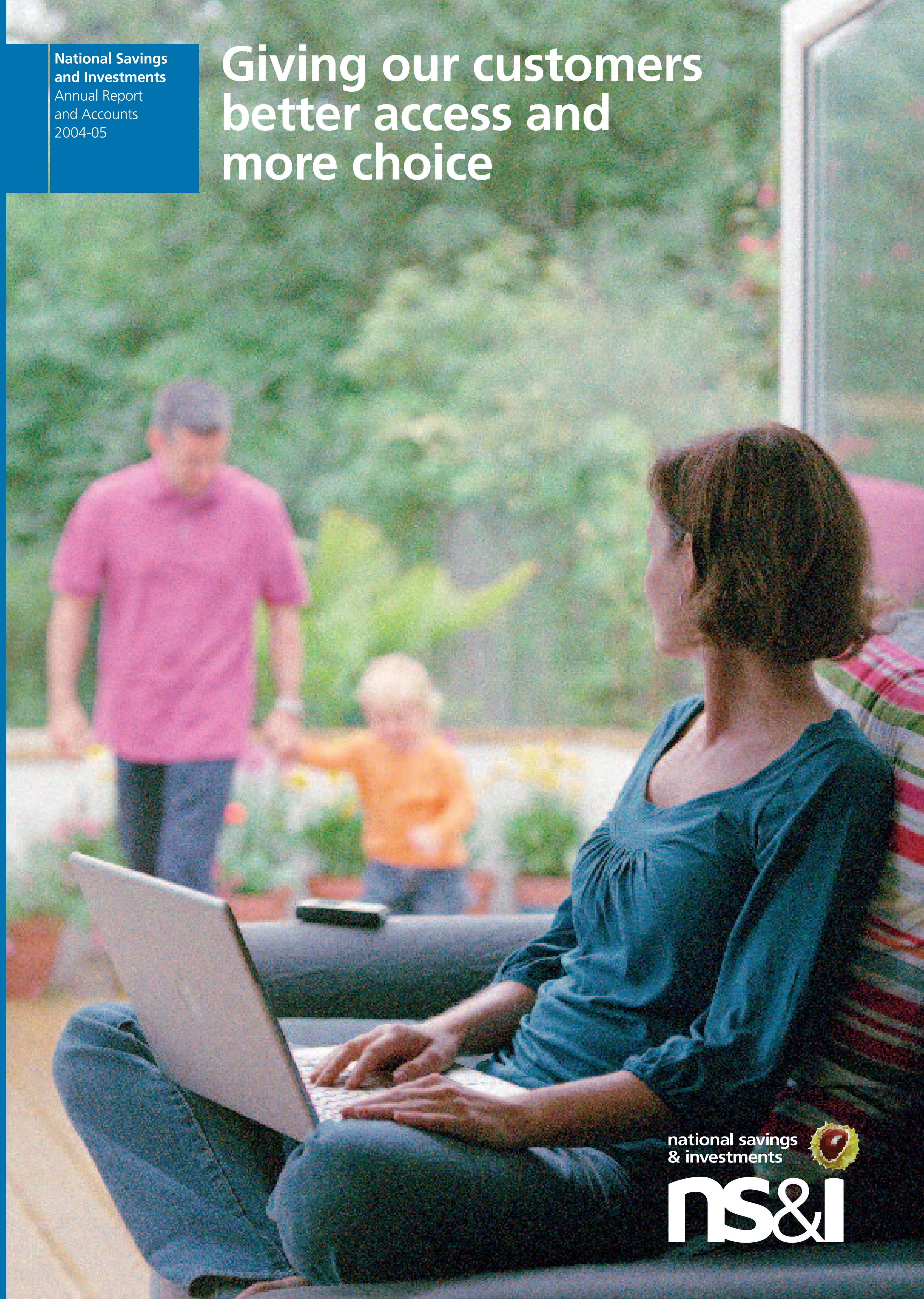
National Savings and Investments
Annual Report and Accounts 2004-05

Giving our customers better access and more choice



national savings & investments
ns&i

Published by TSO (The Stationery Office)
and available from:

Online
www.tso.co.uk/bookshop

Mail, Telephone, Fax & E-mail
TSO
PO Box 29, Norwich NR3 1GN
Telephone orders/General enquiries 0870 600 5522
Fax orders 0870 600 5533
Order through the Parliamentary Hotline *Lo-call* 0845 7 023474
E-mail book.orders@tso.co.uk
Telephone 0870 240 3701

TSO Shops
123 Kingsway, London WC2B 6PQ
020 7242 6393 Fax 020 7242 6394
68-69 Bull Street, Birmingham B4 6AD
0121 236 9696 Fax 0121 236 9699
9-21 Princess Street, Manchester M60 8AS
0161 834 7201 Fax 0161 833 0634
16 Arthur Street, Belfast BT1 4GD
028 9023 8451 Fax 028 9023 5401
18-19 High Street, Cardiff CF10 1PT
029 2039 5548 Fax 029 2038 4347
71 Lothian Road, Edinburgh EH3 9AZ
0870 606 5566 Fax 0870 606 5588

The Parliamentary Bookshop
12 Bridge Street, Parliament Square,
London SW1A 2JX
Telephone orders/General enquiries 020 7219 3890
Fax orders 020 7219 3866

Accredited Agents
(see Yellow Pages)

and through good booksellers

ISBN 0-10-293465-7
9 780102 934656

Driven by what we know our customers want and need, we are making our products and services more accessible, more modern and more relevant than ever.

Our customers

£150 million
in sales during first two months after website relaunch

more than 728,000
new accounts opened

Our people

98%
of all staff have undertaken some form of training

70%
of staff feel that NS&I is a "great place to work"

Our partners

46 million
total number of transactions processed by SBS this year

45%
increase in the number of customers SBS call centres spoke to this year

The Treasury

£68.5 billion
total invested by customers in NS&I at the year end

£1.97 billion
net financing for the Government during the year

National Savings and Investments
Annual Report and Accounts 2004-05

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 21 July 2005

London: The Stationery Office

£17.25

HC 250

With more than £68 billion invested by over 26 million customers, National Savings and Investments is the UK's fifth largest provider of savings products to personal savers and investors. We are also a government department and an Executive Agency of the Chancellor of the Exchequer.

Our vision

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

Our mission

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

Our values

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

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

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

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

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

Our strategy

Direction 2007 is our five-year strategic plan aimed at growing our business through a greater emphasis on our customers and their needs, while still providing cost-effective government funding. More specifically, our long-term plan is to raise a total of £15 billion in net financing and £1.3 billion Value Added between 2003-04 and 2007-08. You can read more about net financing and Value Added on page 35.

Our way

In the NS&I way of working we aspire to:

Be progressive: stretching ourselves, seeking out new ways of doing things, adapting to our customers' changing needs and lives
Be decisive: thinking on our feet, taking care of our actions, doing what we say we will do
Be one of the team: working together as teams, listening to each other, respecting and valuing our differences
Be straightforward: delivering what we promise, telling it like it is, setting clear objectives
Be trustworthy: being honest with each other, taking responsibility, recognising and learning from our mistakes

Paul Spencer

I am delighted to give an overview of this year's annual report, as the new Chairman of National Savings and Investments, in my second year as a Non-executive Director of this unique and customer-focused organisation. I continue to be impressed with the transformation, the progressive attitude and the modernisation of one of the UK's most trusted financial services brands.

Five years into our public/private partnership with Siemens Business Services (Siemens), we offer improved access and more choice to our 26 million customers via the telephone and the internet. The organisation is marking another successful year by providing a very significant contribution to long term, cost-effective financing for the Treasury.

Our people
That success, of course, is created by people and my thanks go to the outstanding contribution made by teams across NS&I and Siemens in bringing the brand and the strategy to life. The partnership grows in strength year on year and in September we marked our very successful relationship with Siemens by extending our partnership contract to 2014.

Board changes
Alongside this I would like to extend my thanks and best wishes to Board members that have left us in the past year. Richard Wright, as Chairman for the previous three years, has provided strong guidance and direction for the business and I now take on the role with enthusiasm and in the knowledge that NS&I is in a very strong position.

I would also like to express my thanks to Gill Cattanach, Marketing Director, who left NS&I in January 2005 after six years. Gill's contribution over that time was significant. We wish her every success in her new role. In April 2005, we welcomed Karen Jones who joined us as our new Marketing Director from BBC TV Licensing. She brings with her many years of marketing and strategy experience from organisations including Direct Line and AXA UK.

In January 2005 Martin Gray, formerly Chief Executive of NatWest UK, joined the Board as Non-executive Director with a wealth of experience from the financial services industry. We also welcomed Sarah Tebutt and Lowri Khan representing HM Treasury and our best wishes go to Allison Holland who moved to a new role with the International Monetary Fund.

Looking forward
Our position in the market coupled with favourable market conditions means National Savings and Investments will continue to perform successfully as customers seek the guaranteed security offered by our comprehensive range of unique products. The broadening of the ways in which customers can invest with us remains a key area of focus and we continue to explore ways to further expand our innovative product range. I hope you will find the rest of this report both informative and inspiring.

Paul Spencer
Chairman

Alan Cook

It's been another eventful year at National Savings and Investments. We've been hard at work modernising our products and developing our direct access channels – and it's all paid off. We've seen record telephone sales and an overwhelming response to our new website, proving that our customers are welcoming these changes. And with more exciting developments underway, our Direction 2007 targets are well within our reach.

Our Direction 2007 strategy identifies two ambitious performance targets: to raise £15 billion in net financing over five years, which will see NS&I growing into a £78 billion business by 2007-08, and to deliver £1.3 billion in savings (known as Value Added) to the Treasury.

Last year's performance was in line with these targets, in a market where ongoing stock market uncertainty encouraged personal investors to consider secure cash deposits over stocks and shares. And you don't get any more secure than NS&I with our unique, 100% secure range of products.

Direction 2007 on track

When we increased our five-year net financing target from £10 billion to £15 billion last year, our annual targets were increased accordingly with the 2004-05 target set at £2 billion.

Due mainly to the significant investment we made in the business over the last year, we delivered £1.97 billion against this target. We are firmly on track to make that £15 billion target and our 2005-06 net financing target of £3.5 billion reflects this confidence.

Last year's Value Added – that is, the saving we generated for the taxpayer – exceeded expectations, coming in at more than £250 million against an anticipated £225 million.

Better access for our customers

After almost 150 years, the Post Office remains one of our key sales channels, giving customers convenient high street access to our products. So I am pleased to report that NS&I and the Post Office have signed a new contract, effective from April 2004.

We have also invested heavily in our call centres and our website to make NS&I more attractive to those customers who prefer to deal with their finances by phone and online. The results have been nothing short of astonishing, with telephone sales growing from £790 million to £1.4 billion in the last year.

The new NS&I website, which went live at the end of January 2005, has also been hugely successful. In the first two months following the launch, online sales topped £150 million – due largely to the fact that the new site now allows customers to buy many of our products, including Premium Bonds, online. Overall, the site is now much more customer-friendly, taking into account what our customers tell us they want and need, and helping them to find what they're looking for.

Even more choice

The UK still loves Premium Bonds – as our customers proved when they invested more than £5.7 billion in this unique product over the last year. This brings the total amount invested in Premium Bonds to more than £26.5 billion, and almost 23 million people now have a chance to win a million pounds every month. As well as making Premium Bonds available on our website, we have introduced a regular savings option, which means that customers can now buy Bonds monthly by standing order.

Premium Bonds might be our number one product, but we also have eleven other products to choose from and we are constantly looking to broaden their appeal. In the last year, we have increased the investment limits for Children's Bonus Bonds and Savings Certificates, and Index-linked Savings Certificates in particular have proved extremely popular with sales increasing by 29% on the previous year. We are confident that there is room for even more growth and will be looking at new ways to promote this unique product in the coming year.

It's not just our tax-free products that are attracting investors. Of our seven taxable products, the Guaranteed Equity Bond performed beyond expectations. Issue 7 of this product, which is linked to FTSE 100 growth, brought in an amazing £196 million during the limited offer period, which was extended from six to eight weeks to accommodate the huge demand. NS&I is now one of the market leaders in the Guaranteed Equity Bond market.

A more modern business

In what was one of the biggest data migrations of its kind in the world, we moved all our Premium Bonds records onto a new, state-of-the-art system in April 2004. I briefly touched on this last year but can now confirm that the migration went without a hitch, which is a remarkable feat considering it involved transferring nine billion pieces of data. This project represents a real milestone in our modernisation programme, as it is thanks to the new system that our customers can now buy Premium Bonds online.

The Premium Bonds migration was a good example of how well we are working with our partner Siemens Business Services (Siemens) to put in place those systems and processes that will enable us to deliver 21st century products and services, while still carefully managing our costs.

For our products and services to continue to be relevant to our customers, we need to understand their changing needs. To this end, we have started leading research into people's savings habits through the savings survey, to see how we can play our part in encouraging the nation to save. Already, the results of this quarterly survey are eagerly awaited by the media.

The success of our partnership with Siemens Business Services was publicly recognised last year when we were awarded the Grand Prix Award for Outstanding Innovation and Achievement at the prestigious Financial Innovations Awards, run by the Institute of Financial Services.

However, modernisation also means recognising when a product is no longer relevant to modern savers and investors' needs. The Ordinary Account with its traditional passbook was intensely manual and expensive to run, which meant that we couldn't offer customers competitive rates. So, as reported last year, we replaced it with the Easy Access Savings Account, a much more contemporary alternative that offers customers better access and higher interest rates. The Ordinary Account was finally closed for transactions on 30 September 2004 and, although closing a 143-year-old account was an immensely complex operation, the process went smoothly from start to finish.

None of this would have been possible without the help of Siemens and I am delighted to report that we have signed a five-year contract extension with this important partner, in a move that will see our relationship extended to 15 years in total. The success of this partnership was publicly recognised last year when we were awarded the Grand Prix Award for Outstanding Innovation and Achievement at the Institute of Financial Services Financial Innovations Awards. I look forward to more joint successes in the coming years.

A round of applause

NS&I wouldn't be where it is today if it weren't for our people. To acknowledge and reward their hard work, and to enable us to attract new talent, we've been focusing on making NS&I a great place to work. We have introduced several initiatives, all brought together under the banner 'Applause', and these have really been inspiring people to come up with new ideas for improving the way the business operates.

One initiative, the BIG Pulse survey, was especially enlightening, as it very favourably benchmarked NS&I people's opinions about their workplace against both the financial industry and the public sector. As you'll see elsewhere in this annual report, the results were very encouraging indeed.

An exciting year ahead

With our £3.5 billion net financing target to drive us, we're looking forward to a busy and productive year. We will be exploring new ways to make our products even more convenient to buy, including new regular savings offers and other potential distribution channels. We will also continue to drive more business direct through the telephone and internet, with even higher sales targets for these channels in place. And ongoing enhancements to our website will enable customers to do even more online.

I am confident that these developments will enable us to achieve – and maybe even exceed – our Direction 2007 targets.

Alan Cook
Chief Executive

Improving access and choice

- We acquired 500,000 brand new customers – including children
- Telephone sales increased from £790 million to an incredible £1.4 billion
- Between 1 April 2004 and 31 March 2005, our telephone operators spoke to more than 3.2 million customers – that's more than 8,760 calls a day
- Our new website brought in £150 million in its first two months – and 50% of those sales were from new customers
- In the same two months, 5,000 customers registered for regular email updates about our interest rates or new Guaranteed Equity Bond releases
- After we increased the investment limit for Children's Bonus Bonds, customers invested 33% more in this unique product than they had in the same period last year

We've invested significantly in our call centres and website so that customers can deal with us direct at a time and in a way that best suits them. As well as making more of our products available to buy by phone and online, we've been looking at ways to make our offers more attractive to savers and investors. Judging by the response, we are succeeding in giving customers what they want and need from their savings and investments.

The rise and rise of our telephone service

Research has shown that customers want to do business with us by phone, and they prefer to talk to a 'real' person rather than an automated service. To meet this demand, we have invested heavily in the expansion of our call centres and the recruitment and training of new people.

Whereas we had just 80 people handling customer calls in 2001, we now have 300 people in three dedicated call centres in Blackpool, Durham and Glasgow with state of the art systems to ensure the smooth handling of a vastly increased volume of calls.

Initially, this expansion was driven by the Easy Access Savings Account, our newest product, which gives customers the option to check their balances and make deposits and withdrawals over the phone. This has led to an estimated increase of 1,000 calls a day since the account was introduced in January 2004.

Another surge in calls came in July 2004, when we enabled new customers to buy Premium Bonds by phone for the first time. From July to the end of the financial year, customers bought more than £965 million of Premium Bonds by phone – and 25% of those customers were new to NS&I.

Website facts and stats

Total website traffic	01 Apr 2004 – 23 Jan 2005 10 months	24 Jan 2005 – 31 March 2005 2 months
Visits	920,454	1,196,911
Average visits per day	9,688	17,864
Visitors	628,898	745,450
Visitors who visited once	495,595	562,060
Visitors who visited more than once	133,303	183,390
Page views	3,610,524	7,205,828
Average page views per day	38,005	107,549
Average page views per visit	3.92	6.02
Total sales	£300 million	£150 million+
Monthly sales value (excluding downloadable forms)	£3 million	£47 million
Monthly sales (number)	7,000	18,000

In total, our customers bought £1.4 billion worth of NS&I products over the phone in 2004-05 (up from £790 million the year before), which represents nearly 13% of our overall sales. The average transaction value was £3,800, up 26.6% from the year before.

We're continuing to develop our telephone service, as we ultimately want to offer customers a one-stop call centre where they can open and close accounts, check their balance and much more. We've proven we can do it with the Easy Access Savings Account; now we'll be looking at ways to make our other products just as accessible.

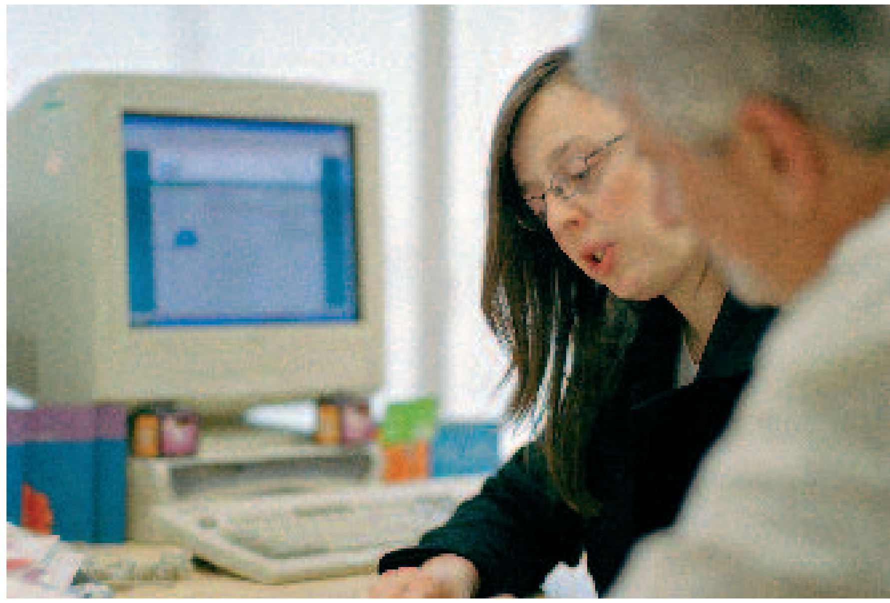
A new website designed around customers' needs

On 24 January 2005, we launched a new NS&I website that offers customers much more than before by focusing on their requirements.

To understand what exactly those requirements were, we drew on research into internet banking and web use, feedback from our customers, discussions with our suppliers, recommendations from independent financial advisers and our knowledge of different customers. All this insight, as well as customer testing of an early prototype, informed the design of the final site.

Specific enhancements have included:

- making more products, including Premium Bonds, available to buy online
- making the buying process more streamlined and easier to follow
- introducing a 'help me choose' function that allows customers to find the product that best suits their needs by answering a series of simple questions
- featuring market news and views to make the site more educational and informative



- giving customers the option to register for email alerts, so they can receive targeted information about interest rate changes, new products and the release of new issues of existing products like our Guaranteed Equity Bonds
- investing in a content management system, which allows our own people to update the marketing areas of the site to ensure the information is kept up to the minute

The new site is fully compliant with the Disability Discrimination Act, giving fuller access to more people.

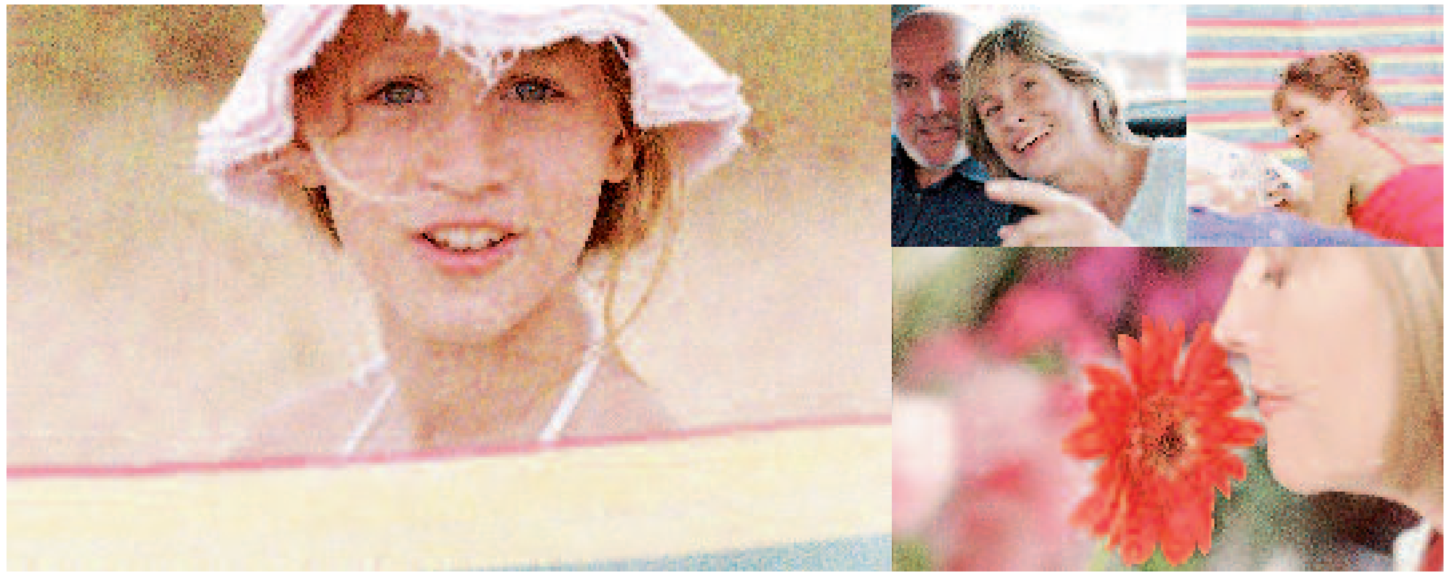
In future, customers will be able to check their balance, make deposits and update their address details online. This will free up time and resources, enabling us to meet more of the customer demand for e-services in the future.

Reuniting 18,000 people with their savings

More and more people are using our free tracing service to track down their lost or forgotten savings. Since the service was introduced in November 2001, we have reunited 18,000 people with more than £19 million. The total amount traced last year was nearly double the year before, up from £8.2 million to £15.2 million, with the average trace up from £867 in 2003-04 to £987 in 2004-05.

Nearly half the total value traced so far – £6.6 million – is in Premium Bonds lost over the years. A further £5.1 million is in Savings Certificates, shared among just 600 people, which gives an average trace of £8,270. And the 86 people who have been reunited with their lost Pensioners Guaranteed Income Bonds – worth a total of more than £1 million – have been rewarded with an average trace of £11,720.

Since we closed the Ordinary Account in July 2004, the total amount traced for those customers has increased by 70%, from £49,100 to £84,300. But there is still some £200 million in old and forgotten Ordinary Accounts waiting to be collected, alongside 400,000 Premium Bonds prizes worth £23 million. This money – which remains 100% safe – is the property of the customer. So we will continue to try to reunite the rightful owners with their money.



Closing a 143-year-old account

The NS&I Ordinary Account, which began life as the Post Office Savings Account in 1861, was finally closed for transactions on 30 September 2004. This was an immensely complex operation on a massive scale, as it involved 13 million accounts and £1.2 billion of savings. With much planning and hard work, it was a remarkably smooth process.

We received 20,000 applications for the Easy Access Savings Account every week for the first eight weeks.

To replace the Ordinary Account, we had launched the more modern Easy Access Savings Account in January 2004. We used a combination of mailings and other media to inform customers of the coming changes and the subsequent response was considerable. In the first eight weeks, we received 20,000 applications for Easy Access Savings Accounts every week and by June 2004, the total invested in the new account was £426 million. Nearly 90% of that business came from customers transferring from the Ordinary Account.

Confirmation that the Easy Access Savings Account was a success came on Christmas Day and Boxing Day 2004, when some 570 customers used a cash machine to conveniently access their savings. In the past, Ordinary Account customers would not have been able to find a Post Office branch open. And although December was a busy month, with an increase in transactions for Christmas, deposits still exceeded withdrawals by some £8 million – so Easy Access Savings Accounts customers are clearly savers.

As at March 2005:

- more than 280,000 people have moved from the Ordinary Account to the Easy Access Savings Account
- almost 74,000 customers, who prefer to have a passbook, have moved from the Ordinary Account to the Investment Account
- more than 45,000 Easy Access Savings Accounts have been opened by completely new customers
- a total of over £770 million has been deposited into Easy Access Savings Accounts with an average balance of £2,490 – considerably more than the average balance of the Ordinary Account, which was £85 at the time the account was closed

With more than £5.7 billion invested in Premium Bonds last year, this unique product is going from strength to strength.

Enabling customers to save even more tax-free

On 29 April 2004, we increased the maximum amount customers can invest in Savings Certificates from £10,000 to £15,000. This was in response to customer demand and affected both the Index-linked and Fixed Interest Savings Certificates.

The high demand for tax-free and, in the case of Index-linked Savings Certificates, inflation-beating investments, was reflected in the fact that the positive media coverage attracted £500,000 in new business before the increase was officially launched. And by the end of 2004-05, customers had invested almost £680 million in Index-linked Savings Certificates, an increase in sales of almost 30% on the year before.

On 1 November 2004, we did the same for Children's Bonus Bonds, the UK's biggest fixed rate savings product for children. From this date, customers were able to invest up to £3,000 per issue for a child compared to £1,000 in the past. A new issue is announced when the interest rate is changed for the product. The increase means parents can invest up to £12,000 in a year if the product's interest rates were changed three times, positioning Children's Bonus Bonds as a serious investment for a child's future.

In the first couple of days we had a quarter of a million pounds invested at the new higher values, over and above normal business. And in the second half of 2004-05, customers invested a total of almost £40 million in Children's Bonus Bonds – an increase of over 56% on the first half of the year.

Guaranteed Equity Bond attracts bullish investors

Issue 7 of our Guaranteed Equity Bond, which offered customers a taxable percentage of FTSE 100 growth with a capital guarantee, proved extremely popular with investors. Launched in March 2004, Issue 7 offered customers the opportunity to outperform the FTSE 100. This meant that it not only offered unlimited growth with no cap, but also to beat the stock market by returning all of the FTSE growth and an extra 10% on top (110%).

This appealed to bullish investors and nearly £200 million was invested, more than double our earlier issues.

Issue 7 gave us the opportunity to test some ideas, like increasing the offer period from six to eight weeks. We also halved the investment limit to £1,000 in an attempt to attract younger customers. Reducing the limit increased the number of young professionals investing in GEB by 60%, bringing in more than 1,200 customers in their 30s or younger.

Premium Bonds: bigger, better and more exciting

With more than £5.7 billion invested in Premium Bonds last year, this unique product is going from strength to strength. And various developments over the year have helped to make our top product even more appealing to customers.

In April 2004 we transferred all our Premium Bonds customer records to a state-of-the-art system. This move enabled us to make Premium Bonds available to buy by telephone in July 2004, and online in January 2005.

In August 2004, ERNIE 4 was launched at the Science Museum in London. The new ERNIE (electronic random number indicator equipment) is the smallest, fastest and most high-tech version to date. Developed by LogicaCMG in conjunction with Siemens, ERNIE 4 is able to generate the prize draw in around two and a half hours at a rate of one million numbers per hour – 500 times faster than the original ERNIE, which, if it were used today, would take 52 days to complete the draw.

Following a rise in the Premium Bonds prize fund rate, there have been one million prizes on offer every month since September 2004. The odds of winning a prize also improved, from 27,500:1 to 24,000:1.

In October 2004, we launched a regular savings scheme that allows customers to set up a standing order to buy Premium Bonds every month. By the end of May, more than 33,000 people had signed up for this convenient service and, together, they're investing more than £3 million per month. That's an average of £107 each – double the minimum standing order of £50.

Our range of products

NS&I offers customers a range of 12 savings and investment products to choose from. Many of these are unique, five are tax-free and all are 100% secure.

Premium Bonds

A chance to win a million, and a million chances to win

Every month we pay out over a million tax-free prizes to lucky winners – including a guaranteed £1 million jackpot. Each £1 bond has a separate and equal chance of winning a prize and customers can get their money back whenever they choose. Customers can invest up to £30,000 – the more Premium Bonds they have, the better their chances of winning. And they now have the choice of buying by phone, online or regularly by standing order, as well as by post or over the counter at any Post Office® branch.

Between February 1994 and April 2005, 785 million prizes have been won by 6.5 million customers – that's approximately 11% of the UK population.

Index-linked Savings Certificates

Tax-free returns guaranteed to beat inflation

With Index-linked Savings Certificates, customers can be sure their savings will keep ahead of rising prices. The value of Index-linked Savings Certificates moves in line with the Retail Prices Index and they earn extra interest at guaranteed rates. Customers have a choice of terms, currently three or five years. There's no tax to pay on the interest, and no need to declare anything on a tax return. Customers can invest up to £15,000 in each term and each issue.

Fixed Interest Savings Certificates

Guaranteed, tax-free returns for absolute certainty

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

Easy Access Savings Account

The easy way to build up savings

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

Guaranteed Equity Bond

The safest way to play the stock market

This investment offers potential returns linked to the growth of the FTSE 100 over a set term, with a guarantee that a customer's investment will be returned in full if the stock market falls over the term. The exact share of the FTSE 100 growth on offer differs from one issue to the next – and each issue is only available for a limited period. Customers can register online or by phone to receive details of the latest offer as soon as it becomes available. Although the returns on your investment are taxable, it is paid gross.

Capital Bonds

Fixed rates that rise every year over five years

Capital Bonds earn fixed interest at rates that rise each year for five years – so customers can know at the outset exactly how much their investment will be worth. Although the interest is taxable each year, it is added to your Bond gross.

Cash mini ISA

Tax-free saving the easy way

Customers can save up to £3,000 in our cash mini ISA each tax year without paying any tax on the interest. Our cash mini ISA fully meets the Government's CAT standards – which means no charges, easy access and fair terms.

Children's Bonus Bonds

A tax-free lump sum to give a child a head start in life

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

Fixed Rate Savings Bonds

Guaranteed returns, flexible terms

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

Income Bonds

A regular monthly income at attractive variable rates

Income Bonds are ideal for those customers who want to earn a regular income from their investment without being tied to a fixed term. Each month, we pay the interest into an account of the customer's choice and if they invest £25,000 or more, we'll pay a higher rate of interest. Although the interest is taxable, it is paid gross.

Investment Account

Straightforward passbook savings account

With tiered interest rates and a traditional passbook to help customers keep track of their money, it's easy to build up savings in an Investment Account. Customers can access their money by giving us one month's notice, giving them extra encouragement to save. Although the interest is taxable, it is paid gross.

Pensioners Guaranteed Income Bonds

Guaranteed monthly income for those aged 60 or over

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

Summary of unaudited product figures

Our unaudited product figures break down the total amount invested by our customers in 2004-05. The full, audited product accounts will be published later in the year.

Transactions and funds invested by product (unaudited)

Product	Unaudited Received from investors £m	Unaudited Interest and prizes earned £m	Unaudited Paid to investors including tax deducted at source £m	Unaudited Invested at 31 March 2005 £m	Audited Invested at 31 March 2004 £m
Premium Bonds	5,755	737	-4,134	26,609	24,251
Fixed rate products	2,470	905	-3,159	23,853	23,637
Variable rate products	2,837	714	-4,116	17,742	18,307
Products no longer on sale	0	10	-46	300	336
Total	11,062	2,366	-11,455	68,504	66,531

Transactions with investors (unaudited)

	£m	Unaudited 2004-05 £m	Audited 2003-04 £m
Received from investors		11,062	12,725
Interests and prizes earned		2,366	1,927
		13,428	14,652
Paid to investors	-11,449		-11,210
Deducted tax on interest	-6		-7
		-11,455	
Increase/(Decrease) in liability to investors		1,973	3,435
Funds invested at the beginning of the year		66,531	63,09
Funds invested at the end of the year		68,504	66,531

What our customers say

Every month, we ask 500 NS&I customers what they think of our products and services. In 2004, 88% of our customers were satisfied overall with our products, compared to a rating of 85% for other main providers of savings and investments.

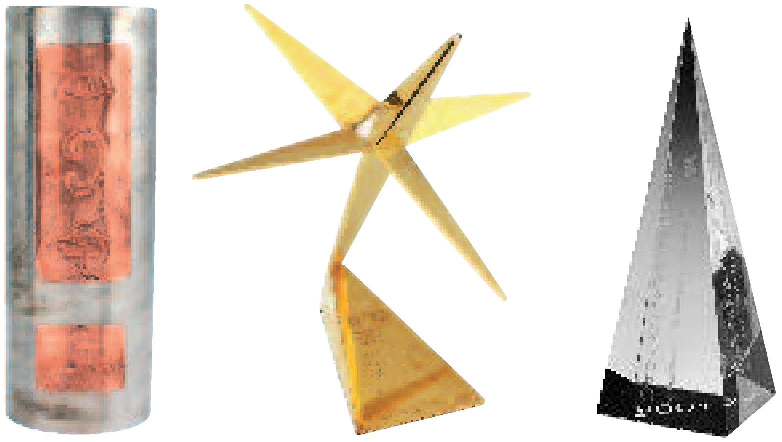
To help us stay in touch with our customers' changing needs, we started working with a consumer panel in August 2004. Made up of around 130 customers and potential customers, the panel is a mixed group drawn from five different areas of the UK. Some are NS&I customers, some are not, but they're all active in the savings market and represent what we believe to be our key target customers. Through a series of discussions and activities ranging from media diaries to attending events, the consumer panel is giving us valuable insights into our target audience. We're using these consumers as a sounding board to help us develop future offers – from enhancements to our website to changes in our products.

Making headlines

For the second year running, NS&I was the number one savings provider in the Presswatch league table, which measures the volume and positive coverage of press against other financial services organisations. In 2004-05, we received more than 3,000 pieces of coverage in the press and on TV, radio and online.

Our Quarterly Savings Survey, launched by the media team in December 2004, has been getting us a great deal of coverage. Through the survey we collect information on the public's savings habits and propensity to save, and track interest rates across the savings market. Newsworthy findings have included identifying under-25s as the 'best' savers.

The survey has helped to move NS&I from the personal finance pages to the news pages, alongside such names as Halifax and Nationwide. We have had sustained coverage in the broadsheets and tabloids as well as on BBC's six o'clock and lunchtime news.



Marketing our products and services
It was a busy year in terms of marketing, with lots of exciting changes and developments to communicate to our customers.

The closure of the Ordinary Account certainly kept our marketing team busy. We wrote to 2.7 million customers initially promoting the new Easy Access Savings Account, and explaining why the Ordinary Account was being closed. We also used a combination of mail packs and other media to inform customers of the coming changes. As a result, 89% of the £426 million invested in the Easy Access Savings Account in the opening five months came from customers transferring from the Ordinary Account.

In November 2004, a targeted campaign to existing and potential Premium Bonds customers contributed to the success of the regular savings scheme announced in the latter part of the year and building to more than 33,000 standing orders being set up. Marketing campaigns promoting the increase in prizes and the availability of Premium Bonds by phone and online were also very successful.

In 2004, we re-established contact with Premium Bonds customers with holdings under £500. By contacting this large group of existing customers with tailored letters reflecting their age and lifestyle, we encouraged them to start saving with Premium Bonds again. The campaign resulted in sales exceeding £60 million.

Using the knowledge we've gained about Guaranteed Equity Bond investors, we tailored the information we sent them in an annual newsletter. The October newsletter offered a broad market update and other information particularly relevant for these investors, including an article about the effects of inflation on savings.

In May 2004 we sponsored the Classical BRIT Awards at the Royal Albert Hall and we did the same again in 2005. The Awards, which are televised on ITV, present an ideal opportunity to raise the profile of our business by promoting our brand to a key audience on a large scale. We have also renewed our sponsorship of the Classic FM Breakfast Show.

In October 2004, we sponsored the sixth annual IX Investor '04 event. We also attended large-scale, mainstream events such as the BBC Good Homes Show, the BBC Good Food Show, BBC Gardeners' World and the Hampton Court Flower Show.

And the winner is…

Over the last year, our products and promotions received or were nominated for several awards, including:

- Prima Baby Readers' Awards: Best Value Child Savings Plan (Children's Bonus Bonds)
- Guardian/Observer Consumer Finance Award: Best ISA Provider (NS&I)
- Institute of Public Relations Awards: winner, Corporate and Financial category (Premium Bonds campaign)
- Marketing Design Awards: highly commended, Financial category (Gifts for Children campaign)
- Financial Services Forum Awards for Marketing Effectiveness: Commended finalist, Most Effective Direct Marketing campaign and judges' special commendation award for Best Contribution to Marketing Learning for the campaign announcing the increase in the Premium Bonds maximum holding to £30,000
- Tommy Awards: finalist, Best Children's Savings Provider (NS&I)

Making NS&I a great place to work

- 98% of our people responded to a new telephone survey about working at NS&I
- According to the survey, 70% of our people feel that NS&I is a 'great place to work'
- Investors in People Assessor Bill Crabtree said of NS&I: 'Very strong evidence of a desire to improve not just what we do, but also how we operate.'

2004 saw the launch of a number of new people programmes to help us create an environment that will give our people the confidence to deliver excellent service by changing attitudes, pushing boundaries and challenging traditional behaviours and values.

Direction 2007
Our Direction 2007 strategy identified the need to change our ways of working so that everyone adopted the same approach to delivering value for the business. As part of the strategy, we identified several short-term objectives for 2004-05, including:

- continue to raise the profile of NS&I
- continue to increase the pace of change
- make NS&I a great place to work

The 'applause' programme is contributing to the achievement of these objectives and more.

achieve!
perform!
praise!
lead!
action from feedback
yo**u**
stretch
l**e**an

Motivating and rewarding our people
APPLAUSE is the framework that has been developed to support the delivery of the new initiatives that will drive the ambition to make NS&I 'a great place to work' as well as encourage a more responsive and dynamic culture.

Capturing the various initiatives under the umbrella of APPLAUSE helps to demonstrate the implicit links between each activity and retain the focus on how each are contributing to the change in the way we work at NS&I.

Using the framework we have been able to bring each of these initiatives to life, champion and track progress and promote their achievement. The analogy for APPLAUSE is an audience applauding in unison to celebrate shared success and achievement

The LEAD! Programme was conceived from the recognition that, to deliver our D2007 strategy, NS&I needed to change the way leaders lead and manage by establishing a common understanding of what effective leadership looks like in NS&I.

Working in partnership with the Ashridge College, NS&I co-designed a tailored programme of activity that provided opportunities to establish a leadership community that could understand the context within which they will lead and grasp the responsibilities of their roles to gain true ownership of issues.

Opinions	NS&I	Central government	Financial services
My line manager communicates effectively	90%	72%	72%
I am satisfied with my career opportunities	64%	33%	41%
I have enough information to do my job well	89%	62%	72%

Source: ORCI

LEAN is another of the successful initiatives launched in the last year. First introduced by our partner Siemens, LEAN is a systematic way of looking at each and every process our teams are involved in and is designed to make our ways of working more effective. In essence, it's about getting those who best know how things are done – the people who do the work every day – to look at what they do, in an effort to make things run more smoothly and effectively for everyone.

Results indicate that LEAN has vastly improved our response speed in areas like the joint handling of customer complaints. Following a streamlining of the processes involved, response times have been more than halved – down from customers receiving a response within 11 days to five days. And benefits have been realised in other areas such as the production of Management Information Reports that have been cut in half – from 32 to 16 reports annually – when LEAN investigations revealed there was a lot of duplication and better ways of meeting internal customer needs more effectively.

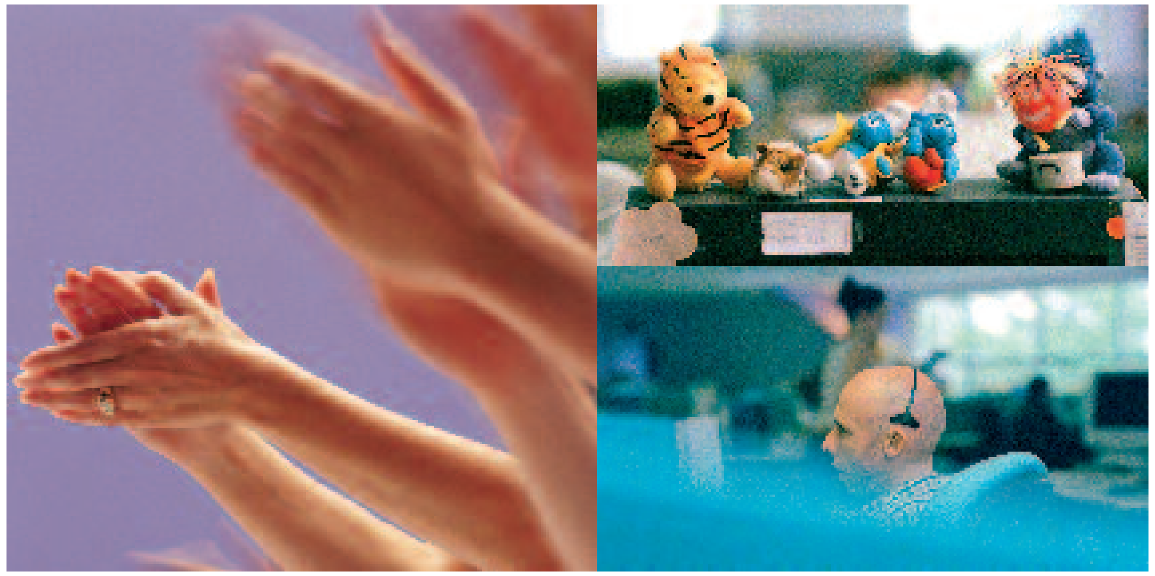
Praise! saw the introduction of a new recognition scheme for people at NS&I and Siemens. The scheme, which enables people to nominate colleagues for a small gift for going above and beyond the call of duty, was launched in July 2004 and received 171 nominations for 544 awards in its first eight months. These are only small gestures of recognition, but the scheme made a significant impact on people across the partnership and is very straightforward to operate. With the introduction of an awards dinner at our annual business strategy event, we were able to further build on celebrating the success of the partnership with several cross-partnership team awards.

Listening to each other – and doing something about it
To measure the progress of APPLAUSE we use an online feedback survey designed to monitor the NS&I 'pulse' rate on a regular basis with fast reporting capabilities to feedback results to the business quickly.

The Pulse is monitored by a group of people across the business, the Listening and Action Group, who interpret the feedback and agree actions with the rest of the organisation.

In October 2004 also carried out an Agency-wide telephone survey to obtain more in-depth feedback on what people thought about working for NS&I.

This survey was designed to get to heart of some of the core topics that APPLAUSE is addressing, including people's feelings about their work/life balance, the organisation's leadership and its communications. The feedback was then benchmarked against those within other financial services and central government organisations.



Investors in People
Our third Investors in People assessment took place in March 2005 and we successfully achieved re-accreditation. A committee of NS&I people from across the organisation was formed to put together a portfolio of evidence, which proved that we had met and improved on the standards of our previous assessment.

Examples of best practice cited by Investors in People Assessor Bill Crabtree: 'A successful business – a relatively small team with the capacity to make a huge impact!' and 'Very strong evidence of a desire to improve not just what we do, but also how we operate.'

Charter Mark: An important benchmark
Charter Mark, the public sector quality service award, is very important to us as it measures our performance, with partner Siemens, against government benchmarks.

All for a good cause
Throughout 2004-05, everyone across NS&I was involved in organising, taking part in and contributing to a series of events that raised nearly £1,800 for Children in Need. And 50 people took part in the Chase Corporate Challenge – a 5km run or walk – to raise money for good causes.

Awards and recognition
The Media and Public Relations team have received a number of accolades, but most notably they won the Institute of Public Relations Corporate and Financial Campaign of the Year 2004, for their campaign on Premium Bonds. In 2005 they have been short-listed as a finalist for the Financial PR and Investor Relations Campaign, for their savings survey campaign. The IPR also recognised the team by short-listing them as finalists for the Public Sector Team of the year 2004.

They were also named as finalists for several other awards including Public Sector Campaign of the year award at the PR Week Awards and Corporate Campaign of the year 2004 at the National Business Awards, again for their Premium Bonds campaign.

Changes to the Board

There have been a number of changes to the NS&I Board. We have a new Chairman, a new Non-executive Director, new Executive Director and new Board members from HM Treasury.

Paul Spencer
Chairman

Our previous Chairman, Richard Wright, completed his three-year tenure as Chairman at the end of December 2004. He has been replaced by Paul Spencer, who had been a Non-executive Director since September 2003. Having been on the Board for over a year, Paul already has an in-depth knowledge of the organisation, combined with a wealth of industry experience.

To all those Board members who have left, we would like to say thank you for all their hard work.

"A Board is about bringing ideas and people together and thoroughly testing their validity and potential. NS&I has a good Board… We have a healthy respect for each other and people aren't frightened to say what they think."

Paul Spencer, Chairman

Paul Spencer
Chairman

Paul Spencer joined National Savings and Investments as a Non-executive Director in 2003 and became Chairman in January 2005. He is highly experienced in the insurance and financial services fields, having sat on audit committees and worked on numerous governance, risk and remuneration issues.

Currently 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. 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 working in treasury, then 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 integration with Sun Alliance, becoming Chief Executive of the UK merged company in 1998.

He is currently a Non-executive Director at WPP Group PLC, Britannic Insurance Group PLC, Sovereign Reversions PLC, Nipponkoa Insurance (Europe) Ltd as well as those mentioned.

Karen Jones
Marketing Director

Karen was appointed NS&I Marketing Director in April 2005. She joined NS&I from BBC UK TV Licensing, where she was responsible for strategic planning and marketing. Prior to that, she was E-business Marketing Director of AXA UK plc, Head of Customer Marketing at Abbey National Retail Bank Plc and General Manager of Marketing at Direct Line Group.

As Marketing Director at NS&I, Karen is in charge of our customer offer, product management, customer insight, marketing communications including direct marketing, and advertising, media relations and PR.

Martin Gray
Non-executive Director

Martin Gray joined the NS&I board as Non-executive Director at the beginning of January.

Martin has had a distinguished career in banking, joining NatWest Group as a clerk at 17 and retiring as Chief Executive of NatWest UK 36 years later in 1999. He has also held a number of board-level appointments within the financial services industry including NatWest Bank group, MasterCard Inc Global Board and Visa Europe.

While at NatWest, Martin oversaw some huge changes to the business including more customer-friendly opening hours in branches and introducing call centres.

Lowri Khan and Sarah Tebbutt
Joint Heads of the Debt and Reserves Management Team, HM Treasury

Lowri Khan and Sarah Tebbutt job-share as joint Heads of the Debt and Reserves Management Team at HM Treasury. As well as sponsoring NS&I and the Debt Management Office, their team is responsible for policy on government borrowing, investment of the Government's foreign currency reserves and managing HM Treasury's shareholder interest in the Bank of England.

In the Treasury, Lowri has worked in various posts, including, most recently, leading on the Myners Review of the Governance of Life Mutuals. Lowri has an economics degree from Cambridge University.

Sarah has worked in the Treasury, the Cabinet Office and at the UK representation in Brussels. She has an MBA from the Tanaka Business School at Imperial College.

Changes to the Board Committees
The work of the Board is supported by an Audit Committee and an Appointments and Remuneration Committee. In 2005, chairmanship of the Audit Committee passed to Michael Medlicott from Paul Spencer.

Paul Spencer has joined the Appointments and Remuneration Committee which oversees and ratifies the annual pay and performance review process for senior managers to ensure that it is being administered fairly and in accordance with Cabinet Office guidelines. This committee also has the benefit of a new independent adviser, Paul Farley, who is Head of Reward at Lloyds TSB Bank Plc.

Our Board

Alan Cook
Chief Executive
Director of Savings and
Department Accounting Officer

Paul Spencer
Chairman

Sandra Postles
Human Resources Director

Steve Owen
Partnership and Operations Director

Sarah Tebutt (pictured)
Joint Head of Debt and Reserves Management Team, HM Treasury

Lowri Khan
Joint Head of Debt and Reserves Management Team, HM Treasury

Trevor Bayley
Deputy Chief Executive and Finance Director

John Prout
Sales Director

Maria Stafford
Non-executive Director

Karen Jones
Marketing Director

Sue Owen
HM Treasury Director of EMU Policy, Euro Preparations and Debt Management

Martin Gray
Non-executive Director

Michael Medlicott
Non-executive Director

Building unique relationships

- The contract between NS&I and Siemens has been extended to 2014
- We signed a new contract with Post Office Ltd
- The migration of our Premium Bonds customer records onto a new system was one of the biggest ever data migrations in Europe
- NS&I and Siemens were awarded the Grand Prix for Outstanding Innovation and Achievement at the Institute of Financial Services Financial Innovations Awards

The success of our modernisation programme comes down to the success of our partnerships, which have helped to make NS&I more accessible, more efficient and more focused on our customers. Having signed new contracts with both Siemens Business Services (Siemens) and Post Office Limited, we can look forward to building on these relationships further in the future.

Another five years for NS&I and Siemens

On 30 September 2004, we extended our contract with Siemens by a further five years, taking the total contract term through to 2014.

The contract extension has created an environment suited to long-term planning and greater growth for both partners. Put simply, the higher NS&I's sales are, the more work there will be for Siemens, which leads to greater reward. This basic principle allows both partners to deliver their objectives while working towards meeting the government mandate of providing cost-effective financing. By making sure both partners benefit, the extension creates a more stable platform for growth.

The contract also sets out very clear parameters and controls regarding global sourcing. Within these parameters, Siemens has moved some tasks to its existing operation in India. The move didn't affect any customer-facing roles and there were no redundancies as a result of it. Instead, it has enabled us to grow most cost effectively and utilise our UK skills base for higher value roles, while maintaining our quality of service to our customers.

Dave Ormrod,
Account Director
Siemens Business Services

"A great partnership spirit has developed over the first five years of our working relationship with NS&I. Moving forward, now with greater clarity on our common objectives, we will continue to build upon our success, using joint organisational development tools to ensure these goals are met."

Working principles

- put our customers first
- act in the best interests of the whole business
- understand and respect each other's perspectives
- be clear about what you expect from others and be realistic about resources
- work together to find the best solution and address causes rather than effects
- have a passion for excellence in all you do
- embrace change with enthusiasm

Migrating a billion Premium Bonds records
NS&I and Siemens undertook one of the biggest data migration projects in Europe when we moved all our Premium Bonds customer records from our legacy technology framework to our new banking platform, Thaler. The success of this enormous task was measured by one overriding factor: no one noticed.

The complex migration project took a cross-partnership team 30 months of careful planning, including several rehearsals, before the live migration took place over the Easter Bank Holiday, when it took just 36 hours to complete.

The migration of almost a billion customer records – adding up to nine billion pieces of data – was a huge step forward in modernising our most popular product, as it paved the way for a series of improvements such as telephone and online sales. Ultimately, it will help us to build a more modern and efficient business that offers customers more flexibility and choice in the ways they deal with us.

An engaging series of workshops
In January 2005, NS&I and Siemens directors attended a series of partnership engagement workshops. The aim of the workshops was to widen channels of communication between the organisations, with an initial emphasis on those people who dealt with each other across the partnership on a regular basis. This led to the development of a partnership agreement and a list of basic principles for working together.

The Live Link 2005 event, a packed two days of strategy, workshops, fun and awards, followed up the partnership engagement workshops to great effect by assessing how far we have come and identifying our actions and priorities for the next 12 months.

The overall 'relationship development' programme is now made up of four workstreams, each with joint NS&I/Siemens senior management sponsors and joint working teams.

They are:

- mapping objectives and relationships
- better change processes
- better communications
- behaviour development

"The successful co-operation with NS&I is evidence of how much business can be improved when two companies are working closely together in partnership."

Adrian von Hammerstein, Group President, Siemens Business Services

An award-winning relationship
At the 2004 Institute of Financial Services (IFS) Financial Innovation Awards, NS&I and Siemens received the Grand Prix Award for Outstanding Innovation and Achievement and the award for Most Effective Back Office Initiative – both for LEAN, the initiative that has been streamlining our business processes. We were also a finalist for Most Effective Outsourcing Partnership Initiative, again for LEAN.

The partnership between NS&I and Siemens made it through to the final of the Unisys/Management Today Awards for the second year running in 2004.

And, despite all these changes and the changing customer environment, NS&I consistently maintained its high levels of customer service and, subsequently, customer satisfaction.

Strengthening our longest-standing relationship
Although we are focusing more on offering our customers direct access through channels such as the telephone and the internet, with sales of £6-7 billion coming through Post Office branches, the Post Office® remains our primary source of sales. Recognising the importance of this channel, we have signed a revised contract with Post Office Limited.

Our main aim is to continue to enable the two organisations to work together towards common goals that will provide mutual benefit. NS&I benefits by encouraging improved sales performance against an agreed sales plan, while the Post Office gains through being able to link revenue received to sales growth. The contract ensures more medium-term commercial certainty for both sides, with clear notice periods for any major changes to the relationship or the product line-up.

Delivering economic value

- We are on track to reach our five-year target of delivering £15 billion in net financing by 2007-08
- We exceeded our Value Added target by more than £30 million
- Our total gross sales came to £11.1 billion

When people save and invest with NS&I, they are lending money to the Government. In return, the Government pays those people interest, stock market linked returns or Premium Bonds prizes. HM Treasury uses the money invested to help manage the national debt cost-effectively, which contributes towards the Government's financing needs. This relationship between NS&I and the Treasury enables us to offer our customers a unique 100% security guarantee.

How we add value

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

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

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

What is Value Added?

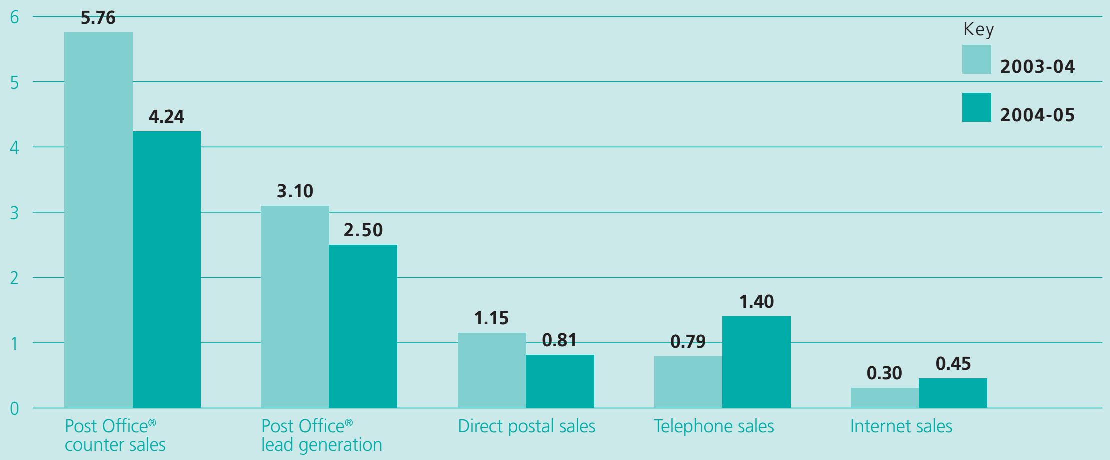
Money borrowed by the Government is called the national debt, and paying interest on this debt accounts for a sizeable part of the Government's annual expenditure. NS&I helps to keep down this expense by providing funds at a lower overall cost than financing the same amount through Gilts and Treasury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

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

Key financial figures

Sales performed by channel (£bn)



Value Added performance

Our actual cost-effectiveness is 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.

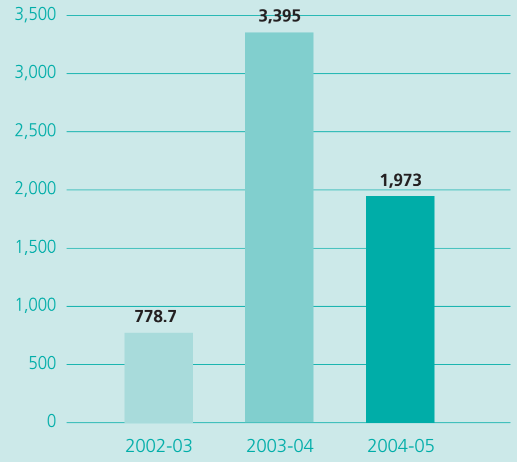
Over the last three years, this 'delagged' performance measure of Value Added has fluctuated from £262.0 million in 2002-03 to £253.7 million in 2004-05.

Adjusting rates of interest

Products with tax-free returns deprive the Exchequer of revenues. To ensure that the Exchequer is not adversely affected, NS&I takes account of the amount of tax foregone through the purchase of the products by adjusting the rates of interest offered to the customer to make sure they are cost neutral to the Exchequer.

Total invested by customers in National Savings and Investments at the end of the year	£68.5 billion
Net financing (unaudited) for Government during the year	£1.97 billion
Value added (delagged) for the year after allowing for operating costs	£253.7 million
Net operating costs of National Savings and Investments	£165.8 million
Gross sales of all National Savings and Investments products	£11.06 billion
Telephone sales	*£1,396 million
Sales generated via the internet	*£450 million
Sales through Post Office® Counters	*£4.24 billion
Sales by direct post Direct postal sales Post Office® lead generation	*£3.26 billion
*these sales are part of the gross sales above National Savings and Investments Premium Bonds sales.	£5.75 billion

Net financing (£ m)



Value Added figures for the last four years (£ m)

	2004-05	2003-04	2002-03	2001-02
Value Added	306.0	285.3	249.3	76.3
Adjustment for timing and other differences	(52.3)	(24.9)	12.7	100.0
Value Added – delagged	253.7	*260.4	*262.0	176.3

As an Executive Agency of the Chancellor of the Exchequer, NS&I is a role model of best practice in Government in many areas. Our modernisation programme is ahead of targets set out in the Gershon review and our relationship with Siemens is widely recognised as one of the UK's most successful public/private partnerships.

How we set our interest rates

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

- comparing the cost of our variable rate products with the 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
- comparing 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.

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.

Setting the standard

As an Executive Agency of the Chancellor of the Exchequer, NS&I seeks to follow best practice – this has been recognised by both the Cabinet Office, for Corporate Governance and the National Audit Office for Risk Management. Our relationship with Siemens is widely recognised as one of the UK's most successful public/private partnerships.

Our objectives for 2005/06:

- achieve £3.5 billion net financing
- continue the channel shift
- continue product diversification
- develop the NS&I/Siemens partnership to be 'world class'
- put the customer at the forefront of the business
- continue to increase the pace of change
- develop our people

Accounts contents

Aiming even higher

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

Targets 2002-03

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

Targets 2003-04

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

As part of the Spending Review 2004, Service Delivery Agreements were replaced with Service Delivery Measures, which are negotiated with HM Treasury annually.

NS&I's overarching aim is to help reduce the cost to the taxpayer of Government borrowing now and in the future. In order to give cost-effective financing for the Government NS&I must give customers a fair deal in a highly competitive marketplace. Therefore NS&I aims to offer products that meet customers needs, backed by excellent customer service.

In recognition of these aims the NS&I SDMs are built around six key goals:

- to achieve the financing remit and improve efficiency
- to maintain the current high levels of customer satisfaction
- to improve customer service levels for interactions with customers
- to improve the effectiveness of fraud management
- to improve the efficiency of administration
- to maintain compliance with Banking Code

The following table summarises our goals, the objectives and definitions of the associated performance measures and targets for 2005-06.

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 2004-05

Goals	Objectives	Performance measures	Targets
To achieve the financing remit and improve efficiency	To create at least an agreed amount of Value Added	Absolute amount of (delagged) Value Added from NS&I products, excluding Index-linked Saving Certificate Extension Terms	At least £200 million
	To raise an amount of Net Financing within an agreed range	Absolute amount of Net Financing from all NS&I products	£2.0 billion (+/-£1.0 billion)
	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 costs to average funds invested by customers	Less than 30 basis points
To improve the effectiveness of fraud management	To minimise the proportion of fraud resulting in actual loss	Ratio of net fraud losses after blame assessment to total fraud detected	Less than 25%
To improve the accessibility of NS&I for customers	To increase the proportion of customer interactions with NS&I capable of being carried out via non-paper-based means	Ratio of the number of customers initiated transactions capable 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 actually carried out to non-paper-based means	Ratio of the number of customer initiated transactions actually carried out via non-paper-based means to the total number of customer transactions	At least 28%
To maintain the current high levels of customer service and satisfaction	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 levels of satisfaction against question, "How satisfied are you in terms of savings and investments with NS&I?"	At least 80%

Service delivery measures (SDM) for 2005-06

SR2004 SDM Goals	SR2004 SDM Objectives	SR2004 SDM Performance measures	2005-06 Targets
To achieve the financing remit and improve efficiency	To create at least an agreed amount of Value Added	Absolute amount of (delagged) Value Added from NS&I products, excluding Index Linked Saving Certificate Extension Terms	Confidential
	To raise an amount of Net Financing within an agreed range	Absolute amount of Net Financing from all NS&I product	£3.5 billion (+£500 million or -£1.0 billion)
To maintain the current high levels of customer satisfaction	To exceed a threshold level of customer satisfaction with NS&I	Average level of satisfaction against question, "How satisfied are you overall in terms of savings and investments with NS&I?"	At least 84%
To maintain the current high levels of customer service	To achieve consistent accuracy in meeting increasingly challenging targets	Average performance against Accuracy Key Performance Indicator targets	At least 98.5%
	To achieve consistent timeliness in meeting increasingly challenging targets	Average performance against Timeliness Key Performance Indicator targets	At least 97%
To improve the effectiveness of fraud management	To minimise the proportion of fraud resulting in actual loss	Ratio of net fraud losses after blame assessment to total fraud detected	Less than 25%
Ratio of total NS&I administrative costs to average funds invested by customers	To invest in capability and subsequently return the efficiency of administering total funds to the level achieved in 2002-03	Ratio of total NS&I administrative costs to average funds invested by customers	Less than 28 basis points
To maintain Banking Code Compliance	To ensure compliance with the Banking Code	Self assessment of compliance checked by Banking Code Standard Board	Agreement by Banking Code Standards Board that NS&I remain compliant

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.

These Resource Accounts provide the National Savings and Investments cost of administration. National Savings and Investments product accounts are published separately.

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 2004-2005 is shown in schedule 5 of these accounts.

In pursuit of its objective, financing through National Savings and Investments in 2004-2005 was at a cost competitive with equivalent financing through gilt-edged stock and Treasury Bills. Sales, deposits and interest and prizes earned on National Savings and Investments products during the period totalled £13.43 billion (2003-04 £14.6 billion) and withdrawals and interest paid totalled £11.46 billion (2003-04 £11.2 billion; and there was a net increase over the year of £1.97 billion (2003-04 £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.

Changes in Fixed Assets during the year

There was no significant expenditure on fixed assets during the period. However, a full revaluation of the land and buildings was undertaken. The result of this reduced the net value of the tangible fixed assets from nearly £30 million (2003-04) to £24.8 million. Note 6.2 provides further details of the land and buildings valuations.

Matters covered in the Departmental Report

The National Savings and Investments Departmental Report contains the department's expenditure plans for 2006-07, and the main estimates for 2005-06 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 June 2005.

Ministerial responsibility

National Savings and Investments is an Executive Agency of the Chancellor of the Exchequer. For 2004-05, 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 MP from April to September and then by Stephen Timms MP. From May 2005, the government minister responsible for National Savings & Investments is the Economic Secretary to the Treasury (EST). The position is currently held by Ivan Lewis MP. 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 2004-2005 Resource Accounts.

Audit committee

The audit committee of National Savings and Investments meets quarterly and is chaired by Michael Medlicott, one of the department's non-executive directors, who assumed the role when Paul Spencer relinquished the chairmanship and his membership of the committee on becoming chairman of the NS&I board in January 2005. In addition, membership of the audit committee during 2004-05 comprised Martin Gray, a newly appointed non-executive director, for the period 1 January to 31 March 2005, a member of HM Treasury's Debt and Reserves Management team and the Chief Executive and the Finance Director. The other executive directors have a standing invitation to attend as do the Agency's Head of Internal Audit; HM Treasury Exchequer Funds and Accounts; the National Audit Office and PriceWaterhouseCoopers, who are the NAO's appointed auditors for the NS&I product accounts. Siemens Business Services also have a standing invitation and are normally represented at all meetings. The other non-executive directors may attend meetings if they so choose.

Board members

Membership of the National Savings and Investments Board during the financial year 2004-2005 and subsequently up to the date of preparation of these accounts comprised:

Non-executive Directors:	
Richard Wright	Chairman of the Board (until 31 December 2004)
Paul Spencer	Chairman of the Board (from 1 January 2005)
Martin Gray	(from 1 January 2005)
Michael Medlicott	
Maria Stafford	
Executive Directors:	
Alan Cook	Chief Executive; Accounting Officer and Director of Savings
Trevor Bayley	Finance Director
Gill Cattanach	Marketing Director (resigned January 2005)
Karen Jones	Marketing Director (appointed April 2005)
Steve Owen	Partnerships and Operations Director
Sandra Postles	Human Resources Director
John Prout	Sales Director
Representatives of HM Treasury:	
Sue Owen	Director EMU (Policy & Preparation)
Allison Holland	Debt and Reserves Management Team Leader (to November 2004)
Sarah Tebbutt	Debt and Reserves Management Team Leader (from November 2004)

Following a recruitment campaign and with HM Treasury, consent Alan Cook was appointed as a Non-executive Director of Post Office Limited for a fixed term of three years from March 2005. The Board is satisfied that this appointment does not compromise either NS&I or his role as Accounting Officer of NS&I. No other directorships or significant interests were held by executive members of the Board.

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
Karen Jones	until April 2009
Maria Stafford	until December 2007
Martin Gray	until December 2007
Michael Medlicott	until August 2006
Paul Spencer	until August 2006

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

HM Treasury Representatives
Sue Owen
Sarah Tebbutt

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 lay down by the Cabinet Office on the basis of the Senior Salaries Review Body Report (2004). Salaries are adjusted on the basis of performance.

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

Chairman	Maria Stafford (Non-executive)
Independent Advisor	Tim Wilson Head of Reward, Lloyds TSB Bank Plc (until February 2005)
Independent Advisor	Paul Farley Head of Reward, Lloyds TSB Bank Plc (from February 2005)
Members	Alan Cook Sandra Postles Paul Spencer (Non-executive)
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.

Pension liabilities
The majority of present and past employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS). The PCSPS is a defined benefit scheme which, in the main, provides benefits based upon length of service and final salary. The scheme is non-contributory and unfunded. Liability for payment of future benefits lies with the PCSPS. There is a separate scheme statement for the PCSPS as a whole. The department meets the cost of pension cover provided for its employees by payment of charges calculated on an accruing basis. The rate of the employer's contribution is determined from time to time by the Government Actuary and advised by the Treasury. For 2004-05 the rates were between 12% and 18.5% of pensionable pay depending on salary.

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. There were no early retirees during 2004-05.

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 97.8 per cent (2003-04 92.1 per cent) 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 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 agency 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 operate 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 CVs to the selection criteria and reviewing diversity breakdowns to ensure it was fair and robustly applied. National Savings and Investments submit an annual audit return to the office of the Civil Service Commissioners which summarises campaigns, policy and processes. All activities may then be subject to a further audit review by the Civil Service Commissioners and campaign files are kept for 12 months to comply with this requirement. 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.

	Non-executive Directors	Senior Civil Servants	Range A	Range B	Range C	Range D
Male	1	1	3	3	3	0
Female	0	1	3	8	6	1
White	1	2	4	7	7	1
Non-white	0	0	2	4	2	0
Disabled	0	0	0	0	0	0

During 2004-05 there were a total of **30** permanent and fixed term appointments which are summarised in the table above. There were no permitted exceptions to the recruitment principle of fair and open competition.

Audit
These accounts have been audited by the Comptroller and Auditor General whose Certificate and Report appear on pages 50 and 51.

Auditors
The Comptroller and Auditor General is responsible for the audit of the Resource Accounts in accordance with section (7) of the Government Resources and Accounts Act 2000. The notional charge for audit of these Resource Accounts as disclosed in the accounts is £56,000 (2003-04, £56,000).

Alan Cook
Chief Executive
National Savings and Investments

30 June 2005

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 HM 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 Economic Secretary to the Treasury, who is 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. I and my senior staff also hold regular briefing meetings with other relevant HM Treasury teams.

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 2005 and up to the date of approval of the 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 reviewed during the year by the Board to ensure the processes and responsibilities for the management of risk it supports remain relevant to the agency, and are in line with the latest "Orange Book" guidance from the Treasury.

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, where not retained at EMT level, has been delegated to individual Business Unit Leaders.

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 (SBS) for the delivery of our strategic objective. Consequently, we have established joint processes with SBS to manage the partnership as one business. These include reciprocal SBS representation at the NS&I Executive Management Team (EMT) meetings and NS&I representation at SBS NS&I Account senior management team meetings; joint working between project offices; joint project teams; and a Joint Audit and Risk Management Committee (JARMC). The JARMC updates the Audit Committee on the management of risks to the joint business.

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

4. The risk process

An analysis of key risks and the consequent sub-risks has been established through an ongoing programme of individual and collective discussion with the executive directors. With very few exceptions where sub-risks have been retained by the Directors, all sub-risks have been allocated to Business Unit Leaders. 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 Management Teams.

Where further action is necessary to reduce exposure, the action and its intended effect on the status of the risk is logged; responsibility allocated; and a completion date agreed. Progress on the action is tracked and missed completion dates on residually red risks are reported monthly through to the Executive Management team and bi-monthly to the board via the Corporate Balanced Scorecard. Missed dates on other risks are reported to the relevant EMT member via the Business Unit Balanced Scorecards.

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

As part of the annual planning cycle, Business Unit Leaders were required to identify the significant risks which could impact on the achievement of each main element of their proposed business plans for 2005/06. These risks were then compared with the existing risk register, which was amended as necessary. This process now forms 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 continue to be refined to further embed risk management within NS&I's business.

During 2004/05, considerable progress continued to be made on developing our business continuity plans, to the point where all identified resilience gaps in the IT infrastructure are being addressed to the Audit Committee's satisfaction. During 2005/06 further work will be done to strengthen other areas of business continuity. The Audit Committee will continue to monitor progress on this area closely.

The work to update and automate Evidence of Identity checking procedures foreshadowed in my 2003/04 Statement on Internal Control culminated in the introduction in January 2005 of a new automated system of identity checking. This system has now bedded in, and is working satisfactorily; and in my opinion ensures that NS&I continues to be compliant with current Money Laundering Regulations.

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.

We are continuing the process of strengthening internal controls across all systems and products based on the new standards for control in the business which were enabled by the launch of the Easy Access Savings Account on a purpose-designed system. In addition we will continue our ongoing process for assessing internal control against best practice.

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

The Executive Management Team conducts quarterly reviews of the risk register and reports on residually red 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.

The wider remit given to Deloitte following their re-appointment as NS&I's internal auditors has enabled the production of one overall audit plan and audit process for the NS&I business, led by Deloitte. In my opinion, and that of the Audit Committee, this has resulted in an appreciable enhancement of the internal audit process, and hence of the value of the internal audit assurance.

The approach to reviewing effectiveness and plans to ensure the continuous improvement of the systems in place will be further refined in 2005/06.

Alan Cook
Director of Savings
National Savings and Investments

30 June 2005

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 52 to 75 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 58 to 60.

Respective responsibilities of the Accounting Officer and Auditor

As described on page 45 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 46 to 49 reflects the Department's compliance with the Treasury's guidance on the 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 2005 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
National Audit Office
157-197 Buckingham Palace Road
Victoria
London SW1W 9SP

30 June 2005

Schedule 1

Summary of resource outturn 2004-05 (£000s)

	Gross Expenditure £'000	Estimate A in A £'000	Net Total £'000	Gross Expenditure £'000	A in A £'000	Outturn Net Total £'000	Net Total Outturn compared with estimate: saving/(excess) £'000	Prior year outturn £'000
Request for resources 1	182,281	4,755	**177,526**	170,442	4,678	**165,764**	**11,762**	**172,086**
Non-operating cost A in A								2
Net cash requirement			175,650			163,843	11,807	167,399

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 2004-05 Income	Forecast 2004-05 Receipts	Outturn 2004-05 Income	Outturn 2004-05 Receipts
Total	4	-	-	464	464

The actual receipts surrenderable to the Consolidated Fund were £463,957.05

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

	£m
(i) Reduced costs and savings against budgets for some of the major projects undertaken (£4.4m) and delay in other projects (£3.8 m)	8.2
(ii) Payments to selling agents lower than anticipated	3.3
(iii) Expenditure on direct marketing lower than expected	1.5
(iv) Revaluation of properties diminution not estimated for initially	(1.2)
Variance between estimate and outturn	**11.8**

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

The cash differences did not differ significantly from the resource differences provided above

Reconciliation of resources to cash requirement (£000s)

	Note	Estimate	Outturn	Net total outturn compared with estimate: saving/(excess)
Net total resources		177,526	165,764	11,762
Capital:				
Acquisition of fixed assets	5	500	137	363
Investments		-		
Non Operating A in A				
Proceeds of fixed asset disposals		-		
Accruals adjustments				
Non-cash items	3	(5,326)	(5,142)	(184)
Changes in working capital Other than cash	7	2,050	2,097	(47)
Changes in creditors falling due after more than one year		-		
Use of provision	11	900	987	(87)
Net cash requirement (Schedule 4)		175,650	163,843	11,807

The notes on pages 58 to 75 form part of these accounts.

Operating cost statement

for the year ended 31 March 2005

	Notes	2004-05 £'000	2003-04 £'000
Administration costs			
Staff costs	2	7,226	7,017
Other administration costs	3	163,216	169,651
Gross administration costs		170,442	176,668
Operating income	4	(4,678)	(4,582)
Net resource outturn		165,764	172,086

All income and expenditure are derived from continuing operations.

Statement of recognised gains and losses

for the year ended 31 March 2005

	Notes	2004-05 £'000	2003-04 £'000
Net gain/(loss) on revaluation of tangible fixed assets	13	(2,947)	1,594
Total recognised gains and losses for the financial year		(2,947)	1,594

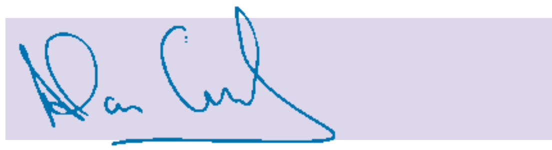
The notes on pages 58 to 75 form part of these accounts.

Balance sheet

as at 31 March 2005

	Notes	31 March 2005 £'000	31 March 2005 £'000	Restated 31 March 2004 £000's	Restated 31 March 2004 £'000
Fixed assets					
Intangible fixed assets	6.1	141		109	
Tangible fixed assets	6.2	24,841		29,953	
Total fixed assets			24,982		30,062
Debtors falling due after more than one year	8		4,622		6,162
Current assets					
Debtors due within one year	8	1,604		2,743	
Cash at bank and in hand	9	4,158		2,801	
Total current assets		5,762		5,544	
Current liabilities					
Creditors (due within one year)	10	(17,833)		(19,713)	
Net current assets			(12,071)		(14,169)
Total assets less current liabilities			17,533		22,055
Provisions for liabilities and charges	11		(1,575)		(2,379)
Total assets less liabilities			15,958		19,676
Taxpayer's Equity:					
General Fund	12		9,827		10,598
Revaluation Reserve	13		6,131		9,078
	14		15,958		19,676

The notes on pages 58 to 75 form part of these accounts.



Alan Cook
Chief Executive
30 June 2005

Cashflow statement

for the year ended 31 March 2005

	Notes	2004-05 £'000	2003-04 £'000
Net cash outflow from operating activities	15(i)	(163,690)	(166,329)
Capital (expenditure)/receipts and financial investment	15(ii)	(153)	(1,070)
Receipts due to the Consolidated Fund which are outside the scope of the Department's activities		464	457
Payments of amounts due to the Consolidated Fund		(464)	(457)
Financing	15(iii)	165,200	171,092
Increase/(decrease) in cash in the period	9	1,357	3,693

The notes on pages 58 to 75 form part of these accounts.

Resources by departmental aims and objectives

for the year ended 31 March 2005

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 2004-05 National Savings and Investments incurred the following resource costs in pursuit of its objective:

	Notes	2004-05 £'000	2003-04 £'000
Resource cost of objective	23	165,764	172,086
Net resource outturn		165,764	172,086

The notes on pages 58 to 75 form part of these accounts

Notes to the accounts

1. Accounting policies

The financial statements have been prepared in accordance with the 2004-05 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 for 31 March 2005 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. The indices used 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 is 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 (SBS) 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 SBS over the life of the contract. The prepayment is being written down and expensed over the initial 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 do 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 below.

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:

	2004-05 £'000	2003-04 £'000
Wages and salaries	5,422	4,981
Social security costs	496	473
Other pension costs	750	701
Total payroll costs	6,668	6,155
Inward Secondments,		
Temporary and Agency Staff	558	862
Total Staff Costs	7,226	7,017

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)

For 2004-2005 contributions of £745,700 were paid to the PCSPS (2003-04 £695,725) at rates determined by the Government Actuary and advised by the Treasury. These rates were in the range 12-18.5 per cent of pensionable pay based on salary bands. The scheme's Actuary reviews employer contributions every four years following a full scheme valuation. Rates 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 employer contribution. Employer's contributions of £4,169 (2003-04 £4,783) were paid to one or more of a panel of four stakeholder pension providers. Employer contributions are age related and range from 3 to 12.5 per cent (2003-04: 3 to 12.5 per cent) of pensionable pay. Employers also match employee contributions of up to 3 per cent of pensionable pay. In addition, employer contributions of £402, 0.8 per cent (2003-04: £360, 0.8 per cent) of pensionable pay, were payable to the PCSPS to cover the cost of future provision of lump sum benefits on death in service and ill health retirement of these employees. Contributions due to the partnership pension providers at the balance sheet date were nil. Contributions prepaid at that date were nil.

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.

B. The average number of whole time equivalent staff employed by National Savings and Investments, (including senior management and agency and interim staff), during 2004-05 year was 132 (2003-2004: 125).

Staff Numbers	2004-05	2003-04
Senior Management	10	10
Permanent Civil Servants	109	109
Payrolled casual staff	6	-
Agency temps, interim managers	7	6
Total	132	125

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	Salary 2003-04 £000's	Salary 2004-05 £000's	Bonus 2003-04 £000's	Bonus 2004-05 £000's	Real increase in pension at age 60 2004-05 £000's	Real increase in pension related lump sum at age 60 at 31 March 2004-05 £000's	Total accrued pension at age 60 at 31 March 2004-005 £000's	Pension related lump sum at age 60 2004-05 £000's	Cash equivalent transfer value (CETV) at 31 March 2004 £000	Cash equivalent transfer value (CETV) at 31 March 2005 £000	Employee contri-butions and transfers £000	Real increase in CETV after adjustment for inflation and changes in market and investment factors 2004-05 £000's
Alan Cook Chief Executive	145-150	150-155	25-30	25-30	0-2.5	2.5-5	0-5	5-10	29	51	0-2.5	19
Trevor Bayley Finance Director	115-120	120-125	15-20	15-20	0-2.5	2.5-5	0-5	10-15	57	82	0-2.5	20
Gill Cattanach (1) Marketing Director	90-95	75-80	15-20	-	0-2.5	2.5-5	5-10	20-25	82	99	0-2.5	10
Steve Owen Partnerships and Operations Director	85-90	90-95	10-15	15-20	0-2.5	0-2.5	20-25	70-75	306	334	0-2.5	7
Sandra Postles HR Director	70-75	75-80	5-10	10-15	0-2.5	2.5-5	0-5	5-10	30	45	0-2.5	12
John Prout Sales Director	60-65	95-100	5-10	10-15	0-2.5	-	0-5	-	13	34	2.5-5	17

(1) Resigned in January 2005

Bonuses for 2004-2005 are accrued.

Alan Cook and Trevor Bayley are members of the Civil Service Supplementary (Earnings Cap) Scheme.

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

Salary
'Salary' includes gross salary; performance pay; 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. Bonus payments are shown separately

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

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

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

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

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

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

Real increase in CETV
This reflects the increase in CETV effectively funded by the employer. It takes account of the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

3. Other administration costs
Other administration costs comprise:

	2004-05 £'000	2003-04 £'000
PPP contract costs	99,426	98,060
Selling agents	30,630	43,508
Marketing and research costs	17,403	11,696
Giro fees, Link line, ATMOS and banking	4,148	5,120
Consultancy, internal audit contract and personnel costs	3,364	3,704
Losses	262	453
Audit fees	584	581
Notional cost of capital charge	624	722
Interest expense incurred on provision	52	78
Increase in early departure provision	252	669
Depreciation and amortisation of fixed assets	1,042	1,079
Amortisation of PPP contract prepayment	1,539	1,539
Permanent diminution in fixed assets	1,226	75
Loss / (Profit) on disposal of assets	2	5
Other costs	2,662	2,362
	163,216	169,651

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

The audit fees relating to Ordinary Deposits White Paper Account of £58,000 (2003-04, £58,000) are paid in cash.

Further information relating to the PPP is in note 19.

Non-cash items comprise:

	£'000	2004-05 £'000	2003-04 £'000
Depreciation and amortisation		2,581	2,618
Permanent diminution in fixed assets		1,226	75
Loss/(profit) on disposal		2	5
Notional cost of capital charge		624	722
Change in provisions (see note 11)		183	868
Notional audit fees:			
Product Accounts	470		449
Resource Accounts	56		56
		526	505
		5,142	4,793

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 2005 were £388,623 and £36,966 respectively (2003-04 £369,948 and £50,660). 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 and title	2004-05 £'000	2003-04 £'000
J Lowe	-	5-10
J. Turner	-	5-10
M. Stafford	10-15	10-15
R. Wright	10-15	15-20
M. Medlicott	10-15	5-10
P. Spencer	15-20	5-10
M. Gray	0-5	-

4. Operating Income

Operating income comprises:

	2004-05 £'000	2003-04 £'000
Discount receivable	2	2
Rent from external tenants	4,676	4,580
	4,678	4,582

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 £463,957.05.

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

	2004-05 £'000	2003-04 £'000
Capital expenditure	137	1,124
Appropriations in Aid	-	-
	137	1,124

6. Fixed assets

6.1 Intangible fixed assets

	Software licences 31 March 2005 £'000	Software licences 31 March 2004 £'000
Cost or valuation		
At 1 April	260	304
Additions	103	-
Disposals	-	-
Permanent diminution	(76)	(44)
At 31 March	287	260
Amortisation		
At 1 April	(151)	(104)
Provided in year	5	(49)
Disposals		-
Diminution adjustment		2
At 31 March	(146)	(151)
Net Book Value		
At 31 March	141	109

6.2 Tangible fixed assets

	Freehold land & buildings £'000	Computers & telecoms £'000	Plant & equipment £'000	Furniture & fittings £'000	Total £'000
Cost or valuation	30,565	327	699	3,491	35,082
At 1 April					
Additions		16		18	34
Disposals		(9)			(9)
Revaluation	(3,595)		39	67	(3,489)
Permanent diminution	(1,070)	(80)			(1,150)
At 31 March	25,900	254	738	3,576	30,468
Depreciation					
At 1 April	(3,893)	(107)	(244)	(885)	(5,129)
Provided in year	(535)	(20)	(92)	(400)	(1,047)
Disposals		7			7
Backlog depreciation	542				542
Diminution adjustment					
At 31 March	(3,886)	(120)	(336)	(1,285)	(5,627)
Net book value					
At 31 March 2005	22,014	134	402	2,291	24,841
At 31 March 2004	26,672	220	455	2,606	29,953

The freehold land and buildings were revalued at 31 March 2005 by professional valuers on an existing use basis. Chartered Surveyors Montagu Evans (Glasgow), Knight Frank (Durham), and Edmund Kirby (Blackpool) carried out the valuations in accordance with the Appraisal and Valuation Manual. The revaluation resulted in a fall in the value of the building at Blackpool (£6.4 million) and the land at Glasgow (£1m). This was offset by increases for Glasgow buildings £0.9m, Blackpool land £1.7 million, Durham building £0.2m and Durham land £0.9m.

7. Movements in working capital other than cash

	2004-05 £'000	Restated 2003-04 £'000
(Decrease)/increase in debtors	(1,139)	466
Decrease/(increase) in creditors	3,236	(2,590)
	2,097	(2,124)

8. Debtors

	£'000	31 March 2005 £'000	31 March 2004 £'000
Amounts due within one year:			
Consolidated Fund Debtor		-	15
Deposits		-	577
Advances		39	38
Other debtors		19	1
Early departure annuity		7	8
Prepayments and accrued income		-	565
PPP contract prepayment from asset transfer		1,539	1,539
		1,604	2,743
Amounts due after more than one year:			
Advances	3		4
PPP contract prepayment from asset transfer	4,619		6,158
		4,622	6,162
Total debtors		6,226	8,905

The number of employees with advances for season tickets and house purchases in excess of £2,500 at 31 March 2005 was three.

Under a contract signed with Siemen's Business Services (SBS) 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 SBS on 1 April, for a nominal sum. This had the effect of reducing charges that would otherwise have been payable to SBS over the life of the contract. The prepayment is being amortised over the initial life (10 years) of the contract on a straight line basis.

9. Cash at bank and in hand

	31 March 2005 £'000	31 March 2004 £'000
Balance at 1 April	2,801	(892)
Movement in Cash balance		
(Decrease)/Increase (Note 15)	1,357	3,693
Net Change in cash balances	1,357	3,693
Closing Cash Balance 31 March	4,158	2,801
The following balances at 31 March are held at:		
Office of HM Paymaster General	4,146	2,786
Commercial banks	12	15
	4,158	2,801
The balance at 31 March comprises:		
Cash due to be paid to the Consolidated Fund:	4,158	2,801

10. Creditors (amounts falling due within one year)

	31 March 2005 £'000	Restated 31 March 2004 £'000
Trade Creditors	12,771	9,679
Other Creditors	98	508
Vote surplus due to the Consolidated Fund	4,158	2,801
Inland Revenue	178	17
Accruals	628	6,708
	17,833	19,713

At 31 March 2005 there were no creditors falling due after more than one year.

11. Provisions for liabilities and charges

	£'000	31 March 2005 £'000	(Restated) 31 March 2004 £'000
Movements in the provision for early departure costs:			
Balance at 1 April		2,258	2,505
Annual offset of pre-funding	(4)		(10)
Applied	(983)		(984)
	(987)		(994)
Increase in provision	304		747
		(683)	(247)
Total early departure costs provision		1,575	2,258
Establishment of provision for product fraud losses			
Balance at 1 April		121	-
Provision in year		-	121
Applied		(121)	-
Total product loss provision		-	121
Provisions for liabilities and charges		1,575	2,379

A provision was established for three product fraud cases totalling £121,000 in 2003-04. One of the product fraud cases (£100,000) that was provided for was written back as it did not materialise. (See Note 24: Losses and Special Payments).

12. General Fund

	£'000	31 March 2005 £'000	31 March 2004 £'000
Net Operating Cost for the year (Schedule 2)		(165,764)	(172,086)
Parliamentary Funding			
Drawn down	165,200		170,200
Deemed Supply	2,801		
		168,001	170,200
Transferred to general fund of realised			
Element of revaluation reserve			(7)
Consolidated Fund Creditors for cash unspent	(4,158)	(2,801)	
Non cash charges			
Cost of capital	624		722
NAO	526		505
		1,150	1,227
Net movement in General Fund		(771)	(3,467)
General Fund at 1 April		10,598	14,065
General Fund at 31 March (Schedule 3)		9,827	10,598

13. Revaluation Reserve

	£'000	31 March 2005 £'000	31 March 2004 £'000
At 1 April		9,078	7,477
Surplus/(Deficit) on fixed asset revaluation (see 6.2)	(3,489)		1,784
Backlog depreciation charge (see note 6.2)	542		(190)
		(2,947)	1,594
		6,131	9,071
Realised element of revaluation reserve			
(See Note 13)			7
At 31 March		6,131	9,078

14. Net Movement In Government Funds

	2004-05 £'000	2003-04 £'000
Net movement in General Fund (See note 12)	(771)	(3,467)
Net movement in Revaluation Reserve (See note 13)	(2,947)	1,601
Net movement in Government Funds	(3,718)	(1,866)
Opening balance	19,676	21,542
Closing balance	15,958	19,676

15. Notes to the Cashflow Statement

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

	2004-05 £'000	2003-04 £'000
Net operating cost	165,764	172,086
Adjustments for non-cash transactions (See Note 3)	(5,142)	(4,793)
Adjustments for movements in working capital other than cash (See Note 7)	2,081	(1,958)
Use of provisions	987	994
Net cash outflow from operating activities	163,690	166,329

(ii): Analysis of capital expenditure and financial investment

	2004-05 £'000	2003-04 £'000
Intangible fixed asset additions (See notes 5 and 6.1)	103	-
Tangible fixed asset additions (See notes 5 and 6.2)	50	1,072
Proceeds of disposal of fixed assets	-	(2)
Net cash outflow/(inflow) from investing activities	153	1,070

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

	2004-05 £'000	2003-04 £'000
From the Consolidated Fund	168,001	170,200
Adjust for payments and receipts not related to supply:		
Amounts from Consolidated Fund prior year	-	892
	168,001	171,092
Amounts due to the Consolidated Fund received in prior year and paid over	(2,801)	-
Net Financing	165,200	171,092
(Increase)/decrease in cash	(1,357)	(3,693)
Net cash requirement (Schedule 1)	163,843	167,399

From the Consolidated Fund (Supply) Current Year £165,200,000.00 (2003-04 £171,092,269.96)

16. Capital commitments

The following capital commitments existed at the balance sheet date:

	31 March 2005 £'000	31 March 2004 £'000
Contracted but not provided for	1	11
Authorised but not contracted	40	-
	41	11

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 2005 £'000	31 March 2004 £'000
Leases expiring within:		
One year	4	4
Two to five years	10	5
After five years	9	9
	23	18

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:

	Outturn £000's	2004-05 Limits £000's	Outturn £000's	2003-04 Limits £000's
Request for Resources 1 (Gross Limit)	165,764	177,526	172,086	181,568
Total	165,764	177,526	172,086	181,568

19. The Public Private Partnership (PPP) Contract

In January 1999, National Savings and Investments signed a ten year contract with Siemen's Business Services (SBS) for the provision of operational services, which came into effect on 1 April 1999. The initial ten year contract was extended to a fifteen year contract ending in March 2014. Exercising the option to extend on pre-agreed terms was covered in the terms of the original contract signed in 1999. The majority of the department's assets transferred to SBS for a nominal sum, which had the effect of reducing charges which would otherwise have been payable to SBS over the life of the contract. The majority of the department's staff also transferred to SBS on 1 April 1999.

National Savings and Investments is committed to making annual payments to SBS 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 SBS' performance. It will also be uplifted each year in line with movements in the Retail Prices Index. If SBS 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	89,474
Net present value of amounts falling due within two to five years	308,348
Net present value of amounts falling due within six to eight years	144,548

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 SBS 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 SBS.

20. Contingent liabilities

There were no contingent liabilities at 31 March 2005.

21. Post Balance Sheet events

There were no 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 Counters Limited (POCL) is a major distributor of National Savings and Investments products and, as a public body, POCL is a related party. National Savings and Investments had a significant number of transactions with POCL during the accounting period. National Savings and Investments POCL costs during 2004-05 were £29,972,000 (2003-04 £40,723,000) for contract services and an additional £1,060,000 (2003-04 £2,628,000) for non contract services. Alan Cook (CEO) was appointed as a Non-executive Director of Post Office Limited for a fixed term of three years from March 2005.

National Savings and Investments entered into a ten year PPP contract with SBS for the provision of operational services, which came into effect on 1 April 1999. This was extended to 31 March 2014. As the major provider of operational services SBS is a related party. Note 3 to these accounts contain details of amounts paid and payable under the contract during 2004-05 and note 19 to the accounts contains details of future commitments arising under the contract. Under the same contract SBS 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 2000-01 National Savings and Investments objectives were redefined as part of the uinquennial 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 2004-05 269 cases of loss were brought to account, totalling £262,239.52. This figure includes the write back of a provision that was not required (2003-04 £452,723). The losses for 2003-04 included an amount of £121,000 for which a provision was been set up (See Note 10: Provisions for liabilities and charges). £100,000 was written back as the provision was not needed.

25. Analysis of income payable to the Consolidated Fund

	2004-05 Forecast		2004-05 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	-	-	464	464
Other amounts collectable on behalf of the Consolidated Fund	-	-	-	-
Total	-	-	464	464

26. Financial Instruments

FRS 13, Derivatives and Other Financial Instruments, requires disclosure of the role which financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities. Due to the way in which Government departments are financed, the Department is not exposed to the degree of financial risk faced by business entities. Moreover, financial instruments play a much more limited role in creating or changing risk than would be typical of the listed companies to which FRS 13 mainly applies.

The Department does not have powers to borrow or invest surplus funds.

Liquidity Risk

The Department's net revenue resource requirements including capital expenditure are financed by resources voted annually by Parliament. The Department is not, therefore exposed to significant liquidity risks.

Contacts and more information

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

Telephone

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

Lines are open 7am to midnight, seven days a week. Calls are charged at local rates. To maintain a high level of service, we may record calls.

Internet

Visit our website at www.nsandi.com

Textphone

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

Post

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

Banking Code

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

Key commitments of the Banking Code are to

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

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

Head Office

National Savings and Investments
Charles House
375 Kensington High Street
London
W14 8SD
Tel: 020 7348 9200

Thank you

National Savings and Investments would like to thank all staff and customers for their contribution to the 2004-05 Annual Report.

Printed in the UK for The Stationery Office limited
on behalf of the Controller of Her Majesty's Stationery Office
ID 180833 09/05

Design: LLoyd Northover