 we renewed our sponsorship of the Classic FM Morning Show, which has the largest audience on commercial radio with 3.7 million listeners. Independent research has shown that the sponsorship is highly successful in raising awareness of both our new name and product messages. In May 2004 we built on our relationship with the Classic FM audience and raised our profile by sponsoring The Classical BRIT Awards at the Royal Albert Hall.

## PROGRESS

- Customer satisfaction is high: four out of five customers are satisfied or very satisfied with our products
- Joining the LINK ATM network gave customers access to more than 47,000 cash machines
- Our Classic FM Morning Show sponsorship has raised awareness of our new name and products





Our way of working and vision are the result of wide consultation and contribution from across the business. We all need to work together as one team if we are to achieve our vision.



## Our vision

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

national savings  
& investments  
**ns&i**



# Culture change is harnessing the power of our people

**Our people are our best asset and we have endeavoured to put the right structure and processes in place to enable people to feel involved and able to contribute in an environment where they feel trusted and recognised.**

A simplified governance and reporting structure and the introduction of 'business units' have helped National Savings and Investments to move away from 'silo' working and enabled people to work more flexibly and effectively across different teams and business areas.

## **Cultural change**

A change in culture was required to support the delivery of the Direction 2007 strategic plan and a number of workshops have helped to understand and change the behaviours of people across the organisation. A simple and immediate feedback tool called 'Pulse' is proving extremely useful in capturing a regular snapshot of the cultural climate and measuring our progress.

Also learning from our partner, Siemens Business Services, we are adopting 'LEAN', a continuous improvement methodology, which will help deliver considerable business benefits by improving efficiency and empowering individuals to make changes.

## **Learning and developing**

Direction 2007 revealed that we need additional skills to deliver the strategy and we are keen to provide career development for existing staff as well as recruiting new people. Working with Ashridge Consulting, we have developed a new leadership programme called 'lead!' which will benefit people throughout the business.

We have also developed a more straightforward and

flexible performance management programme called 'perform!', which takes a holistic view of the contribution people make to business achievement and recognises and rewards them accordingly.

## **Way of working**

These influences have been harnessed to generate the National Savings and Investments 'way of working'. This way of doing things is an essential part of supporting the new vision to help National Savings and Investments to be recognised as the UK's leading and most trusted savings and investment organisation.

In creating the new vision we realised that its achievement is, and has to be, intrinsically linked to the strategy and the way of working. To meet the vision we need to achieve the targets set in the strategy. And to help us achieve those targets we need a common understanding of the way we work together. A shared understanding of how we work means that we are pulling together as one team to achieve the targets and, in turn, realise the vision.

The 'way of working' is linked into five active phrases which encourage us all to:

- Be progressive
- Be decisive
- Be one of the team
- Be trustworthy, and
- Be straightforward

Adoption of these behaviours is driving culture change, which in turn supports our vision and our brand, making National Savings and Investments a more customer-focused organisation, both internally and externally and a better place to work. As part of a virtuous circle this will help to improve staff retention and attract new people to the organisation enabling us to provide greater customer innovation and higher levels of customer service.

## **PROGRESS**

- New initiatives will help us develop our most valuable asset – our people – hearing their views and learning from their knowledge
- The Direction 2007 Live link staff event saw everyone involved in shaping our aspiration (vision) and way of doing things (way of working)

## Building on our partnerships by growing and evolving

**National Savings and Investments' partnership with Siemens Business Services, which has managed the operations part of the business since April 1999, has been widely acclaimed for its innovative approach and is fundamental to our current and future success.**

By outsourcing our operational processes, we concentrate on our core capabilities and retain overall responsibility for strategy and business direction. This allows Siemens Business Services to focus on what they do best: modernising our customer channels, improving processes and ensuring that our customer service standards meet best practice in retail financial services.

The contract is one of the largest outsourcing arrangements of its kind in both the public and financial services sector and one of its most innovative elements is the creation of joint goals at all levels throughout both organisations.

### **Partnership Survey**

2003-04 has seen the partnership go from strength to strength – something that was reflected in the annual Partnership Survey. Undertaken in autumn 2003, the survey showed an impressive improvement on the previous year. The survey goes to people at different levels across both organisations and gives an accurate picture of the progress we are making. Last year, the performance rating jumped 15% – a huge shift when 10% is usually considered exceptional improvement.

### **Integrated approach**

This improvement is mainly due to the increasingly joined up approach which everyone is taking to the business. This was helped by Siemens Business Services Executive Director, Paul Maher (main photo opposite), becoming a member of the National Savings and

Investments Executive Management Team. Two senior Siemens Business Services managers now attend the National Savings and Investments Business Unit Leaders meeting and we have shared, clear goals from National Savings and Investments' Direction 2007, all of which contribute to effective teamworking across the partnership.

### **Customer service standards**

Throughout the year Siemens Business Services has maintained a very high level of customer service and operational performance, while processing £3.75 billion more sales compared to 2002-03.

Most of the growth came from our leading product, Premium Bonds. In just over six months Siemens Business Services successfully doubled the capacity of the call centre and handled the launch of the Easy Access Savings Account – a significant new product.

Another major achievement in April 2004 was the smooth migration of Premium Bonds from the Legacy system to Thaler, our consolidated IT platform. This enables us to provide new customers with the opportunity to purchase our best known product over the telephone or online later this year.

We also set ourselves exacting customer service standards and over the last 18 months we have been highly successful in achieving all our key targets: 90% of telephone calls are answered within 20 seconds; sales, after sales enquiries and requests are, on average, responded to within five days; and product applications, confirmations and repayment requests are all completed with 98.5% accuracy and within the agreed timescales.

### **External endorsement**

We have also received external recognition of the partnership's high service standards, reaching the final of the prestigious Unisys/Management Today Service Excellence Awards in 2003. We were in the top three from over 30 public sector organisations in the Public Services category and highly commended in the Financial Services category, which recognised our quality of customer service and dedication to putting the customer at the heart of our business.

### **SUCCESSES**

- **Annual Partnership Survey shows impressive results, rising 15%, a huge shift when a 10% rise is usually considered exceptional**
- **All key customer service targets achieved despite increasing sales**



Closer involvement and stronger working relationships across all levels of the partnership, supported by strategic goals and objectives which are more closely aligned, bring added benefits to both partners.







Providing a service to customers night and day, together with the expansion of the Blackpool call centre, shown here, have all helped to strengthen the partnership and to grow the business at a fast pace.



## Banking Code

2003-04 was our first full year as a subscriber to the Banking Code, which sets standards of good banking practice and reflects our ongoing commitment, supported by the work of our partners Siemens Business Services, to quality of service and peace of mind for our customers. While we have always sought to provide a high level of service, this independent set of commitments encourages even higher standards and better protection for the customer.

*We set ourselves exacting customer service standards and over the last 18 months we have been highly successful in achieving all our key targets.*

## Euro compliance planning

Together with Siemens Business Services, we have developed a euro changeover plan for conversion in the event of the United Kingdom deciding to become a full member of the European Monetary Union. This plan provides assurance that we would be able to achieve conversion within Government timelines and meets the requirements of HM Treasury for all Government departments to develop robust conversion plans in readiness for joining the Euro.

## Developing sales

On the sales side, supported by a wide range of marketing, product and channel initiatives, gross sales in 2003-04 reached a remarkable £12.7 billion. Although Post Office branches remain the preferred channel for UK customers, customers also increasingly favour multiple delivery channels suited to their needs and preferences.

Of these the telephone is the most popular direct channel with sales in 2003-04 reaching an impressive £790 million, up from £500 million in 2002-03, and we have substantially increased our ability to handle higher volumes of calls.

Customers have been remarkably receptive to this expansion and we are developing systems that will enable us to build relationships over the telephone by talking to customers about all their National Savings and Investments products within the same telephone call.

The Internet also showed rapid growth during 2003-04 and we are investing considerable time and resource to improve our infrastructure and ensure that this growth continues year on year.

## The Post Office

Our relationship with the Post Office, our biggest sales channel, continues to evolve as we reshape our product offering and they develop their brand. We are actively working together to align our goals and objectives and create longer term benefits for both organisations, helping National Savings and Investments achieve its business objectives.

With its 16,000 outlets nationwide, the Post Office channel gives us enormous reach and accessibility for our 30 million customers throughout the UK. It is the source of 70% of our sales revenue and we are keen to ensure greater emphasis is placed on increasing the value of Post Office branch sales and direct sales. This is instead of the traditional approach based primarily on the volume of transactions that take place.

The Post Office is going through a period of tremendous change and we support its aspirations to build an organisation based upon both quality of service and growth through sales revenues. Through our joint involvement in areas such as sales promotion, counter staff training and improved technology we aim to develop common goals that benefit both businesses alongside contract payments that reflect the growing strength of our relationship.

## Independent Financial Advisers

Many of our products are at the heart of good financial advice, and we continue to build strong relationships with the intermediary sector. There is clear evidence that our efforts are having an impact, and business levels directly attributed to IFA efforts continue to rise. According to surveys conducted recently, IFAs also commend our specialist helplines, and we know that the influence of the IFA community on our overall sales levels is increasingly significant.

National Savings and Investments does not pay commission to IFAs. However, we do believe that advice in its own right has a real value, and that fee-based advice models will continue to grow over the coming years. We are building strong links with fee-based practices and professional bodies advocating this approach. We intend to seek ways in which to further develop these relationships, and plan to play a leading role in supporting initiatives that are designed to promote advice and good information as a key element of personal financial planning.

## SUCCESSES

- Siemens Business Services successfully doubled the capacity of the call centre in just over six months
- 88% of respondents to an IFA survey were satisfied with NS&I's IFA service

## Building for a strong future through the five-year plan

**Our modernisation strategy began in the mid-1990s. It resulted in an ambitious transformation programme targeting improved efficiency, capability, customer service and reduced cost to the taxpayer of Government borrowing.**

Central to this modernisation was a 10-15 year Public Private Partnership with Siemens Business Services to manage, re-engineer and improve the efficiency of the business operations.

Last year, we undertook a major review of our corporate strategy to ensure that we are well positioned for the future. The output of this review was a five-year strategic plan, Direction 2007, to deliver significant growth and focus on the customer as the centre of value creation, building on the modernisation of the business.

In the light of the success of the first year, and the exciting plans we have for the future, the overall strategic intent has been reviewed and updated. We originally aimed to grow total financing by £10 billion over five years, a figure which has now been increased to £15 billion. Adding incremental Value Added is key to delivering against our value-based objective and we aim to deliver a total of £1.3 billion Value Added over the five-year period.

Our 2004-05 goals include: increasing the pace of delivery; raising £2 billion of net financing; creating incremental Value Added; continuing to focus on creating an impact in the marketplace; accelerating the organisation's ability to support the drive for growth; and extending the long-term relationship with Siemens Business Services.

Direction 2007 touches on all areas of the business and is built around six strategic themes supported by underlying business objectives:

### **Customer value**

Focusing on the most valuable segments, enhancing customer data and knowledge and developing genuine relationships through listening and talking to customers.

### **Product portfolio**

Refreshing and enhancing the existing product portfolio, including new product initiatives where market opportunities exist.

### **Sales capability**

Building an integrated multi-channel platform, by developing direct channels and the Post Office in line with customer preferences, and the introduction of complementary distribution partners.

### **Operational efficiency**

Supporting Siemens Business Services' delivery of an efficient and effective operations business combined with operational cost reductions and business growth.

### **Partnership agenda**

Continuing to work closely with Siemens Business Services to align their strategy to the growth agenda, while retaining Post Office support during the development of low-cost direct channels.

### **Leadership and people**

Continuing to develop the organisational culture, making it more customer-focused and encouraging team working across the business as a whole. At the same time developing individual skills and capabilities and refining structure and governance, performance and reward.

### **Highlights of our 2004-05 Corporate Plan**

Our plans for 2004-05 maintain the pace of change we set last year. They ensure we remain competitive while continuing to provide cost-effective financing for the Government, in line with HM Treasury requirements.

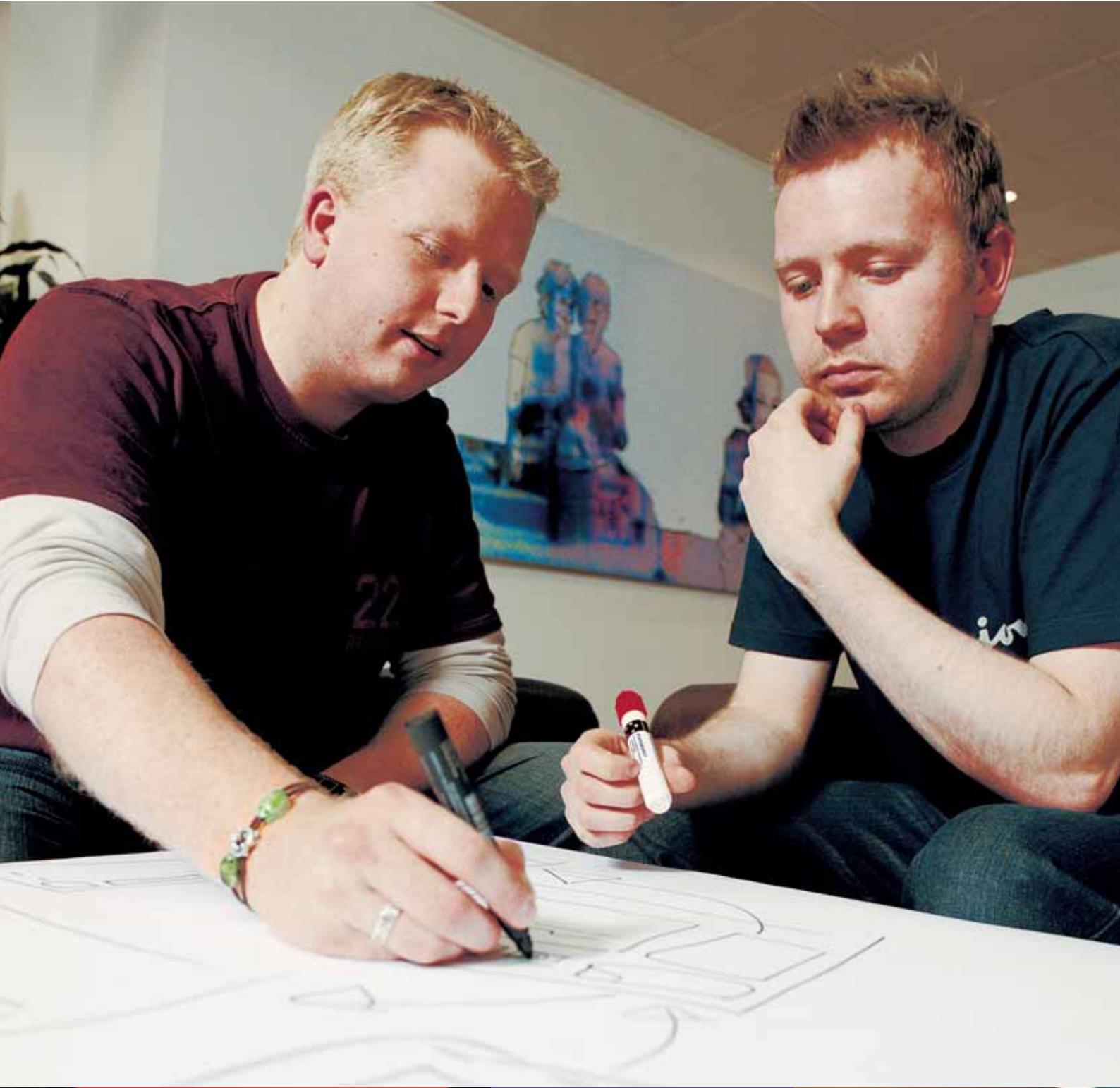
We will be safeguarding the rights and trust of our customers by implementing the Direct Marketing Directive, improving the evidence of identity process, developing customer registration and authentication processes and introducing and monitoring a new customer feedback/complaints process which meets the industry's best practice standards.

And we also want to further improve customer access and customer service levels by developing the capacity of the call centres, updating and developing the National Savings and Investments website and looking at how products still on the old IT system can be moved on to the new technology platform, thereby increasing the versatility of the services available to customers.

On the product side, we need to successfully manage customer expectations as the Ordinary Account is closed, develop extra features for Premium Bonds to add greater customer appeal, and increase the functionality of the new EASA account to give customers additional benefits.

Fortunately we have a growing sense of common commercial goals with our partners – Siemens Business Services and the Post Office – which make all those challenging objectives stretching but realistic.





The growth of the internet, with its 100% increase in sales, has prompted us to start looking at how it can be further improved, made easier to use and even more attractive to customers.



## Defining our business... refining our products

We are committed to keeping our range of products under review so that we continue to meet the changing needs of our customers. We have tax-free investments for taxpayers, gross-paying investments for non-taxpayers, and savings accounts for all ages.

### Premium Bonds

**£1 million jackpot and hundreds of thousands of other prizes every month**

Your chance to become a millionaire overnight! There are a million prizes in September 2004 – including a £1 million jackpot. And all prizes are tax-free. You can invest between £100 and £30,000 and get your money back whenever you choose with no notice and no penalty.

### Index-linked Savings Certificates

**Beat inflation, tax-free**

Ideal if you want to be sure of protecting your money against inflation, tax-free. The value of the Certificates moves in line with the Retail Price Index – a commonly used measure of inflation – as well as earning interest at guaranteed rates. There is a choice of terms on offer, currently three or five years. You can invest from £100 to £15,000 in each issue.

### Fixed Interest Savings Certificates

**Guaranteed returns, tax-free**

When you want to know at the outset exactly what return your money will earn. There is a choice of terms on offer, currently two or five years. You can invest from £100 to £15,000 in each issue. The return is tax-free.

### Guaranteed Equity Bonds

**Stock Market linked returns without risk**

This popular investment opportunity offers you the chance to benefit from the growth potential of the Stock Market without risking a penny of your investment. Even if the Stock Market falls, the capital will always be returned in full at the end of the five-year term because it is backed by HM Treasury. The minimum you can invest is £1,000, up to a maximum of £1 million. Guaranteed Equity Bonds are only available for limited periods.

### Income Bonds

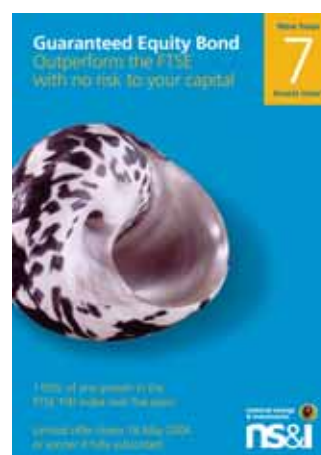
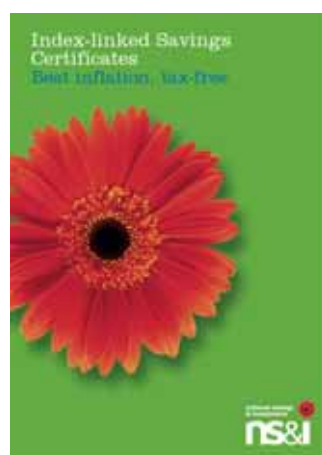
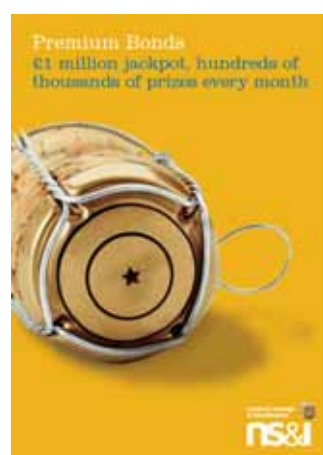
**Regular monthly income with tiered interest rates**

These pay you monthly income at variable rates of interest, with six weeks' notice of any change. Although the interest is taxable, it is paid gross. You can invest between £500 and £1 million. There is a higher rate of interest for investments of £25,000 and over.

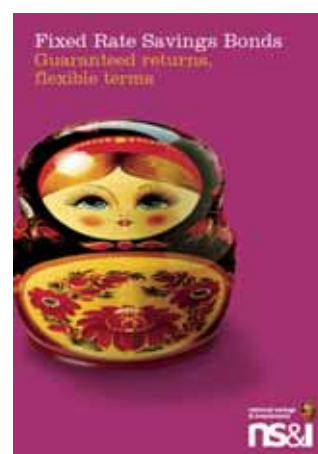
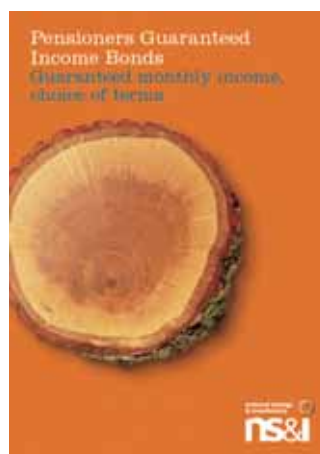
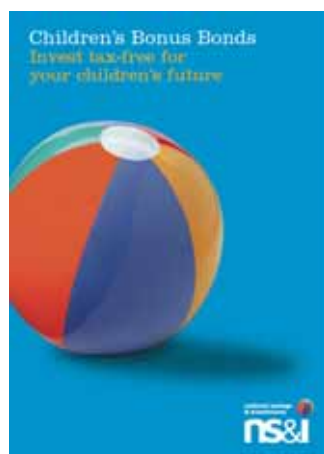
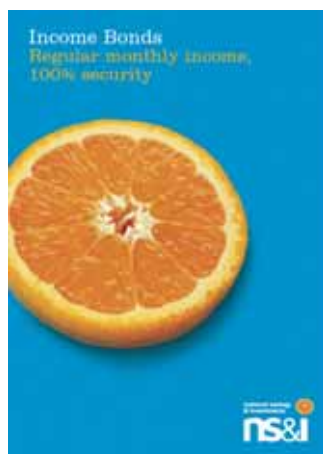
### Children's Bonus Bonds

**Invest tax-free for your child's future**

A child can earn interest at a rate fixed for five years at a time, with a guaranteed bonus every fifth anniversary. Bonds mature on their 21st birthday, when a final bonus is paid. They can be bought by anyone aged 16 or over for a child under 16. All interest and bonuses are tax-free, even if the child starts work and becomes a taxpayer before cashing in their Bond. You can invest from £25 to £1,000 in each issue.







### Easy Access Savings Account

#### The savings account that gives you more choice

Our new easy access account is a simple way to build up your savings. It comes with a cash card and a dedicated telephone service. You can use the card at any Post Office branch to pay in and take out money, and to check your balance. You can also withdraw cash and check your balance at any LINK cash machine, 24 hours a day. And with our telephone service you can make deposits by debit card and arrange larger withdrawals. To help you keep track of your savings you receive regular quarterly statements. The interest rates are tiered and variable, so the more you save the higher the rate. Although the interest is taxable, it is automatically paid gross. You can invest from £100 to £2 million.

### Pensioners Guaranteed Income Bonds

#### Guaranteed monthly income with a choice of terms for the over 60s

Specially designed for you if you're aged 60 or over, these pay monthly income at a guaranteed rate. There is a choice of terms on offer, currently one, two or five years. Although the interest is taxable, it is automatically paid gross. You can invest from £500 to £1 million.

### Capital Bonds

#### Fixed rates that rise over five years

You have the security of knowing exactly what you will be paid when your Bond matures. The rates of interest are guaranteed over five years. Although the interest is taxable each year, it is added to your Bond gross. You can invest from £100 to £1 million.

### Fixed Rate Savings Bonds

#### Guaranteed returns, flexible terms

Gives you the certainty of knowing exactly what return you will get on your money. The Bond is a lump sum investment that earns guaranteed rates of interest, with a choice of reinvesting interest to grow your investment or receiving an income – either annually or monthly. There is also a choice of terms on offer, currently one, three or five years. Interest is paid net and you can invest from £500 to £1 million.

### Investment Account

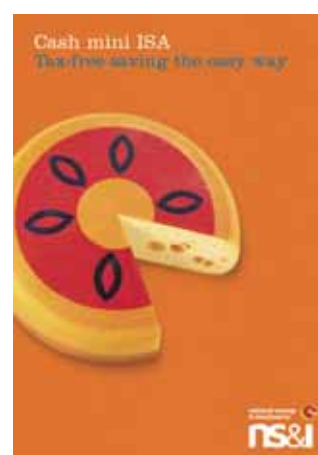
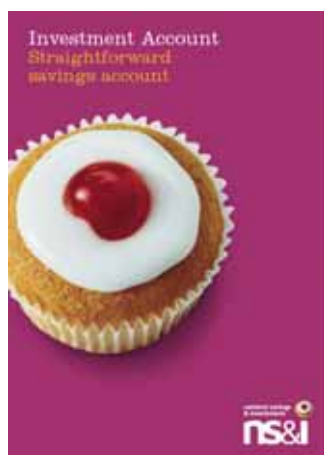
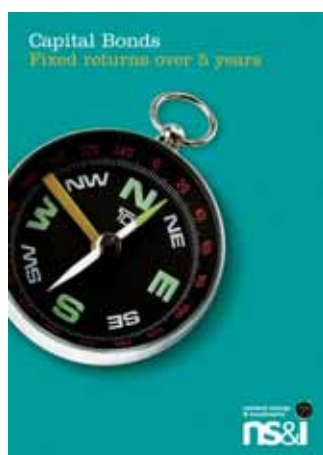
#### Passbook savings account

This is a one month notice savings account which offers you variable tiered rates of interest and a passbook. Deposits can be made at Post Office branches or by post. You can also use this account for regular savings by standing order from a bank or building society account. Although the interest is taxable, it is paid gross. The minimum for each deposit is £20 and you can save up to £100,000.

### Cash mini ISA

#### Tax-free saving the easy way

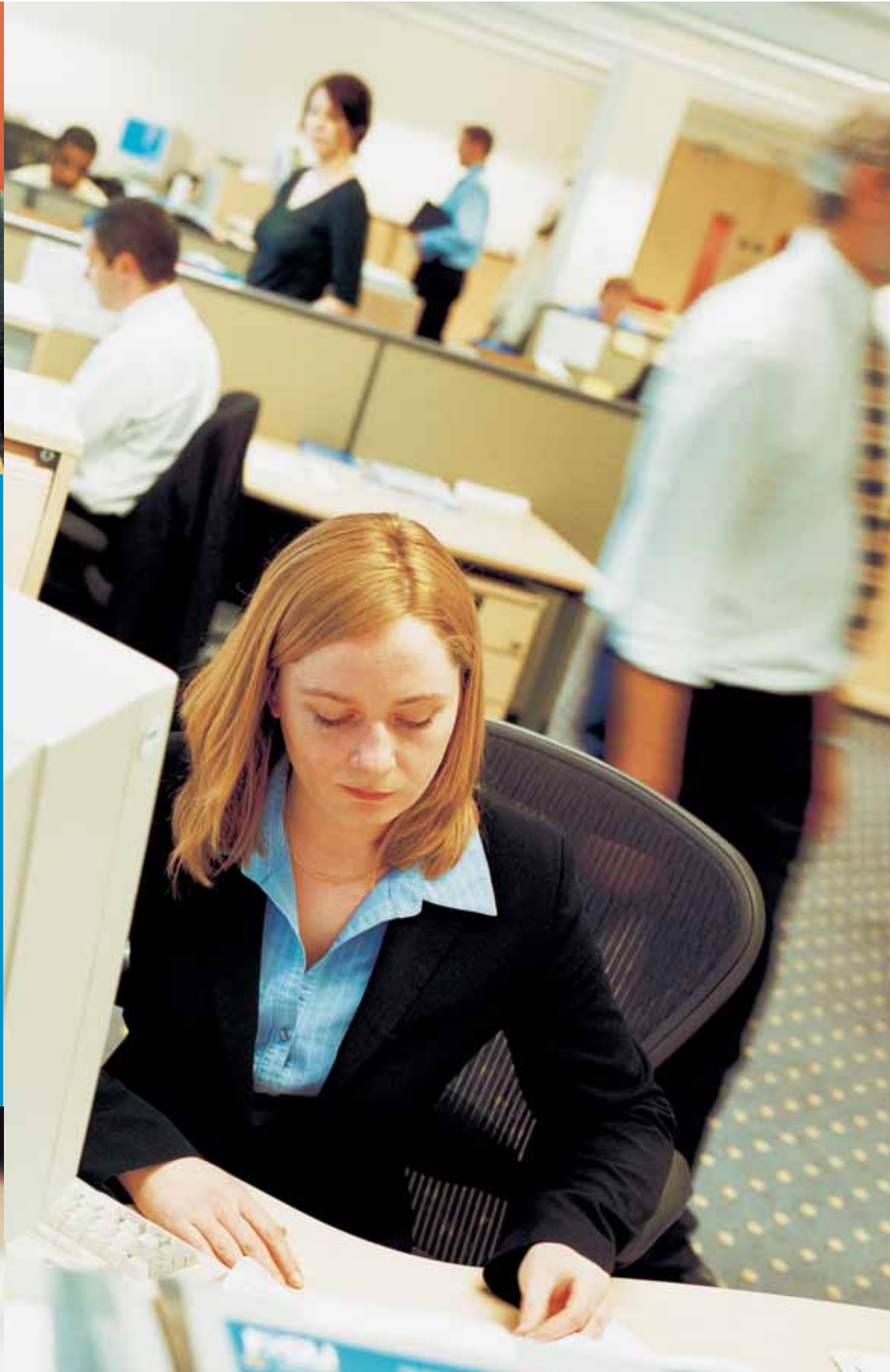
Our Cash mini ISA is a straightforward tax-free savings account offering you a competitive variable rate of interest. It fully meets the Government's CAT standards, which means no Charges, easy Access and fair Terms. Our Cash mini ISA can be opened with just £10 and you can invest up to £3,000 each tax year until 2005-06.







Investing in people's working environment – creating space for the new Sales team and facilities for communication – helps make us more productive and reaffirms our belief that our people are the reason for our continued success.



## Summary of unaudited product figures

The resource accounts on pages 31-61 only cover the administration of National Savings and Investments. Separate accounts are produced for our products and will be published later in the year. A summary of the unaudited product figures is provided below.

### Transactions and funds invested by product (unaudited)

Product	Unaudited Received from investors	Unaudited Interest and prizes earned	Unaudited Paid to investors including tax deducted at source	Unaudited Invested at 31 March 2004	Audited Invested at 31 March 2003
	£'m	£'m	£'m	£'m	£'m
Premium Bonds	7,497	495	(3,452)	24,252	19,712
Fixed rate products	2,620	886	(4,026)	23,639	24,159
Variable rate products	2,594	535	(3,648)	18,305	18,824
Products no longer on sale	–	10	(77)	335	402
<b>TOTAL</b>	<b>12,711</b>	<b>1,926</b>	<b>(11,203)</b>	<b>66,531</b>	<b>63,097</b>

### Transactions with investors (unaudited)

	Unaudited 2003-04	Audited 2002-03
	£'m	£'m
Received from investors	12,711	11,248
Interest and prizes earned	1,926	2,087
	14,637	13,335
Paid to investors	(11,196)	(12,548)
Tax deducted on interest	(7)	(8)
	(11,203)	
Increase/(decrease) in liability to investors	3,434	779
Funds invested at the beginning of the year	63,097	62,318
Funds invested at the end of the year	66,531	63,097

## Stepping forward to progress

The following tables show our performance against our published targets, as reported in previous annual reports. We also show our current and future goals, objectives, performance measures and targets.

The target tables for 2001-02 and 2002-03 show our performance against published targets. Opposite: the table for 2003-04 summarises our objectives, targets, measures and performance for the last year and the table for future targets shows our goals, objectives and performance measures for 2004-05.

To work effectively, the targets we set ourselves have to be

stretching but achievable. As a result, the targets which we have set for 2004-05 recognise the fact that there were one-off events, like the increased maximum holding for Premium Bonds, in 2003-04 which we will not be able to repeat. So the future goals reflect how this will effect what can realistically be achieved in the coming year.

### Targets 2001-02

<b>Financing remit</b>	
to work within the terms of the financing remit	<b>Met</b>
<b>Efficiency</b>	
to establish an indexed supplier transactions costs measure	<b>Met</b>
<b>Customer service</b>	
to show a measured annual improvement in comparative benchmarked levels of service	<b>Met</b>
to improve specified timeliness of targets by an average of 5% a year until 2004	<b>Met</b>
<b>Milestone targets</b>	
to implement 24x7x365 telephony service by December 2001	<b>Met</b>
to implement an electronic transaction option for all investment products by 31 December 2002	<b>On target</b>
to introduce effective benchmarks for all access channels as they come on-line	<b>No new channels established</b>

### Targets 2002-03

<b>Financing remit</b>	
to work within the terms of the financing remit	<b>Met</b>
<b>Efficiency</b>	
to establish an indexed supplier transactions costs measure	<b>Met</b>
to review business performance measures	<b>Partly met<sup>1</sup></b>
<b>Customer service</b>	
to show a measured annual improvement in comparative benchmarked levels of service	<b>Met</b>
to improve specified timeliness of targets by an average of 5% a year until 2004	<b>Met</b>
<b>Milestone targets</b>	
to implement 24x7x365 telephony service by December 2001	<b>Met</b>
to implement an electronic transaction option for all investment products by 31 December 2002	<b>Partly met<sup>2</sup></b>
to introduce effective benchmarks for all access channels as they come on-line	<b>Met</b>

Notes:

1. An interim review of business performance reporting formats was undertaken in 2002-03 while awaiting the completion of the strategy review and a more comprehensive assessment of performance measures.

2. Our website enables customers to download application forms for all products and during 2002-03 online sales functionality was added for all products on the single banking system, except Guaranteed Equity Bonds and Capital Bonds (which were only transferred onto the single banking system in the final quarter of the year). The business case for providing an electronic transaction option for these products will be assessed in due course.



## Targets 2003-04

Goals	Objectives	Performance measures	Targets	Performance
<b>1. To achieve the financing remit and improve efficiency</b>	To create at least an agreed amount of Value Added	Absolute amount of Value Added from NS&I products, excluding Index-linked Savings Certificate Extension Terms	At least £175m	<b>Met</b>
	To raise an amount of net financing within an agreed range	Absolute amount of net financing from all NS&I products	£1.5bn (+/- £1.5bn) Revised remit £3.0bn (+/- £1.5bn)	<b>Met</b>
	To invest in capability and subsequently return the efficiency of administering total funds to the level achieved in 2002-03	Ratio of total NS&I administrative costs to average funds invested by customers	Less than 30 basis points	<b>Met</b>
<b>2. To improve the effectiveness of fraud management</b>	To minimise the proportion of fraud resulting in actual loss	Ratio of net fraud losses after blame assessment to total fraud detected	Less than 25%	<b>Met</b>
<b>3. To improve our accessibility for customers</b>	To increase the proportion of customer interactions with NS&I <i>capable</i> of being carried out via non-paper based means	Ratio of the number of customer initiated transactions <i>capable</i> of being carried out via non-paper based means to the total number of customer transactions	At least 60%	<b>Met</b>
	To increase the percentage of customer interactions with NS&I <i>actually</i> carried out via non-paper based means	Ratio of the number of customer initiated transactions <i>actually</i> carried out via non-paper based means to the total number of customer transactions	At least 20%	<b>Met</b>
<b>4. To maintain the current high levels of customer service and satisfaction</b>	To achieve consistent accuracy in meeting increasingly challenging targets	Average performance against Accuracy Key Performance Indicator targets	At least 98.5%	<b>Met</b>
	To achieve consistent timeliness in meeting increasingly challenging targets	Average performance against Timeliness Key Performance Indicator targets	At least 96%	<b>Met</b>
	To establish and then exceed a threshold level of customer satisfaction with NS&I	New measure to be established during 2003-04	Establish new measure	<b>Met</b>

## Future targets 2004-05

Goals	Objectives	Performance Measures	Targets
<b>1. To achieve the financing remit and improve efficiency</b>	To create at least an agreed amount of Value Added	Absolute amount of (delagged) Value Added from NS&I products, excluding Index-linked Savings Certificate Extension Terms	Confidential
	To raise an amount of net financing within an agreed range	Absolute amount of net financing from all NS&I products	£2.0bn (+/- £1.0bn)
	To invest in capability and subsequently return the efficiency of administering total funds to the level achieved in 2002-03	Ratio of total NS&I administrative costs to average funds invested by customers	Less than 30 basis points
<b>2. To improve the effectiveness of fraud management</b>	To minimise the proportion of fraud resulting in actual loss	Ratio of net fraud losses after blame assessment to total fraud detected	Less than 25%
<b>3. To improve the accessibility of NS&amp;I for customers</b>	To increase the proportion of customer interactions with NS&I <i>capable</i> of being carried out via non-paper based means	Ratio of the number of customer initiated transactions <i>capable</i> of being carried out via non-paper based means to the total number of customer transactions	At least 70%
	To increase the percentage of customer interactions with NS&I <i>actually</i> carried out via non-paper based means	Ratio of the number of customer initiated transactions <i>actually</i> carried out via non-paper based means to the total number of customer transactions	At least 28%
<b>4. To maintain the current high levels of customer service and satisfaction</b>	To achieve consistent accuracy in meeting increasingly challenging targets	Average performance against Accuracy Key Performance Indicator targets	At least 98.5%
	To achieve consistent timeliness in meeting increasingly challenging targets	Average performance against Timeliness Key Performance Indicator targets	At least 96%
	To establish and then exceed a threshold level of customer satisfaction with NS&I	Average level of satisfaction against question, "How satisfied are you overall in terms of savings and investments with NS&I?"	At least 80%

## Maintaining a strong position

**Overall, the market conditions have continued to favour National Savings and Investments as, even though the market was more stable, world events and financial uncertainty have meant savers and investors were attracted to safety and security combined with fair returns.**

The past year has seen dramatic changes in the savings and investments market, with the Bank of England base rate finally starting to rise after reaching a 40 year low. This has been good news for savers. Share prices have also climbed, fuelled by the return of private investors.

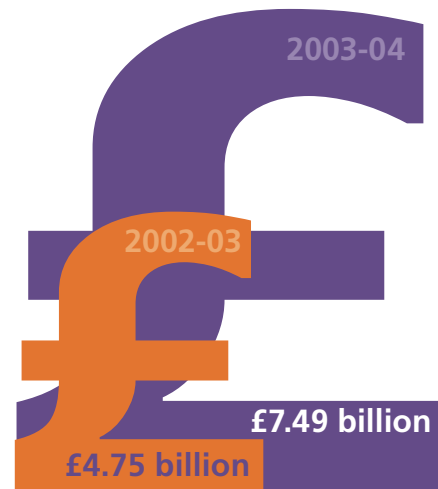
The upturn follows a difficult three years where increasingly easy access to consumer credit, a continuing housing boom and numerous pensions and endowment failures combined to deter many people from investing in traditional savings vehicles.

Many high street banks and building societies have recently posted record profits, largely thanks to successful organisational streamlining and outsourcing. The top four

*National Savings and Investments' new Easy Access Savings Account offers attractive interest rates, greater access and increased convenience.*

high street banks use their current account bases very effectively to cross-sell additional or new products. Now, albeit largely due to customer inertia, they account for over half of the deposit market, despite smaller deposit account providers offering leading rates.

Competition within the savings and investments market has increased, with interest rates now an increasingly consistent feature in attracting new



### Premium Bonds sales

customers. National Savings and Investments has responded by increasing the limit on the maximum holding of Premium Bonds to £30,000, resulting in an uplift in sales to £7.49 billion. It also launched its new Easy Access Savings Account, offering attractive interest rates, greater access and increased convenience.

The banks and building societies have also been focusing on customer retention, moving away from remote, impersonal service towards more direct customer contact.

### Brighter future prospects

Although consumers and institutions are adopting a more confident outlook on future prospects, the Stock Market still remains unpredictable over the short term, ensuring that capital secure index-linked products continue to grow in popularity – including National Savings and Investments Guaranteed Equity Bonds, which are linked to the FTSE-100 index, and Index-linked Savings Certificates, which are tied to the Retail Price Index.

There are many influences on people's propensity to save, some of which are outside the control of savings providers. A number of planned Government and Financial Services Authority initiatives aim to stimulate more simplified products and better understanding, encouraging consumers to invest with confidence.

### SUCCESSES

- Favourable media coverage has shown a marked improvement, with NS&I rising to top position in the savings league tables
- Record sales of £1.2 billion were directly attributed to our marketing communications campaigns





The media team work closely with the Chief Executive and are instrumental in building a higher profile and a more positive image for the business, which are vital for its future growth.









## New people at the top

There have been many changes to the Board during 2003-04, including the two newly-created posts of Human Resources Director and Sales Director and two new faces from HM Treasury.

### **Sandra Postles** (top row, left)

Sandra Postles was appointed Human Resources Director in July 2003. An English graduate with a Degree in Education from Reading University, Sandra is also a member of the Chartered Institute of Personnel Management. She began her career as a teacher and moved into Human Resources, after three years. Sandra held senior Human Resources roles in both the retail and financial services sectors, including Personnel Director for a major UK accountancy practice, before moving into management consultancy in 1998.

She joined National Savings and Investments in November 2001, became Head of Human Resources in August 2002 and now holds the newly-created position of Human Resources Director, reporting to the Chief Executive. She is working to align the Human Resources strategy more closely with the organisation's overall business strategy.

### **John Prout** (top row, right)

John Prout took up the role of Sales Director at National Savings and Investments on 4 August 2003. He has wide-ranging human resources and sales senior management experience in both the financial services and manufacturing sector, having held a number of senior positions at Parker Hannifin and Rover Group before moving on to Prudential plc from 1987 to 2001.

A graduate of Leeds University, and with a Diploma in Business Performance Coaching, he most recently ran his own consultancy business specialising in marketing services to the financial services sector, including sales management and senior team development.

### **Paul Spencer** (middle row, left)

Paul Spencer joined National Savings and Investments as a non-executive Director and is highly experienced in the insurance and financial services fields, having sat on Audit Committees and worked on numerous governance, risk and remuneration issues.

Most recently he is Chairman of State Street Managed Pension Funds and the Association of Corporate Treasurers Advisory Board, having moved from the Royal and Sun Alliance Company where he was UK Chief Executive from 1998 until 2002. A graduate of Greenwich University, he began his career in his great grandfather's investment bank before going on to work as an investment manager for ICI's pension fund.

This led to his working in treasury, in a new field for the next 20 years at a motor company and an aero engine company, then at Hanson during its time of expansion. He moved to become the Group Finance Director of Royal Insurance in 1996, and guided the company through its merger with Sun Alliance, becoming Chief Executive of the UK merged company in 1998.

### **Michael Medlicott** (middle row, right)

Michael Medlicott joined National Savings and Investments as a non-executive Director, having spent five years working with Nomura International plc, the overseas arm of Japan's leading investment bank. Here he held a number of senior positions including Transaction Director, responsible for leading and supporting major transactions in the mergers and acquisitions activity of Nomura's private equity group.

Prior to this he was international Vice President of Delta Airlines, responsible for both the Atlantic and Pacific business units, with a total turnover of US\$2.5 billion.

An Oxford University graduate in Modern Languages, he is currently a non-executive Director of Manchester Airport Group plc and has been CEO of the British Tourist Authority as well as Director of a number of companies including P&O Cruises Ltd, the London Tourist Board and Gatwick Handling International Ltd.

### **Allison Holland** (bottom row, left)

Allison Holland is Head of Debt & Reserves Management Team at HM Treasury, where her responsibilities include overseeing Government policy on the management of Central Government Financial Assets and Liabilities, and managing HM Treasury's shareholder interest in the Bank of England.

She also ensures that value for money is achieved in coin and bank note production and is the policy sponsor for National Savings and Investments and the UK Debt Management Office.

Allison worked at Citibank in Dublin, then gained a Masters in Econometrics and Mathematical Economics from the London School of Economics before moving to the Bank of England as an Economist.

### **Sue Owen** (bottom row, right)

Sue Owen is a Director in charge of European Monetary Union Policy, Euro Preparations and Debt Management at HM Treasury, where she has worked in a variety of posts covering the Budget, economic forecast, the labour market and Europe. She has also worked on family policy at the Number 10 Policy Unit and for the Foreign Office as Economic Counsellor in Washington.

She is an economist, with degrees from Cambridge and Cardiff Universities.

### **A big 'thank you'**

Following the various Board changes we would like to pay tribute to the members of the Board who have left, for all their hard work and extensive contribution to the growing success of the organisation.

We would like to thank the non-executive Directors James Turner and Judy Lowe, who have helped steer National Savings and Investments through a period of sustained change over the last six years. James and Judy left in August 2003 following the completion of their maximum two terms of appointment. We would also like to thank HM Treasury representatives Paul Mills and Stephen Evans who have moved on to other roles within the Treasury and wish them good fortune in their future careers.

## Members of the National Savings and Investments Board



**Alan Cook**  
**Chief Executive**  
Director of Savings and Department  
Accounting Officer  
Appointed September 2002.



**Richard Wright**  
**Non-executive Chairman of  
the Board**  
Appointed January 2002.



**Trevor Bayley**  
**Deputy Chief Executive and Finance Director**  
Responsible for the relationship with HM Treasury,  
accounting, planning, project management,  
budgeting, compliance, audit, risk management,  
management information and product pricing.  
Appointed June 2001.



**Maria Stafford**  
**Non-executive Director**  
Appointed January 2002.



**Gill Cattnach**  
**Marketing Director**  
Responsible for delivery of the customer offer,  
product development, marketing and  
communications, market planning and research.  
Appointed November 2000.



**Michael Medlicott**  
**Non-executive Director**  
Appointed September 2003.



**Steve Owen**  
**Partnerships and Operations Director**  
Responsible for managing customer service and  
key relationships with Siemens Business Services  
and contracts with Post Office Limited and  
other suppliers.  
Appointed February 2002.



**Paul Spencer**  
**Non-executive Director**  
Appointed September 2003.



**Sandra Postles**  
**Human Resources Director**  
Responsible for aligning the Human Resources  
strategy with the overall business strategy for  
National Savings and Investments.  
Appointed July 2003.



**Sue Owen**  
**Director of EMU Policy,  
Euro Preparations and  
Debt Management**  
HM Treasury  
Appointed July 2003.



**John Prout**  
**Sales Director**  
Responsible for managing and developing the  
mix of distribution channels that will deliver our  
required sales and cost targets.  
Appointed August 2003.



**Allison Holland**  
**Head of Debt & Reserves  
Management Team**  
HM Treasury  
Appointed May 2003.



# Accounts

2003-04



## Foreword to the Accounts

### Statutory background

The Department for National Savings was established in 1969, having previously been part of the Post Office. Continuing as a government department, National Savings was also established as an Executive Agency of the Chancellor of the Exchequer on 1 July 1996. As part of our business transformation programme National Savings launched its new name and corporate identity in February 2002 and is now known as 'National Savings and Investments'.

National Savings and Investments administration costs are funded by Parliamentary Vote. Interest costs on National Savings and Investments products are part of the total cost of servicing the National Debt. These costs are a charge on the National Loans Fund (NLF) and do not feature in these resource accounts. HM Treasury is responsible for the operation of the NLF.

The accounts have been prepared in accordance with a Treasury accounts direction in pursuance of section 5 (2) of the Government Resources and Accounts Act 2000.

### Aims and objectives

The Agency's aim is to help reduce the cost to the taxpayer of government borrowing now and in the future. To achieve this National Savings and Investments' strategic objective is to provide retail funds for the Government that are cost effective in relation to funds raised on the wholesale market. Further details are set out in the National Savings & Investments' *Framework Document* (2000). The administrative cost of delivering National Savings and Investments objective during 2003-2004 is shown in schedule 5 of these accounts.

In pursuit of its objective, financing through National Savings and Investments in 2003-2004 was at a cost competitive with equivalent financing through gilt-edged stock and Treasury Bills. Sales, deposits, interest and prizes earned on National Savings and Investments' products during the period totalled £14.6 billion and withdrawals and interest paid totalled £11.2 billion; and there was a net increase over the year of £3.4 billion in the overall level of financing provided by National Savings and Investments to the Government. Further details of the Agency's performance targets and a review of the Agency's performance against these targets will be included in the Annual Report.

### Principal activity

National Savings and Investments' principal activity is financing a part of the National Debt by selling savings and investments products to the public. This involves designing and promoting the sale of products to customers, collecting and repaying money invested by customers, maintaining customer records and dealing with correspondence and enquiries.

### Important events occurring since the year end

There have been no significant events since the end of the financial year which would affect the results for the year.

### Matters covered in the Departmental Report

The National Savings and Investments Departmental Report contains the department's expenditure plans for 2005-06, and the main estimates for 2004-05. The report provides details of National Savings and Investments' objectives and Service Delivery Agreement (SDA) targets and its achievements and plans in respect of the modernising government agenda. It also provides details of recruitment practice, public appointments and senior civil service salaries. The report was published in April 2004.

### Pension liabilities

The majority of present and past employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS).

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme but National Savings and Investments is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out as at 31 March 2003. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation ([www.civilservice-pensions.gov.uk](http://www.civilservice-pensions.gov.uk)).

For 2003-04, employers contributions of £695,725 were payable to the PCSPS (2002-03 £690,044) at one of four rates in the range 12% to 18.5% of pensionable pay, based on salary bands. The scheme's Actuary reviews employer contributions every four years following a full scheme valuation. Rates will remain the same next year, subject to revalorisation of the salary bands, but will increase from 2005-06. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

Employees joining after 1 October 2002 could opt to open a partnership pension account, a stakeholder pension with an employee contribution. Employers' contributions of £4,783 were paid to one or more of a four appointed panel of stakeholder pension providers. Employers' contributions are age-related and range from 3% to 12.5% of pensionable pay. In addition, employer contributions of £360, 0.8% of pensionable pay, were payable to the PCSPS to cover the cost of the future lump sum benefits on death in service and ill health retirement of these employees. Contributions due to the pension providers at the balance sheet date were £417. Contributions prepaid at that date were £Nil.

The department is required to meet the additional cost of benefits beyond the normal PCSPS benefits in respect of employees who retire early unless the retirement is on approved medical grounds. The department provides for this cost when it has entered into contractual arrangements with the early retirees and creates a corresponding provision for its future payments in the balance sheet.

### Payment of suppliers

National Savings and Investments is committed to a policy of prompt payment and is a signatory to the Better Payment Practice Code. We endeavour to pay all suppliers within 30 days of acceptance of the relevant goods and services or the receipt of a legitimate invoice if that is later. Payment terms are agreed with suppliers when purchasing goods and services and National Savings and Investments representatives alert suppliers to the department's standard payment terms.

During the year 92.1% of bills were paid within this standard.

### Disabled employees

National Savings and Investments qualified as a user of the 'Positive about Disabled People' (Two Ticks) symbol in 1996. The department continues to meet the required five commitments to action. These are:

- to interview all candidates with a disability who meet the minimum criteria for a job vacancy and consider them on their abilities
- to ask disabled employees at least annually what can be done to make sure they develop and use their abilities at work
- to make every effort when employees become disabled to keep them in employment
- to take action to ensure that key employees develop the awareness of disability needed to make these commitments work
- to review these commitments annually, plan to improve them, and to inform all employees of progress and future plans.

The application and impact of National Savings and Investments' employment policies, practices and procedures, including those covering recruitment, promotion and performance appraisal, are monitored to ensure equality of opportunity for our disabled staff. The department also provides any special equipment or assistance required by disabled staff to help them perform their job.

### Equal opportunities

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

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

### Recruitment monitoring

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

National Savings and Investments recruitment campaign files are independently audited annually through a reciprocal agreement with The Office of the Rail Regulator (a Civil Service Commissioners requirement). This includes comparing CV's to the selection criteria and reviewing diversity breakdowns to ensure the selection criteria was fair and robustly applied. Recruitment campaign files can be inspected at any time by the Civil Service Commissioners. Files are kept for 12 months to comply with this requirement. National Savings and Investments has a monitoring system in place to ensure that recruitment is carried out on a basis of fair and open competition and selection on merit in accordance with the guidelines laid down by the Civil Service Commissioners and is subject to internal and external audit.

During 2003-2004 there were a total of 24 appointments which are summarised in the table below. There were no permitted exceptions to the recruitment principle of fair and open competition. At 1 April 2004 more than 10% of staff were from an ethnic minority background and 2% were people with disabilities.

	Non Executive Directors	Senior Civil Servants	Range A	Range B	Range C	Range D
Male	2	1	4	5	2	1
Female	0	0	1	4	3	1
White	2	1	5	9	5	2
Non white	0	0	0	0	0	0
Disabled	0	0	0	0	0	0

Staff do not have to disclose ethnicity or disability information, reflected in the figures above.

## Audit

These accounts have been audited by the Comptroller and Auditor General whose Certificate and Report appear on page 39.

## Audit committee

The audit committee of National Savings and Investments meets quarterly and is chaired by Paul Spencer one of the department's non-executive directors, who assumed the role on James Turner's retirement from the board at the end of August 2003. In addition to the chairman, membership of the audit committee during 2003-2004 comprised Maria Stafford, another of the non-executive directors, for the period 1 April to 31 August 2003; Michael Medlicott, also a non-executive director, from 1 September 2003; David Curtis, a member of HM Treasury's Debt and Reserves Management team; the Chief Executive and the Finance Director. The other executive directors have a standing invitation to attend as does the Agency's Head of Internal Audit, HM Treasury Exchequer Funds and Accounts, the National Audit Office. Siemens Business Services also have standing invitations and are normally represented at all meetings. The other non-executive directors may attend meetings if they so choose.

## Ministerial responsibility

National Savings and Investments is an Executive Agency of the Chancellor of the Exchequer. The Government minister with portfolio for National Savings and Investments is the Financial Secretary to the Treasury (FST). During the accounting period the position of FST was held by Ruth Kelly M.P. The ministerial salary of the FST is not met by National Savings and Investments. Details of the minister's salary and pension entitlements are shown in the Treasury's 2003-2004 Resource Accounts.

## Board members

Membership of the National Savings and Investments Board during the financial year 2003-2004 and subsequently up to the date of preparation of these accounts comprised:

### Non-executive Directors:

Richard Wright	Non-executive Chairman of the Board
Judy Lowe	
Michael Medlicott	
Maria Stafford	
James Turner	
Paul Spencer	

### Executive Directors:

Alan Cook	Chief Executive; Accounting Officer and Director of Savings
Trevor Bayley	Finance Director
Gill Cattnach	Marketing Director
Steve Owen	Partnerships and Operations Director
Sandra Postles	Human Resources Director
John Prout	Sales Director

### Representatives of HM Treasury:

Sue Owen	Director EMU Policy, Euro Preparations and Debt Management
Allison Holland	Debt and Reserves Management Team Leader

## Board changes

John Prout was appointed Sales Director in August 2003. Sandra Postles was appointed to the post of Human Resources Director in July 2003.

Michael Medlicott and Paul Spencer were appointed Non-Executive Directors in September 2003. Judy Lowe and James Turner left their positions as Non-Executive Directors following completion of their terms in office in August 2003.

Treasury representatives serve on the Board because of their individual roles within HM Treasury. Paul Mills and Stephen Evans moved to new jobs within the Treasury, and were replaced by Allison Holland and Sue Owen in May and July respectively.



## Board appointments

All executive board members, including the Chief Executive, were appointed, where applicable, in accordance with the Civil Service Commissioners' Recruitment Code. Each member of the board has a personal contract which stipulates the procedures for termination in accordance with the National Savings and Investments Management Code. Non-executive members of the board are appointed by the Chancellor of the Exchequer and contracted by the Director of Savings.

The current members of the board are contracted to National Savings and Investments until the following dates:

Alan Cook	– until September 2007
Trevor Bayley	– until June 2006
Maria Stafford	– until December 2004
Richard Wright	– until December 2004
Michael Medlicott	– until August 2006
Paul Spencer	– until August 2006

Gill Cattnach, Steve Owen, Sandra Postles and John Prout are permanent members of the Senior Civil Service.

## HM Treasury Representatives

Sue Owen  
Allison Holland

## Remuneration of the Board members

The remuneration arrangements of the Chief Executive and executive members of the National Savings and Investments Board contain variable elements and are designed to attract and retain the skills and experience required at this level and to incentivise high levels of performance without adding excessively to fixed costs.

With the exception of the Chief Executive, whose remuneration is determined by the Treasury, executive Board members' pay awards and bonuses were determined by the National Savings and Investments Appointments and Remuneration Committee with reference to the guidelines laid down by the Cabinet Office on the basis of the Senior Salaries Review Body Report (2003). Salaries are adjusted on the basis of performance.

## Membership of the National Savings and Investments Appointments and Remuneration Committee is as follows:

Chairman	– Judy Lowe (to August 31 2003) – Maria Stafford (from September 1 2003)
Advisor	– Tim Wilson (Head of Reward, Lloyds TSB Bank Plc)
Members	– Alan Cook – Sandra Postles (from November 2003) – Richard Wright
Secretary	– Sean Corr

Non-executive members' remuneration is set by the Treasury.

Under the Chief Executive's contract, provided performance is satisfactory, his salary is adjusted by the Treasury, with reference to the annual increase in salary bands for Senior Civil Servants laid down by the Cabinet Office in accordance with the Senior Salaries Review Body Report. The position of Chief Executive can qualify for a performance bonus dependent on the achievement of targets set by the Treasury.

Note 2 of the accounts provide details of Board members' remuneration.



Alan Cook  
Chief Executive  
National Savings and Investments

15 July 2004

## Statement of Accounting Officer's responsibilities

Under the Government Resources and Accounts Act 2000, the department is required to prepare resource accounts for each financial year, in conformity with a Treasury direction, detailing the resources acquired, held, or disposed of during the year and the use of resources by the department during the year.

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

HM Treasury has appointed the Chief Executive of the Department as Accounting Officer of the department with responsibility for preparing the department's accounts and for transmitting them to the Comptroller and Auditor General.

In preparing the accounts, the Accounting Officer is required to comply with the *Resource Accounting Manual* prepared by HM Treasury, and in particular to:

- observe 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 *Resource Accounting Manual*, have been followed, and disclose and explain any material departures in the accounts;
- prepare the accounts on a going-concern basis.

The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which an Accounting Officer is answerable, for keeping proper records and for safeguarding the Department's assets, are set out in the Accounting Officers' Memorandum issued by the Treasury and published in *Government Accounting*.

The Accounting Officer's responsibility for the keeping of proper records includes the responsibility for the maintenance, integrity and upkeep of the resource accounts on the National Savings and Investments website.

## Statement on the system of internal control

### 1. Scope of responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of National Savings and Investments' (NS&I's) policies, aims and objectives, set by the Financial Secretary to the Treasury, the Treasury Minister with prime responsibility for NS&I, whilst safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting. Although, as Accounting Officer, I retain sole responsibility for the system of internal control within NS&I, I am assisted in discharging this responsibility by the NS&I board, which, in addition to me and the other NS&I executive directors, comprises four independent non-executive directors and two representatives of HM Treasury, who provide the key assurance link back to Treasury Ministers.

The Minister, whilst maintaining accountability, has delegated day-to-day dealings with NS&I to HM Treasury's Debt and Reserves Management (DRM) team. The NS&I Board has assumed overall responsibility for monitoring the effectiveness of the Agency's risk management processes. In addition, my Finance Director and I have regular quarterly meetings with representatives of DRM to discuss progress of the business, including any major risks and a monthly performance report is sent to the Financial Secretary to the Treasury.

### 2. The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of departmental policies, aims and objectives. It enables management to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically to an overall level acceptable to NS&I. The system of internal control has been in place in NS&I for the year ended 31 March 2004 and up to the date of approval of the Annual Report and Accounts, and accords with Treasury guidance.

### 3. Capability to handle risk

NS&I has a risk management strategy, a risk management policy and agreed risk management reporting protocols which have been endorsed by the Board, the Audit Committee and me. This risk framework has been amended during the year to reflect changes agreed by the board to the processes and responsibilities for the management of risk within the agency.

The Board, including independent non-executive members, considers the plans and strategic direction of NS&I and provides advice and challenge to assist me in discharging my responsibility to manage risk across the whole of the NS&I business.

The risk management process is led by the Executive Management Team comprising the executive directors and the Siemens Business Services Director responsible for the NS&I account, who are responsible for implementation of the risk management strategy, for developing and overseeing the risk management policy, for identifying and evaluating strategic risks and designing, operating and monitoring a suitable system of internal control. The responsibility for the management of each key risk is assigned to an Executive Management Team member. As part of the process of embedding risk management within the agency, management of the sub-risks which support each of the key risks has been delegated to individual Business Unit Leaders, who, with two representatives from Siemens Business Services, collectively form the Senior Management Team.

An Audit Committee, chaired by an independent director, is responsible for providing assurance to the Board on the existence and effectiveness of the overall processes for managing risk within NS&I and within that part of Siemens Business Services concerned with NS&I business.

NS&I's business model means that we are critically reliant on our business partner Siemens Business Services for the delivery of our strategic objective. Consequently, we have established joint processes with Siemens Business Services to manage the partnership as one business. These include joint working between project offices, joint project teams and a Joint Audit and Risk Management Committee (JARMC). The JARMC updates the Audit Committee on the management of risks to the joint business.

Across the whole business, directors and operational managers are responsible for embedding risk identification and management within the design, documentation and operation of business processes, in line with agreed risk tolerances.

### 4. The risk process

An analysis of key risks and the consequent sub-risks has been established through workshops with the executive directors. With very few exceptions where sub-risks have been retained by the Directors, all sub-risks have been allocated to Business Unit Leaders. An organisation wide risk register is being maintained which records all significant risks identified, links lower level risks through to the key risks, records mitigating controls and named risk managers. The board reviews the key risks annually to ensure they remain valid and complete in the light of business plans for the coming year.

For each key and sub-risk identified, the assessment and scoring of the probability and impact both before and after mitigating controls is performed using a consistent methodology on a risk matrix. The results of this are considered against our agreed organisation risk appetite as approved annually by the Board. Reviews of risks and their risk scores are performed regularly, and at least quarterly by executive directors, Business Unit Leaders, and the Executive and Senior Management Teams.

Where further action is necessary to reduce exposure, the action, and its intended effect on the status of the risk, are logged, responsibility allocated and a completion date agreed. Progress on the action is tracked and missed completion dates are reported monthly through to the Executive Management team and bi-monthly to the board via the Corporate Balanced Scorecard.

Risks where exposure remains unacceptably high despite controls are flagged as Red, and are reviewed quarterly by the Senior Management Team, the Executive Management Team and the Audit Committee, and bi-annually by the board.



# Internal control statement

As part of the annual planning cycle, Business Unit Leaders were required to identify the significant risks which could impact on the achievement of each main element of their proposed business plans for 2004-05. These risks were then compared with the existing risk register, which was amended as necessary. This process will form an integral part of future business planning.

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

Our management of risk is embedded in policymaking, planning and delivery by executive directors and Business Unit Leaders who are responsible for ensuring the proper management of risks, and cascading implementation of the risk management strategy and policy within their directorates and teams respectively. Business Unit Leaders are responsible for implementation of self assessment processes. A programme management function ensures that all projects are subject to formal project management disciplines including an assessment of inherent and residual risks.

Business Unit Leaders provide written sign offs to the relevant executive directors that they are satisfied that all their sub-risks are either adequately controlled, or that plans are in place to provide that control. In addition, Executive Management Team members provide me with equivalent written sign offs for the key risks for which they have responsibility. Executive directors also provide written assurance that an adequate system of internal control operates within their directorates, and that, to the best of their knowledge their staff comply with all relevant legal and regulatory requirements.

These approaches will continue to be refined in 2004-05 to further embed risk management within NS&I's business.

During 2003-04, considerable progress has been made on developing our business continuity plans, but further work, including live testing, remains to be done to ensure they are co-ordinated and remain adequate.

NS&I is taking the opportunity to update and automate its Evidence of Identity checking procedures in response to changes introduced by The Money Laundering Regulations 2003 and to developments in best practice. It is expected that the new system will be operational by the end of 2004.

## 5. Review of effectiveness

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

The Board satisfies itself on the adequacy of the risk management process and reviews the management of each key residually red risk at least annually by examining evidence of performance against objectives and targets, the timely identification and assessment of significant risks, the prioritisation of risks and the allocation of resources to address areas of exposure, the ability of NS&I to learn from its experiences and the commitment and speed at which corrective actions are implemented. The Board also reviews the internal and external risk profile for the coming year and considers if current internal control arrangements are likely to be effective.

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

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

Senior management within Siemens Business Services also provide me with an annual written assessment of the adequacy of the system of internal control operating within the part of the business that they manage, including evidence to support that assessment.

The Siemens Business Services business transformation programme, which includes a new system for processing investors' transactions, continues to progress. Enhancements to the system of internal control required as a result of this programme are still being implemented.

During 2003-04 Deloitte were re-appointed as NS&I's internal auditors following a competitive tendering exercise. During 2004-05 they will assume direct responsibility for auditing the operational and transaction controls relating to NS&I business within Siemens Business Services.

The approach to reviewing effectiveness and plans to ensure the continuous improvement of the systems in place will be further refined in 2004-05.



Alan Cook  
Director of Savings  
National Savings and Investments

15 July 2004

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

I certify that I have audited the financial statements on pages 40 to 61 under the Government Resources and Accounts Act 2000. These financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain fixed assets, and the accounting policies set out on pages 46 and 47.

### Respective responsibilities of the Accounting Officer and Auditor

As described on page 36 the Accounting Officer is responsible for the preparation of the financial statements in accordance with the Government Resources and Accounts Act 2000 and Treasury directions made thereunder and for ensuring the regularity of financial transactions. The Accounting Officer is also responsible for the preparation of the other contents of the Accounts. My responsibilities, as independent auditor, are established by statute and guided by the Auditing Practices Board and the auditing profession's ethical guidance.

I report my opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Government Resources and Accounts Act 2000 and Treasury directions made thereunder, and whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report if, in my opinion, the Annual Report is not consistent with the financial statements, if the Department has not kept proper accounting records or if I have not received all the information and explanations I require for my audit.

I read the other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. I consider the implications for my certificate if I become aware of any apparent misstatements or material inconsistencies with the financial statements.

I review whether the statement on pages 37 and 38 reflects the Department's compliance with the Treasury's guidance entitled *Corporate Governance: Statement on Internal Control*. I report if it does not meet the requirements specified by the Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered whether the Accounting Officer's Statement on Internal Control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Department's corporate governance procedures or its risk and control procedures.

### Basis of audit opinion

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Department in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Department's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by error, or by fraud or other irregularity and that, in all material respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conformed to the authorities which govern them. In forming my opinion I have also evaluated the overall adequacy of the presentation of information in the financial statements.

### Opinion

In my opinion:

- the financial statements give a true and fair view of the state of affairs of the Department for National Savings and Investments at 31 March 2004 and of the net resource outturn, resources applied to the objective, recognised gains and losses and cash flows for the year then ended, and have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by the Treasury; and
- in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

I have no observations to make on these financial statements.



John Bourn  
Comptroller and Auditor General

15 July 2004

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

# Summary of resource outturn

## Schedule 1

### SUMMARY OF RESOURCE OUTTURN

for the year ended 31 March 2004

	Gross Expenditure	Estimate A in A	Net Total	Gross Expenditure	A in A	Outturn Net Total	Net total Outturn compared with estimate: saving/ (excess)	Prior year outturn
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Request for resources 1	186,230	(4,662)	<b>181,568</b>	176,668	(4,582)	<b>172,086</b>	<b>9,482</b>	<b>159,669</b>
Non-operating cost A in A						2	(2)	
<b>Net cash requirement</b>			<b>180,200</b>			<b>167,399</b>	<b>12,801</b>	<b>155,500</b>

#### Summary of income payable to the Consolidated Fund

(In addition to appropriations in aid, the following income relates to the department and is payable to the Consolidated Fund (cash receipts being shown in italics and figures in £000s)

	Note	Forecast 2003-04 Income	Receipts	Outturn 2003-04 Income	Receipts
<b>Total</b>	4	–	–	457	457

The actual receipts surrenderable to the Consolidated Fund were £457,221.10

#### Explanation of the variation between estimate and outturn (net total resources)

	£m
(i) Project slippage	6.5
(ii) Publicity expenditure was considerably lower than planned	3.3
(iii) Under spending in Personnel Costs and Other staff payments	1.3
(iv) Increases in transaction costs at Girobank (£0.7m), increased Post Office costs (£0.3 m), other costs (£0.6m)	(1.6)
<b>Variance between estimate and outturn</b>	<b>9.5</b>

#### Explanation of the variation between estimate and net cash and requirement and outturn (net cash requirement):

	£m
(i) Increase in level of creditors	4.5
(ii) Increase in debtors	(1.0)
(iii) Project slippage	6.4
(ii) Publicity expenditure was considerably lower than planned	3.2
(iii) Under spending in Personnel Costs and Other staff payments	1.3
(iv) Increases in transaction costs at Giro bank (£0.7m), increased Post Office costs (£0.3 m), other costs (£0.6m)	(1.6)
<b>Variance between estimate and outturn</b>	<b>12.8</b>



## Reconciliation of resources to cash requirement

	Note	Estimate £'000	Outturn £'000	Net total outturn compared with estimate: saving/ (excess) £'000
<b>Net total resources</b>		<b>181,568</b>	<b>172,086</b>	<b>9,482</b>
Capital:				
Acquisition of fixed assets	5	1,300	1,124	176
Investments		–	–	–
Non Operating A in A:				
Proceeds of fixed asset disposals		–	(2)	2
Accruals adjustments:				
Non –cash items	3	(5,118)	(4,793)	(325)
Changes in working capital other than cash	7	1,550	(2,010)	3,560
Changes in creditors falling due after more than one year		–	–	–
Use of provision	11	900	994	(94)
<b>Net cash requirement (Schedule 4)</b>		<b>180,200</b>	<b>167,399</b>	<b>12,801</b>

The notes on pages 46 to 61 form part of these accounts.

## Schedule 2

### OPERATING COST STATEMENT

for the year ended 31 March 2004

	Notes	2003-04 £'000	2002-03 £'000
<b>Administration costs</b>			
Staff costs	2	7,017	6,945
Other administration costs	3	<u>169,651</u>	<u>157,184</u>
<b>Gross administration costs</b>		<u>176,668</u>	<u>164,129</u>
 Operating income	 4	 <u>(4,582)</u>	 <u>(4,460)</u>
 <b>Net resource outturn</b>		 <u>172,086</u>	 <u>159,669</u>

All income and expenditure are derived from continuing operations.

### STATEMENT OF RECOGNISED GAINS AND LOSSES

for the year ended 31 March 2003

	Notes	2003-04 £'000	2002-03 £'000
Net gain on revaluation of tangible fixed assets	13	<u>1,594</u>	<u>1,004</u>
 <b>Total recognised gains and losses for the financial year</b>		 <u>1,594</u>	 <u>1,004</u>

The notes on pages 46 to 61 form part of these accounts.

## Schedule 3

### BALANCE SHEET

as at 31 March 2004

	Notes	£'000	31 March 2004 £'000	£'000	31 March 2003 £'000
<b>Fixed assets</b>					
Intangible fixed assets	6.1	109		200	
Tangible fixed assets	6.2	<u>29,953</u>		<u>28,306</u>	
<b>Total fixed assets</b>			<b>30,062</b>		<b>28,506</b>
<b>Debtors falling due after more than one year</b>	8		<b>6,162</b>		<b>7,711</b>
<b>Current assets</b>					
Debtors due within one year	8	2,743		3,158	
Cash at bank and in hand	9	<u>2,801</u>		<u>4</u>	
<b>Total current assets</b>		<b>5,544</b>		<b>3,162</b>	
<b>Current liabilities</b>					
Creditors (due within one year)	10	<u>(20,612)</u>		<u>(16,117)</u>	
<b>Net current assets</b>			<b>(15,068)</b>		<b>(12,955)</b>
<b>Total assets less current liabilities</b>			<b>21,156</b>		<b>23,262</b>
Provisions for liabilities and charges	11		<b>(1,480)</b>		<b>(1,720)</b>
<b>Total assets less liabilities</b>			<b>19,676</b>		<b>21,542</b>
<b>Taxpayer's equity:</b>					
General Fund	12		<b>10,598</b>		<b>14,065</b>
Revaluation Reserve	13		<b>9,078</b>		<b>7,477</b>
	14		<b>19,676</b>		<b>21,542</b>

The notes on pages 46 to 61 form part of these accounts.



Alan Cook  
Chief Executive  
National Savings and Investments

15 July 2004



## Schedule 4

### CASHFLOW STATEMENT

for the year ended 31 March 2004

	Notes	2003-04 £'000	2002-03 £'000
Net cash outflow from operating activities	15(i)	(166,329)	(155,115)
Capital (expenditure)/receipts and financial investment	15(ii)	(1,070)	(190)
Receipts due to the Consolidated Fund which are outside the scope of the department's activities		457	249
Payments of amounts due to the Consolidated Fund		(457)	(2,391)
Financing	15(iii)	<u>171,092</u>	<u>154,608</u>
<b>Increase/(decrease) in cash in the period</b>	9	<u>3,693</u>	<u>(2,839)</u>

The notes on pages 46 to 61 form part of these accounts.

## Schedule 5

## RESOURCES BY DEPARTMENTAL AIMS AND OBJECTIVES

for the year ended 31 March 2004

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

National Savings and Investments strategic objective is:

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

During 2003-04 National Savings and Investments incurred the following resource costs in pursuit of its objective:

	Notes	2003-04 £'000	2002-03 £'000
Resource cost of objective	23	172,086	159,669
<b>Net resource outturn</b>		<u>172,086</u>	<u>159,669</u>

The notes on pages 46 to 61 form part of these accounts

## NOTES TO THE ACCOUNTS

### 1. Accounting policies

The financial statements have been prepared in accordance with the 2003-04 *Resource Accounting Manual (RAM)* issued by HM Treasury. The accounting policies contained in the *RAM* follow UK generally accepted accounting practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector. Where the *RAM* permits a choice of accounting policy, the accounting policy which has been judged to be most appropriate to the particular circumstances of the department for the purpose of giving a true and fair view has been selected. The department's accounting policies have been applied consistently in dealing with items considered material in relation to the accounts.

#### 1.1 Accounting convention

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

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

#### 1.2 Intangible fixed assets

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

#### 1.3 Tangible fixed assets

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

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

The cost of the National Savings and Investments' Glasgow site and of the buildings was met out of deposits made under the Post Office Savings Bank Acts. The property is therefore effectively an asset of the National Savings Bank held for the benefit of its depositors and not for the public service generally.

National Savings and Investments' freehold land and buildings were professionally valued on an 'existing use' basis during September and October 1999 by Chartered Surveyors Montagu Evans (Glasgow), Knight Frank (Durham), and Edmund Kirby (Blackpool). The valuations were carried out in accordance with the *Appraisal and Valuation Manual* produced jointly by the Royal Institution of Chartered Surveyors (RICS), the Incorporated Society of Valuers and Auctioneers (ISVA) and the Institute of Revenues Rating and Valuation (IRRV). Professional valuations will be obtained every five years and in the intervening years values will be restated, using appropriate indices.

During 2003-2004 the value of the department's land and buildings was restated using an index contained in an Office for National Statistics (ONS) and Department Trade and Industry (DTI) publication entitled, *Quarterly Building Price and Cost Indices*. The specific index used was the 'tender price index of public sector buildings non-housing'.

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

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

#### 1.4 Depreciation and amortisation

In accordance with FRS 15 freehold land is not depreciated.

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

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

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

Apart from land and buildings, the majority of the department's assets were re-classified as a prepayment at 31 March 1999 and subsequently transferred to Siemens Business Services on 1 April 1999, under a Public Private Partnership (PPP) contract. This had the effect of reducing charges that would otherwise have been payable to Siemens Business Services over the life of the contract. The prepayment is being written down and expensed over the ten year life of the contract, on a straight line basis.



**1.5 Operating leases**

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

**1.6 Research and development**

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

**1.7 Website development and design costs**

The costs of designing and developing the content of the National Savings and Investments website are expensed in the year in which they are incurred.

**1.8 Operating income**

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

**1.9 Administration expenditure**

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

**1.10 Notional charges**

A notional charge, reflecting the cost of capital utilised by the department, is included in the operating costs. The charge is calculated at the Government's standard rate of 3.5% in real terms on all assets less liabilities except for:

- (a) cash balances held by the Office of the Paymaster General (OPG), where the charge is nil; and
- (b) balances owed to the Consolidated Fund, where the credit is nil.

Notional audit fees have also been charged to the operating cost statement.

**1.11 Pensions**

Pension benefits are provided through the Civil Service pension arrangements. From 1 October 2002, civil servants may be in one of three statutory based 'final salary' defined benefit schemes (*classic*, *premium*, and *classic plus*). New entrants after 1 October 2002 may choose between membership of *premium* or joining a good quality 'money purchase' stakeholder based arrangement with a significant employer contribution (*partnership pension account*).

Full details are given in note 2 opposite.

**1.12 Early departure costs**

The department is required to meet the additional cost of benefits beyond the normal Civil Service pension benefits in respect of employees who retire early unless the retirement is on approved medical grounds. The department provides for this cost when it has entered into contractual arrangements with the early retirees and creates a corresponding provision for its future payments in the balance sheet. In accordance with the requirements of FRS 12 this provision has been discounted. The department may, in certain circumstances, settle some or all of its liability in advance by making a payment to the Paymaster General's account at the Bank of England for the credit of the Civil Superannuation Vote.

Details of pre-funded amounts outstanding in respect of early departure costs are provided in note 8 to the accounts.

**1.13 Other provisions**

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

**1.14 Value Added Tax (VAT)**

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

## 2. Staff numbers and costs

### A. Staff costs consist of:

	2003-04 £'000	2002-03 £'000
Wages and salaries	4,981	4,817
Social security costs	473	400
Other pension costs	701	690
Total payroll costs	6,155	5,907
Inward secondments, temporary and agency staff	862	1,038
Total staff costs	7,017	6,945

The Principal Civil Service Pension Schemes (PCSPS) to which most of the department's employees are members are unfunded multi-employer defined benefit schemes, but National Savings and Investments is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out at 31 March 2003 and details can be found in the resource accounts of the Cabinet Office: Civil Superannuation ([www.civilservice-pensions.gov.uk](http://www.civilservice-pensions.gov.uk))

For 2003-2004 contributions of £695,725 were paid to the PCSPS (2002-2003 £690,044.) at rates determined by the Government Actuary and advised by the Treasury. These rates were in the range 12-18.5% of pensionable pay.

### B. The average number of full time equivalent staff employed by National Savings and Investments, (including senior management and agency and interim staff), during 2003-04 year was 125. (2002-2003 was 134).

Staff numbers	2003-04	2002-03
Senior management	10	10
Permanent Civil Servants	109	115
Agency temps, interim managers	6	9
<b>Total</b>	<b>125</b>	<b>134</b>

In addition to these employees, the department paid four external non-executive Board appointees.

**C. The salary and pension entitlements of the most senior members of the Department for National Savings and Investments were as follows:**

Name and Title	Age	Salary		Bonus		Real increase in Pension at age 60	Total accrued pension at age 60 at 31 March	Real increase in pension related lump sum at age 60 at 31 March	Pension related lump sum at age 60	Cash equivalent transfer value (CETV) at 31 March 2003	Cash equivalent transfer value (CETV) at 31 March 2004	Real increase in CETV after adjustment for inflation and changes in market investment factors
		2003-04 £'000	2002-03 £'000	2003-04 £'000	2002-03 £'000	2003-04 £'000	2003-04 £'000	2003-04 £'000	2003-04 £'000	2003-04 £'000	2003-04 £'000	2003-04 £'000
Peter Bureau (1) <i>Chief Executive</i>	60	–	45-50	–	5-10	–	–	–	–	–	–	–
Alan Cook (2) <i>Chief Executive</i>	50	145-150	70-75	25-30	10-15	0-2.5	0-5	2.5-5	5-10	9	29	18
Trevor Bayley <i>Finance Director</i>	52	115-120	110-115	15-20	10-15	0-2.5	0-5	2.5-5	10-15	35	57	19
Jeannie Bevan (3) <i>Strategy Director</i>	52	–	65-70	–	5-10	–	–	–	–	–	–	–
Gill Cattanach <i>Marketing Director</i>	40	90-95	90-95	15-20	10-15	0-2.5	5-10	2.5-5	20-25	68	82	8
Steve Owen <i>Partnerships and Operations Director</i>	44	85-90	85-90	10-15	10-15	0-2.5	20-25	0-2.5	70-75	288	315	4
Scott Speedie (4) <i>Personnel Director</i>	59	–	30-35	–	–	–	–	–	–	–	–	–
Sandra Postles (5) <i>HR Director</i>	46	70-75	–	5-10	–	0-2.5	0-5	2.5-5	5-10	13	30	15
John Prout (6) <i>Sales Director</i>	52	60-65	–	5-10	–	0-2.5	0-5	–	–	–	13	11

(1) retired August 2002

(2) appointed September 2002.

(3) resigned October 2002

(4) retired August 2002

(5) appointed July 2003

(6) appointed August 2003

Bonuses for 2003-2004 are accrued.

The salary entitlements of Non-Executive Directors are provided in note 3 to the accounts.

### Salary

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



## Pension

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

Employee contributions are set at the rate of 1.5% of pensionable earnings for *classic* and 3.55% for *premium* and *classic plus*. Benefits in *classic* accrue at the rate of 1/80th of pensionable salary for each year of service. In addition a lump sum equivalent to three years' pension is payable on retirement. For *premium*, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike *classic* there is no automatic lump sum (but members may give up (commute) some of their pension to provide a lump sum). *Classic plus* is essentially a variation of *premium* but with benefits in respect of service before 1 October 2002 calculated broadly as per *classic*.

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product chosen by the employee. The employee does not have to contribute but where they do make contributions the employer will match these up to a limit of 3% 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).

Further details about the CSP arrangements can be found at the website [www.civilservice-pensions.gov.uk](http://www.civilservice-pensions.gov.uk)

The tables opposite show the member's cash equivalent transfer value (CETV) accrued at the beginning and the end of the reporting period. The column before the final column reflects the increase in CETV effectively funded by the employer. It takes account of the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

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

**3. Other administration costs**

Other administration costs comprise:

	2003-04 £'000	2002-03 £'000
PPP contract costs	98,060	87,983
Selling agents	43,508	39,491
Marketing and research costs	11,696	13,077
Accommodation	638	564
Telecommunication and computer services	192	251
Printing and postage costs	34	105
Giro fees, Link line, ATMOS and banking	5,120	3,543
Consultancy, internal audit contract and personnel costs	3,704	4,815
Operating leases for hire of equipment	20	18
Losses	453	202
Ordinary Deposits White Paper Account audit fee	58	58
Product accounts audit fee	18	18
Notional audit fees	505	455
Notional cost of capital charge	722	1,340
Interest expense incurred on provision	78	123
Increase in early departure provision	669	716
Provision for asbestos removal	–	818
Depreciation and amortisation of fixed assets	1,079	998
Amortisation of PPP contract prepayment	1,539	1,539
Permanent diminution in fixed assets	75	24
Loss / (Profit) on disposal of assets	5	–
Other costs	1,478	1,061
Exceptional Items	–	(15)
	<u>169,651</u>	<u>157,184</u>

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

Non-cash items comprise:

	£'000	2003-04 £'000	2002-03 £'000
Depreciation and amortisation		2,618	2,537
Permanent diminution in fixed assets		75	24
Loss/(profit) on disposal		5	–
Notional cost of capital charge		722	1,340
Increase in provisions (See note 11)		868	1,657
Notional audit fees:			
Product accounts	389		350
Resource accounts	56		48
Investment Deposits White Paper Account	<u>60</u>		<u>57</u>
		<u>505</u>	<u>455</u>
		<u>4,793</u>	<u>6,013</u>

National Savings and Investments' auditors received no remuneration for non-audit work.

The costs of travel and subsistence and hospitality for the year to 31 March 2004 were £369,948 and £50,660 respectively (2002-03 £423,423 and £48,942). These costs are included in the total for consultancy, internal audit contract and personnel costs.

Other costs include remuneration of Non-executive Directors in bands, as follows:

Name	2003-04 £'000	2002-03 £'000
J Lowe	5-10	10-15
J Turner	5-10	10-15
M. Stafford	10-15	10-15
R. Wright	15-20	15-20
M Medicott	5-10	—
P Spencer	5-10	—

## 4. Operating Income

Operating income comprises:

	2003-04 £'000	2002-03 £'000
Discount receivable	2	14
Rent from external tenants	4,580	4,446
	<u>4,582</u>	<u>4,460</u>

The discount receivable comprises the discount allowed from making prepayments to Paymaster, in respect of early retirement costs.

Non-operating income and receipts not classified as Appropriations in Aid comprises amounts which relate to prior years, including prior year loss recoveries and loan recoveries. The actual receipts surrenderable were £457,221.10

## 5. Analysis of capital expenditure, financial investment and associated Appropriations in Aid

	2003-04 £'000	2002-03 £'000
Capital expenditure	1,124	213
Appropriations in Aid	—	—
	<u>1,124</u>	<u>213</u>

## 6. Fixed assets

### 6.1 Intangible fixed assets

	Software licences 31 March 2004 £'000	Software licences 31 March 2003 £'000
<b>Cost or valuation</b>		
At 1 April	304	214
Additions	–	110
Disposals	–	–
Permanent diminution	(44)	(20)
At 31 March	<u>260</u>	<u>304</u>
<b>Amortisation</b>		
At 1 April	(104)	(60)
Provided in year	(49)	(49)
Disposals	–	–
Diminution adjustment	2	5
At 31 March	<u>(151)</u>	<u>(104)</u>
<b>Net book value</b>		
At 31 March	<u>109</u>	<u>200</u>

### 6.2 Tangible fixed assets

	Freehold land and buildings £'000	Computers and telecoms £'000	Plant and equipment £'000	Furniture and fittings £'000	Total £'000
<b>Cost or valuation</b>					
At 1 April	28,786	261	686	2,503	32,236
Additions	–	128	–	996	1,124
Disposals	–	(26)	–	–	(26)
Revaluation	1,779	–	13	(8)	1,784
Permanent diminution	–	(36)	–	–	(36)
At 31 March	<u>30,565</u>	<u>327</u>	<u>699</u>	<u>3,491</u>	<u>35,082</u>
<b>Depreciation</b>					
At 1 April	(3,072)	(75)	(174)	(609)	(3,930)
Provided in year	(631)	(54)	(70)	(276)	(1,031)
Disposals	–	19	–	–	19
Backlog depreciation	(190)	–	–	–	(190)
Diminution adjustment	–	3	–	–	3
At 31 March	<u>(3,893)</u>	<u>(107)</u>	<u>(244)</u>	<u>(885)</u>	<u>(5,129)</u>
<b>Net book value</b>					
At 31 March 2004	<u>26,672</u>	<u>220</u>	<u>455</u>	<u>2,606</u>	<u>29,953</u>
At 31 March 2003	<u>25,714</u>	<u>186</u>	<u>512</u>	<u>1,894</u>	<u>28,306</u>



## 7. Movements in working capital other than cash

	2003-04 £'000	2002-03 £'000
(Decrease)/increase in debtors	466	45
Decrease/(increase) in creditors	(2,590)	(607)
Adjustment for movement on provisions	114	695
	<u>(2,010)</u>	<u>133</u>
Transitional adjustment being adjustment for outstanding Balances relating to the department's Appropriation Accounts for 2000-01	<u>—</u> <u>(2,010)</u>	<u>195</u> <u>328</u>

## 8. Debtors

	£'000	31 March 2004 £'000	31 March 2003 £'000
<b>Amounts due within one year:</b>			
Consolidated Fund Debtor (See notes 9, 10 & 12)		15	892
Deposits		577	500
Advances		38	38
Other debtors		1	29
Early departure annuity		8	8
Prepayments and accrued income		565	152
PPP contract prepayment from asset transfer		<u>1,539</u>	<u>1,539</u>
		<u>2,743</u>	<u>3,158</u>
<b>Amounts due after more than one year:</b>			
Early departure annuity	—		8
Advances	4		5
PPP contract prepayment from asset transfer	<u>6,158</u>		<u>7,698</u>
		<u>6,162</u>	<u>7,711</u>
Total debtors		<u>8,905</u>	<u>10,869</u>

The number of employees with advances for season tickets and house purchases in excess of £2,500 at 31 March 2004 was three.

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

**9. Cash at bank and in hand**

	31 March 2004 £'000	31 March 2003 £'000
<b>Balance at 1 April</b>	(892)	1,947
Movement in Cash balance (Decrease)/Increase note 15	3,693	(2,839)
Exclude Overdrawn HM Paymaster Balance notes 8, 10 & 12	—	896
<b>Net change in cash balances</b>	<u>3,693</u>	<u>(1,943)</u>
<b>Closing cash balance 31 March</b>	<u>2,801</u>	<u>4</u>
<b>The following balances at 31 March are held at:</b>		
Office of HM Paymaster General	2,786	—
Commercial banks	<u>15</u>	<u>4</u>
	<u>2,801</u>	<u>4</u>
<b>The balance at 31 March comprises:</b>		
<b>Cash due to be paid to the Consolidated Fund:</b>		—
Amounts issued from the Consolidated Fund for supply but not spent at year end	<u>2,801</u>	<u>4</u>

**10. Creditors (amounts falling due within one year)**

	31 March 2004 £'000	31 March 2003 £'000
HM Paymaster Overdrawn Bank Balance (See notes 8, 9 & 12)	—	896
Trade creditors	9,679	9,887
Other creditors	508	472
Vote surplus due to the Consolidated Fund	2,801	—
Inland Revenue	17	28
Accruals	6,708	3,231
Early departure provision (See note 11)	778	785
Asbestos rectification provision (See note 11)	—	818
Losses provision (See note 11)	<u>121</u>	<u>—</u>
	<u>20,612</u>	<u>16,117</u>

Accruals include amounts payable to Siemens Business Services under the PPP contract for services received but not invoiced.  
At 31 March 2004 there were no creditors falling due after more than one year.

## 11. Provisions for liabilities and charges

	£'000	31 March 2004 £'000	31 March 2003 £'000
<b>Movements in the provision for early departure costs:</b>			
Balance at 1 April		2,505	2,969
Annual offset of pre-funding	(10)		(57)
Applied	(984)		(1,246)
	(994)		(1,303)
Increase in provision	747		839
		(247)	464
Total early departure costs provision		2,258	2,505
Amount payable within one year (See note 10)		(778)	(785)
Provision falling due after more than one year		1,480	1,720
<b>Establishment of provision for asbestos rectification:</b>			
Balance at 1 April		—	—
Provision in year		—	818
Applied		—	—
Total Asbestos rectification provision		—	818
Amount payable within one year		—	(818)
Provision falling due after more than one year		—	—
<b>Establishment of provision for product fraud losses</b>			
Balance at 1 April		—	—
Provision in year		121	—
Applied		—	—
Total product loss provision		121	—
Amount payable within one year		(121)	—
Provision falling due after more than one year		—	—
Provisions for liabilities and charges		1,480	1,720

A provision was established to cover the work that is being undertaken to comply with the requirements of Statutory Instrument No. 2675 Health and Safety: Control of Asbestos at Work Regulations 2002 which came into force on 21 November 2002. The work is being carried out at NS&I's Glasgow site.

A provision was established for three product fraud cases totalling £121,000. One of the product fraud cases is likely with expenses to exceed £100,000. (See note 24: Losses and special payments).

## 12. General Fund

	£'000	31 March 2004 £'000	31 March 2003 £'000
At 1 April		14,065	16,439
Vote financing	170,200		154,608
Vote surplus due to the Consolidated Fund	(2,801)		—
Consolidated Fund Debtor	—		892
(See notes 8, 9 and 10)			
Transferred from the operating cost statement	(172,086)		(159,669)
Notional items (See note 3)	1,227		1,795
		(3,460)	2,374
		10,605	14,065
Realised element of revaluation reserve			
(See note 13)		(7)	—
At 31 March		10,598	14,065

**13. Revaluation Reserve**

	£'000	31 March 2004 £'000	31 March 2003 £'000
At 1 April		7,477	6,473
Surplus on fixed asset revaluation (See note 6.2)	1,784		1,102
Backlog depreciation charge (See note 6.2)	(190)		(98)
		1,594	1,004
		9,071	7,477
Realised element of revaluation reserve (See note 12)		7	–
At 31 March		9,078	7,477

**14. Net movement in Government Funds**

	2003-04 £'000	2002-03 £'000
Net movement in General Fund (See note 16)	(3,467)	(2,374)
Net movement in Revaluation Reserve (See note 17)	1,601	1,004
Net movement in Government Funds	(1,866)	(1,370)
Opening balance	21,542	22,912
Closing balance	19,676	21,542



## 15. Notes to the cashflow statement

### (i): Reconciliation of operating cost to operating cash flows

	2003-04 £'000	2002-03 £'000
Net operating cost	172,086	159,669
Adjustments for non-cash transactions (See note 3)	(4,793)	(6,013)
Adjustments for movements in working capital other than cash (See note 7)	(1,958)	156
Use of provisions	994	1,303
Net cash outflow from operating activities	<u>166,329</u>	<u>155,115</u>

### (ii): Analysis of capital expenditure and financial investment

	2003-04 £'000	2002-03 £'000
Intangible fixed asset additions (See notes 5 and 6.1)	–	99
Tangible fixed asset additions (See notes 5 and 6.2)	1,072	91
Proceeds of disposal of fixed assets	(2)	–
Net cash outflow/(inflow) from investing activities	<u>1,070</u>	<u>190</u>

### (iii): Analysis of financing and reconciliation to the net cash requirement

	2003-04 £'000	2002-03 £'000
From the Consolidated Fund	170,200	154,608
Adjust for payments and receipts not related to supply:		
Amounts from Consolidated Fund prior year	<u>892</u>	<u>–</u>
	171,092	154,608
Amounts due to the Consolidated Fund received in prior year and paid over	–	(2,142)
Transitional adjustment being adjustment for outstanding balances		
relating to the department's Appropriation Accounts for 2000-01	<u>–</u>	<u>195</u>
<b>Net Financing</b>	171,092	152,661
<b>(Increase)/decrease in cash</b>	<u>(3,693)</u>	<u>2,839</u>
<b>Net cash requirement (Schedule 1)</b>	<u>167,399</u>	<u>155,500</u>

**16. Capital commitments**

The following capital commitments existed at the balance sheet date:

	31 March 2004 £'000	31 March 2003 £'000
Contracted but not provided for	11	46
Authorised but not contracted	—	—
	<u>11</u>	<u>46</u>

**17. Commitments under operating leases**

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

	31 March 2004 £'000	31 March 2003 £'000
Leases expiring within:		
One year	4	5
Two to five years	5	5
After five years	9	9
	<u>18</u>	<u>19</u>

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

**18. Administration cost limits**

The outturn within the administration costs control regime shown against individual cost limits is as follows:

	2003-04		2002-03	
	Outturn £000's	Limits £000's	Outturn £000's	Limits £000's
Request for Resources 1 (Gross Limit)	172,086	181,568	157,456	168,398
Total	<u>172,086</u>	<u>181,568</u>	<u>157,456</u>	<u>168,398</u>

## 19. The Public Private Partnership (PPP) Contract

In January 1999, National Savings and Investments signed a ten-year contract with Siemens Business Services for the provision of operational services, which came into effect on 1 April 1999. The majority of the department's assets transferred to Siemens Business Services for a nominal sum, which had the effect of reducing charges which would otherwise have been payable to Siemens Business Services over the life of the contract. The majority of the department's staff also transferred to Siemens Business Services on 1 April 1999.

National Savings and Investments is committed to making annual payments to Siemens Business Services and these payments are set to reduce significantly over the life of the contract as National Savings and Investments gains from the capital investment and operational efficiency brought about by this agreement. The estimated capital value of the contract is £48.1 million.

The level of annual payment is specified in the contract but may vary according to transaction volumes, new product and service channel developments and the level of Siemens Business Services' performance. It will also be uplifted each year in line with movements in the Retail Price Index. If Siemens Business Services was to meet the performance standards in the contract and the transaction levels and business developments fall within agreed parameters the payments under the contract at constant price levels would be:

	£'000
Amounts falling due within one year	96,591
Net present value of amounts falling due within two to five years	267,329
Net present value of amounts falling due within six to seven years	—

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

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

In July 2004, National Savings and Investments and Siemens Business Services agreed in principle to extend their Public-Private Partnership contract by a further five years thereby extending the existing deal from 1 April 2009 to 31 March 2014. Exercising the option to extend on pre agreed terms was covered in the terms of the original contract signed in 1999.

At the same time Siemens Business Services announced that they were in consultation with the Public and Commercial Services Union to upskill existing UK staff and carry out a range of routine administrative tasks overseas within the Siemens organisation. Both of these activities would facilitate further growth of the National Savings and Investments business.

## 20. Contingent liabilities

There were no contingent liabilities at 31 March 2004.

## 21. Post balance sheet events

Except for the items in the final two paragraphs of note 19 there were no other post balance sheet events.

## 22. Related party transactions

National Savings and Investments is an Executive Agency of the Chancellor of the Exchequer and a whole government department.

Post Office Limited (POL) is a major distributor of National Savings and Investments products and, as a public body, POL is a related party. National Savings and Investments had a significant number of transactions with POL during the accounting period.

National Savings and Investments entered into a ten-year PPP contract with Siemens Business Services for the provision of operational services, which came into effect on 1 April 1999. As the major provider of operational services Siemens Business Services is a related party. Note 3 to these accounts contain details of amounts paid and payable under the contract during 2003-04 and note 18 to the accounts contains details of future commitments arising under the contract. Under the same contract Siemens Business Services has entered into an agreement to lease National Savings and Investments' three operational sites in return for a monthly rent. Details of the amounts received and receivable are provided in note 4 to these accounts.

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

## 23. Schedule 5

During 2000-2001 National Savings and Investments' objectives were redefined as part of the quinquennial review of the department. The Treasury confirmed National Savings and Investments had only one aim and one objective. To comply with the Resource Accounting Manual and the accounts direction in these accounts, schedule 5 contains one aim and one objective. The associated administrative cost is therefore equal to the net resource outturn, as shown in Schedule 2 to these accounts.

## 24. Losses and special payments

During 2003-2004 116 cases of loss were brought to account, totalling £452,723 (2002-2003 £202,198). There were in addition to the above losses four cases which totalled £35,614 for constructive losses arising from interest rate changes which were outside the control of NS&I. The losses for 2003-04 include an amount of £121,000 for which a provision has been set up. (See note 11: Provisions for liabilities and charges). One of the losses together with expenses is likely to cost about £100,000.

**25. Analysis of income payable to the Consolidated Fund**

	2003-04 Forecast		2002-03 Outturn	
	Income £'000	Receipts £'000	Income £'000	Receipts £'000
Operating income and receipts-excess A in A	—	—	—	—
Non-operating income and receipts-excess A in A	—	—	—	—
Subtotal	—	—	—	—
Other operating income and receipts not classified as A in A	—	—	—	—
Other non-operating income and receipts not classified as A in A	457	457	249	249
Other amounts collectable on behalf of the Consolidated Fund	—	—	—	—
Total	<u>457</u>	<u>457</u>	<u>249</u>	<u>249</u>

**26. Actual outturn – resources and cash****26.1 Actual outturn – resources:**

Request for resources 1: Actual amount net resources outturn £172,085,887.58.

Actual amount of savings in resources over Estimate £9,482,112.42.

**26.2 Actual outturn – cash:**

Request for resources 1: Net cash requirement: Outturn net requirement £167,399,041.21 which is £12,800,958.79 less than Estimate.

The actual receipts surrenderable to the Consolidated Fund were £457,221.10.



## Glossary of terms

**At National Savings and Investments, we believe in explaining things in a straightforward way. We try to avoid using legal and technical language unless absolutely necessary. Here are some explanations that you may find helpful.**

**AER (Annual Equivalent Rate)** – a notional rate which illustrates what the rate of interest would be if the interest was compounded each time it was paid. Where interest is paid annually, the quoted rate and the AER are the same.

**BACS (Bankers' Automated Clearing Service)** – an electronic payment system allowing us to make direct credits to your bank or building society account.

**Banking Code** – a voluntary code which sets standards of good banking practice. National Savings and Investments and most banks, building societies and credit card companies subscribe to the Code.

**Basis points** – each basis point is 0.01%. So, 100 basis points equal 1%.

**Bonds** – apart from specific bonds issued by National Savings and Investments it is another name given to fixed-interest securities, particularly those issued by governments.

**Business transformation (programme)** – collective name for a range of programmes and projects designed to increase the efficiency and effectiveness of National Savings and Investments, and increase the value of our offer to customers. Examples include telephony, new repayment methods, lower costs and improved competitiveness, faster service and automated payments.

**Capital** – the total of your deposits in your account or the original investment in your Bond or Certificate.

**Capitalised interest** – interest which has been added to your investment and is now earning further interest in accordance with the terms and conditions of the product.

**Delagged** – in relation to our Value Added, this is a measure which allows for timing differences between product interest rate changes being announced and the rate coming into effect.

**Director of Savings** – the person appointed by HM Treasury to manage National Savings and Investments 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 Agency Chief Executive.

**Dormant holdings** – savings or investments where we know we have lost contact with the customer.

**Equities** – investments (shares) in a company listed on a Stock Market.

**Executive Agency** – National Savings and Investments is a Government department and an Executive Agency of the Chancellor of the Exchequer. Executive Agencies were an outcome of the 1988 Next Steps Report. Executive Agencies have greater autonomy in making management decisions to ensure the effective delivery of the services they provide.

**Independent Financial Advisers (IFAs)/Financial Intermediaries** – professional advisers on investments and financial products, regulated by the Financial Services Authority.

**Financial Services Authority (FSA)** – the regulator for the financial services industry in the UK.

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

**Freedom of Information (FOI)** – Under the Freedom of Information Act 2000, each public authority is required to produce a Publication Scheme outlining the different types of information it will publish, or intends to publish, how the information will be published and if accessing the information will be made available free of charge or on payment.

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

**Gross interest** – the taxable rate of interest without deduction of UK Income Tax.

**Growth** – means your savings grow through the addition of interest.

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

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

**Inflation proofing/beating** – for Index-linked Savings Certificates, this means that the value of a Certificate moves in line with changes in the Retail Price Index (RPI) – a commonly used measure of inflation. Inflation beating is achieved through the addition of interest as well as index-linking.

**Investment term (or term)** – for fixed rate products, refers to the period of time for which the interest rates are fixed.

**ISAs (Individual Savings Accounts)** – tax-free savings accounts launched in April 1999 to replace PEPs and TESSAs, allowing investment in stocks and shares, cash deposits and life assurance up to certain limits each tax year. National Savings and Investments offers a Cash mini ISA.

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

**Marketable** – securities, including gilts, which can be bought and sold at any time at current market prices.  
**Net interest** – is the rate of interest payable after the deduction of UK Income Tax at the rate specified by law.

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

**Public Private Partnership (PPP)** – a long-term partnership (10-15 years) between National Savings and Investments and Siemens Business Services designed for mutual benefit. Our PPP with Siemens Business Services encompasses the provision of transaction processing together with front and back office operations.

**Retail market** – the market for the sale of securities or banking facilities to members of the public.

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

**RPI (Retail Price Index)** – the most frequently used measure of price inflation, calculated by the Office for National Statistics each month.

**Siemens Business Services** – is a division of Siemens AG. Siemens Business Services is our partner responsible for improving the efficiency and effectiveness of our business operations and call centres.

**Swaps** – an exchange of payments between two parties eg an interest rate swap could be the payment by one party to the other of a fixed interest rate (based on an agreed sum) in exchange for a variable or floating rate at pre-determined intervals (See also Hedge).

**Tax-free** – means the interest is exempt from UK Income Tax and Capital Gains Tax.

**Tiered interest rates** – where the interest rates increase according to how much money you have invested.

**Treasury Bills** – bills of exchange issued by HM Treasury for either one, three, six or 12 months. Treasury Bills are the main way in which the DMO manages the Exchequer's cash-flow requirements. As these are a way of getting short-term finance for Government, National Savings and Investments uses the cost of Treasury Bills to assess the cost-effectiveness of its financing through its variable rate products.

**Trust deed** – a formal document that lays down the terms of a trust.

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

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

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

**Value Added** – is a measure of our cost-effectiveness in raising finance for Government. The total cost of raising funds is compared to how much it would cost the Government to raise funds through the wholesale market via gilts and Treasury Bills.

**Variable rate products** – savings and investments where the rate of interest can be changed by us from time to time in accordance with their terms and conditions.

**Warrant** – a payment; like a cheque.

**Wholesale markets** – Used to describe the sale of gilts or Treasury Bills etc to banks and other financial institutions such as pension or other fund managers.

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ID 170489 07/04

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Key commitments of the Banking Code are:

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

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

### Head office

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### Thank you

National Savings and Investments would like to thank all staff and customers for their contribution to the 2003-04 Annual Report.

### Cover picture

Christine McLean, 35-year-old marketing strategist from Hertfordshire saves regularly so that she can invest in Premium Bonds and Children's Bonus Bonds as she plans for the future of her 3½ year old daughter, Eva.

### Featured customers

University student James Trinder of Reading (page 9) switched from his Ordinary Account to the Easy Access Savings Account as it offers improved interest rates.

Mary Earp of Hayling Island (page 10) regularly buys Premium Bonds with her husband because they bring an element of fun to saving.

World champion line dancer Martin Lister (page 10) of Middlesex has had Premium Bonds since he was a child and has recently invested in a Guaranteed Equity Bond which he found 'very appealing'.



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