



2016 2017

National Savings and Investments
Annual Report and Accounts and Product Accounts 2016–17

**National Savings and Investments
Annual Report and Accounts and Product Accounts 2016–17**

NS&I is a non-ministerial government department and an Executive Agency of the Chancellor of the Exchequer.

Accounts presented to the House of Commons pursuant to section 6 (4) of the Government Resources and Accounts Act 2000.

Product Accounts presented to the House of Commons pursuant to section 7 (3) (c) of the Government Resources and Accounts Act 2000.

Annual Report presented to the House of Commons by Command of Her Majesty.
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This is part of a series of departmental publications which, along with the Main Estimates 2017–18 and the document *Public Expenditure: Statistical Analyses 2017*, present the Government's outturn for 2016–17 and planned expenditure for 2017–18.



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Section 1

Performance Report

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Who we are

NS&I is one of the largest savings organisations in the UK with 25 million customers and £147 billion invested. NS&I is both a government department and an Executive Agency of the Chancellor of the Exchequer. Our origins can be traced back over 150 years to 1861.

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

Our vision

Service, Value and Trust

Our mission

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

Our values

Security, integrity, straightforwardness, human touch

Our values are at the heart of everything we do:

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

Operating framework

To balance the interests of our savers by offering a fair rate; the taxpayer by delivering long-term cost-effective finance; and the stability of the broader financial services sector by acting transparently and maintaining an appropriate competitive position.

What we delivered in



£35 billion sales

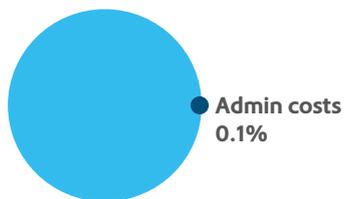


£11.8 billion Net Financing

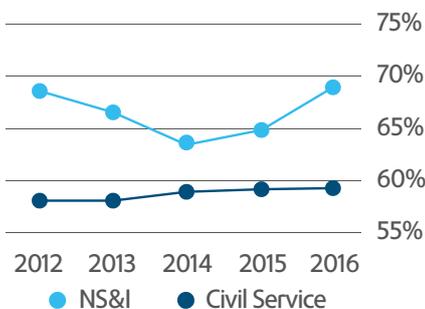
Piloted Tax-Free Childcare in partnership with HMRC. Launched on 21 April 2017 and expected to benefit 2 million families



For every £100 held with NS&I, less than 10p per year is spent on administration



Civil Service People Survey - high engagement score against benchmarks



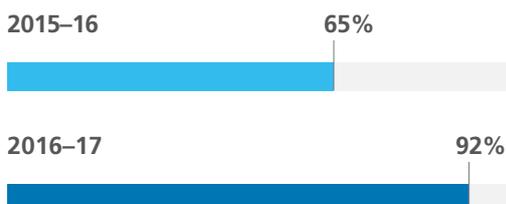
Low level of complaints per 100,000 transactions



Ranked #1 in banking and finance in Top 50 Companies for Customer Service



Sales via digital channels



5 million Premium Bonds prizes paid directly into bank accounts



Chairman's statement

This is the first Annual Report since I became Chairman of NS&I on 1 January 2017. It is also the first under our new Chief Executive, Ian Ackerley, who took up his post in March 2017. We are both fortunate to have joined the organisation at an exciting time, when we are not only delivering new services for our retail customers but also using our resources to support the delivery of a growing range of government policies.



During 2016–17, NS&I was appointed to deliver the Government's new Help to Save scheme and the Chancellor of the Exchequer announced that we would launch a new market-leading product – Investment Guaranteed Growth Bonds. The bonds went on sale on 11 April 2017. We also completed preparations for the launch of Tax-Free Childcare, which opened to parents of under four year olds on 21 April 2017. This report provides more detail on all these achievements.

NS&I's core activity still focuses on serving our retail customers and delivering cost-effective financing for the Government. This year, at a time of considerable market uncertainty, we delivered £11.8 billion of Net Financing and did so cost-effectively, as measured by our Value Indicator. This compares the relative cost-effectiveness for the taxpayer of the Government raising money on the gilt markets, with raising money through NS&I. The Value Indicator figure of £74 million underlines that we provided a saving for the taxpayer despite gilt yields, the key comparator, being at historic lows for much of the year.

We continue to improve our efficiency as a business, primarily by increasing the proportion of customer interactions through low-cost digital channels. With all sales now coming direct to NS&I, we continue to encourage customers to use our digital services by making them the easiest way to do business with us.

Across every channel, we are determined not to compromise the high-quality customer service for which NS&I has long been renowned. Performance targets are only part of the story here; what has struck me is the dedication of staff at both NS&I and our operational partner, Atos, to customer service. This is illustrated both through the positive feedback received from customers and the very low levels of complaints. On behalf of the board, I thank the staff of both organisations for their commitment and focus.

This year, we welcome two new Non-executive Directors – Christopher Fisher and Sharmila Nebhrajani – to the board of NS&I. They are excellent additions to the team. I would like to thank Cheryl Millington, who left NS&I during the year, for the contribution she made to the board.

Great thanks go to my predecessor Sir John de Trafford for his work as Chairman and his support to the organisation, and me personally, through this period of transition. He ensured a smooth handover, as did our former Chief Executive Jane Platt; and Steve Owen, who served as Acting Chief Executive in the interim period between Jane's departure and Ian Ackerley's arrival.

Both Jane and Steve had a very strong sense of NS&I's role and its responsibilities to savers, taxpayers and government. Their legacy can be seen not only in the organisation's focused and efficient operations, but also in the service we provide – both to our savings customers and those supported through our business-to-business operations.



Ed Anderson
Chairman
National Savings and Investments

For details of the board's composition, committees and activities, please see the Governance statement on pages 41 to 63.

Chief Executive's overview

NS&I has been at the heart of the UK savings sector for many years and 2016–17 was no exception. We delivered one of the largest contributions to government debt financing in our history. We did so cost-effectively, providing a significant source of public finance at a time when the economic outlook has been uncertain and the market environment remains volatile.

At the same time, we remained focused on delivering our overall strategy and oversaw a substantial change in the way our customers interact with us. We refreshed our online presence and prepared for the launch of Investment Guaranteed Growth Bonds.

We paved the way for the full national rollout of Tax-Free Childcare over 2017 and launched on 21 April 2017. As it is rolled out, this service, delivered in partnership with HM Revenue & Customs (HMRC), will allow parents to apply for both Tax-Free Childcare and (for those in England only) the Department for Education's 30 hours free childcare scheme. This will create a simple and straightforward customer journey, avoiding the need for parents to provide the same information twice.

Our core remit

In the 2016 Budget, we were set a target to raise £6 billion in Net Financing (in a range of £4 billion to £8 billion in 2016–17). This was the target published in last year's Annual Report and Accounts.

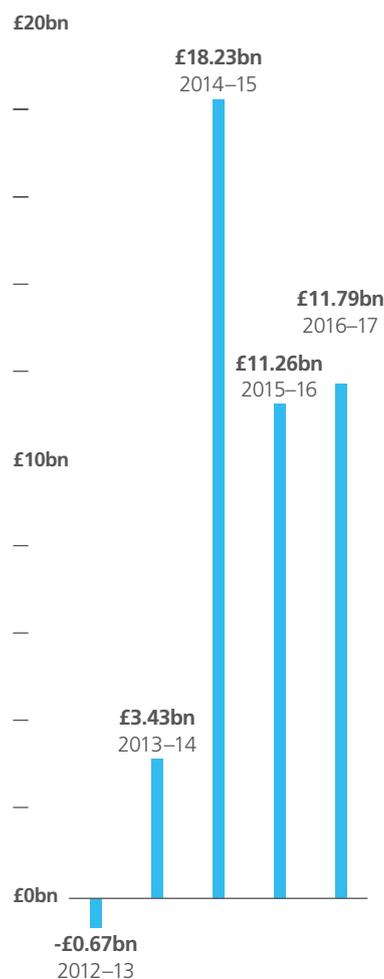
In August 2016, the Bank of England reduced the base rate by 25 basis points to 0.25%. Many financial services providers followed suit, cutting the interest rates available to savers. Conscious of the possibility that the Autumn Statement could see NS&I's Net Financing target increased to reflect changes in the Government's financing requirements, we agreed with HM Treasury not to cut our interest rates immediately. This also gave us time to monitor how savers and our competitors reacted to the base rate reduction after the initial response.

NS&I's Net Financing target was increased in the Autumn Statement to £9 billion (in a range of £7 billion to £11 billion). However, with market rates remaining low, we continued to see high levels of inflows and lower than normal withdrawals. It was therefore agreed with HM Treasury that we would reduce the interest rates on variable rate products – Direct ISA, Direct Saver and Income Bonds – and lower the prize fund rate of Premium Bonds. These changes were announced in February 2017 and took effect from 1 May 2017, giving customers 60+ days' notice.

However, because these rate changes took effect outside the reporting year, they had a limited impact on our overall Net Financing, which at the end of 2016–17 amounted to £11.8 billion. The Government judged that the risk of exceeding the Net Financing target was acceptable in order to strike the right balance between the interests of savers and taxpayers and the stability of the broader financial services sector during a period of change in the savings and wider financial markets.



Net Financing



In the March 2017 Budget, our Net Financing target for 2017–18 was set at £13 billion (in a range of £10 billion to £16 billion) – presenting NS&I with an opportunity to again make a significant contribution to the Government’s funding requirements.

Operating efficiently and delivering value for taxpayers

For taxpayers, meanwhile, we met our target to deliver positive value, delivering £74 million in value as measured by our Value Indicator. This compares the relative cost-effectiveness for the taxpayer of the Government raising money on the gilt markets with raising money through NS&I.

Fundamental to our performance is the ongoing success of our partnership with Atos, which has ensured our operations are delivered in a streamlined way. Our efficiency ratio – the ratio of our total administrative costs to total customer investments held by NS&I – reduced from 12 basis points last year to under 10 this year, meaning that it costs NS&I less than 10p a year to manage each £100 of stock we hold.

New products and rates

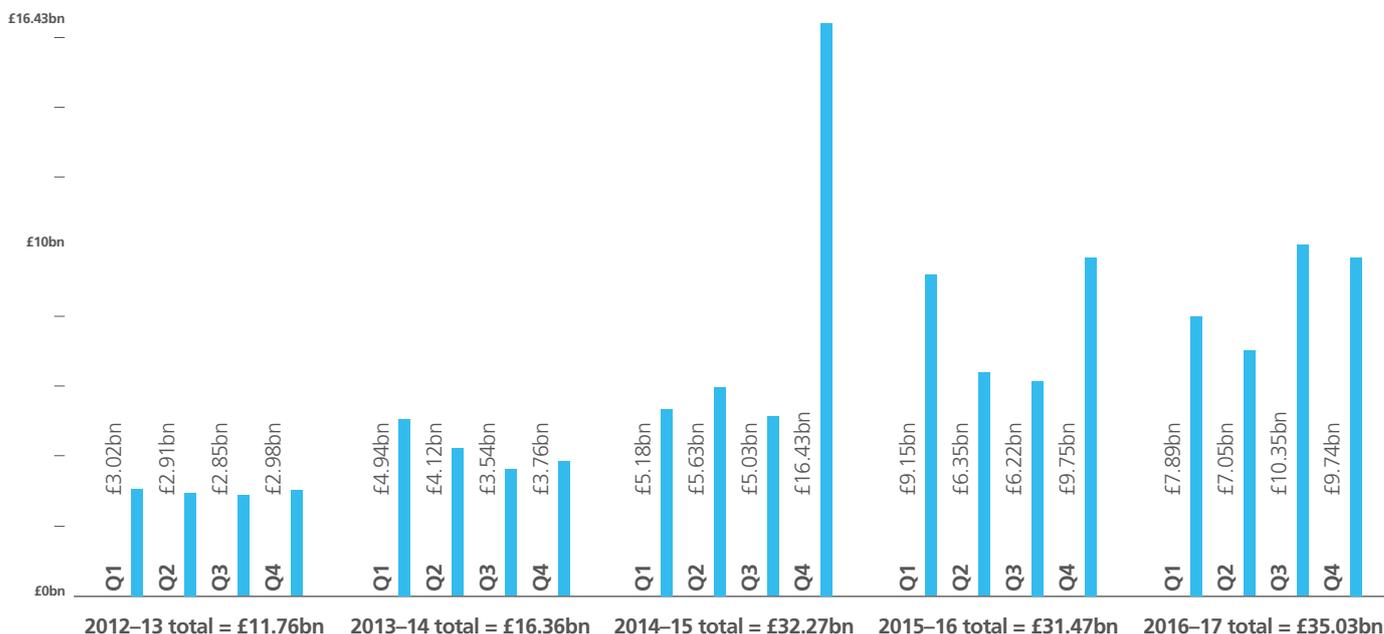
While it will use NS&I infrastructure for delivery, Help to Save will not be an NS&I product. However, another government initiative to support savers – a market-leading three-year bond – is. Investment Guaranteed Growth Bonds were announced by the Chancellor in the Autumn Statement and allow customers to invest up to £3,000, receiving an interest rate of 2.20%. Investment Guaranteed Growth Bonds went on sale for 12 months from 11 April 2017 and are only available to buy online.

As a specific policy product that sits outside our operating framework, Investment Guaranteed Growth Bonds will not be included when calculating our Value Indicator figure. Sales of Investment Guaranteed Growth Bonds will, however, be included in our Net Financing performance.

**Investment
Guaranteed
Growth Bonds**

A fixed rate Bond
with guaranteed returns

Gross inflows to NS&I (including reinvestments)



Our service

The increased efficiency reflects the fact that some 92% of all sales are now carried out through digital channels (up from 65% last year). A key factor underlying this increased figure was the improvement to the transactional part of our website, which went live in August 2016. This upgrade has made many important functions more straightforward; for example, it is now easier for customers to view their holdings and key tasks can be accomplished in fewer 'clicks'.

The improved website has been praised by customers. Importantly, it has made the online experience more accessible and attractive to some customers who were previously not comfortable with this channel. We piloted a new web chat service to provide further support. We have also enhanced our Premium Bonds prize checker mobile app and completed a major overhaul of our dedicated financial adviser website and online adviser services.

Although nsandi.com is firmly established as the most popular channel for sales, our customer contact centre remains integral to the service we provide. We were therefore delighted that it was ranked best contact centre in banking and finance in the Top 50 Companies for Customer Service awards. As this is an independent, national benchmarking scheme that uses mystery shopping, the results are a great testimony to a dedicated team.

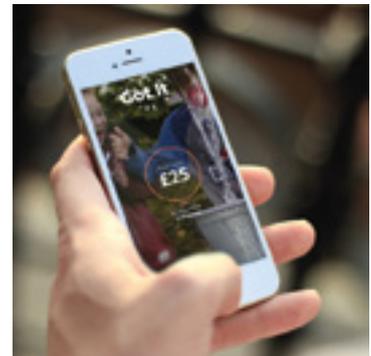
Customer service and customer satisfaction are central to our culture, and for this reason we set tough aspirational targets that we know will take time to achieve. Our customer satisfaction measure is based on asking customers how satisfied they are. Two years ago, we switched from a monthly retrospective survey to our existing method of asking customers immediately after transactions. The question, and the target of 87% satisfaction, remained unchanged despite the change in methodology resulting in lower overall scores. Overall customer satisfaction this year was 82.1%, up from last year's 81.3% but still below our aspirational target of 87%.

Our business-to-business services

Our business-to-business services provide efficiencies to government departments, which can use our payment processing resources and capabilities rather than needing to acquire or develop their own. These services also help us to become increasingly self-funding – reducing our reliance on the public purse. It's an important way for NS&I to deliver more value for taxpayers.

Maintaining customer satisfaction is integral to the success of our business-to-business services, where each is set challenging key performance indicators (KPIs). The year included the successful closure of the Equitable Life Payment Scheme, through which NS&I issued payments of over £1.1 billion to more than 930,000 policyholders. We also prepared for the rollout of the new childcare service in April 2017. Around 4,000 families successfully applied and used the service in the trial, ahead of the start of public rollout. The scheme is currently open to parents of under four year olds and will be rolled out to other age groups throughout the rest of 2017.

In the 2016 Budget, the Government announced the Help to Save scheme, which will offer an estimated 3.5 million adults on low incomes a financial incentive to save. In November 2016, following a public consultation, NS&I was chosen by HM Treasury to deliver the scheme. Help to Save will open to customers from April 2018.



Key issues and risks

NS&I's approach to risk management is guided by the provisions set out in the Financial Conduct Authority (FCA) Handbook and *Management of Risk – Principles and Concepts* (the Orange Book) issued by HM Treasury. The principal risks and uncertainties facing NS&I which could cause our financial results or operational delivery to materially differ from expected results are set out on pages 61 to 63 in the Accountability Report, along with a summary of how we managed or mitigated these risks in 2016–17.

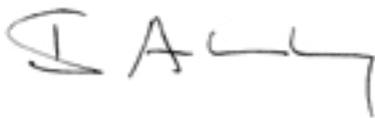
Our people and partnership

In 2016–17, NS&I has gone through substantial changes in its leadership. After 10 outstanding years at the helm, Jane Platt stepped down as Chief Executive in August 2016. During this time, NS&I's business grew, costs fell, significant taxpayer value was delivered and Jane also led a transformation in how we serve our customers.

Jane was succeeded as acting Chief Executive by Steve Owen, who has been at NS&I for over 20 years, latterly as Partnership Director. Steve played a pivotal role in NS&I's original decision to enter into a Public-Private Partnership (PPP) for operational delivery and has been instrumental in ensuring the continued success of the partnership and the growth in NS&I's business.

In many organisations, the departure of such talent and leadership would result in a loss of momentum; not so in NS&I. A positive and ambitious organisational culture is so deeply embedded that these changes were absorbed; the business continued to perform and new projects and programmes were delivered. In fact, the employee engagement score – as measured in the Civil Service People Survey – rose to 69%, well above the high-performance benchmark within the Civil Service. We continued to score strongly for leadership and managing change.

These scores underline the exceptional focus of NS&I as a business and the calibre and commitment of our people. Along with strong business performance, they provide an outstanding platform for an incoming Chief Executive. I look forward, alongside our new Chairman, Ed Anderson, to building on this and continuing to deliver for our customers.



Ian Ackerley
Chief Executive
National Savings and Investments

22 June 2017

Strategy and performance

At a glance

- Seven out of nine service delivery measures (SDMs) met.
- Significant progress on increasing the use of digital channels.
- Efficiency ratio improved to 9.4 basis points – keeping us on track to reduce our real-term costs by 25% by 2020, as set out in our 2015 Spending Review settlement.

Our strategy

In 2013–14, we set our 'think ahead' strategy for the five years from 2014–15 to 2018–19. It focuses on meeting our core remit of delivering cost-effective financing for government while setting out what we have to achieve to meet the targets of successive Spending Reviews. Following the Spending Review 2015 settlement, which requires us to reduce our real-term costs by 25% by 2020, we reviewed our strategy, revising one objective relating to our people and values and adding a new one, focused specifically on reducing our operating costs.

Our strategy works within an operating framework which seeks to balance the interests of our savings customers by offering a fair rate; the taxpayer by delivering long-term cost-effective finance; and the stability of the broader financial services sector by acting transparently and maintaining an appropriate competitive position.

Objective: Meet NS&I's core remit to help reduce the cost to the taxpayer of government borrowing now and in the future

Progress in 2016–17

This year we delivered £11.8 billion of Net Financing to the Government. This exceeds our target but was managed in conjunction with HM Treasury, recognising the challenging and volatile market conditions and the outlook for our customers. Nevertheless, our Value Indicator, which compares the costs of using NS&I with the costs of government borrowing via the gilt markets, showed that we delivered £74 million of value to the taxpayer, more than covering our costs.

Objective: Deliver an easy and appealing retail digital customer experience

Progress in 2016–17

We completed a long-planned project to upgrade the secure transactional section of our website. The secure pages now have the same look and feel as the information on the general pages, and are optimised for mobile and tablet use. It is now easier for customers to see their holdings across different NS&I products, and we piloted a web chat facility to help customers online. We have also continuously improved our prize checker app, adding new functionality including fingerprint identification in the latest version.

Objective: Achieve retail channel shift to digital channels (phone and online) of at least 75% by 2018–19

Progress in 2016–17

This year, 68% of all retail interactions were digital, compared with 65% in 2015–16; the challenge ahead is to move some of our more complex legacy processes on to digital channels so they are easier for customers to use and more streamlined for us as a business. In total, 92% of new sales were through digital channels – up from 65% last year – and more than half of all Premium Bonds prizes are now paid electronically. Some 3.7 million customers have registered for online services with close to 2.2 million customers choosing to go ‘paperless’.

Objective: Identifying customer needs, developing new products and targeted propositions

Progress in 2016–17

Our most popular and best-known product, Premium Bonds, celebrated its 60th anniversary this year. This gave us an opportunity to inform customers about digital options for managing their Premium Bonds, including having prizes paid directly into their bank account. We were delighted to be asked by the Government to launch new, three-year savings bonds available to all aged 16 and over. Investment Guaranteed Growth Bonds will allow customers to invest up to £3,000 and receive a market-leading rate, and went on sale for 12 months from 11 April 2017.

Objective: Move progressively towards a self-funding model

Progress in 2016–17

Our business-to-business services, which use our operational resources to deliver payment processing services on behalf of other government departments, have continued to grow.

This year saw preparations for the launch of Tax-Free Childcare in April 2017 and our selection, following public consultation, to work in partnership with HMRC to provide the Government’s Help to Save scheme. Together, these are important steps to achieving our objective.

Objective: Live our values in everything we do

Progress in 2016–17

This was a revised strategic objective, introduced in 2016, which focuses on the way we act as a business and as individuals. This year, a key priority has been the implementation of our programme to shadow the FCA Senior Managers Regime, covering conduct, customers, culture and compliance. We are also working with Atos to support conduct certification of its staff.

Objective: Reduce our operating cost and build a flexible and sustainable operating model

Progress in 2016–17

This objective was added in 2016 to embed within our strategy something that has been an unstated business goal for some time. This year, through ongoing channel shift and the growth in our total deposits, our efficiency ratio – the ratio of our total administrative costs to total stock – reduced from 12 basis points last year to 9.4.

Performance analysis 2016–17

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

<p>1</p> <p>Net Financing</p> <p>Goals and objectives To raise an amount of Net Financing within an agreed range</p> <p>Measure Absolute amount of Net Financing from NS&I products</p>	<p>2015–16</p> <p>Performance £11.3 billion</p>	<p>2016–17</p> <p>Target £9 billion (+/-£2 billion)⁽¹⁾</p> <p>Performance £11.8 billion</p>	<p>2017–18</p> <p>Target £13 billion (+/-£3 billion)⁽²⁾</p>
<p>2</p> <p>Value Indicator⁽³⁾</p> <p>Goals and objectives To deliver value to government when compared with equivalent wholesale funding costs</p> <p>Measure Absolute amount of value from NS&I products as calculated by the Value Indicator</p>	<p>2015–16</p> <p>Performance £149 million⁽³⁾</p>	<p>2016–17</p> <p>Target To deliver positive value for the taxpayer with a lower limit of -£200 million</p> <p>Performance £74 million</p>	<p>2017–18</p> <p>Target To deliver £250 million of value for the taxpayer with a lower limit of -£100 million (excluding Investment Guaranteed Growth Bonds and 65+ Bonds)</p>
<p>3</p> <p>Customer satisfaction⁽⁴⁾</p> <p>Goals and objectives To exceed a threshold level of experience with customer service received from NS&I</p> <p>Measure Overall satisfaction with NS&I's service – as measured through 'EvaluAgent'⁽⁵⁾</p>	<p>2015–16</p> <p>Performance 81.3%</p>	<p>2016–17</p> <p>Target At least 87%</p> <p>Performance 82.1%</p>	<p>2017–18</p> <p>Target At least 1% higher than our 2016 performance benchmark of 82%</p>
<p>4</p> <p>Customer service – operational delivery</p> <p>Goals and objectives To exceed the threshold level of both timeliness and accuracy</p> <p>Measure Average performance against contractual key performance indicators (KPIs)</p>	<p>2015–16</p> <p>Performance 97.54%</p>	<p>2016–17</p> <p>Target At least 95%</p> <p>Performance 99.76%</p>	<p>2017–18</p> <p>Target At least 95%</p>

Footnotes:

(1) The original Net Financing target published in the NS&I Annual Report 2015–16 was £6 billion (+/-£2 billion). However, in the 2016 Autumn Statement this was revised to £9 billion (+/-£2 billion) to reflect changes to the Government's financing requirement.

(2) In 2017–18, NS&I's Net Financing target has been set within a range of +/-£3 billion. The increase in the target range reflects the fact that there is a large proportion of stock maturing in this financial year.

(3) Calculating the Value Indicator: see Glossary.

(4) The customer satisfaction target in 2015–16 and 2016–17 was 87%. The target for 2017–18 is based on a 1% improvement from the end of year position at 31 March 2017. See pages 18 and 19 for further details.

(5) Before 2015–16, we measured customer satisfaction via a survey of 600 customers, conducted by Ipsos Mori. The survey was conducted two months after those customers had completed a transaction. The overall measure was the average level of satisfaction against the question: 'Taking everything into account, how would you rate NS&I's customer service?'. From 2015–16, this was replaced by a new process, in which customers are asked the same question via a tool called EvaluAgent, immediately after they have completed a transaction.

<p>5 Customer service – online availability</p> <p>Goals and objectives To exceed the threshold level of online availability</p> <p>Measure Percentage of time, including planned downtime, that customer-facing marketing and transactional websites are available</p>	<p>2015–16</p> <p>Performance 99.93%</p>	<p>2016–17</p> <p>Target At least 97%</p> <p>Performance 99.78%</p>	<p>2017–18</p> <p>Target At least 97%</p>
<p>6 Efficient administration of funds</p> <p>Goals and objectives To improve the efficiency of administering total funds</p> <p>Measure Ratio of total NS&I administrative costs that are funded by Resource DEL to average funds invested by customers</p>	<p>2015–16</p> <p>Performance 12 basis points</p>	<p>2016–17</p> <p>Target Less than 16 basis points</p> <p>Performance 9.4 basis points</p>	<p>2017–18</p> <p>Target Less than 12 basis points</p>
<p>7 Customer Contact Association (CCA) Global Standard® V6 accreditation</p> <p>Goals and objectives To maintain our current Customer Contact Association Global Standard® Version 6 accreditation following the annual external assessment</p> <p>Measure A respected independent customer service standard, widely used by other organisations with a contact centre operation</p>	<p>2015–16</p> <p>Performance Met</p>	<p>2016–17</p> <p>Target Achieve accreditation</p> <p>Performance Met</p>	<p>2017–18</p> <p>Target Achieve accreditation</p>
<p>8 Financial Ombudsman Service (FOS)</p> <p>Goals and objectives To minimise the incidence where FOS intervention is justified</p> <p>Measure The ratio of the number of complaints upheld by the FOS in favour of the complainant to the total number of complaints closed by NS&I</p>	<p>2015–16</p> <p>Performance 0.28%</p>	<p>2016–17</p> <p>Target Less than 0.5% of total complaints raised found against us by the FOS</p> <p>Performance 0.23%</p>	<p>2017–18</p> <p>Target Less than 0.5% of total complaints raised found against us by the FOS</p>
<p>9 Fraud⁽⁶⁾</p> <p>Goals and objectives To minimise the cost of fraud</p> <p>Measure The cost of fraud as a percentage of total average stock</p>	<p>2015–16</p> <p>Performance 0.00034%</p>	<p>2016–17</p> <p>Target Below 0.001% of average funds invested by customers</p> <p>Performance 0.00019%</p>	<p>2017–18</p> <p>Target Below 0.001% of average funds invested by customers</p>

Footnote:

Following the commencement of the new contract on 1 April 2014, Atos, NS&I's operational services provider, is liable for any fraud losses that are incurred. The fraud losses borne by Atos in the financial year 2016–17 were £268,000. Compared on a like-for-like basis against 2015–16, net fraud losses in 2016–17 were 39% lower. In addition, the controls we have in place to combat fraud have resulted in attempts with a total value of £6,700,000 being prevented, up by £3,400,000 from £3,300,000 in 2015–16. The contractual arrangements with Atos have no impact on how customers are reimbursed in the event of fraud. While recoveries may follow, the customer is not disadvantaged.

How we spent taxpayers' money

At a glance

- Our net resource requirement for 2016–17 was £132.1 million, £22.7 million lower than 2015–16.
- We stayed within all spending limits set by Parliament.
- Efficiency ratio improved to 9.4 basis points – keeping us on track to reduce our real-term costs by 25% by 2020, as set out in our 2015 Spending Review settlement.

The resources available to NS&I are determined by Parliament through the Supply Estimates procedure. These resources are used to deliver the products and customer service discussed throughout this report. Our operating costs include the payments made to Atos, our operational delivery partner, under a Public-Private Partnership (PPP) contract.

NS&I stayed within all the spending limits set by Parliament. In 2016–17, NS&I's actual net resource requirement was £132.1 million, which is £9.8 million lower than the net resource requirement approved in the 2016–17 Estimate, and £22.7 million lower than the net resource outturn in 2015–16.

The following table provides a more detailed comparison of NS&I's 2016–17 outturn with the 2016–17 Estimate.

Comparison of outturn with Estimate⁽¹⁾

	2016–17 Outturn £m	2016–17 Savings compared with Estimate £m	2015–16 Outturn £m	2015–16 Savings compared with Estimate £m
Net resource requirement	132.1	9.8	154.8	6.7
<i>of which:</i>				
Departmental Expenditure Limit (DEL) ⁽²⁾	132.3	6.7	155.5	2.7
Annually Managed Expenditure (AME) ⁽²⁾	(0.2)	3.1	(0.7)	4.0
Non-budget adjustments ⁽³⁾	6.3	(6.3)	15.5	(15.5)
Net operating cost (Accounts)	138.4	3.5	170.3	(8.8)
Capital expenditure (CDEL)	(12.5)	4.8	(1.6)	0.2
Non-budget adjustments ⁽³⁾	21.6	(21.6)	28.6	(28.6)
Total capital expenditure (Accounts)	9.1	(16.8)	27.0	(28.4)
Net cash requirement	125.5	16.8	173.0	6.5

Footnotes:

More information on the use of our resources is contained in the Statement of Parliamentary Supply (SoPS) and the Accounts.

(1) Figures are presented here to the nearest £0.1m. Note SoPS1.1 on page 76 provides figures to the nearest £1,000.

(2) See the Glossary on pages 133 to 137 for definition of these terms.

(3) Non-budget adjustments reflect the different treatment of items between Departmental Expenditure Limits set by Parliament and the Accounts, which are prepared in accordance with International Financial Reporting Standards (IFRS).

Savings achieved against the approved net resource requirement

The variance against the net resource requirement is mainly due to a combination of lower marketing costs, lower depreciation and lower project costs. The following table provides a more detailed breakdown of the variance.

Difference between resource outturn and Estimate⁽¹⁾

	2016–17 £m	2016–17 £m
Lower marketing costs	2.2	
Lower depreciation costs	0.4	
Lower project costs	3.4	
Other differences	0.7	
Total DEL underspend		6.7
Lower than expected requirements for provisions	0.3	
Lower revaluation charge for NS&I properties	2.8	
Total AME underspend		3.1
Total underspend against Estimate		9.8

Footnote:

(1) Figures are presented here to the nearest £0.1m. Note SoPS1.1 on page 76 provides figures to the nearest £1,000.

Financial position

The Statement of financial position on page 87 shows that, at 31 March 2017, total assets less total liabilities were £42.7 million, £12.4 million lower than at 31 March 2016.

Non-current assets increased by £5.7 million, mainly due to the recognition of a longer-term debtor for the proceeds from property disposals.

Current assets, excluding client funds, increased by £1.0 million. Total liabilities, excluding client funds, increased by £19.1 million, driven mainly by increased deferred income and higher accrued expenditure for business-to-business.

Payment of suppliers: policy and performance

NS&I is committed to a policy of prompt payment and is a signatory to the Better Payment Practice Code. We endeavour to pay suppliers within 30 days of acceptance of the relevant goods and services, or receipt of a legitimate invoice if that is later. In 2016–17 NS&I paid 95.3% (2015–16: 92.4%) of bills within this standard.

The Government made a commitment to speed up the payment process for small- or medium-sized enterprises (SMEs). HM Treasury's Managing Public Money guidance states: 'Public sector organisations should aim to pay suppliers wherever possible within 10 days.' NS&I has followed this commitment and implemented a process to pay SMEs within 10 days of acceptance of the relevant goods or services, or receipt of a legitimate invoice if that is later. For 2016–17, the average time taken to pay all suppliers, excluding other government bodies and those with agreed payment terms over 10 days, was 9.9 days (2015–16: 12.5 days).

For the fourth year in a row, NS&I has come first in the HM Treasury cash flow forecasting league table. This is a significant achievement as cash flow forecasting is important for the Government to manage its borrowing or investment in the money markets in a way that delivers the best results for the taxpayer.

Details of all expenditure over £25,000 can be found on our website along with a list of all contracts with a value of over £75,000, in line with government guidelines.

Our customers

At a glance

- Refreshed internet banking site launched in August – simplifying and improving the customer experience.
- 3.7 million customers now registered to use online services (up from 2.3 million in 2015–16).
- 2.2 million customers now registered to receive Premium Bonds prizes by BACS (up from 1.6 million in 2015–16).
- 92% of sales now via digital channels.
- 100,000+ downloads of Premium Bonds prize checker app.
- 82.1% customer satisfaction.

In 2016–17, we prioritised providing an easy and appealing retail digital customer experience. We delivered significant improvements to our website and upgraded our Premium Bonds prize checker app.

The changes to the website have focused on the sections where customers log in to view their accounts. We have made these pages more user-friendly and optimised them for viewing on tablets and mobile phones. When customers log in, key tasks such as viewing all holdings, increasing investments and requesting withdrawals are now much simpler, taking fewer steps to complete.

The refreshed site was launched in August 2016 and the new functionality has worked well. The site is not only far more user-friendly, it is also easier for us to update with new content and capabilities. That was illustrated with the launch of a web chat facility in November; from business approval to online rollout took only a fortnight. The web chat service has proved very popular, particularly with users who are less confident online.

Apps and social media

More than 100,000 customers have now downloaded our Premium Bonds prize checker mobile app. This year, we have continuously improved it, adding new features. The most recent upgrade, in February, included the option for customers to log in via fingerprint identification.

Our Facebook page (www.facebook.com/PremiumBonds/) has played a central role in our celebrations of 60 years of Premium Bonds. It has featured historical adverts and images, winners' stories and even poems and cards sent to ERNIE from our customers. We're proud to be behind such a well-loved national institution.

Our Twitter account, @nsandihelp, provides a very different service and focuses on responding swiftly, and personally, to customer queries. Feedback has been consistently positive. The team managing our Twitter account have the same detailed training and service ethos and are part of the award-winning customer contact centre.

Customer service measures

Our contact centre this year retained accreditation to the CCA Global Standard® Version 6. It also met its targets for timeliness of response.

Two years ago we changed the methodology for calculating overall customer satisfaction to give us more real-time insight. This has helped us view and respond to immediate customer service issues across our range of channels.

Customers registered to use online services

3.7m

Premium Bonds prize checker app downloads

100,000+

We have also supplemented this transactional survey with a more strategic survey, which is measured against a wider range of customers to fully explore other elements of our overall offer; brand, communication and product.

While the change to methodology in calculating customer satisfaction has been helpful in improving our service, it has resulted in lower overall scores. During this time, other indicators of effective customer service have seen NS&I performing at a high level relative to peers. For example, NS&I won the *Best Overall Finance company* in the Top 50 Companies for Customer Service Awards and *Best Customer Service in Banking and Financial Services sector* at the UK Complaint Handling Awards.

As a customer-focused organisation, we want to maintain and continue to improve our performance for our customers. At the same time we need to balance our target against wider environmental and business pressures. Therefore, next year's target will be based on a 1% improvement from the end of year position, rather than an historic target level.

This equates to a re-baselined target of 83% in 2017–18.

Our focus remains on delivering strong customer service and continuing to improve this during a period of high change and volatility for customers. Service levels remain at a high aspirational level to drive behaviours and performance.

Complaints

Customer complaints remain low, with 0.24% of transactions resulting in a complaint. In 2016–17, 28.36% of complaints were resolved within two working days (2015–16: 48.3%) and a further 46.15% were resolved in three to five working days (2015–16: 16.5%). Just 151 cases (1.20%) were referred to the Financial Ombudsman Service (FOS). Our main performance target around complaints relates to how many of the complaints referred to the Ombudsman are settled in favour of the complainant: this year, 19.20% were upheld against NS&I, ensuring that we met the target. We also won the best complaint handling title in the banking and investment sector of the UK Complaint Handling Awards 2017. Though this is very pleasing, we continue to focus on improvement. We have worked with our auditors and agreed some areas of our complaints handling process which we will focus on in the coming year, to enhance the experience for our customers.

Fair treatment of customers

Handling complaints effectively is one of the ways we aim to ensure the fair treatment of customers, in line with the FCA's principles for businesses. This year, we invited PricewaterhouseCoopers (PwC) to carry out an audit of our products, processes and services against the FCA's six consumer outcomes.

We also implemented the industry-wide FCA cash savings remedies on time. This included: providing a summary box showing the product and channel as part of the pre-sale literature, to ensure customers have the information they need to make an informed decision compared with other products on the market; an additional

Met target for customer service accuracy and timeliness



Won best complaint handling title in the banking and investment sector of the UK Complaint Handling Awards



14-day reminder prior to maturity for fixed-term products; and a switching solution to make it easier for customers to invest in a new product, delivering a paper process first, to be followed by an online solution.

Vulnerable customers

We have continued to examine our service and products from the customer perspective. In particular, we have looked at them through the lens of our vulnerable customer policy, with proposed product changes scrutinised by our Conduct Committee.

Unclaimed assets

NS&I defines unclaimed assets as all holdings in closed products (which are held in the Residual Account) and holdings in open products with no customer financial transactions for a period of 15 years or more.

NS&I is currently exempt from the Dormant Assets Commission scheme as we do not hold any of the money invested in our products on our balance sheet. Instead the monies are passed directly to the Exchequer where they are used to fund public services. This means that money in NS&I accounts is already benefiting the taxpayer. The Dormant Assets Commission has recently reviewed the scope of the scheme and recommendations are being considered by HM Treasury. However, any potential changes arising from this review do not impact on the position for 2016–17.

£m	Unclaimed assets 2015-16	Unclaimed assets 2016-17
Accounts	431	452
Certificates ⁽¹⁾	1,100	1,228
Income Bonds ⁽²⁾	8	16
Unclaimed Premium Bonds prizes ⁽³⁾	8	18
Residual Account ⁽⁴⁾	626	639
Total	2,173	2,353

Footnotes:

(1) Certificates (Saving Certificates) are used by many holders as long-term savings products. The majority of customers choose to renew their holdings at the end of their term and thus we would not expect customers to be in regular contact with NS&I.

(2) Customers of Income Bonds receive monthly interest payments. Therefore, for holdings to be classed as unclaimed assets, they must have been held for 15 years and postal communications must have been flagged as returned undelivered.

(3) Premium Bonds prizes unclaimed for 15 years.

(4) More details on the Residual Account are provided in the Product Accounts on pages 108 to 125 of this report.

Of the £2,353 million unclaimed assets in 2016–17, £897 million (2015–16: £748 million) of customer holdings in Certificates and Accounts have other recorded contact which has resulted in general changes in personal details across the customer's portfolio of products.

Improved service for financial advisers

This has been a pivotal year for NS&I's relationship with financial advice firms. Our primary measure for this channel is 'financial adviser advocacy', and in February 2017 this had increased to 7.76 (out of 10) in response to the question 'How likely are you to recommend NS&I products to your clients?'. This is the highest recorded score for adviser advocacy since we started monitoring it three years ago.

The increased advocacy score has come after a series of initiatives deployed to increase our engagement with the financial advice industry. These have included a major upgrade to our Adviser Centre website which now provides advisers with more information and resources. The website will be developed further in 2017 to give advisers the ability to view their customers' NS&I holdings (as long as authority has been received from the customer). Visits to the site have increased in recent years from just 1,500 a month in 2012 to over 14,000 a month in 2016–17.

This year we have also launched a new quarterly Financial Advice Barometer survey, an NS&I LinkedIn group for advisers, and we exhibited at seven large industry events. NS&I was also the headline sponsor of the advice industry's highest profile event – the Personal Finance Awards 2016, run by the Personal Finance Society – an event NS&I plans to support in 2017.



Our product range

Our product range is designed to offer options that meet customers' different savings needs. In April 2017 we launched Investment Guaranteed Growth Bonds – a three-year bond paying 2.20% interest, with a maximum investment of £3,000. This product was announced by HM Treasury as a boost to savers at a time of prolonged low interest rates. NS&I has helped shape the product terms and how it will be sold. It went on sale for 12 months from 11 April.

Our full product range and the key benefits of each product are shown below.

NS&I products

	Status (at 31 March 2017)	Tax-free	Fixed rate	Monthly income	Manage online only	Manage online and by phone	Manage by post	Annual statement
Children's Bonds	On sale	●	●			●	●	●
Direct ISA	On sale	●				●		●
Direct Saver	On sale					●		●
Fixed Interest Savings Certificates⁽¹⁾	Not currently on sale	●	●			●	●	●
65+ Guaranteed Growth Bonds⁽²⁾	Not currently on sale		●			●	●	●
Guaranteed Growth Bonds⁽¹⁾	Not currently on sale		●			●	●	●
Guaranteed Income Bonds⁽¹⁾	Not currently on sale		●	●		●	●	●
Income Bonds	On sale			●		●	●	●
Index-linked Savings Certificates⁽¹⁾	Not currently on sale	●				●	●	●
Investment Account	On sale					Holdings can be viewed online but no trans- actions can be carried out	●	●
Investment Guaranteed Growth Bonds	On sale 11 April 2017		●		●			●
Premium Bonds	On sale	●				●	●	

(1) Renewals at maturity still permitted. Current issues of fixed-term products with start dates before 20 September 2012 are not visible online.

(2) We will write to customers around a month before the end of their term and let them know their options.

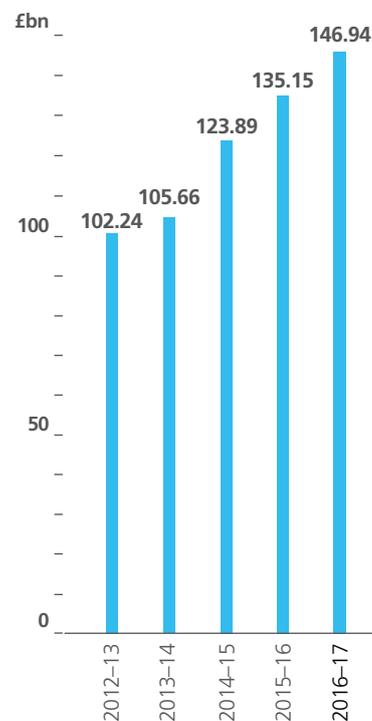
Sales performance by principal channels

<p>NS&I phone sales</p> <p>2012-13 £1.33bn</p> <p>2013-14 £1.62bn</p> <p>2014-15 £4.17bn</p> <p>2015-16 £4.39bn</p> <p>2016-17 £4.15bn</p>	<p>NS&I internet sales</p> <p>2012-13 £2.30bn</p> <p>2013-14 £4.38bn</p> <p>2014-15 £11.15bn</p> <p>2015-16 £10.66bn</p> <p>2016-17 £14.17bn</p>
<p>NS&I postal sales</p> <p>2012-13 £1.05bn</p> <p>2013-14 £4.23bn</p> <p>2014-15 £8.70bn</p> <p>2015-16 £6.63bn</p> <p>2016-17 £7.20bn</p>	<p>NS&I electronic transfers⁽¹⁾</p> <p>2012-13 £1.47bn</p> <p>2013-14 £2.36bn</p> <p>2014-15 £3.20bn</p> <p>2015-16 £4.36bn</p> <p>2016-17 £5.51bn</p>
<p>NS&I sales via Post Office[®] branches⁽²⁾</p> <p>2012-13 £2.15bn</p> <p>2013-14 £2.18bn</p> <p>2014-15 £3.90bn</p> <p>2015-16 £1.47bn</p> <p>2016-17 £0</p>	

(1) This is BACS, CHAPS and Faster Payments.

(2) NS&I sales via Post Office[®] branches stopped on 31 July 2015.

Total amount invested by customers at the end of the year



Business-to-business customers

At a glance

- Prepared for launch of Tax-Free Childcare on 21 April 2017.
- Equitable Life Payment Scheme closed, having paid out £1.1 billion to over 930,000 policyholders.
- Chosen to deliver Help to Save following public consultation.

2016–17 was a year of transition for our business-to-business services. While the very first service we delivered, the Equitable Life Payment Scheme, was closed successfully, we prepared for the launch of the Government’s childcare service – the first business-to-business service that fully capitalises on our digital capability. Importantly, we also continued to meet KPIs for our ongoing customers.

Tax-Free Childcare and childcare choices

In close partnership with HMRC and the Department for Education, we invited childcare providers to register from September 2016 and started a trial involving around 4,000 families in November 2016. The pilot programme was invaluable in terms of identifying and rectifying potential pinch points across the entire process and building our understanding of customer priorities.

The national launch itself was phased, with parents of under four year olds able to join the scheme on 21 April. Parents of over four year olds will be joining in stages, and the aim is that the scheme will be open to all eligible families by the start of 2018.

Though the childcare service is digital by default, we recognised the need to offer families and childcare providers support, particularly during the first few months of familiarisation. We therefore worked with Atos to set up a new contact centre dedicated to supporting the childcare service – the entry point for Tax-Free Childcare and the Department for Education’s 30 hours free childcare offer.

The NS&I business-to-business team has again worked closely with HMRC to deliver this service – capitalising on many of the processes and systems developed for Tax-Free Childcare. Parents will need to apply just once on the Childcare Choices website and receive a response regarding their eligibility for both childcare services. This will provide a simpler experience for them, and reduce the level of administration and processing required.

Help to Save

We were delighted to be chosen, following public consultation, to again work in partnership with HMRC to provide the Government’s Help to Save scheme. Help to Save is designed to support adults on low incomes to start saving and is due to open to customers from April 2018.

Prepared for launch of Tax-Free Childcare service in April 2017



Equitable Life Payment Scheme

In May 2011, NS&I was appointed by HM Treasury to deliver the Equitable Life Payment Scheme, processing payments to over one million eligible policyholders. By 31 March 2014, we had processed payments worth over £900 million to more than 860,000 policyholders. The scheme had originally been scheduled to close in April 2014, but the Government chose to extend it to allow more time to trace and pay more.

NS&I used a range of methods to try to trace people, including national advertising, writing to policyholders' last known address, electronic tracing and working with the Department for Work and Pensions, enabling us to identify a further 70,000 policyholders. The scheme formally closed to new claims on 31 December 2015 and final payments were issued in August 2016. Existing annuitants will still receive payments under the scheme. In total, NS&I issued payments of just over £1.1 billion to 932,805 policyholders.

The final report of the Equitable Life Payment Scheme is available online at <https://www.gov.uk/government/publications/equitable-life-payment-scheme-final-report/equitable-life-payment-scheme-final-report>.

Existing customers

Our payment processing services for the Court Funds Office and Home Office in-country immigration application payments continue to deliver value for both organisations. We have maintained the very high service levels set in both cases – despite a 30% increase in the number of applications received by the Home Office compared with 2015–16.



Payments processed for the Home Office per annum



Our people

At a glance

- New employee value proposition and employer brand.
- Launched new learning management system and offer.
- Overall employee engagement 69% – in the Civil Service High Performers group.
- Implemented shadow FCA Senior Managers Regime.

At NS&I, what our people do matters and what they say is heard. While this has long been an unspoken part of our culture and ethos, this year it was formally articulated in our new employee value proposition and employer brand. It has been supported by a series of initiatives to welcome fresh thinking and new ideas to challenge and improve the way things are done. We see this as integral to our strategic objective to live our values in everything we do, and essential to our shadow Financial Conduct Authority (FCA) Senior Managers Regime.

NS&I has long taken the view that although we are not formally regulated by the FCA or its predecessors, we are committed to meeting the standards the regulators set.

Our shadow FCA Senior Managers Regime provides a systematic approach to allocating responsibility for key areas of the business and supporting managers – and all of us – to maintain good standards of conduct and fair outcomes for customers. Our people have been encouraged to speak up on behalf of customers and to bring customer needs to the fore. We also work in partnership with Atos, who have implemented a Senior Managers and Certification Regime aligned with our approach.

A culture where people take responsibility

In a small team, each person can make a big impact. We ran a programme focused on giving people the confidence to challenge and speak up; this included providing training to managers on how to deal with challenge. We held a series of staff workshops about respect and challenge; our then Chief Executive Jane Platt personally led some of these, reflecting the FCA principle of setting the tone from the top. We continue to promote our formal 'Speaking Up' policy in the event of anyone needing to raise concerns in confidence.

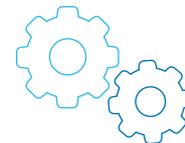
Our informal all-staff 'Town Hall' meetings, together with quarterly business updates and our staff conference, are opportunities for two-way dialogue with the executive team. This was particularly important in a year which has seen significant growth in the business and the arrival of a new Chairman and a new Chief Executive.

We were pleased to see a 14 percentage point increase in the number of staff who agreed with the statement 'I think it is safe to challenge the way things are done in NS&I'. With 68% of all staff agreeing with this, we are well above the Civil Service high-performer benchmark.

Investing in careers and learning

People can invest in their careers at NS&I. They receive specialist learning and development advice and have access to a wide range of quality development opportunities, including coaching and mentoring support. We have refreshed our e-learning suite and implemented a new learning management system, which includes tools to plan learning and reflect on continuous professional development.

Implemented shadow FCA Senior
Managers Regime



Learning and development are supported more broadly through the use of career development conversations with all staff. Having set one-year goals in the first career conversations in 2015–16, a focal point this year was to review progress and revise if necessary in the coming year.

Again, this was reflected in the People Survey results: our overall learning and development offer received a score of 66%, putting it 11 percentage points above the high-performance benchmark.

A key priority for 2017–18 is the launch of our new management training programme – which emphasises skills and responsibilities at different management levels.

Employee engagement

As some of the scores above have indicated, there was a very positive response to this year’s People Survey. Scores increased in almost every category, and the overall engagement score was 69%. We ranked highly for clarity about organisational objectives and purpose, but perhaps the most noteworthy performance was in ‘Leadership and managing change’, where we were 22 percentage points above the Civil Service average. We pride ourselves on being agile and open to change.

Wellbeing and work/life balance

We continue to focus on employee wellbeing and saw a further increase in staff satisfaction with work/life balance. We operate in an environment built on trust, allowing colleagues to work flexibly – for example, through the option of a nine-day fortnight (where staff work their contracted fortnightly hours across nine days rather than 10) and through shared parental leave.

Changes in working patterns have been a key consideration as we plan our new London office, which we will move into by spring 2018. The new premises will have a smaller total area than our current offices; rather than providing a desk for each member of staff, employees will have new technology to enable them to move around and work more flexibly in the office.

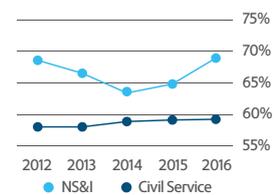
Women in Finance

This year, NS&I signed up to the Government’s ground-breaking Women in Finance Charter. The Charter asks financial firms to commit to four industry actions to build the female talent pipeline for leadership positions. As a Charter signatory, we have committed to having a member of our senior executive team responsible and accountable for gender diversity and inclusion; setting internal targets for gender diversity in our senior management; publishing progress annually against these targets in reports on our website; and publishing a statement setting out how we intend to ensure that the pay of the senior executive team is linked to delivery against our gender diversity targets.

Volunteering and staff charity

This year’s staff charity was the Honeypot Children’s Charity, which works with young carers and vulnerable children. As well as direct fundraising, a staff-led initiative saw employees buy Christmas presents and Easter eggs for the children the charity works with. Members of staff have also taken up the option of volunteering leave – part of the wider employee benefits package we offer – to work with Honeypot. Volunteering leave overall has increased, as has payroll giving. In addition, NS&I staff supported colleagues’ fundraising efforts for Meningitis Now and Epilepsy Action.

Civil Service People Survey - high engagement score against benchmarks



Our operational partnership

At a glance

- Launched a major refresh of our website.
- Successfully modernised our IT infrastructure.
- Continued to drive down operating costs and increase efficiency.
- Met targets for customer service accuracy and timeliness.
- Successfully dealt with 79 million customer interactions.
- Managed a total of £60 billion of inflows and outflows.
- Ranked No. 1 in banking and finance in Top 50 Companies for Customer Service.

Our long-standing operational services partnership with Atos is integral both to achieving our performance targets and progressing our strategy. This year, Atos has helped us drive down our operating costs still further, as measured by the efficiency ratio; this now stands at under 10 basis points, meaning that it costs NS&I less than 10p a year to manage each £100 of stock that we hold. This has been achieved while maintaining service levels, with targets for timeliness and accuracy both being met.

In what is already a highly streamlined operation, the cost reductions are predominantly being achieved through customers moving to direct channels and a continual review of internal processes to improve customer service and efficiency. This year, Atos completed several projects in support of channel shift and our drive to encourage customers to use our online services. The Atos team developed our new secure website and managed the migration and reconstruction of many thousands of pages. Before that could take place, Atos first oversaw a technology refresh of underlying hardware and software and a major database upgrade.

Delivering such a large change while maintaining service is a major achievement, and required excellent planning and work across the partnership. These underlying technology changes were crucial to the successful launch of our new transactional website – and to making it simpler to add new features and capabilities to the site in the future.

Atos has worked closely with NS&I to plan for the launch of Investment Guaranteed Growth Bonds. Here the focus was on building and resourcing the service to ensure a smooth deployment and launch. Demand and resource modelling and contingency planning were put in place to ensure that services across all our operations ran smoothly. Atos applied their skills to build, test and deliver Investment Guaranteed Growth Bonds, which were successfully launched on 11 April 2017 – another example of our strong operational partnership.

Contact centre changes

With a growing proportion of sales and service taking place online, the important role of the contact centre is evolving. This year, advisers have been encouraged to spend longer with customers to ensure that all their questions are answered in one go and to use customer conversations proactively. In practice, that means that while on the line, advisers might ask customers to provide an email address we didn't previously hold, ensure that customers are aware of new services, promote the benefits of paperless transactions and inform customers of product changes and other important information. To help advisers do this, we have introduced a new

Continued to drive down operating costs:
more efficient than ever



Customer Interaction Centre Portal, which consolidates customer information from several systems into a single place and helps to provide faster services to customers. We anticipate rolling this out to all advisers in 2017–18.

We were delighted that the high-quality service provided by the contact centre was recognised again this year in the Top 50 Companies for Customer Service programme. Having addressed some of the feedback from last year, when we were ranked second in our sector, this year we came top in banking and finance. Overall, across the 200+ organisations from all sectors that entered, we were placed 13th. The contact centre has also achieved re-accreditation to the CCA Global Standard® Version 6, a set of benchmarks which provide the foundation for customer service excellence.

Role in business-to-business operations

Our operations also perform services for a number of other areas of government. In preparation for the launch of the childcare service, Atos leased new premises in Preston for a team of advisers to assist with queries that childcare providers and parents may have. They have played a pivotal role in the pilot programme for the service, providing an outstanding service to childcare providers and parents as we prepare for full rollout. Feedback from this Atos team also helped refine the service before nationwide launch.

Atos will play a similar role as we develop the service infrastructure to support additional initiatives such as 30 hours of free childcare and Help to Save during 2017–18.

Strategic alignment

As these different initiatives show, Atos is closely involved in all aspects of NS&I's work and in enabling us to achieve our strategy. This requires NS&I to involve Atos in strategic discussions and to treat it as a full partner in decisions that affect both our businesses. In return, Atos actively seeks opportunities to introduce technology and workstreams that can provide joint business benefit, while continuing to deliver customer service of the standard we demand.

Evidence of this strategic alignment can be seen at all levels of both businesses. Each year we invite an independent third party (Customer Attuned this year) to carry out a partnership survey, which involves among other things asking staff of both businesses how they view the partnership. This year, the score for overall satisfaction with the partnership was 7.6 – the highest since 2011 – placing it well above industry averages.

Sustainability report

At a glance

- Maintained performance against key sustainability targets.
- Completed sale of older premises, generating £13 million for the public purse.
- Achieved accreditation against new ISO14001 environmental management standard.
- Began development of next five-year carbon management plan to reflect new Greening Government commitments.
- This is a summary report and the full NS&I 2016–17 Corporate Social Responsibility Report can be found on our website at: <http://nsandi-corporate.com/about-nsi/what-we-do/corporate-social-responsibility/>

Our approach

NS&I, in partnership with Atos, has a Corporate Social Responsibility (CSR) policy which has been in place since 2009. Our CSR policy is built on the following principles: NS&I aims to act in a way that is socially and environmentally responsible in all our activities; we will continue to comply with all relevant legislative and regulatory requirements around CSR, as well as associated codes of practice; we will support the Government's environmental strategy, known as Greening Government; we will continue to be transparent, straightforward and fair in all our dealings with our customers; and everyone at NS&I has a role to play in ensuring we meet these goals.

Our CSR policy consists of three core areas: our estate; working with others; and our people. For full information on our policy and our carbon management plans please see our website <http://nsandi-corporate.com/about-nsi/what-we-do/corporate-social-responsibility/>

Maintaining our performance

In December 2016, the Greening Government Commitments for 2016–20 were published, setting cross-government targets for reducing greenhouse gas emissions, waste and water consumption, plus sustainable procurement. With total carbon emissions in 2016–17 of 421 tonnes compared with a 2009–10 baseline of just under 12,000 tonnes, we have already achieved the headline target to reduce greenhouse gas emissions by at least 32% and expect to achieve further reductions following the move to our new London office by spring 2018.

We have also met the goal of continuing to reduce water consumption, which has dropped from 60,000 cubic metres in 2009–10 to 26,576 cubic metres in 2016–17. We are now using 1.3 cubic metres of water per full-time equivalent member of staff (m³/fte) against the target of 6m³/fte.

The new commitment challenges public sector bodies to reduce the amount of waste going to landfill to less than 10%, along with reducing waste overall and increasing the proportion of waste that is recycled. The previous target was to reduce waste production and to recycle at least 70% by 2020. This year, we recycled 83% of waste and sent 17% to landfill.

Maintained performance against key sustainability targets



Our annual waste levels have fluctuated over recent years as a result of our estates strategy, which has seen us move into new, energy-efficient premises in Durham and Glasgow and modernise our Blackpool site. Our detailed CSR report gives the breakdown of how we have sought to recycle as much as possible and limit the impact on landfill. All of our IT waste is managed in a sustainable and environmentally safe manner by our business partner Atos.

In each business location, we have substantially reduced the total footprint of our offices – by over 80% in Blackpool and 90% in Durham and Glasgow – to better fit the size of our operations. Our London office move this coming year will see that footprint reduce by approximately 50% and with a more flexible working approach as we strive to achieve 6m² space per full-time equivalent member of staff.

These moves have generated a range of benefits. Staff have a more modern working environment, operating costs have been reduced by £4 million a year and total gas and electricity consumed in the year reduced by 75%. The sale of surplus land has generated £13 million for the Exchequer. However, in undertaking the moves, we have generated considerable amounts of waste. We are confident that with these moves completed, our performance on waste reduction will be more consistent.

Another key target in the new commitments is to reduce paper use by at least 50% from a 2009–10 baseline. As an organisation that has historically produced large amounts of customer information, we have been actively addressing this for some years as part of our wider business strategy of encouraging channel shift. We communicate with customers by email rather than post whenever possible, enable customers to apply for accounts and investments online rather than using printed forms, and as of 31 March 2017 we paid more than half of all Premium Bonds prizes electronically, either by automatic reinvestment or by paying prizes directly into bank accounts.

Business travel is also an area where NS&I has demonstrated a reduction in our carbon footprint. In 2009–10 we reported 573 tonnes of CO₂e emissions. This year we report a total of 421 tonnes of CO₂e. A key driver in achieving this reduction is the increased use of video conferencing, a facility we did not have in 2009–10.

Our sustainable procurement policies continue to comply with government plans and we ensure that this compliance is monitored. The changes we have made to our estate also comply with the BREEAM standards.

As per previous years, we continue to assess our policies and premises against the risks of changing climate and extreme weather events. Having relocated our Glasgow operations to more urban locations, we have made travel easier and created a large redevelopment area for local housing. In Blackpool we have rationalised the estate and sold off the surplus land and buildings for redevelopment into housing, while still protecting the local wildlife on the site.

External accreditation

We continue to assess our environmental performance against external standards. In February 2017, we received accreditation against the updated ISO14001 standard for environmental management.

£13m

returned to the public purse
through completed sale of
older premises

ISO14001

Achieved accreditation against new
environmental standards

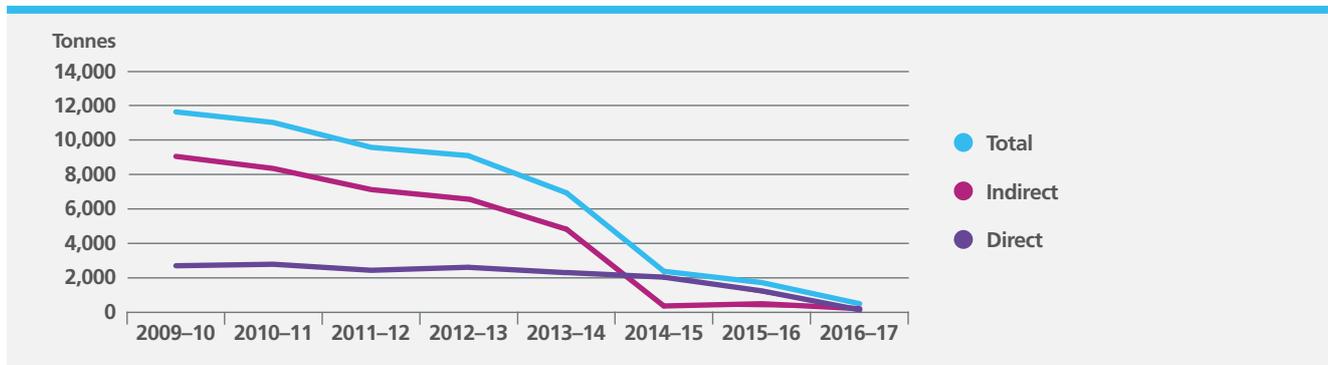
Our new carbon management plan

Our new carbon management plan will be aligned with the new Greening Government targets and we plan to finish this work by June 2017.

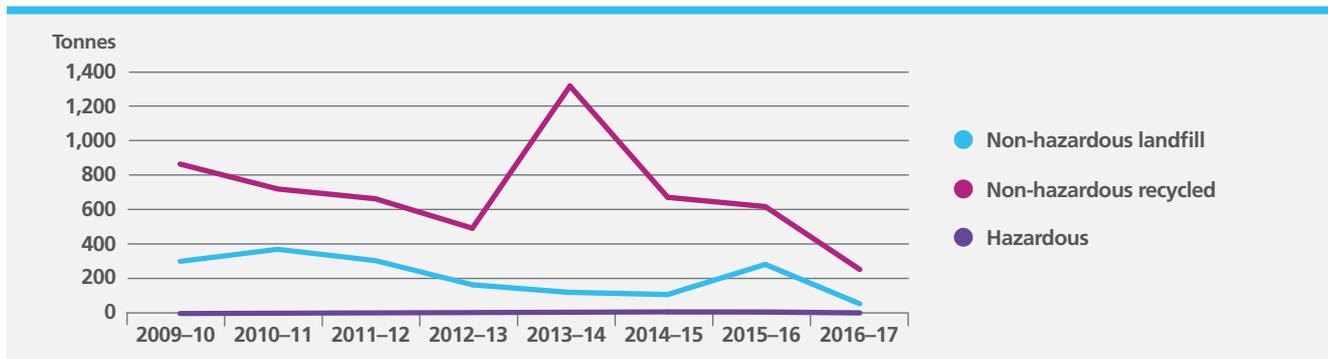
Our vision is to be a low carbon business in which sustainability is embedded within decision-making. We will balance performance, service delivery and financial viability against social and environmental responsibility; and seek to fulfil stakeholder expectations by demonstrating best practice in meeting mandatory and corporate sustainability targets.

Customer interactions will be at the heart of the new carbon management plan we are putting in place for the next five years. We seek to drive out paper from our business, thus reducing environmental impacts, improving the customer experience, and making cost-saving benefits.

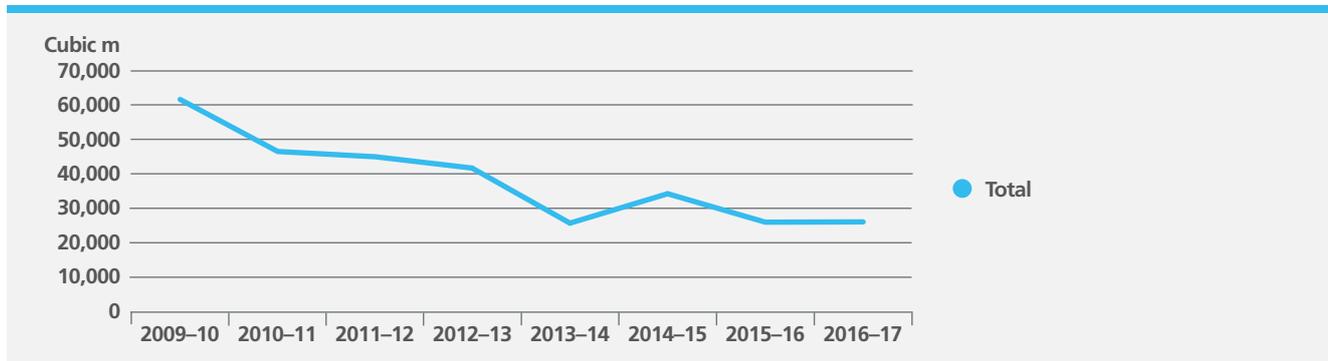
CO2e emissions (four sites) tonnes



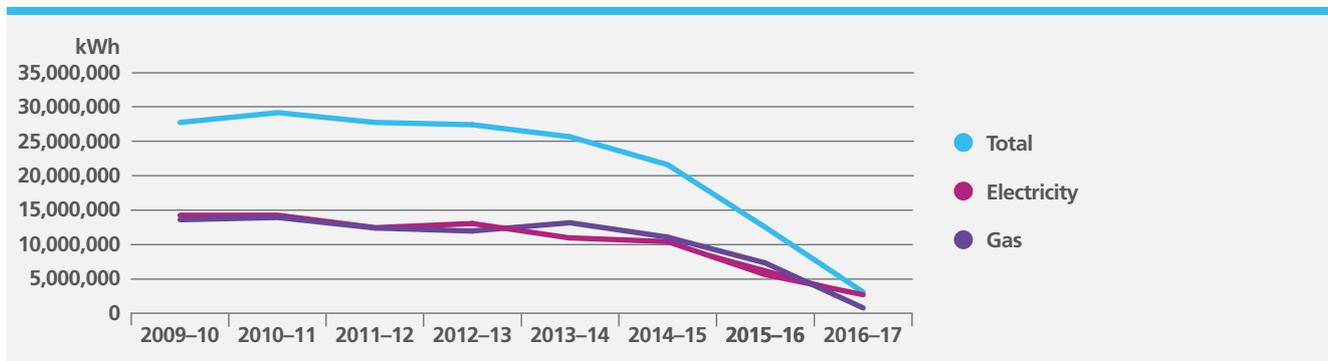
Waste (four sites) tonnes



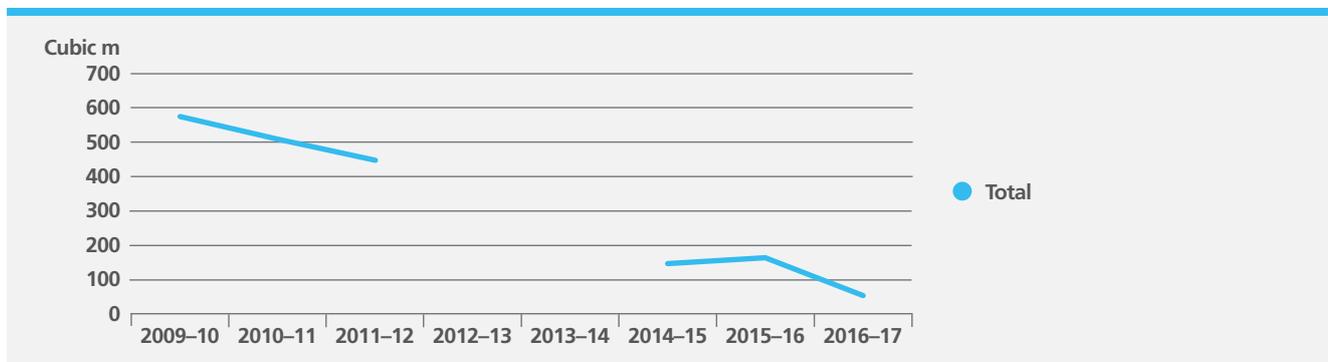
Water consumption (four sites) cubic metres



Energy consumption (four sites) kWh



Travel CO2e emissions (tonnes)⁽¹⁾



(1) No data was available for travel CO2e emissions for 2012-13 and 2013-14. Conversion factors for the 2014-15 reporting year are taken from <http://www.ukconversionfactorscarbonsmart.co.uk/>. Direct CO2 emissions relate to gas or diesel fuel for heating. Indirect CO2 emissions relate to electricity, water, waste and transport.

Waste (tonnes)

	2009–10	2010–11	2011–12	2012–13	2013–14	2014–15	2015–16	2016–17
Location								Tonnes
Blackpool	190.93	227.01	156.64	125	159	135	156	63
Durham	481.99	529.05	378.81	262	296	85	368	49
Glasgow	395.01	251.13	416.39	229	884	529	333	150
London	71.49	65.25	45.12	31	38	37	35	28
Total	1,139.42	1,072.44	996.96	647	1,377	786	892	291

Water (cubic metres)

	2009–10	2010–11	2011–12	2012–13	2013–14	2014–15	2015–16	2016–17
Location								Cubic metres
Blackpool	30,197	21,376	16,318	17,641	9,350	8,924	9,167	3,055
Durham	12,346	13,459	19,576	13,360	10,772	15,230	9,517	2,307
Glasgow	14,308	10,958	9,162	8,877	5,092	7,003	6,450	0
London	3,784	1,076	59	1,220	1,301	1,965	826	1,441
Total	60,635	46,869	45,115	41,098	26,515	33,122	25,960	6,803

Percentage of waste recycled

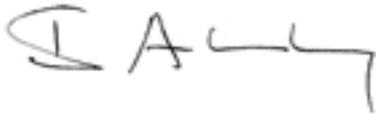
	2009–10	2010–11	2011–12	2012–13	2013–14	2014–15	2015–16	2016–17
Location								%
Blackpool	71.07	48.26	45.54	56.56	78.94	86.94	77.44	82
Durham	66.17	69.78	58.65	76.2	85.84	62.63	49.47	65
Glasgow	84.88	78.96	84.16	86.46	93.33	91.41	81.8	85
London	73	86.49	84.91	100	100	100	100	100
Total	74	67.71	68.43	77.16	90.24	86.18	68.43	82

Energy (CO2e) (tonnes)

	2009–10	2010–11	2011–12	2012–13	2013–14	2014–15	2015–16	2016–17
Location								Tonnes
Blackpool	2,839	3,796	3,232	3,010	2,091	249	59	3
Durham	3,451	3,616	3,300	3,430	2,692	969	956	75
Glasgow	2,249	2,852	2,476	2,606	1,914	775	236	0
London	355	366	300	315	273	317	287	273
Total	8,894	10,630	9,308	9,361	6,970	2,310	1,538	351

Monitoring performance

The governance arrangements over our sustainability performance data for 2016–17 were assessed by our internal auditors, the Government Internal Audit Agency (GIAA). We monitor our performance closely, as part of our Corporate Social Responsibility risk policy. Our plans, policy and full sustainability report can be found at <http://nsandi-corporate.com/about-nsi/what-we-do/corporate-social-responsibility/>.



Ian Ackerley

**Chief Executive
National Savings and Investments**

22 June 2017

Section 2

Accountability Report

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Corporate governance report – Directors' report

Scope of responsibility

NS&I is both a government department and an Executive Agency of the Chancellor of the Exchequer. The Chancellor of the Exchequer is responsible for determining the policy and financial framework within which NS&I operates. Simon Kirby was the Minister responsible for NS&I. Following the General Election on 8 June 2017, Stephen Barclay MP, the new Economic Secretary to the Treasury, was confirmed as the Minister responsible for NS&I.

John Kingman replaced Sir Nicholas Macpherson as Permanent Secretary to the Treasury in an acting capacity and was replaced on 1 July 2016 by Tom Scholar in a permanent capacity.

As an Executive Agency, NS&I has a clear focus on reducing the cost to the taxpayer of government borrowing now and in the future. With this in mind, its single, long-term strategic objective is to provide the Government with cost-effective retail finance compared with raising funds on the wholesale market.

NS&I board

Members of NS&I's board during the year to 31 March 2017 were:

- Ed Anderson, Independent Non-executive Director, Chairman of the Audit and Risk Committee (to 31 December 2016) and Chairman (from 1 January 2017)
- Sir John de Trafford Bt. MBE, Independent Non-executive Chairman (until 31 December 2016)
- Christopher Fisher, Independent Non-executive Director (from 1 March 2017)
- James Furse, Independent Non-executive Director and Chairman of the Appointments and Remuneration Committee
- Sharmila Nebhrajani OBE, Independent Non-executive Director and Chairman of the Audit and Risk Committee (from 1 March 2017)
- Cheryl Millington, Independent Non-executive Director (until 30 November 2016)
- Mario Pisani, HM Treasury representative
- Ian Ackerley, Chief Executive (from 13 March 2017)
- Steve Owen, Partnership Director (to 31 August 2016) and Acting Chief Executive (from 1 September 2016 to 12 March 2017)
- Jane Platt CBE, Chief Executive (to 31 August 2016)
- Peter Cornish, Risk Director
- Dax Harkins, Business-to-Business Director
- Mark Keene, Acting Partnership Director (from 1 September 2016)
- Rodney Norman, Finance Director
- Sarah Tebbutt, People and Strategy Director
- Jill Waters, Acting Retail Director

Conflicts of interest

NS&I's Board Operating Framework includes provisions that reflect recommended practice concerning conflicts of interest. The board has procedures in place for Directors to report any potential or actual conflicts to the other members of the board for their authorisation where appropriate.

Any such conflicts or potential conflicts considered by the board are recorded in the board minutes and in the Register of Directors' Interests which is published on our website: <http://nsandi-corporate.com/about-nsi/who-we-are/our-board-and-committees/>

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

Corporate governance report – Statement of Accounting Officer’s responsibilities

Actions have been taken to ensure that the Statement of Accounting Officer’s responsibilities is prepared in accordance with the Government Financial Reporting Manual (FReM), Public Expenditure System and HM Treasury’s Managing Public Money guidance.

Resource Accounts

Under the Government Resources and Accounts Act 2000, HM Treasury has directed NS&I to prepare for each financial year accounts detailing the resources acquired, held or disposed of during the year and the use of resources by the Department during the year. The accounts are prepared on an accrual basis and must give a true and fair view of the state of the Department’s affairs at 31 March 2017 and of its net cash requirement, net resource outturn, net operating cost, changes in taxpayers’ equity and cash flows for the financial year.

Product Accounts

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

In preparing the accounts, the Accounting Officer is required to comply with the requirements of the FReM and in particular to:

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

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

The Accounting Officer has taken all the steps that ought to have been taken to make himself aware of any relevant audit information and to establish that NS&I’s auditors are aware of that information. So far as he is aware, there is no relevant audit information of which NS&I’s auditors are unaware.

The Accounting Officer confirms that the Annual Report and Accounts, as a whole, are fair, balanced and understandable and that he takes personal responsibility for the Annual Report and Accounts and the judgements required for determining that they are fair, balanced and understandable.

The Comptroller and Auditor General is responsible for the audit of the Resource Accounts and Product Accounts, in accordance with section 7 of the Government Resources and Accounts Act 2000. The notional external audit fees include fees for the Product Accounts statutory audit of £380,000 (2015–16: £542,000) and the Resource Accounts statutory audit of £70,000 (2015–16: £92,000).

Corporate governance report – Governance statement

The purpose of the Governance statement

This Governance statement gives a clear understanding of the dynamics of NS&I and its control structure. It provides information on the stewardship of NS&I and how it has managed the risks it has faced during 2016–17.

How is NS&I's governance achieved?

Accounting Officer

As the Accounting Officer, the Chief Executive has responsibility for maintaining sound internal governance arrangements which support the achievements of NS&I's policies, aims and objectives and are supported by the board.

Role of the NS&I board

NS&I's remit and policies are decided by Ministers, on advice from HM Treasury officials.

NS&I's board consists of seven Executive Directors (including the Chief Executive), four Non-executive Directors who are independent and appointed by the Chancellor of the Exchequer following an open recruitment process (including the Non-executive Chairman) and up to two representatives of HM Treasury who are NS&I's stakeholders.

All Executive and Non-executive appointments to NS&I's board are made on merit and political activity plays no part in the selection process.

The board does not decide policy or exercise the powers of the Minister. It assists in developing NS&I's strategy and advises on the operational implications and effectiveness of policy proposals, as well as scrutinising performance and challenging Executive Directors on how well NS&I is achieving its objectives. The Chief Executive will normally follow the advice of the board, except where it conflicts with the Accounting Officer's obligations.

NS&I is committed to achieving the highest standards of corporate governance, integrity and business ethics. Throughout 2016–17 NS&I complied with the Code for Corporate Governance in Central Government Departments where applicable and except as detailed in this statement.

NS&I has adopted a Corporate Governance Manual (also known as the Board Operating Framework) which is consistent, where applicable, with the principles of the Corporate Governance in Central Government Departments: Code of Good Practice, 2011 (the 'Code'), the 2014 Financial Reporting Council (FRC) Corporate Governance Code and the FCA requirements and is reviewed on a regular basis. Because of the nature of NS&I (an Executive Agency of government), it is not possible for it to meet all the requirements in the Code.

The Corporate Governance Manual was fully reviewed during 2014–15 to ensure that, where applicable, it was in line with the Code, the most recent version of the UK Corporate Governance Code and other applicable examples of best practice. NS&I's aim is also to comply with FCA requirements where applicable and appropriate on a voluntary basis and its Corporate Governance Manual also reflects the FCA requirements for corporate governance. Smaller reviews are also carried out each year to ensure the Manual remains relevant.

During 2016–17 an internal audit on NS&I's corporate governance was undertaken and, as a result, some further changes were made to both the Corporate Governance Manual and Delegated Authority Manual. None of the findings were major.

Further details of NS&I's board and its committees and their compliance with the Code and the FRC Corporate Governance Code are detailed below.

Role of HM Treasury and the Minister

The powers governing the way in which NS&I products are structured and managed are derived from specific NS&I legislation and all strategic decisions affecting our products require Ministerial consent. NS&I is regulated by HM Treasury and aims to comply with the FCA requirements where applicable on a voluntary basis. For example, as NS&I has no lending or dealing activities and offers primarily simple, deposit-based products, some of the rules which make up the FCA regulatory regime are not directly relevant.

The regulatory landscape continues to change and, as it does, NS&I adapts its processes and procedures as it continues to embed compliance with the relevant regulatory requirements. This has been discussed periodically with the FCA, including compliance with the remedies proposed in the final report of the FCA Cash Savings Market Study. Progress against the requirements is tracked through the Risk Management Committee with reports provided to the Audit and Risk Committee.

Partnership working

NS&I has good governance arrangements in respect of partnerships, particularly with its operational services partner, Atos, through:

- fostering effective delivery relationships
- establishing appropriate arrangements to engage with partners and other parts of government to ensure that they are able to interact with NS&I on matters of mutual interest, including Atos's attendance at NS&I's Executive Committee and a majority of NS&I's sub-committees. NS&I staff also attend a number of Atos's related committees.

The process of governance

NS&I's governance framework consists of the Memorandum of Understanding between NS&I and HM Treasury, the Corporate Governance Manual, Delegated Authority Manual, the Risk Management Framework, financial management systems and supporting policies and procedures, a business-to-business approvals process and the new product development process. The governance framework delivers the systems and processes by which NS&I is directed and managed. It sets out how NS&I monitors the achievement of its strategic objectives and considers whether those objectives have led to the delivery of appropriate, cost-effective services.

The system of internal control is a significant part of the governance framework and is designed to manage risk to an acceptable level rather than to eliminate all risk of failure to achieve policies, aims and objectives. It can, therefore, only provide reasonable and not absolute assurance of effectiveness. The system of internal control is an ongoing process designed to identify and prioritise the risks to the achievement of NS&I's policies, aims and objectives, to evaluate the likelihood of those risks being realised and their potential impact, and to manage them efficiently, effectively and economically. The system of internal control has been in place in NS&I throughout the year ended 31 March 2017 and up to the date of approval of the Accounts.

The governance framework

NS&I's governance framework is overseen by the board. The responsibility for developing strategy and the day-to-day management of NS&I is delegated to the Chief Executive and the Executive Committee.

NS&I's governance framework is based on:

- a clear organisational structure, a strategic plan and accountability structures
- strong business planning processes, including appropriate evaluation and performance metrics
- financial management protocols, risk management and administrative procedures, including delegated authority levels
- strong financial governance and management
- rigorous appraisal of any new or changed projects prior to approval, project delivery monitoring and project evaluation
- proper management supervision, including receiving regular management information on business as usual, continuing projects, the deferment of projects and closing projects
- close monitoring of performance by the Chief Executive, the board and its committees, including key performance indicators; and
- effective stakeholder and partner engagement and feedback mechanisms.

NS&I optimises its resources in accordance with its Corporate Plan by:

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

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

The board, committees and how we operate

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

- strategic clarity: setting the NS&I vision
- commercial sense: scrutinising the allocation of financial and human resources
- talented people: ensuring NS&I has the capability to meet current and future needs
- results focus: agreeing the Corporate Plan and monitoring its delivery
- management information: ensuring clear, consistent, comparable performance information is used to drive improvements.

There is a formal schedule of matters reserved to the board which is reviewed annually.

Operating within instructions and guidance from HM Treasury, and in support of the Chief Executive in the achievement of the Agency's objectives, NS&I's board is responsible for:

- setting the tone from the top and monitoring conduct at NS&I through regular reporting
- approving the annual planning criteria and timetable
- assisting in developing NS&I's vision, strategy and corporate policies
- reviewing annually the five-year strategic plan to ensure it remains fit for purpose
- approving the annual business plan, ensuring consistency with the five-year strategic plan and tracking delivery
- approving NS&I's risk appetite
- ensuring that we have robust systems in place for compliance with legal, regulatory and government security requirements
- adopting the Annual Report and Accounts and giving its support to their signature by the Accounting Officer, taking into account the recommendations and comments from the Audit and Risk Committee
- ensuring the existence of adequate succession plans for senior management.

Other specific responsibilities are delegated to the board's committees, which operate within clearly defined terms of reference. Details of the responsibilities delegated to the committees are given on pages 48 to 50.

Terms of reference for the board can be found on our website. The terms of reference are reviewed annually.

All Directors uphold the seven principles of public life: selflessness, integrity, objectivity, accountability, openness, honesty and leadership. Each Director brings a valuable range of experience and expertise to the board.

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

During this year, the mix and balance of skills and understanding held by board members was assessed by the Chief Executive and HM Treasury stakeholder representative against the business requirements and the expertise required for the Chairman of the board and subsequently the Chairman of the Audit and Risk Committee.

A similar exercise was carried out for the Chief Executive's role. The NS&I Chairman reviewed the Chief Executive's role profile but it was signed off by HM Treasury.

Each Executive and Non-executive Director has an annual appraisal and personal development or learning plan to acquire and maintain the skills and understanding to support their competence. They are also scrutinised as Senior Managers Regime positions under the shadow FCA Senior Managers Regime.

Chairman and Chief Executive

As Chairman, Ed Anderson is responsible for:

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

As Chief Executive, Ian Ackerley is responsible for:

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

The Chief Executive is also the Accounting Officer and the Director of Savings. The Statement of Accounting Officer's responsibilities is on page 40.

The independent Non-executive Directors

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

Lead Non-executive board member

The board has decided not to follow the Code in relation to the appointment of a Lead Non-executive board member other than the Chairman. The Chairman meets the Non-executive Directors individually and collectively and, if necessary, would feed views back to HM Treasury.

The board has identified HM Treasury as NS&I's main stakeholder and considers that HM Treasury representation on the board – together with agreement that the independent Non-executive Directors, if they choose, can meet the responsible Minister annually – means that there is no need for a Lead Non-executive board member other than the Chairman.

Board Secretary and independent advice

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

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

Board meetings and attendance

Board meetings are held every two months and additional board workshops and special meetings are held to discuss specific issues such as strategy and effectiveness and urgent issues.

During the year, the board has received reports on issues such as the strategic planning process, the transformation programme, business-to-business work, cyber security, conduct and benefits realisation.

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

The attendance of individual Directors at board and committee meetings of which they were members during 2016–17 was as follows:

Name	Board (6 meetings)		Audit and Risk Committee (5 meetings)		Appointments and Remuneration Committee (3 meetings)	
	Possible	Actual	Possible	Actual	Possible	Actual
Ed Anderson ⁽¹⁾	6	6	4	4	0	0
Sir John de Trafford Bt. ⁽²⁾	5	5	n/a	n/a	3	3
Christopher Fisher ⁽³⁾	0	0	1	1	n/a	n/a
James Furse	6	6	n/a	n/a	3	3
Sharmila Nebhrajani OBE ⁽⁴⁾	0	0	1	1	n/a	n/a
Cheryl Millington ⁽⁵⁾	4	4	4	3	n/a	n/a
Mario Pisani ⁽⁶⁾	6	4	5	4	n/a	n/a
Ian Ackerley	0	0	n/a	n/a	0	0
Steve Owen ⁽⁸⁾	6	6	n/a	n/a	1	1
Jane Platt CBE ⁽⁹⁾	3	3	n/a	n/a	2	2
Peter Cornish	6	6	n/a	n/a	n/a	n/a
Dax Harkins	6	6	n/a	n/a	n/a	n/a
Mark Keene ⁽¹⁰⁾	3	3	n/a	n/a	n/a	n/a
Sarah Tebbutt	6	6	n/a	n/a	3	3
Rodney Norman	6	6	n/a	n/a	n/a	n/a
Jill Waters	6	6	n/a	n/a	n/a	n/a

(1) Ed Anderson was appointed as Chairman on 1 January 2017 and became a member of the Appointments and Remuneration Committee. He therefore stood down as Chairman and member of the Audit and Risk Committee on 31 December 2016.

(2) John de Trafford retired as Chairman and Non-executive Director on 31 December 2016.

(3) Christopher Fisher was appointed on 1 March 2017.

(4) Sharmila Nebhrajani was appointed on 1 March 2017 and replaced Ed Anderson as Chair and member of the Audit and Risk Committee.

(5) Cheryl Millington resigned as a Non-executive Director on 30 November 2016.

(6) In Mario Pisani's absence, another member of HM Treasury has attended meetings.

(7) Ian Ackerley was appointed as Chief Executive on 13 March 2017 and therefore did not attend any meetings in the financial year.

(8) Steve Owen was appointed Acting Chief Executive on 1 September 2016. Steve had previously announced his intention to leave NS&I once a new Chief Executive was appointed and therefore stood down on 12 March. He retired on 31 March 2017.

(9) Jane Platt, Chief Executive, stepped down on 31 August 2016.

(10) Mark Keene was appointed as Acting Partnership Director on 1 September 2016.

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.

Up to two HM Treasury representatives on the board are appointed by HM Treasury by virtue of their role there.

The independent Non-executive members of the board are appointed by the Chancellor of the Exchequer and contracted by the Director of Savings. Non-executive Directors have fixed-term appointments not exceeding three years. Usually they serve for two terms of office, subject to satisfactory performance and business need and can serve an additional year in exceptional circumstances.

During this financial year, there have been a number of changes on the board. John de Trafford, having served his two terms of office, retired on 31 December 2016. As a result of a successful external recruitment exercise, Ed Anderson was appointed on 1 January 2017. This left a vacancy for the Chair of the Audit and Risk Committee and Non-executive Director and Sharmila Nebhrajani OBE was appointed on 1 March 2017.

Due to work commitments, Cheryl Millington resigned on 30 November 2016 and Christopher Fisher was appointed on 1 March 2017.

Jane Platt CBE, having served as Chief Executive for over 10 years, announced her intention to step down as Chief Executive in May 2016 and left NS&I on 31 August 2016. During the recruitment process and while a permanent appointment was made, Steve Owen (previously Director of Partnership) was appointed as Acting Chief Executive until 12 March 2017 when Ian Ackerley was appointed. Mark Keene was appointed as Acting Partnership Director and, following Steve's previous announcement that he intended to leave NS&I once a new Chief Executive was appointed, this appointment (and that of Jill Waters as Acting Retail Director) will continue until a recruitment exercise takes place.

The appointment of the Chief Executive was conducted in accordance with the Civil Service Commission's Recruitment Principles and procedures and the Non-executive Directors were appointed in accordance with the Code of Practice published by the Commissioner for Public Appointments. Appointments were made, on merit, with due regard for the benefits of diversity on the board, including gender. NS&I also advertised all these appointments externally.

Board induction

On joining the board, Directors are given background information describing NS&I and its activities. They receive an induction pack which includes information on all the governance processes of NS&I, the roles and responsibilities of the board, committees and officers and a range of other appropriate information about NS&I, its activities and relationship with HM Treasury. Meetings are arranged with a range of key people from across NS&I, HM Treasury and our operational partner, Atos, on a structured basis to assist with induction.

During 2016–17, the board members were all engaged in a range of training and professional development activities as well as mandatory training, including computer-based training. The Appointments and Remuneration Committee considers the training needs of the Executive Directors, Non-executive Directors and Assistant Directors. All board members are encouraged to attend relevant training courses at NS&I's expense.

Board evaluation

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

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

The last external review of board effectiveness took place during 2015–16, the results of which were positive with no strong messages of concern arising. An action plan was produced and completed.

The evaluation that took place this year continued to place an emphasis on strategic issues. The board continued to propose topics for deep dives and workshops throughout the year. This year, topics included Net Financing, pricing and the strategy for product development.

Quality of data used by the board

As part of its effectiveness review and as a result of general discussions and challenge throughout the year, the board continually considers the quality of data it receives and actions have been taken to improve this.

At the beginning of each financial year, the board receives the proposed board scorecard and the related service delivery measures which reflect NS&I's strategy for consideration and approval. This data is updated and presented to each board meeting. Additionally, the board has requested information on how NS&I benchmarks against external competitors.

The board also reviews a Culture and Conduct Dashboard (which includes both NS&I and Atos) on a six-monthly basis.

The Government Internal Audit Agency (GIAA) carried out an audit on executive decision-making and management information and this was rated 'Adequate'.

Ministerial Directions

There have been no Ministerial Directions during this financial year.

Board Committees

The board has delegated authority to three permanent committees (Audit and Risk Committee, Appointments and Remuneration Committee and Executive Committee) that deal with specific matters, in accordance with written terms of reference. The terms of reference for all committees are reviewed annually to ensure that they are still appropriate and reflect any changes in good practice and governance, and the committees all carry out annual reviews of their performance which are reported to the board. These terms of reference are publicly available on NS&I's website.

The board is responsible for corporate governance arrangements and is supported by the Audit and Risk Committee in terms of the provision of assurances.

The board considers that it receives adequate assurance from its committees via a written report (including minutes) and additional oral updates after each committee meeting. It also receives a regular and detailed Chief Executive's overview.

Audit and Risk Committee

The Audit and Risk Committee consists solely of two Non-executive Directors and a representative from HM Treasury. It was chaired by Ed Anderson until his appointment as Chairman on 1 January 2017 and, subsequently, by Sharmila Nebhrajani OBE (from 1 March 2017) and comprised Cheryl Millington (until her

resignation) and an HM Treasury representative (Mario Pisani). Christopher Fisher replaced Cheryl Millington (from 1 March 2017). As required by the Code, at least one of the Audit and Risk Committee members has recent and relevant financial experience. In NS&I's case this is the Chair of the Committee.

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

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

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

During 2016–17, the Audit and Risk Committee discharged fully its responsibilities listed above and, in doing so, considered the following:

- the Annual Report and Accounts and the governance statement
- the internal and external audit plans and progress against these plans, as well as the adequacy of management's responses to any issues identified
- reports on compliance, anti-money laundering, financial crime, risk and fraud strategies, including developments to the Risk Management Framework
- business continuity, disaster recovery
- cyber security
- red project risks associated with the transformation plan
- red audit reports
- review of the Audit and Risk Committee and the achievement of its terms of reference.

The Chairman of the Audit and Risk Committee provides a comprehensive annual report to the board as well as a report and the minutes after each meeting.

Appointments and Remuneration Committee

The Appointments and Remuneration Committee comprises Non-executive Directors (James Furse (as Chairman), Sir John de Trafford Bt. until he stood down (subsequently Ed Anderson) and two Executive Directors: the Chief Executive and the People and Strategy Director). Independent support, where required, is provided by the GIAA as part of its internal audit function.

Due to the nature of NS&I and the role of the Accounting Officer, the membership of this Committee includes Executive Directors as well as Non-executive Directors.

The Appointments and Remuneration Committee reviews and approves the Chief Executive's recommendations on pay and performance-related awards to confirm that they are consistent with government policy, HM Treasury pay guidance and the needs of the business. Performance-related awards are judged on two elements: NS&I's performance against its service delivery measures, which are audited, and individual performance and competency objectives which are assessed by the Chief Executive using appropriate measures of outcomes.

The Chair of the Appointments and Remuneration Committee provides a report on its meetings to the board (including minutes), taking into account the confidential nature of the committee's business.

The committee reviews succession planning arrangements for senior staff within NS&I and succession planning for Non-executive Directors.

Details of Directors' remuneration and emoluments are set out in the Remuneration and staff report on pages 64 to 74.

Executive Committee

The Executive Committee consists of all Executive Directors and is chaired by the Chief Executive. The Account Director for our delivery partner (Atos) is also a member.

The Executive Committee met 21 times in 2016–17 to discuss issues relating to strategy, people, risk and financial results. Representatives from across NS&I and our operational delivery partner are invited to the meetings, as appropriate, to discuss aspects of their business or to give presentations on specific topics.

Risk management

NS&I operates through a comprehensive Risk Management Framework which integrates risk management in its daily business activities and strategic planning and employs the following structure and approach.

Responsibilities and culture

The Executive Committee has responsibility for the management of NS&I's Risk Management Framework, including NS&I's risk appetite, which is agreed by the board. The board oversees NS&I's compliance with the Risk Management Framework protocols by annually reviewing NS&I's risk appetite and biannually reviewing NS&I's key operational and strategic risks as well as NS&I's compliance with corporate governance best practice.

NS&I operates within a framework for assessing risk appetite which is laid down by government. In April 2016, the board agreed to NS&I's corporate risk appetite as 'open' – willing to consider all options and choose the one that is most likely to result in successful delivery while also providing an acceptable level of reward. Additionally, the board agreed to introduce a more detailed risk appetite statement to take account of the differing appetite for different classes of risks to aid more effective risk assessment and decision-making.

This was retained in April 2017 and has been clarified further to take account of the differing scale of risks in delivering products and services and balancing the needs of our stakeholders, which means that NS&I generally has an open attitude to risk and seeks to develop its policies and practices so as better to achieve its strategic

objectives and improve its operations in the course of such developments. However, it will remain focused on the integrity of its operational and reputational standards and will ensure, before implementing changes, that they are compliant, fit for purpose and achieve fair outcomes for customers and taxpayers.

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

NS&I's corporate governance structure facilitates delegation of responsibilities to ensure that there are appropriate flows of information in relation to the business, the use of resources, responses to risks and the extent to which year end budgets and targets are met. This includes ensuring that all risks identified across NS&I are reviewed, understood and actioned at an appropriate level.

NS&I encourages a positive risk culture whereby risk management is embedded in day-to-day operations. The 'tone at the top', clear ownership, training, performance measurement through individual contribution agreements and knowledge-sharing are regarded as essential elements of NS&I's risk management culture and the foundation for sound decision-making.

Approach

NS&I's approach to risk management is guided by the provisions set out in the FCA Handbook and *Management of Risk – Principles and Concepts* (the Orange Book) issued by HM Treasury.

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

- increase the likelihood that strategic objectives are achieved and value is preserved and enhanced
- provide a framework, procedures and guidance to enable everyone to manage risk in the best way
- assign responsibilities and accountabilities and underpin corporate governance
- assure the board that significant business risks are systematically identified, assessed, monitored and reduced to acceptable levels.

Updates on the operation of the Risk Management Framework are provided on a monthly basis to the Risk Management Committee, a formal sub-committee of the Executive Committee. This is also reviewed by the Executive Committee and the board.

NS&I's Risk Management Framework is complemented by a set of operational risk management policies which include a definition of the risk appetite specific to the policy.

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

During the year we implemented a new risk management system which provides a more robust repository for storing risk data and improves the efficiency and effectiveness of risk monitoring and reporting.

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

The first line of defence is represented by line management, which is responsible for complying with and managing compliance around policies and procedures. The second line of defence incorporates responsibility for control and assurance and includes risk policy owners and managers, NS&I's risk management function and oversight and governance committees. The third line of defence comprises the internal audit function, which is independent of day-to-day business and reports to the Audit and Risk Committee on the effectiveness of the overall risk framework.

To gain assurance that risk management is effective and to identify when further action is necessary, the Risk Management Framework is subject to regular review. During the year an internal audit was undertaken which confirmed that the design of the framework is adequate but with some recommendations to improve the effectiveness of its implementation. These recommendations are being progressed.

Managing and mitigating risk

Some of our key management controls are set out below:

- Our Delegated Authority Manual and committee governance structure reflect the principles of clear delegation of authority and segregation of duties.
- Our governance committees ensure that we have a monthly, systematic review of risks and controls across NS&I's operations, including those areas of significant expenditure, and that these risks are reviewed, understood and actioned at an appropriate level. In addition, NS&I conducts independent and objective reviews of all activities relating to budget management, cost improvements and financial performance of projects.
- The management of cyber and information risk is a key priority for NS&I based on a set of related IT and information management policies and procedures, covering corporate and personal data. Controls are in place to mitigate the risks of incorrect disclosure, loss or misuse or lack of access to customer data and destruction in line with our obligations under the Data Protection Act 1998 and Cabinet Office guidance.
- Selective and open recruitment, succession planning and other human resource policies and practices ensure that staff skills are aligned with NS&I's current and future needs.
- Robust project management and change implementation disciplines are applied to all major projects, including new technology applications, change programmes and other major initiatives.
- The European Public Contracts Directive and Public Contracts Regulations 2015 set out detailed procedures for the award of contracts above a specific threshold. However, NS&I applies a lower threshold of £90,000, above which either a formal or informal tender process is employed. Details of NS&I tender opportunities and contracts awarded with a value of £10,000 (excluding VAT) or more are published on Contracts Finder, which is accessible via www.gov.uk/contracts-finder.

- Staff can and are actively encouraged to report perceived illegal, dishonest or unethical activities to senior management using internal arrangements or to a confidential reporting service.
- We employ a range of internal controls to mitigate our fraud risk, and these are reviewed and updated regularly.
- Business continuity and disaster recovery plans are in place to manage incidents or crisis events, and these are reviewed regularly.

Personal data-related incidents

A breach of personal data was identified as a result of functionality that was introduced to enable customers to register online. The Information Commissioner's Office (ICO) was notified of the breach. A decision notice has been issued by the ICO confirming that it was happy that we had adequate systems and controls in place and also that we have an appropriate incident management process in place to deal with such issues quickly and effectively.

We notified the ICO of another issue in relation to inappropriate access to customer records that had been going on since 2009 where a person who had previously managed an investment on behalf of another (for example, a parent on behalf of their child) had ceased to be responsible for that person's asset. This has been fixed and is no longer happening. We are awaiting a response from the ICO.

As part of NS&I's routine cyber monitoring, numerous phishing attacks and cyber attacks have been identified but there have been no actual losses.

Principal risks and uncertainties

The principal risks and uncertainties facing NS&I which could cause our financial results or operational delivery to materially differ from expected results are set out on pages 61 to 63 along with a summary of how we managed or mitigated these risks in 2016–17.

Assurances

NS&I's systems of governance, management and risk control have been assessed by the GIAA in its capacity as NS&I's internal auditors, who report to each meeting of the Audit and Risk Committee. This forms part of the annual audit programme which enables the Audit and Risk Committee to gain assurance that NS&I's risk profile is being monitored and provides independent verification on the appropriateness of the risk management and assurance processes in place.

In addition, the Audit and Risk Committee is provided with an independent evaluation of the governance, risk management and internal control through:

- the integrated assurance report, which brings together the results of 2016–17 assurance activity from NS&I's 'three lines of defence' arrangement. This includes the risk-based second line assurance programme incorporating operations, compliance, IT and project assurance and the risk-based internal audit programme
- the risk-based internal audit plan agreed by the Audit and Risk Committee and delivered during 2016–17 by the GIAA; from this programme, internal audit reports including management responses to the recommendations were generated, summarised and submitted for consideration by the Audit and Risk Committee; a comprehensive tracker system is used to monitor delivery of the control improvements
- internal audit's annual report opinion for the year ended 31 March 2017

- discussion, where appropriate, with the responsible NS&I and operational partner's executives on any key control issues
- external third party evidence through, for example, NS&I measuring progress against external standards/requirements and discussions with the Financial Conduct Authority (FCA) on the compliance agenda
- provision of International Standard on Assurance Engagements (ISAE) 3402 operational controls for government payment services' clients
- the external auditors' annual audit with recommendations for improvements to the internal control environment identified during the annual audit and inspection.

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

The Audit and Risk Committee, in addition, receives from the external auditors an audit completion report and management letter which includes observations and recommendations on internal control arising from the annual audit of the financial statements.

The GIAA's annual opinion report for the year ended 31 March 2017 noted that:

"NS&I has an adequately designed framework of Governance, Risk Management and Control. This framework includes a comprehensive suite of policies and processes which provides the organisation with solid foundations from which to ensure the achievement of objectives. The majority of audit work which covered Business as Usual (BaU) processes identified an adequately designed control framework.

While more mature processes and controls (largely in support of BaU) were found to be effectively embedded, less mature elements were still to be fully embedded or have time to demonstrate effective operation."

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

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Significant governance issues

Four governance issues emerged during the year, two identified by NS&I management and two as a result of audits carried out by the GIAA. These are detailed below.

In September 2016, it was highlighted that, although individuals were being checked against sanctions legislation, companies were not. This came to light when an attempt to deposit further funds into one of the accounts triggered a sanctions filter. Remedial action has been taken to ensure sanctions checks are fully in place and robust and retrospective notifications have been made as required to all the relevant parties in the existing cases.

In April 2017, it was identified that sanctions and screening of Politically Exposed Persons (PEPs) was not being adequately completed on trusts and only the primary account holder was being screened. Checks were carried out on all trust settlors and beneficiaries and none were sanctioned or PEPs. This issue has been addressed for all new applications and a remediation exercise for existing secondary account holders is under way.

During an internal audit by the GIAA in April 2017, it was found that the evidence of identity (EOI) for a current customer who joined NS&I in 2007 had been destroyed in error. Further investigation found that the records were destroyed in 2014 and highlighted that significantly more documents have been incorrectly destroyed. An internal breach was raised and a remediation exercise is underway in respect of the records that have been destroyed.

In April 2017, the GIAA carried out an internal audit review on the complaint management system which resulted in a number of key findings, including the fact that the customer call centre had not identified complaints at the first opportunity and there were unclear or unsuitable complaints communications. All the key findings are being actioned and all staff are being re-trained.

The Audit and Risk Committee is satisfied that there have been no major breakdowns in internal controls that have led to a material loss. However, as noted above there were some serious weaknesses identified that the Committee considered should be disclosed, together with the management actions being taken.

Quality assurance

In October 2012, the Cabinet Secretary and the Head of the Civil Service commissioned a review of the quality assurance of analytical models that inform government policy. NS&I operates models to calculate its Net Financing and Value Indicator metrics. Robust quality assurance processes are in place around these models.

Auditors

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

In line with government guidelines and to ensure wholly independent and fully professional analysis and recommendations, NS&I's internal audit service is provided by the GIAA. Work has been undertaken in accordance with Public Sector Internal Audit Standards (PSIAS).

Board members' biographies

Non-executive Directors

Ed Anderson

Independent Non-executive Chairman (from 1 January 2017)

Ed was appointed as a Non-executive Director on 1 February 2016 and, following an open recruitment exercise, he was appointed Chairman on 1 January 2017. He was previously Chairman of the Audit and Risk Committee.

Ed was Chairman of the Yorkshire Building Society from 2007 to 2015 and is currently Chairman of the Airport Operators Association. He is also a former President, and Chairman, of Leeds Chamber of Commerce and is a director of a number of other public and voluntary sector organisations in Yorkshire including being a member of the University of Leeds Council and chairing their Audit and Risk Committee. Ed is an Economics graduate and a qualified accountant.



Sir John de Trafford Bt. MBE

Independent Non-executive Chairman

John became a Non-executive Director in January 2010, was appointed Chairman on 1 January 2012 and, having served his two terms of office, retired on 31 December 2016. His early career was spent at Unilever and Guinness before he moved into financial services, as Head of Consumer Marketing in the UK for American Express. After a spell overseas, he was appointed Country Head for the UK and Ireland, before becoming Regional President for Northern Europe and Chair of the company's European, Middle East and Africa Executive. He is now retired from American Express and currently has a portfolio of not-for-profit and commercial activities.



Christopher Fisher

Independent Non-executive Director

Christopher was appointed as a Non-executive Director in March 2017. He chairs the Marshall Commission, responsible for the Marshall Scholarship Programme, is a Non-executive Director of SEGRO, the FTSE 100 property company, and is a senior adviser at Penfida, the corporate finance adviser to pension scheme trustees, where originally he was a senior partner. Until last year he served as chairman of Bank of Ireland UK and as President of the Council of the University of Reading.

His previous appointments include roles with Lazard and KPMG, and as a trustee of the Imperial War Museum.



James Furse

Chairman of the Appointments and Remuneration Committee

James was appointed as Non-executive Director in January 2012. He enjoyed a long career with the John Lewis Partnership, progressing through a series of roles to become a managing director within the retail operation and subsequently Director of Credit Card Services. His final role with the John Lewis Partnership was as Managing Director of Greenbee.com, now John Lewis Financial Services. In 2010, James was appointed Executive Director of The Prince's Social Enterprises Ltd.

In 2013, he became a Non-executive Director at the South Devon Healthcare NHS Foundation Trust and joined the board of Ageas UK as a Non-executive Director and is Chairman of its Remuneration Committee.



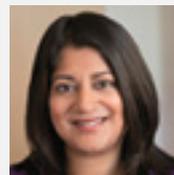
Sharmila Nebhrajani OBE

Chair of the Audit and Risk Committee

Sharmila was appointed as Non-executive Director on 1 March 2017. She is Chairman of the Human Tissue Authority and also serves as Director of External Affairs at the Medical Research Council. She is a Non-executive Director of the Pension Protection Fund and the British Medical Journal and a trustee of LifeSight, a pensions master-trust.

Her previous experience includes roles as Chief Executive Officer of the Association of Medical Research Charities and Chief Operating Officer and Finance Director at BBC Future Media & Technology.

She is a chartered accountant and was awarded an OBE in 2014.



Cheryl Millington

Independent Non-executive Director (to 30 November 2016)

Cheryl was appointed a Non-executive Director in July 2014 and resigned at the end of November 2016 when she took on a role with a new employer.

She held a number of high-profile roles across the retail and financial services sectors. In October 2016 Cheryl was appointed as Chief Digital Officer at Travis Perkins plc. She was previously Director of IT and a member of the Waitrose board.

Cheryl has also held posts as Chief Information Officer at Asda, Director of Group Programmes at HBOS and before that was Managing Director of the HBOS retail branch network and its Head of Retail Savings.



Mario Pisani

HM Treasury representative

Mario was appointed to the board as HM Treasury's representative on 1 April 2016. He has been Deputy Director for the Debt and Reserves Management Team in HM Treasury since April 2016. Since joining HM Treasury in 2005, he has worked on international finance, communications, economic forecasting and macroeconomic policy.

He led the team supporting Professor Sir Charles Bean in his Independent Review of UK Economic Statistics, which was published in March 2016. Between 2013 and 2016 he represented HM Treasury at the G20 Framework Working Group. During 2014 he worked on the referendum on Scottish independence. Between 2008 and 2011 he was Private Secretary to the Chancellor of the Exchequer. During 2006 Mario was seconded to the *Financial Times* in London, where he worked as a leader writer.

He is a Senior Visiting Research Fellow at King's College London. Mario holds degrees in economics from the University of Kent and the University of Oxford and is a qualified accountant.



Executive Directors

Ian Ackerley

Chief Executive (from 13 March 2017)

Ian was appointed as Chief Executive following an open recruitment exercise. He succeeded Steve Owen, who was Acting Chief Executive from 1 September 2016 to 12 March 2017 following Jane Platt's decision to stand down as Chief Executive after 10 years in office.

Immediately before joining NS&I, Ian worked at Barclays which he joined in 2011 as Director of Investments and where he was responsible for Barclays' UK retail investment business.

Ian has over 20 years' experience in the UK retail financial services industry. His previous roles include Managing Director of Investments and Pensions at Virgin Money, Managing Director of Sun Life International and working as a consultant with McKinsey & Company.

Ian has an honours degree in Psychology (BSc) from St Andrews University and holds an MBA from London Business School. He began his career with Royal Dutch Shell.



Steve Owen

Acting Chief Executive (to 12 March 2017)

Steve was appointed Acting Chief Executive following Jane Platt's announcement that she was stepping down as Chief Executive from 31 August 2016. He was previously Director of Partnership and Operations. Prior to taking up the Acting Chief Executive role, Steve had announced his intention to leave NS&I once a new Chief Executive was appointed.

A graduate of Warwick University, where he gained a degree in Management Sciences, Steve commenced his career working in an engineering/manufacturing environment. After joining NS&I in 1993 and carrying out a range of procurement roles he went on to design and deliver a sourcing strategy to support NS&I's broader business aims, resulting in the outsourcing contract awarded to Siemens in 1999.

In 2010 Steve led the second generation outsourcing that ultimately resulted in NS&I's operational partnership with Atos.



Jane Platt CBE

Chief Executive (to 31 August 2016)

Jane was Chief Executive of NS&I from September 2006 until the end of August 2016 when she stood down, having previously announced her intention to do so in May 2016. She joined the Financial Conduct Authority board in April 2013 as a Non-executive Director and chairs the External Risk and Strategy Committee.

Trained as an investment manager, Jane managed pension funds with Mercury Asset Management before moving to BZW where she held a number of senior management positions in their asset management division to become Chief Operating Officer at the time of the creation of Barclays Global Investors. Jane was Chief Executive of Barclays Stockbrokers and Barclays Bank Trust Company before moving to Reuters as President of their global division, Services for Asset Managers.

She has acted as a Non-executive Director of Royal London Group and has experience of being a pension fund trustee. She is a Chartered Fellow of the Institute for Securities and Investments and holds honorary doctorates from Warwick and Huddersfield Universities.



Peter Cornish

Director, Risk

Peter oversees the management of legal and regulatory compliance for NS&I as both a financial services organisation and a government body in a way which is consistent and compliant with the requirements of regulators, auditors and central government, including compliance with the FCA regulations as they apply to NS&I.

Peter joined NS&I in 1998, taking responsibility for the tax-free products and savings accounts portfolios. Prior to that he had held a number of roles in Lloyds Bank, including private client wealth management, the development of savings, investment and stockbroking services and internal audit.

He took on the additional responsibility of customer management before being appointed marketing director in 2006 and continued to manage the product portfolio and overall customer offer as Director of Customer Offer until his appointment as Risk Director in 2011.

Peter holds a Law degree from Manchester University and an MBA from Warwick University.



Dax Harkins

Director, B2B

Dax is responsible for the development and delivery of the B2B strategy. His accountabilities include the management of existing clients, winning and transitioning new clients and the development of value added services for NS&I retail customers.

A joint honours degree graduate of the University of Manchester Institute of Science and Technology, Dax has worked in financial services for 20 years. Starting his career in sales, Dax quickly progressed into various marketing roles, with a focus on product development, customer management and customer experience.

In 2003 Dax joined NS&I and moved from marketing in 2011 to Programme Director for the retender of the NS&I outsourcing contract. After successfully awarding the contract and ensuring a smooth transition, Dax was appointed to the Board in 2014 as Director of B2B.



Mark Keene

Acting Director, Partnership

Following Steve Owen's appointment as Acting Chief Executive from 1 September, Mark was appointed as Acting Partnership Director.

As Acting Partnership Director, Mark is responsible for the delivery of the NS&I outsourcing business model and the relationship with the Agency's key partnership with Atos, including service delivery, commercial and change assurance and procurement.

Mark joined NS&I in 2005 and has undertaken a variety of roles in relation to the management of the relationship with NS&I's key partners, in particular overseeing operational delivery and assurance during a period of significant change and growth for NS&I.

He is a graduate of the University of Southampton with a BSc in Politics and is a member of the Chartered Institute of Purchasing and Supply.



Rodney Norman

Director, Finance

Rodney was appointed Finance Director in 2012. He is responsible for NS&I's retail and commercial finance activity and leads on the analysis of data to produce insights regarding our extensive retail customer base.

Rodney previously worked at HM Treasury where his team was responsible for public sector funding ("doing treasury for the Treasury"). It entailed managing diverse financial assets and liabilities and extensive work on schemes to provide liquidity and credit support to the banking sector during the financial crisis. He was also a Non-executive board member of the Government Banking Service.

Rodney qualified as a Chartered Accountant with PwC after university and worked in the City before joining HM Treasury in 2007. He became Finance Director of the banking arm of Close Brothers, where he raised institutional funding, integrated the acquisition of a wealth management group and oversaw capital and liquidity management.

Rodney has a degree in Economics and Econometrics from the University of Nottingham.



Sarah Tebbutt

Director, People and Strategy

Sarah leads NS&I's strategy, media, competitor and market intelligence. She also leads on workplace culture, employee engagement and the people strategy.

Sarah chairs the Conduct Committee at NS&I and is responsible for the Senior Managers Regime.

Sarah joined NS&I in June 2013 after a 20-year career at HM Treasury, where in recent years she was responsible for Corporate Change, and before that, Debt and Reserves Management, working closely with NS&I, the Bank of England, the Debt Management Office and the Royal Mint.

Prior to those roles she worked in a Minister's office and as a negotiator at the Cabinet Office, European Council and World Trade Organisation.

Sarah studied Genetics at Cambridge University and has an MBA from Imperial College London.



Jill Waters

Acting Director, Retail

Jill is NS&I's Acting Retail Director, responsible for leading the development, management and growth of the retail business on behalf of NS&I which includes customer offer, marketing and sales, brand, product management, retail experience and complaints.

Jill was appointed to the Board in 2015. In her time at NS&I, Jill has also held the following roles: Head of Sales and Operational Delivery, Head of Digital Channels and Assistant Director for Retail.

Jill joined NS&I in 2001 from Yorkshire Electricity where she was responsible for Customer and Sales Strategy for the newly developed privatised consumer utility markets. Prior to that she was an Independent Financial Adviser following many years at Norwich Union advising on pensions and life insurance.

Jill is a member of the Chartered Management Institute, the Institute of Financial Services and the Association of Business Psychology.



Principal risks facing NS&I

Digital capability

Principal risk

Failure of the business to have sufficient digital capability due to delays in the change programme, changes in business prioritisation or insufficient funds to develop digital capability results in reverting to paper causing greater inconvenience and costs and lower customer satisfaction.

Mitigations

To manage this risk we have put the requisite programme and project management disciplines in place, including enhanced joint working with Atos, project and programme tracking processes, and associated joint governance of the end-to-end project lifecycle. This includes clear prioritisation and close monitoring and scrutiny by ExCo and the board.

Information risk

Principal risk

Failure to maintain the confidentiality or integrity of information or access to it is compromised/prevented as a result of weaknesses in our management of people or as a result of a cyber attack.

Mitigations

Existing controls to mitigate information risk include appropriate security arrangements against internal and external threats. These include relevant processes and governance arrangements and IT solutions.

During the year, we have implemented additional processes and IT solutions to strengthen and further protect the integrity and confidentiality of corporate and customer information.

IT risk

Principal risk

Failure to maintain operational service resulting in delays to processing or access to systems for customers due to unsupported or out-of-date systems and/or software.

Mitigations

A range of measures have been taken during the year to ensure that our systems remain resilient and continue to operate effectively to deliver products and services to our customers. A number of existing systems have been upgraded or replaced and others planned for upgrade or replacement. A review of the NS&I Business Continuity Management System has been completed.

Net Financing risk

Principal risk

Failure to remain relevant to retail customers and raise net finance as a result of incorrect customer propositions or service and market volatility which results in existing customers becoming dissatisfied with the NS&I offer.

Mitigations

Mitigating actions include pricing, taking products on or off sale, and managing retention rates through marketing activity and the development of new products and enhancement to existing products which are subject to a well-governed product development process to ensure that they meet the needs of our customers.

Office move

Principal risk

Delay in securing new London office due to agreement not being reached with Government Property Unit results in impact on office move project timelines and other Corporate Portfolio deliveries.

Mitigations

We have been working closely with the Government Property Unit to identify and secure new premises in close collaboration with HM Treasury. A project has been established with appropriate resourcing and governance arrangements to ensure a smooth transition once premises have been secured.

Operational risk

Principal risk

Failure to reduce operational costs due to unexpected product delivery, limited digital transformation and channel shift, legislative or compliance constraints, lack of investment from Atos, failure of the B2B business to generate enough income.

Mitigations

Ongoing controls that have been in place during the year, and helping to mitigate this risk include strong joint NS&I and Atos governance arrangements to actively monitor and manage operational costs; replanned transformation programme, with quarterly updates and detailed delivery tracking.

Outsourcing risk

Principal risk

Withdrawal of Atos as NS&I's partner due to extended losses, failure to generate B2B income and/or a change in government strategy in relation to outsourcing which results in high costs of tender and contract breakage and there being no recovery plan in place.

Mitigations

To manage the risk associated with Atos and the activities outsourced under the partnership agreement we have a robust contract, clearly defined and agreed targets and established performance indicators that have operated throughout the year. These are coupled with well-defined governance and relationship structures which ensure that issues are dealt with promptly and the partnership remains aligned. A robust partnership continuity plan is in place.

People risk

Principal risk

Failure to achieve our people strategy to attract, recruit, retain and engage diverse people to meet the needs of the business now and in the future which results in increased turnover and vacancies, a decline in employee engagement and a lack of necessary skills and experience.

Mitigations

In order to manage and mitigate this risk, we have a well-established and embedded learning and development programme and performance appraisal processes which have been further enhanced during the year. We continue to develop and communicate the employer brand and employee value proposition to ensure that our people remain engaged and motivated. The people strategy is regularly reviewed by the board and benchmarked against the wider industry.

Transformation Programme

Principal risk

Failure to deliver the Transformation Programme due to lack of skilled or motivated people, lack of funding, lack of planning which results in the failure to modernise, enable channel shift or reduce costs.

Mitigations

To manage the risks associated with the Transformation Programme, we have put the requisite programme and project management disciplines in place, including enhanced joint working with Atos, project and programme tracking processes, and associated joint governance of the end-to-end project lifecycle. This includes clear prioritisation and close monitoring and scrutiny by ExCo and the board.

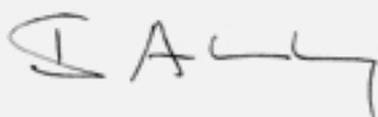
Value Indicator risk

Principal risk

Failure to demonstrate value to government due to the rates on our products becoming higher than rates on their gilt comparators, and not delivering our core remit in the year.

Mitigations

Mitigating actions include close monitoring and tracking of market performance and gilt rate forecasts; reducing the rates on our products which have a negative effect on the Value Indicator; and closing products to new sales.



Ian Ackerley

Chief Executive
National Savings and Investments

22 June 2017

Remuneration and staff report

Appointments and Remuneration Committee

The Appointments and Remuneration Committee comprised Non-executive Directors James Furse (as Chairman) and Sir John de Trafford Bt. It also comprised two Executive Directors: the Chief Executive, Jane Platt CBE, and the People and Strategy Director, Sarah Tebbutt. Jane Platt stepped down as Chief Executive in August 2016 and Steve Owen, Acting Chief Executive, joined the Committee for the meeting in November 2016. Sir John de Trafford stepped down from the board on 31 December 2016.

The committee reviews and approves the Chief Executive's recommendations on pay and performance-related awards to confirm that they are consistent with government policy, HM Treasury pay guidance and the needs of the business. Agency performance measures were assessed by the Government Internal Audit Agency (GIAA), our internal auditors. Individual performance objectives are assessed by the Chief Executive using appropriate measures of outcomes.

The committee also advises on the role and appointment of executive NS&I board members. The committee reviews succession planning arrangements for senior staff and Non-executive Directors within NS&I for the board.

Remuneration policy

The remuneration arrangements for senior staff are set out in their contracts and are subject to annual review in line with awards recommended by the Chief Executive. In August 2016, Jane Platt stepped down as Chief Executive after 10 years in post. A fair and open recruitment campaign, chaired by a Civil Service Commissioner, commenced in summer 2016. The successful candidate, Ian Ackerley, was appointed as Chief Executive and joined NS&I on 13 March 2017.

The notice period for the majority of senior staff at NS&I is three months, with the exception of the Chief Executive which is six months. The arrangements for early termination of senior staff contracts are made in accordance with the service contract of the relevant individual. Compensation for early termination is determined by the Civil Service Compensation Scheme.

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

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

Non-executive Directors have fixed-term appointments not exceeding three years. Normally they can serve for two terms of office. Their remuneration is accounted for in 'other costs'. The details of their payments are shown in Table B on page 67.

Salary and pension entitlements

The salary and pension entitlements of the executive board members are shown in Tables A and C on pages 65 and 68. There were no taxable benefits in kind paid.

Salary and performance-related pay

'Salary' includes gross salary and any other allowance to the extent that it is subject to UK taxation. Performance-related payments are made as part of NS&I's performance management system. The payments reported in 2016–17 relate to performance in 2015–16 and the comparative payments reported for 2015–16 relate to performance in 2014–15.

Pay multiples

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

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

The total remuneration of the highest-paid Director in NS&I in the financial year 2016–17 was £210,000–£215,000. This was 4.7 times (2015–16: 4.5 times) the median remuneration of the workforce, which was £45,461 (2015–16: £44,313).

No employee received remuneration in excess of the highest-paid Director (excluding the Chief Executive) in either 2016–17 or 2015–16. Remuneration ranged from £19,000–£24,000 to £145,000–£150,000 in 2016–17 (2015–16: £15,000–£20,000 to £145,000–£150,000).

Table A: Salary and performance-related pay entitlements of the executive board members of NS&I
Audited

	2016-17 Salary	2016-17 Performance- related pay	2016-17 Benefits in kind	2016-17 Pension benefits	2016-17 Total	2015-16 Salary	2015-16 Performance- related pay	2015-16 Benefits in kind	2015-16 Pension benefits	2015-16 Total
	£000	£000 ⁽¹⁾	£000 ⁽¹⁰⁾	£000 ⁽⁴⁾	£000	£000	£000	£000 ⁽¹⁰⁾	£000 ⁽⁴⁾	£000
Jane Platt CBE⁽⁶⁾ Chief Executive	80-85 (195-200 annualised equivalent)	15-20	-	-	95-100 (210-215 annualised equivalent)	195-200	n/a	-	73	270-275
Ian Ackerley⁽⁷⁾ Chief Executive	10-15 (180-185 annualised equivalent)	-	-	4	10-15	-	-	-	-	-
Peter Cornish Risk Director	115-120	15-20	0.3	25	155-160	110-115	15-20	0.3	30	160-165
Dax Harkins Business-to-Business Director	105-110	15-20	0.6	41	160-165	105-110	15-20	0.6	60	180-185
Julian Hynd⁽²⁾ Retail Director	n/a	10-15	-	n/a	n/a	90-95 (120-125 annualised equivalent)	15-20	-	46	155-160 (185-190 annualised equivalent)
Jill Waters⁽³⁾ Acting Retail Director	105-110	10-15	-	72	190-195	45-50 (100-105 annualised equivalent)	n/a	-	48	95-100 (150-155 annualised equivalent)
Sarah Tebbutt People and Strategy Director	105-110	15-20	-	42	170-175	105-110	15-20	-	48	175-180
Steve Owen⁽⁸⁾ Partnership Director/Acting Chief Executive	130-135	20-25	-	134	290-295	120-125	20-25	0.2	41	185-190
Rodney Norman Finance Director	125-130	20-25	-	31	175-180	125-130	15-20	-	40	180-185
Mark Keene⁽⁹⁾ Acting Partnership Director	65-70 (110-115 annualised equivalent)	n/a	-	99	165-170	n/a	n/a	-	n/a	n/a
Band of highest-paid Director	80-85 (195-200 annualised equivalent)	15-20	-	-	95-100 (210-215 annualised equivalent)	195-200	n/a	-	73	270-275
Remuneration median for workforce⁽⁵⁾		£45,461						£44,313		
Ratio of highest-paid Director to median salary of the workforce⁽⁵⁾		4.7						4.5		

(1) Performance-related payments are based on performance levels attained and are made as part of the appraisal process. Given the timing of the appraisal process, performance-related payments relating to 2016-17 are yet to be finalised. As a result, disclosure is based on the period in which payments are made rather than the performance year to which they relate. Performance-related payments in this report for 2016-17 are performance-related payments for the 2015-16 performance year, which were paid in July 2016. Performance-related payments for 2015-16 are performance-related payments for the 2014-15 performance year.

(2) Julian Hynd left NS&I on 4 January 2016.

(3) Jill Waters was appointed as Acting Retail Director on 19 October 2015.

(4) The value of pension benefits accrued during the year is calculated as (the real increase in pension multiplied by 20) less (the contributions made by the individual). The real increase excludes increases due to inflation or any increase or decrease due to a transfer of pension rights.

(5) Calculations for remuneration median for workforce and ratio of highest-paid Director to median salary of the workforce are based on salary and performance-related pay.

(6) Jane Platt left NS&I on 31 August 2016.

(7) Ian Ackerley was appointed Chief Executive on 13 March 2017.

(8) Steve Owen was appointed Acting Chief Executive on 1 September 2016 and stepped down on 12 March 2017. He left NS&I on 31 March 2017.

(9) Mark Keene was appointed Acting Partnership Director on 1 September 2016.

(10) Benefits in Kind are disclosed to the nearest £100.

Table B: The remuneration of Non-executive Directors

Audited

	2016–17 £000	2015–16 £000
Sir John de Trafford Bt. (Chairman) ⁽¹⁾	15–20 (20–25 annualised equivalent)	20–25
James Furse	15–20	15–20
Cheryl Millington ⁽²⁾	10–15 (15–20 annualised equivalent)	15–20
Ed Anderson ⁽³⁾	15–20	0–5 (15–20 annualised equivalent)
Christopher Fisher ⁽⁴⁾	0–5 (15–20 annualised equivalent)	–
Sharmila Nebhrajani OBE ⁽⁵⁾	0–5 (15–20 annualised equivalent)	–
David Hulf ⁽⁶⁾	–	10–15 (15–20 annualised equivalent)

(1) Sir John de Trafford Bt. left NS&I on 31 December 2016.

(2) Cheryl Millington left NS&I on 30 November 2016.

(3) Ed Anderson became the Chairman on 1 January 2017.

(4) Christopher Fisher joined NS&I on 1 March 2017.

(5) Sharmila Nebhrajani joined NS&I on 1 March 2017.

(6) David Hulf left NS&I on 31 December 2015.

Table C: Pension benefits of the executive board members of NS&I

Audited

	Accrued pension at pension age at 31 March 2017 and related lump sum £000	Real increase in pension and related lump sum at pension age £000	CETV at 31 March 2017 £000	CETV at 31 March 2016 £000	Real increase in CETV £000	Employer contribution to partnership pension account Nearest £100
Jane Platt CBE⁽¹⁾ Chief Executive	n/a	n/a	n/a	642	n/a	n/a
Ian Ackerley Chief Executive	0.5	0–2.5	3	0	2	0
Peter Cornish Risk Director	25–30 plus a lump sum of 75–80	0–2.5 plus a lump sum of 2.5–5	564	514	22	0
Dax Harkins Business-to-Business Director	25–30	0–2.5	324	290	16	0
Rodney Norman Finance Director	20–25	0–2.5	401	352	27	0
Steve Owen Partnership Director/ Acting Chief Executive	60–65 plus a lump sum of 185–190	5–7.5 plus a lump sum of 17.5–20	1,390	1,203	127	0
Sarah Tebbutt People and Strategy Director	30–35 plus a lump sum of 80–85	2.5–5 plus a lump sum of 0	517	473	19	0
Jill Waters Acting Retail Director	20–25 plus a lump sum of 60–65	2.5–5 plus a lump sum of 10–12.5	454	366	66	0
Mark Keene Acting Partnership Director	45–50 plus a lump sum of 140–145	2.5–5 plus a lump sum of 12.5–15	973	850	89	0

(1) Jane Platt chose to opt out of the Civil Service Pension Scheme on 1 April 2016.

Civil Service pensions

Pension benefits are provided through the Civil Service pension arrangements. A new career average pension arrangement, called Alpha, came into effect on 1 April 2015. The majority of Classic, Premium, Classic Plus and Nuvos members joined the new scheme.

From 30 July 2007, civil servants may be in one of five defined benefit schemes: either a final salary scheme (Classic, Premium or Classic Plus); or a whole career average scheme (Nuvos and Alpha). These statutory arrangements are unfunded, with the cost of benefits met by monies voted by Parliament each year.

Pensions payable under Classic, Premium, Classic Plus, Nuvos and Alpha are increased annually in line with pensions increase legislation. Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a 'money purchase' stakeholder pension with an employer contribution (partnership pension account).

Employee contributions are salary related and range between 3% and 8.05% of pensionable earnings for Classic and between 4.6% and 8.05% for Premium, Classic Plus, Nuvos and Alpha. Benefits in Classic accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years' initial pension is payable on retirement. For Premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike Classic, there is no automatic lump sum. Classic Plus is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per Classic and benefits for service from October 2002 worked out as in Premium. In Nuvos, a member builds up a pension based on pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March), the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with pensions increase legislation. In Alpha, a member builds up a pension based on pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March), the member's earned pension account is credited with 2.32% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with pensions increase legislation. Alpha benefits will be effective from Normal Pension Age without any early payment reduction. In all cases members may opt to give up (commute) pension for a lump sum up to the limits set by the Finance Act 2004.

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 8% and 14.75% (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of two providers. The employee does not have to contribute, but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.5% of pensionable salary to cover the cost of centrally provided risk benefit cover (death in service and ill-health retirement).

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

Further details of the Civil Service pension arrangements are available at www.civilservicepensionscheme.org.uk.

Cash equivalent transfer values

Table C on page 68 shows each executive board member's CETV accrued at the beginning and the end of the reporting period. The table reflects the increase in CETV effectively funded by the employer.

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

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

Real increase in CETV

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

Staff report

In total, we made 41 permanent and fixed-term appointments in the year. These are summarised in the table below. Full details of staff numbers can be found in Table 5 of the Departmental Report on page 132.

New permanent and fixed-term appointments made in 2016–17

	Non-executive Directors	Senior Civil Servants	Pay band 1	Pay band 2	Pay band 3	Pay band 4	Pay band 5	Pay band 6	Pay band 7
Male	1	1	–	–	–	9	8	4	1
Female	1	–	–	–	–	4	3	5	4
White	1	1	–	–	–	9	6	7	2
Non-white	1	–	–	–	–	4	5	2	2
Non-declared	–	–	–	–	–	–	–	–	1
Disabled	–	–	–	–	–	–	–	–	–

NS&I Executive Directors, senior managers and all employees at 31 March 2017

	Male	Female
The number of persons of each sex who were Executive Directors of NS&I at year end	5	2
The number of persons of each sex who were senior managers at year end	20	21
The total number of persons who were employed at year end ⁽¹⁾	91	96

(1) NS&I pay bands 2 and 3 combined.

Staff and related costs

Staff costs comprise:

	2016–17 Permanently employed UK staff £000	2016–17 Others £000	2016–17 Ministers £000	2016–17 Special advisers £000	2016–17 Total £000	2015–16 Total £000
Wages and salaries	8,966	923	–	–	9,889	9,560
Social security costs	1,038	–	–	–	1,038	852
Other pension costs	1,727	–	–	–	1,727	1,677
Sub total	11,731	923	–	–	12,654	12,089
Less recoveries in respect of outward secondments	–	–	–	–	–	–
Total net costs	11,731	923	–	–	12,654	12,089

The Principal Civil Service Pension Scheme (PCSPS) and the Civil Servant and Other Pension Scheme (CSOPS) – known as ‘Alpha’ – are unfunded multi-employer defined benefit schemes but NS&I is unable to identify its share of the underlying assets and liabilities. The scheme actuary valued the scheme as at 31 March 2012. Further details are available in the Resource Accounts of the Cabinet Office: Civil Superannuation (www.civilservice.gov.uk/pensions).

For 2016–17, employer contributions of £1,620,719 were payable to the PCSPS (2015–16: £1,588,010) at one of four rates in the range 20.0% to 24.5% (2015–16: 20.0% to 24.5%) of pensionable earnings, based on salary bands. The scheme actuary reviews employer contributions usually every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2016–17 to be paid when the member retires and not the benefits paid during this period to existing pensioners.

Employees can opt to open a Partnership Pension Account, a stakeholder pension with an employer contribution. Employer contributions of £102,005 (2015–16: £84,935) were paid to one or more of the panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 8.0% to 14.75% (2015–16: 8.0% to 14.75%) of pensionable earnings.

Employers also match employee contributions up to 3.0% of pensionable earnings. In addition, employer contributions of £3,809, 0.5% of pensionable earnings, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill-health retirement of these employees (2015–16: £3,423, 0.8% of pensionable earnings up to 30 September 2015 and 0.5% of pensionable earnings from 1 October 2015). Contributions due to the partnership pension providers at the Statement of financial position date was Nil (2015–16: Nil). Contributions prepaid at that date were Nil.

Average number of persons employed

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

Activity	2016–17	2016–17	2016–17	2016–17	2016–17	2015–16
	Permanently employed UK staff	Others	Ministers	Special advisers	Total	Total
Staff engaged on capital projects	–	–	–	–	–	–
Total	175	6	–	–	181	176
<i>of which:</i>	–	–	–	–	–	–
Core department	175	6	–	–	181	176
Agencies	–	–	–	–	–	–
Other designated bodies	–	–	–	–	–	–

All NS&I staff costs are charged to administration costs as defined under the Government Financial Reporting Manual (FRM). There are no staff costs charged to programme costs.

Reporting of Civil Service and other compensation schemes – exit packages

There were no exit packages in 2016–17 (2015–16: Nil).

Recruitment monitoring

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

We compare CVs against the selection criteria, anonymise personal details and educational dates and establishments. We review diversity breakdowns to ensure that the criteria are fair and robustly applied. We submit an annual audit return to the Office of the Civil Service Commissioners which summarises campaigns, policy and processes. All activities may then be subject to a further audit review by the Civil Service Commissioners, and campaign files are kept for two years to comply with these requirements.

Pay and reward

We have an agreed salary budget from HM Treasury called our delegated pay remit, which we allocate in line with our reward principles (available on request) and within Civil Service guidelines. This includes performance-related pay. As part of the Government's deficit reduction strategy, and in line with the approach being taken across the public sector, our pay remit increased by 1% during the year – the same as the last three years. It was also announced that increases will remain at 1% for the next few years.

Details of executive pay and performance-related pay can be seen in the Remuneration and staff report on page 66. Details of our board Directors' expenses can also be found online at www.nsandi-corporate.com/about-nsandi/who-we-are/our-board-and-committees/. Reward for individual senior staff members is approved by our Appointments and Remuneration Committee.

Pension liabilities

During 2016–17, the majority of our current and previous employees were covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS). The rate of employer’s contribution to this is determined by the Government Actuary and advised by HM Treasury. For 2016–17, the rates were between 20.0% and 24.5% (2015–16: 20.0% and 24.5%) of pensionable pay, depending on salary.

From 1 April 2015, a new pension scheme known as Alpha was introduced across the Civil Service. Of our current staff, the majority moved to this scheme. However, most of those who were within 10 years of retirement stayed with the PCSPS. See the Remuneration and staff report (pages 64 to 74) for further details.

Equal opportunities

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

NS&I seeks to be open and inclusive in its management policies and processes and seeks to recruit and develop a diverse and talented workforce that is representative of the society it serves. Our Equality and Diversity Information Statement provides full details of the diversity of NS&I’s employees. It is available here: <https://nsandi-corporate.com/about-nsi/fuelling-finance-with-purpose/how-we-recruit/>. Additionally, NS&I signed up to the HMT Women in Finance Charter in March 2017. The Charter looks to tackle gender inequality in financial services and NS&I is committed to targets to achieve gender balance at a senior level.

Sick absence data

The average number of sick days per person in the 12 months ending 31 March 2017 was 4.84 days (2015–16: 5.38). This figure covers all absences including long-term absence. Short-term absences were 2.87 days (2015–16: 3.14).

Overall, sickness absence levels at NS&I are well below both private and public sector benchmarks, including the Civil Service benchmark.

Table 1: For all off-payroll engagements at 31 March 2017, for more than £220 per day and that last for longer than six months

Number of existing engagements at 31 March 2017	3
<i>of which:</i>	
Number that have existed for less than one year at time of reporting	3
Number that have existed for between one and two years at time of reporting	0
Number that have existed for between two and three years at time of reporting	0
Number that have existed for between three and four years at time of reporting	0
Number that have existed for four or more years at time of reporting	0

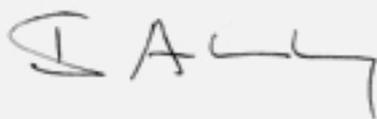
Table 2: For all new off-payroll engagements between 1 April 2016 and 31 March 2017, for more than £220 per day and that last for longer than six months

Number of new engagements, or those that reached six months in duration, between 1 April 2016 and 31 March 2017	5
Number of the above that include contractual clauses giving the Department the right to request assurance in relation to income tax and National Insurance obligations	5
Number for which assurance has been requested	0
<i>of which:</i>	
Number for which assurance has been received	0
Number for which assurance has not been received	0
Number that have been terminated as a result of assurance not being received	0

Table 3: For any off-payroll engagements of board members, and/or senior officials with significant financial responsibility, between 1 April 2016 and 31 March 2017

Number of off-payroll engagements of board members, and/or senior officials with significant financial responsibility, during the financial year	0
Number of individuals that have been deemed board members, and/or senior officials with significant financial responsibility, during the financial year. This figure should include both off-payroll and on-payroll engagements	15 ⁽¹⁾

(1) This includes Executive and Non-executive Directors as detailed on pages 66 and 67 in Tables A and B relating to 2016–17.



Ian Ackerley
Chief Executive
National Savings and Investments

22 June 2017

Parliamentary accountability and audit report – Statement of Parliamentary Supply

In addition to the primary statements prepared under IFRS, the Government Financial Reporting Manual (FRM) requires National Savings and Investments to prepare a Statement of Parliamentary Supply (SoPS) and supporting notes to show resource outturn against the Supply Estimate presented to Parliament, in respect of each budgetary control limit. The SoPS and related notes are subject to audit.

Summary of resource and capital outturn

		Estimate			Outturn			2016–17	2015–16
		Voted	Non-voted	Total	Voted	Non-voted	Total	Voted outturn compared with Estimate: savings/ (excess)	Outturn
SoPS note		£000	£000	£000	£000	£000	£000	£000	£000
Departmental Expenditure Limit (DEL)									
– Resource	1.1	139,089	–	139,089	132,333	–	132,333	6,756	155,453
– Capital	1.2	(7,710)	–	(7,710)	(12,482)	–	(12,482)	4,772	(1,585)
Annually Managed Expenditure (AME)									
– Resource	1.1	2,800	–	2,800	(262)	–	(262)	3,062	(682)
– Capital		–	–	–	–	–	–	–	–
Total budget		134,179	–	134,179	119,589	–	119,589	14,590	153,186
Total		134,179	–	134,179	119,589	–	119,589	14,590	153,186
Total resource	1.1	141,889	–	141,889	132,071	–	132,071	9,818	154,771
Total capital	1.2	(7,710)	–	(7,710)	(12,482)	–	(12,482)	4,772	(1,585)
Total		134,179	–	134,179	119,589	–	119,589	14,590	153,186

Net cash requirement

SoPS note		2016–17		2016–17		2015–16	
		Estimate		Outturn	Net total outturn compared with Estimate: saving	Outturn	
		£000		£000	£000	£000	
	3	142,302		125,534	16,768		172,983

Administration costs

		2016–17		2016–17		2015–16	
		Estimate		Outturn	Outturn		
		£000		£000	£000		£000
		139,089		132,333			155,453

Figures in the areas outlined in **bold** are voted totals or other totals subject to Parliamentary control. In addition, although not a separate voted limit, any breach of the Administration Budget will also result in an excess vote.

Explanations of variances between Estimate and outturn are given in SoPS note 1 and in the Management Commentary.

The notes on pages 76 to 79 form part of this report.

Notes to the Statement of Parliamentary Supply

SoPS1 Net outturn

SoPS1.1 Analysis of net resource outturn by section

	2016-17									2015-16
	Outturn						Estimate			Outturn
	Administration			Programme			Total	Net total	Net total compared with Estimate	£000
	Gross £000	Income £000	Net £000	Gross £000	Income £000	Net £000				
Spending in Departmental Expenditure Limit (DEL)	169,185	(36,852)	132,333	-	-	-	132,333	139,089	6,756	155 53
Voted										
Administration										
Spending in Annually Managed Expenditure (AME)	-	-	-	(262)	-	(262)	(262)	2,800	3,062	(682)
Voted										
Administration										
Total	169,185	(36,852)	132,333	(262)	-	(262)	132,071	141,889	9,818	154,771

	2016-17	
Difference between resource outturn and Estimate	£000	£000
Lower marketing costs	2,191	
Lower depreciation costs	449	
Lower projects costs	3,387	
Other differences	729	
Total DEL underspend		6,756
Lower than expected requirement for provisions	300	
Lower than expected revaluation charge for NS&I properties	2,762	
Total AME underspend		3,062
Total underspend against Estimate		9,818

SoPS1.2 Analysis of net capital outturn by section

	2016-17						2015-16
	Outturn			Estimate			Outturn
	Gross £000	Income £000	Net £000	Net £000	Net total compared with Estimate £000	Net £000	Net £000
Spending in Departmental Expenditure Limit (DEL)							
Voted							
Administration	4	(12,486)	(12,482)	(7,710)	4,772	(1,585)	
Total	4	(12,486)	(12,482)	(7,710)	4,772	(1,585)	

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

SoPS2 Reconciliation of outturn to net operating expenditure

	SoPs Note	2016–17 Outturn £000	2015–16 Outturn £000
Total resource outturn in Statement of Parliamentary Supply		132,071	154,771
	SoPS1.1	132,071	154,771
Add			
Income recognised in budget but transferred to deferred income		11,892	16,617
Income transferred from deferred income to operating income		(3,391)	(3,281)
PPP asset depreciation		2,786	3,173
PPP asset amortisation		10,725	12,027
PPP asset revaluation loss/(gain)		108	(60)
PPP asset impairment		4,865	15,431
PPP asset loss on disposal		4,623	194
		31,608	44,101
Less			
Transfer of PPP costs to capital		(21,616)	(28,604)
Profit on disposal taken through CDEL		(3,636)	–
		(25,252)	(28,604)
Net operating expenditure in Statement of comprehensive net expenditure		138,427	170,268

SoPS3 Reconciliation of net resource outturn to net cash requirement

	Note	Estimate £000	2016–17 Outturn £000	Net total outturn compared with Estimate: saving/ (excess) £000	2015–16 Outturn £000
Resource outturn	SoPS1.1	141,889	132,071	9,818	154,771
Capital outturn					
– Addition of property, plant and equipment	SoPS1.2	(7,710)	(12,482)	4,772	(1,585)
Accruals to cash adjustments					
Adjustments to remove non-cash items:					
– Depreciation		(3,700)	(489)	(3,211)	(734)
– New provisions and adjustments to previous provisions		(300)	–	(300)	296
– Other non-cash items		(640)	(450)	(190)	(635)
Adjustments to reflect movements in working balances:					
– Increase in receivables		9,763	17,502	(7,739)	4,533
– Decrease/(increase) in payables		3,000	(10,618)	13,618	15,940
– Use of provisions	13	–	–	–	397
Net cash requirement		142,302	125,534	16,768	172,983

SoPS4 Income payable to the Consolidated Fund

SoPS4.1 Analysis of income payable to the Consolidated Fund

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

	Outturn 2016–17		Outturn 2015–16	
	Income	<i>Receipts</i>	Income	<i>Receipts</i>
	£000	£000	£000	£000
Operating income outside the ambit of the Estimate	97	97	39	39
Excess cash surrenderable to the Consolidated Fund	–	–	–	–
Total income payable to the Consolidated Fund	97	97	39	39

Parliamentary Accountability Disclosures

1 Losses and special payments

1.1 Losses statement

at 31 March

	Accounts Note	2016–17	2016–17	2015–16	2015–16
		Number of cases	£000	Number of cases	£000
Compensation payments		–	–	–	–
Fraud loss		–	–	–	–
Bad debts	3	–	–	1	16
Fruitless payments		–	–	–	–
Special payments		–	–	–	–
Total		–	–	1	16

Following the commencement of the new contract on 1 April 2014, Atos, NS&I's operational services provider, is liable for any fraud losses that are incurred under the new contract. Previously the liability was shared equally once the amount of the fraud exceeded £300,000.

Fees and charges

NS&I is required in accordance with HM Treasury's *Managing Public Money* to disclose results for the areas of its activities where fees and charges are levied. The analysis provided below is for fees and charges purposes and is not intended to meet the requirements of IFRS 8 *Operating Segments*. Business-to-business activities are not managed as a separate division but as a series of independent projects.

	2016–17			2015–16		
	Gross income	Full cost	Surplus	Gross income	Full cost	Surplus
	£000	£000	£000	£000	£000	£000
Business-to-business	28,166	23,525	4,641	16,665	14,911	1,754

The financial objective of business-to-business is to recover the costs of providing payment services and to make a contribution towards financing other costs. Investments that have been made in NS&I's capabilities have enabled NS&I to offset some of its costs by offering government and third parties payment processing services within agreed spending limits. From 2010–11, NS&I started developing its business-to-business activities with HM Treasury with regard to the Equitable Life Payment Scheme and the Ministry of Justice (Office of Accountant General) with regard to the Court Funds Service. NS&I acquired a further client for its business-to-business activities, Home Office Payment Processing, during 2013–14. During 2015–16, the Supreme Court ruled that the Government could use NS&I's business-to-business services to deliver its Tax-Free Childcare scheme. The Tax-Free Childcare implementation has been delivered. NS&I is also working on the delivery of the 30 hours free childcare scheme which is due to go live during 2017–18. Some work has also been started on the Help to Save scheme. The Equitable Life Payment Scheme business-to-business scheme has been completed and no further work is being carried out by NS&I.

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

I certify that I have audited the financial statements of National Savings and Investments for the year ended 31 March 2017 under the Government Resources and Accounts Act 2000. The financial statements comprise: the Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the Statement of Parliamentary Supply and the related notes, and the information in the Remuneration and staff report and the Parliamentary Accountability Disclosures that is described in those reports as having been audited.

Respective responsibilities of the Accounting Officer and auditor

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

Scope of the audit of the financial statements

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

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

Opinion on regularity

In my opinion, in all material respects:

- the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary control totals for the year ended 31 March 2017 and shows that those totals have not been exceeded; and
- the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of National Savings and Investments' affairs as at 31 March 2017 and of its net operating cost for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

Opinion on other matters

In my opinion:

- the parts of Remuneration and staff report and the Parliamentary Accountability Disclosures to be audited have been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000; and
- the information given in the Performance Report and the Accountability Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

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

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

Report

I have no observations to make on these financial statements.

Sir Amyas C E Morse

Date 26 June 2017

Comptroller and Auditor General

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

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

I certify that I have audited the financial statements which constitute the Product Accounts of National Savings and Investments for the year ended 31 March 2017 under the Government Resources and Accounts Act 2000. The financial statements comprise: the Statements of Comprehensive Income, Financial Position, Cash Flows; and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Accounting Officer and auditor

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

Scope of the audit of the financial statements

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

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

Opinion on regularity

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

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the affairs of the Product Accounts of National Savings and Investments as at 31 March 2017 and of the net operating results for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

Opinion on other matters

In my opinion the information given in the Performance Report and the Accountability Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

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

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

Report

I have no observations to make on these financial statements.

Sir Amyas C E Morse

Date 26 June 2017

Comptroller and Auditor General

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

Section 3

Financial Statements

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Statement of comprehensive net expenditure for the year ended 31 March

This account summarises the income generated and expenditure consumed on an accruals basis. It also includes other comprehensive income and expenditure, which include changes to the values of non-current assets and other financial instruments that cannot yet be recognised as income or expenditure.

	Note	2016–17 £000	2015–16 £000
Income from sale of goods and services	4	(28,166)	(17,425)
Other operating income	4	(185)	(150)
Total operating income		(28,351)	(17,575)
Staff costs	2	12,654	12,089
Purchase of goods and services	3	133,921	143,035
Depreciation and impairment charges	3	19,753	32,380
Provision expense	3	–	(296)
Other operating expenditure	3	450	635
Total operating expenditure		166,778	187,843
Net operating expenditure		138,427	170,268
Other comprehensive net expenditure			
Items that will not be reclassified to net operating costs:			
– Net gain on revaluation of non-current assets	14	(84)	(40)
Comprehensive net expenditure for the year		138,343	170,228

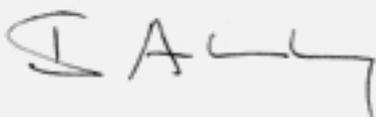
All income and expenditure are derived from continuing operations.
The notes on pages 90 to 107 form part of these accounts.

Statement of financial position at 31 March

This statement presents the financial position of the department. It comprises three main components: assets owned or controlled; liabilities owed to other bodies; and equity, the remaining value of the entity.

	Note	2017 £000	2017 £000	2016 £000	2016 £000
Non-current assets					
Property, plant and equipment	5	11,729		14,323	
Intangible assets	6	57,748		57,048	
			69,477		71,371
Other receivables	9	7,593		–	
Total non-current assets			77,070		71,371
Current assets					
Assets classified as held for sale	8	–		8,851	
Trade and other receivables	9	16,031		6,122	
Cash and cash equivalents	10	2		16	
Client funds	11	482		34,487	
Total current assets			16,515		49,476
Total assets			93,585		120,847
Current liabilities					
Trade and other payables	12	(29,688)		(16,505)	
Client funds: Liability to government departments	11	(482)		(34,487)	
Total current liabilities			(30,170)		(50,992)
Total current assets less total current liabilities			63,415		69,855
Non-current liabilities					
Trade and other payables	12	(20,718)		(14,799)	
Total non-current liabilities			(20,718)		(14,799)
Total assets less total liabilities			42,697		55,056
Taxpayers' equity					
General Fund			42,266		48,364
Revaluation reserve	14		431		6,692
Total equity			42,697		55,056

The notes on pages 90 to 107 form part of these accounts.



Ian Ackerley
Chief Executive
National Savings and Investments

22 June 2017

Statement of cash flows for the year ended 31 March

The Statement of cash flows shows the changes in cash and cash equivalents of the department during the reporting period. The statement shows how the department generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of service costs and the extent to which these operations are funded by way of income from the recipients of services provided by the department. Investing activities represent the extent to which cash inflows and outflows have been made for resources which are intended to contribute to the department's future public service delivery.

	Note	2016-17 £000	2015-16 £000
Cash flows from operating activities			
Net operating expenditure		(138,427)	(170,268)
Adjustment for non-cash transactions	3	20,203	32,719
Increase in trade and other receivables	9	(17,502)	(4,533)
Increase/(decrease) in trade and other payables	12	18,564	(2,502)
Use of provisions	13	–	(397)
Net cash outflow from operating activities		(117,162)	(144,981)
Cash flows from investing activities			
Purchase of property, plant and equipment	5	(658)	(5,546)
Purchase of intangible assets	6	(20,962)	(23,099)
Decrease/(Increase) in capital payables	12	552	(101)
Proceeds of disposal of property, plant and equipment	5,8	12,695	744
Net cash flows from investing activities		(8,373)	(28,002)
Cash flows from financing activities			
From the Consolidated Fund (Supply) – current year		125,535	172,996
To the Consolidated Fund (Supply) – prior year		(13)	(11)
Net cash flows from financing activities		125,522	172,985
Net (decrease)/increase in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund			
		(13)	2
Receipts due to the Consolidated Fund which are outside the scope of the Department's activities		98	39
Payments of amounts due to the Consolidated Fund		(99)	(38)
Net (decrease)/increase in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund	10	(14)	3
Cash and cash equivalents at the beginning of the period	10	16	13
Cash and cash equivalents at the end of the period	10	2	16

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

The notes on pages 90 to 107 form part of these accounts.

Statement of changes in taxpayers' equity at 31 March

This statement shows the movement in the year on the different reserves held by National Savings and Investments, analysed into 'General Fund reserves' (i.e. those reserves that reflect a contribution from the Consolidated Fund) and the revaluation reserve. The revaluation reserve reflects the change in asset values that have not been recognised as income or expenditure. The General Fund represents the total assets less liabilities of a department, to the extent that the total is not represented by other reserves and financing items.

	Note	General Fund £000	Revaluation reserve £000	Taxpayers' equity £000
Balance at 1 April 2015		42,146	9,520	51,666
Changes in taxpayers' equity 2015–16				
Net Parliamentary Funding – drawn down		172,985	–	172,985
Net Parliamentary Funding – deemed		11	–	11
Supply payable adjustment		(13)	–	(13)
		172,983	–	172,983
Net operating costs for the year		(170,268)	–	(170,268)
Non-cash adjustments				
Auditor's remuneration	3	635	–	635
Net gain on revaluation of non-current assets	14	–	40	40
		(169,633)	40	(169,593)
Movements in reserves				
Transfer between reserves	14	2,868	(2,868)	–
Balance at 31 March 2016		48,364	6,692	55,056
Changes in taxpayers' equity 2016–17				
Net Parliamentary Funding – drawn down		125,522	–	125,522
Net Parliamentary Funding – deemed		13	–	13
Supply payable adjustment		(1)	–	(1)
		125,534	–	125,534
Net operating costs for the year		(138,427)	–	(138,427)
Non-cash adjustments				
Auditor's remuneration	3	450	–	450
Net gain on revaluation of non-current assets	14	–	84	84
		(137,977)	84	(137,893)
Movements in reserves				
Transfer between reserves	14	6,345	(6,345)	–
Balance at 31 March 2017		42,266	431	42,697

The notes on pages 90 to 107 form part of these accounts.

Notes to the Departmental Resource Accounts

1 Statement of accounting policies

These financial statements have been prepared in accordance with the 2016–17 Government *Financial Reporting Manual (FReM)* issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of NS&I for the purpose of giving a true and fair view has been selected. The particular policies adopted by NS&I for the accounts are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

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

Accounts direction for these departmental accounts is given by HM Treasury in accordance with section 5(2) of the Government Resources and Accounts Act 2000. NS&I also prepares the Product Accounts covering transactions and balances on all NS&I products, which are prepared under a separate direction issued by HM Treasury (disclosed in Annex 1).

1.1 Standards in issue but not in force

Certain standards, amendments and interpretations to existing standards have been published that may be mandatory for NS&I's accounting periods beginning on or after 1 April 2017 or later periods. NS&I has not early-adopted the standards, amendments or interpretations described below.

1.1.1 IFRS 15 *Revenue from Contracts with Customers* – describes how and when an entity will recognise contract revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard provides a single, principles-based five-step model to be applied to all contracts with customers (effective 1 January 2018). It is considered likely that this will impact on NS&I.

1.1.2 IFRS 9 *Financial Instruments* – the first phase of IFRS 9 addresses the classification and measurement of financial instruments. The impact of IFRS 9 is not expected to be significant, given that IAS 39 classification and measurement requirements used by NS&I have largely been carried forward into IFRS 9 (effective 1 January 2018).

1.1.3 IFRS 16 *Leases* – specifies how an entity will recognise, measure, present and disclose leases. The standard provides a single lease accounting model, requiring lessees to recognise assets and liabilities for all leases unless the term is 12 months or less or the underlying asset has a low value. Lessors will continue to classify leases as operating or finance with IFRS 16's approach to lessor accounting unchanged from the previous standard IAS 17 *Leases*. It is expected that this standard will impact on NS&I. The standard becomes effective for annual reporting periods beginning on or after 1 January 2019.

1.1.4 Other amendments to the FReM

Other amendments to the FReM due to come into effect on or after 1 April 2017 are considered to have no impact on NS&I.

1.2 Accounting convention

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

1.3 Accounting estimates and judgements

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

The accounting policies set out areas involving a higher degree of judgement, complexity, assumptions and estimation techniques, such as note 1.4 (Service concession arrangements), note 1.6 (Depreciation and amortisation), note 1.7 (Impairment of non-current assets) and note 1.13 (Provisions). In the application of NS&I's accounting policies, management has made a number of judgements that have a significant effect on the amounts recognised in the financial statements. The most significant of these are:

- Intangible assets – substantial amounts of software development costs have been capitalised since International Financial Reporting Interpretations Committee (IFRIC) 12 was implemented. Capitalisation of these costs requires considerable judgement. Development work is being carried out to modernise NS&I's infrastructure, simplify its products and develop its business-to-business capability. NS&I capitalises the implementation costs of developments where future benefits will accrue. Management judgement has been applied in quantifying the benefit expected to accrue to NS&I over the useful life of the relevant assets. The benefits relate to the fact that such software allows NS&I to carry out its functions more efficiently and to leverage its capability. Where the software does not produce the expected benefits in terms of NS&I achieving its objectives or is no longer being used for the purpose it was developed for, then the carrying value would require adjustment.
- Property, plant and equipment – under IFRIC 12, IT, plant and machinery, and furniture and fittings costs were capitalised during the year. NS&I obtains information regarding movements of assets (either additions or disposals) directly from its outsourced provider.
- Impairments – NS&I carries out a comprehensive review of the value of its assets at the end of the reporting period. Asset values are assessed as to whether the carrying value on the Statement of financial position is overstated in comparison with fair value, usually market value. Also, an assessment is carried out to ensure that the assets are performing to the levels determined in business cases and also on the organisation as a whole. This includes an assessment of assets under construction. NS&I management ensures as far as possible that asset carrying values reflect current values.
- Intangible asset impairments – for software development assets under construction, where there are significant changes to the proposed project solution, management judgement is applied in assessing the ongoing carrying value of the capitalised assets. Detailed assessments are carried out by technical experts with extensive experience within NS&I's outsourced provider, Atos, to identify work of ongoing

benefit. These assessments are reviewed and considered by NS&I in forming its view on the value of its assets. Where carrying values are higher than the assessed current value, an impairment is recognised in the Statement of comprehensive net expenditure.

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

1.4 Service concession arrangements (Public-Private Partnership)

NS&I follows the principles provided in IFRIC 12 *Service Concession Arrangements*, as interpreted and adapted by HM Treasury.

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

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

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

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

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

Further information regarding NS&I's service concession arrangements with Atos is provided in note 16.

1.5 Non-current assets

Property, plant and equipment and intangible assets are initially recognised at cost. The threshold for capitalising non-current assets is £500. Where a significant purchase of individual assets which are individually below the prescribed capitalisation limit arises, then these assets are grouped together for capitalisation purposes.

Assets under construction are valued at historical cost within non-current assets and are not depreciated or amortised. An asset ceases to be classified as an asset under construction when it is ready for use. Its carrying value is then removed from assets under construction and transferred to the respective asset category. Depreciation or amortisation is then charged on the asset in accordance with the stated accounting policy.

Land and buildings are subsequently measured at fair value, as interpreted by the FReM, on the basis of professional valuations. A full valuation is carried out each year by Cushman and Wakefield Debenham Tie Leung Limited in accordance with the RICS Valuation Standards.

Information technology software assets are subsequently measured at fair value. As no active market exists for this asset category, information technology software is revalued at each reporting date using the Computer Service Producer Price Index produced by the Office for National Statistics.

Other non-current assets are carried at historical cost less accumulated depreciation. This is a suitable proxy for fair value and is allowable as per the FReM for those assets with short useful economic lives or low values. This includes assets held as fixtures and fittings, plant and machinery, IT equipment and intangible assets other than information technology software.

Any surplus arising on revaluation is credited to the revaluation reserve and any loss arising is debited to the revaluation reserve to the extent of the gains that have been recorded previously, with any balance being charged to the Statement of comprehensive net expenditure, within other comprehensive net expenditure. Components of an asset are separated where their value is significant in relation to the total value of the asset and where those components have different useful lives from the remainder of the asset.

1.6 Depreciation and amortisation

The charge for depreciation or amortisation is calculated to write down the cost or valuation of property, plant and equipment and intangible assets to their estimated residual values by equal instalments over their estimated useful lives. The useful lives of buildings are reviewed annually. Where a change in asset life is determined, the asset is depreciated on a straight-line basis over its remaining assessed life.

Property, plant and equipment

Freehold buildings	20 to 50 years
Information technology	3 to 10 years
Plant and machinery	5 to 15 years
Furniture and fittings	Shorter of remaining lease term or 5 to 20 years

Intangible assets

Information technology software	3 to 10 years
Software licences	3 to 10 years
Website	3 to 5 years
Assets under construction	Not depreciated

Other

Assets available for sale	Not depreciated
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1.7 Impairment of non-current assets

Impairments are permanent diminutions in the service potential of non-current assets. All assets are assessed annually for indications of impairment. If an indication of impairment exists, the assets in question are tested for impairment by comparing the carrying value of those assets with their recoverable amounts. Where the recoverable amount of an asset is less than its carrying value, the carrying value of the asset is reduced to its recoverable amount.

The recoverable amount of an asset is the higher of its 'fair value less costs to sell' and 'value in use'. Within the public sector, the FReM defines 'value in use' of a non-cash generating asset as the present value of the asset's remaining service potential, which can be assumed to be at least equal to the cost of replacing that service potential.

An impairment loss is recognised in the Statement of comprehensive net expenditure to the extent that it cannot be offset against the revaluation reserve. Any reversal of an impairment charge is recognised in the Statement of comprehensive net expenditure to the extent that the original charge, adjusted for subsequent depreciation, was previously recognised in the Statement of comprehensive net expenditure. The remaining amount is recognised in the revaluation reserve.

1.8 Non-current assets held for sale

Non-current assets are classified as 'held for sale' when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. Assets held for sale are stated at the lower of their carrying amount prior to classification as 'held for sale' or their fair value less the costs of selling the asset. Any subsequent impairment or reversal is recognised in the Statement of comprehensive net expenditure. Assets classified as held for sale are not depreciated.

1.9 Leases

Leases are accounted for as operating leases as a significant portion of the risks and rewards of ownership is retained by the lessor.

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

1.10 Employee benefits

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

1.11 Early departure costs

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

1.12 Pensions

Pension benefits are provided through Civil Service pension arrangements. Civil servants may be in one of five defined benefit schemes, either a final salary scheme (Classic, Premium or Classic Plus); or a whole career average scheme (Nuvos and Alpha). A defined contribution scheme (Partnership) is also available. The defined benefit schemes are unfunded. NS&I recognises the expected cost of these elements

on a systematic basis over the period during which it benefits from employees' services by payment to the Civil Service pension scheme of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the scheme. In respect of the defined contribution scheme, NS&I recognises the contributions payable for the year.

1.13 Provisions

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

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the Statement of financial position date taking into consideration the risks and uncertainties surrounding the obligation. Where a provision is measured using cash flows over a number of accounting periods to settle the present obligation, its carrying amount is the present value of those cash flows, where the effect of the time value of money is material.

1.14 Contingent liabilities

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is uncertain or cannot be reliably measured. Contingent liabilities are not recognised but are disclosed unless they are remote.

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

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

1.15 Financial instruments

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

1.16 Operating income

All income received is assessed on receipt to determine whether it is appropriate to recognise as operating income or whether it is recognised as deferred income. Income that is deferred represents payments for implementation costs from business-to-business clients. This is accumulated over the period an asset is being developed. When the asset is ready to be used, deferred income is transferred to operating income over the useful economic life of the asset.

1.17 Value added tax

NS&I's retail activities are exempted under the terms of the value added tax (VAT) legislation and therefore input VAT is not recoverable. Irrecoverable VAT is charged to the relevant expenditure category or included in the capitalised purchase of non-current assets. Most of NS&I's business-to-business activities are also exempted from VAT under the same terms of the VAT legislation. However, some business-to-business contracts that NS&I operates are not exempt from VAT and in these cases VAT is recovered on the costs of the activity and paid on income received. In these cases, the net cost and income are charged to the relevant expenditure categories and VAT to the Statement of financial position.

The VAT status for two business-to-business schemes is subject to ongoing discussions and final confirmation from HMRC. These have currently been treated as standard rated for VAT in these accounts. The total VAT charged is £7.36 million. Any change in VAT status would have no overall impact on either the net operating expenditure or Statement of financial position reported.

1.18 Operating segments

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

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

1.19 Client funds

NS&I is holding funds on behalf of HMRC for the payment of amounts on behalf of eligible parents to childcare providers as part of HMRC's Tax-Free Childcare scheme and HM Treasury for the payment of amounts to former Equitable Life savers. These amounts are held in separate bank accounts and segregated from NS&I's voted monies. Client funds held are recognised as current assets in the Statement of financial position, with the corresponding liability in current liabilities. As part of HMRC's Tax-Free Childcare scheme, NS&I also holds monies on behalf of parents. These funds are classed as Third Party assets and are not recognised in NS&I's Statement of financial position.

2 Staff and related costs

Staff costs comprise:

	2016-17 £000	2015-16 £000
Wages and salaries	9,889	9,560
Social security costs	1,038	852
Other pension costs	1,727	1,677
Total net costs	12,654	12,089

Full details of staff costs, staff numbers and superannuation are included in the Remuneration and staff report.

3 Expenditure

	Note	2016-17 £000	2016-17 £000	2016-17 £000	2015-16 £000	2015-16 £000	2015-16 £000
Public-Private Partnership provider costs ⁽¹⁾		139,633			152,661		
Transfer of PPP provider cost to capital		(21,616)			(28,604)		
Net PPP costs			118,017			124,057	
Goods and services			14,233			17,311	
Rentals under operating leases			1,671			1,651	
Losses and special payments			–			16	
Total goods and services				133,921			143,035
Non-cash items							
Depreciation	5		3,443			3,774	
Amortisation	6		10,821			12,150	
Loss on disposal of property, plant and equipment and intangible assets	5, 6		4,623			1,074	
Profit on disposal of assets held for sale	8		(3,845)			–	
Reversal of previous downward revaluation	5, 14		(259)			–	
Revaluation of non-current assets	5, 6, 14		105			(49)	
Impairment	6		4,865			15,431	
Depreciation and impairment			19,753			32,380	
(Decrease) in provision provided for in year less any release	13		–			(296)	
Auditor's remuneration and expenses ⁽²⁾			450			635	
Total non-cash items				20,203			32,719
				154,124			175,754

(1) Public-Private Partnership (PPP) gross costs were £139,633,000 (2015–16: £152,661,000). These are reduced by infrastructure and development work which are transferred to capital under IFRIC 12. The impact of the transfer is to reduce NS&I's operating costs but increase NS&I's assets on its Statement of financial position. The transfer during the year was £21,616,000 (2015–16: £28,604,000). The treatment is outlined in accounting policy note 1.4.

(2) The Audit remuneration costs include fees for the Product Accounts statutory audit of £380,000 (£542,000 in 2015–16) and for the Resource Accounts statutory audit fees of £70,000 (£93,000 in 2015–16).

4 Income

	2016–17 £000	2016–17 £000	2015–16 £000	2015–16 £000
Operating income comprises:				
Business-to-business	28,166		16,666	
Rent from external tenants	–		759	
Income from sale of goods and services		28,166		17,425
Other income	185		150	
Other operating income		185		150
Total operating income		28,351		17,575

5 Property, plant and equipment

5(a) Current year

	Land £000	Buildings £000	Information technology £000	Plant and machinery £000	Furniture and fittings £000	Assets under construction ⁽²⁾ £000	Total £000
Cost or valuation							
At 1 April 2016	600	1,339	21,810	1,567	4,879	795	30,990
Additions	–	–	603	1	32	22	658
Transfer from 'Assets under construction' ⁽²⁾	–	–	671	–	124	(795)	–
Disposals	–	–	(277)	(322)	(35)	–	(634)
Revaluation ⁽¹⁾	–	259	–	–	–	–	259
At 31 March 2017	600	1,598	22,807	1,246	5,000	22	31,273
Depreciation							
At 1 April 2016	–	(137)	(13,790)	(550)	(2,190)	–	(16,667)
Charged in year	–	(61)	(2,721)	(109)	(552)	–	(3,443)
Disposals	–	–	225	322	19	–	566
At 31 March 2017	–	(198)	(16,286)	(337)	(2,723)	–	(19,544)
Carrying amount							
At 31 March 2017	600	1,400	6,521	909	2,277	22	11,729
Owned assets	600	1,400	133	837	1,172	–	4,142
IFRIC 12 assets	–	–	6,388	72	1,105	22	7,587
Total	600	1,400	6,521	909	2,277	22	11,729

(1) The freehold land and building at NS&I's Moorlands site in Blackpool was revalued at 31 March 2017 by our professional valuers, chartered surveyors Cushman and Wakefield Debenham Tie Leung Limited.

(2) Assets originally classified as 'Assets under construction' were transferred to Information technology (£671,000) and Furniture and fittings (£124,000) as the Tax-Free Childcare project went live.

5(b) Prior year

	Land ^(1,2) £000	Buildings ^(1,2) £000	Information technology £000	Plant and machinery £000	Furniture and fittings £000	Assets under construction ⁽³⁾ £000	Total £000
Cost or valuation							
At 1 April 2015	11,036	19,494	19,319	1,164	4,902	1,551	57,466
Additions	–	–	4,806	–	11	729	5,546
Transfer from 'Assets under construction' ⁽³⁾	–	–	(10)	650	845	(1,485)	–
Disposals ⁽¹⁾	(1,625)	(10,212)	(2,305)	(247)	(879)	–	(15,268)
Transfers to 'Assets held for sale' ⁽²⁾	(8,851)	(7,929)	–	–	–	–	(16,780)
Revaluation	40	(14)	–	–	–	–	26
At 31 March 2016	600	1,339	21,810	1,567	4,879	795	30,990
Depreciation							
At 1 April 2015	–	(18,251)	(12,940)	(696)	(2,532)	–	(34,419)
Charged in year	–	(28)	(3,113)	(101)	(532)	–	(3,774)
Disposals ⁽¹⁾	–	10,212	2,263	247	874	–	13,596
Transfers to 'Assets held for sale' ⁽²⁾	–	7,929	–	–	–	–	7,929
Revaluation	–	1	–	–	–	–	1
At 31 March 2016	–	(137)	(13,790)	(550)	(2,190)	–	(16,667)
Carrying amount							
At 31 March 2016	600	1,202	8,020	1,017	2,689	795	14,323
Owned assets	600	1,202	282	911	1,541	–	4,536
IFRIC 12 assets	–	–	7,738	106	1,148	795	9,787
Total	600	1,202	8,020	1,017	2,689	795	14,323

(1) The freehold land and buildings at Durham were sold by NS&I in October 2015. The Durham site was sold for an initial £744,000. The sale resulted in an initial loss on disposal of £881,000 and that is recognised in the accounts. In addition, £2,859,000 of upward revaluations were realised from the revaluation reserve. Further receipts will be received from the buyer over an extended period and are expected to create an economic surplus for the taxpayer in the future. These are dependent upon the outcomes of planning permission and potential future profits realised by the purchaser, as defined in the sales contract. Therefore at the time of the sale and at the date of the accounts a reliable estimate of the timing or value of the additional proceeds could not be obtained and could not be included in the accounts.

(2) The land and buildings have been leased to Atos under an operating lease arrangement for most of the financial year. However, the Durham site was sold in October 2015 and the Blackpool Tower and Stock Computer Buildings and Glasgow sites stopped being used in the business and were vacated. The sales of the two sites were actively pursued and were transferred to 'Assets held for sale' at carrying value of £8,851,000 in accordance with IFRS 5 *Non-current assets and discontinued operations*. The remaining property at Blackpool Moorlands was revalued at 31 March 2016 by professional valuers Cushman and Wakefield Debenham Tie Leung Limited.

(3) Leasehold improvements classed as 'Assets under construction' at the start of the year came into use during 2015–16 and were reclassified as plant and machinery (£650,000) and furniture and fittings (£845,000).

6 Intangible assets

6(a) Current year

	Information technology software £000	Software licences £000	Website £000	Assets under construction ⁽¹⁾ £000	Total £000
Cost or valuation					
At 1 April 2016	107,165	16,598	880	37,890	162,533
Additions	48	1,528	–	19,386	20,962
Transfer from 'Assets under construction'	27,182	2,484	16,764	(46,430)	–
Revaluation ⁽²⁾	1,889	–	(50)	–	1,839
Disposals ⁽³⁾	(80,433)	(3,558)	(894)	–	(84,885)
Impairment ⁽⁴⁾	–	–	–	(4,865)	(4,865)
At 31 March 2017	55,851	17,052	16,700	5,981	95,584
Amortisation					
At 1 April 2016	(95,596)	(9,009)	(880)	–	(105,485)
Charged in year	(6,574)	(2,568)	(1,679)	–	(10,821)
Revaluation ⁽²⁾	(1,851)	–	(9)	–	(1,860)
Disposals ⁽³⁾	77,844	1,592	894	–	80,330
At 31 March 2017	(26,177)	(9,985)	(1,674)	–	(37,836)
Carrying amount					
At 31 March 2017	29,674	7,067	15,026	5,981	57,748
Owned assets	550	–	–	38	588
IFRIC 12 assets	29,124	7,067	15,026	5,943	57,160
Total	29,674	7,067	15,026	5,981	57,748

(1) 'Assets under construction' totalled £5.98 million. The main components of this balance related to implementation work for a business-to-business client and new product development work. Over £46.4 million of completed projects were transferred from 'Assets under construction' to 'Information technology software' (£27.1 million), 'Software licences' (£2.5 million) and 'Website' (£16.8 million).

(2) Information technology software was revalued during the year using an appropriate ONS index. This was the Computer Services Producer Price Index produced by the Office for National Statistics. The net increase in value of the assets was £0.038 million.

(3) Information technology software assets with a gross value of £80.4 million were disposed of during 2016–17. The carrying value of these assets was £2.6 million, as the majority were fully amortised. The losses on disposal were on assets transferred onto NS&I's balance sheet through the application of IFRIC 12. There is no cost to the taxpayer for these disposals.

(4) Some further impairment of 'Assets under construction' arose in 2016–17 following the ongoing development of revised software development solutions. The costs arising from these revised solutions will be borne by Atos under the previously agreed fixed price contract in place with NS&I.

6 Intangible assets

6(b) Prior year

	Information technology software £000	Software licences £000	Website £000	Assets under construction ⁽¹⁾ £000	Total £000
Cost or valuation					
At 1 April 2015	107,277	15,959	877	31,637	155,750
Additions ⁽¹⁾	(7)	902	–	22,204	23,099
Transfer from 'Assets under construction'	794	–	–	(794)	–
Revaluation ⁽³⁾	195	–	3	–	198
Disposals	(1,076)	(5)	–	(2)	(1,083)
Impairment ⁽²⁾	–	–	–	(15,431)	(15,431)
Reclassifications	(18)	(258)	–	276	–
At 31 March 2016	107,165	16,598	880	37,890	162,533
Amortisation					
At 1 April 2015	(86,635)	(6,628)	(872)	–	(94,135)
Charged in year	(9,759)	(2,385)	(6)	–	(12,150)
Revaluation ⁽³⁾	(134)	–	(2)	–	(136)
Disposals	932	4	–	–	936
At 31 March 2016	(95,596)	(9,009)	(880)	–	(105,485)
Carrying amount					
At 31 March 2016	11,569	7,589	–	37,890	57,048
Owned assets	619	44	–	38	701
IFRIC 12 assets	10,950	7,545	–	37,852	56,347
Total	11,569	7,589	–	37,890	57,048

(1) 'Assets under construction' additions were over £22 million during 2015–16. Most of the expenditure was for work carried out on the new improved banking platform and also implementation work for a major business-to-business client. The net increase from 2014–15 was £6.3 million.

(2) Intangible assets under construction included costs relating to software development solutions designed by Atos at the start of the contract with NS&I. A number of these solutions have now been identified as sub-optimal given a number of factors, including rapid technological change and the increasing size of NS&I's business which were not foreseen when the existing contract was conceived and agreed. Therefore Atos and NS&I agreed various new solutions as part of a revised change programme. Changes to the design solutions meant elements of the work previously capitalised were impaired. In addition, costs of £5.6 million were incurred and expensed by Atos during 2015–16 in relation to these software development solutions. The new solutions were designed to meet the original required contractual outcomes and the cost will be borne by Atos under the previously agreed fixed price contract in place with NS&I. There is no impact on the revaluation reserve as a result of this impairment.

(3) Information technology software was revalued during the year using an appropriate ONS index. This was the Computer Services Producer Price Index produced by the Office for National Statistics. The net increase in value of the assets was £0.062 million.

7 Financial instruments

As the cash requirements of NS&I are met through the Supply/Supplementary Estimates process, financial instruments play a more limited role in creating and managing risk than would apply to a non-public sector body of a similar size. The financial instruments that NS&I has are cash, trade receivables and trade payables. They are in line with NS&I expectations in terms of purchase and usage requirements. NS&I is therefore exposed to little credit, liquidity or market risk.

NS&I's net revenue resource requirements, including capital expenditure, are financed by resources voted annually by Parliament which includes income and expenditure on its business-to-business activities. NS&I's Resource Accounts are not, therefore, exposed to significant liquidity risks.

There are no differences between the carrying values of receivables, payables or cash held and their fair value.

NS&I is not exposed to any credit or liquidity risk in its performance of business-to-business services. Customers are central government departments.

8 Assets held for sale

	2017 £000	2016 £000
Balance at 1 April	8,851	–
Transfer from 'Property, plant and equipment'	–	8,851
Sale of property	(8,851)	–
Balance at 31 March	–	8,851

As described in note 5(b), NS&I included properties at Blackpool and Glasgow as actively held for sale at 31 March 2016. The sale of the properties had been actively pursued even prior to the complete vacation of the properties during 2015–16.

NS&I completed the sales of the Blackpool Tower and Stock Computer Buildings site (December 2016) and the Glasgow site (October 2016) during 2016–17. The sales resulted in an overall profit on disposal of over £3,845,000. In addition, £6,287,000 of upward revaluations were realised from the revaluation reserve. The Glasgow site was sold for £9,458,000 after taking account of costs of sale and discounting. The value of the sale of the Blackpool Main Building after taking account of costs of sale and discounting was £3,237,000.

9 Trade and other receivables

at 31 March

	2017 £000	2016 £000
Amounts falling due within one year:		
Trade receivables	5,026	527
Deposits and advances	66	76
Prepayments	219	290
Accrued income	8,056	5,188
Proceeds from the sale of property	2,659	–
Other receivables	5	41
Total trade and other receivables	16,031	6,122
Amount falling due after more than one year:		
Proceeds from the sale of property	7,593	–
Non-current other receivables	7,593	–
Total trade and other payables	23,624	6,122

As described in note 8, NS&I sold two properties during 2016–17. It will receive the full discounted proceeds of the sale over a three-year period from the end of the financial year. At 31 March 2017, over £2,557,000 had been received. A further £2,659,000 will be received during 2017–18 with a further £7,593,000 to be received in 2018–19 and 2019–20.

10 Cash and cash equivalents

	2017 £000	2016 £000
Balance at 1 April	16	13
Net change in cash and cash equivalent balances	(14)	3
Closing cash and cash equivalent balance	2	16
The following balances are held at:		
Government Banking Service	2	16
Balance at 31 March	2	16

11 Client funds

	2017 £000	2016 £000
Balance at 1 April	34,487	2,156
Net change in client funds balances	(34,005)	32,331
Closing client funds balance	482	34,487
The following balances are held at:		
Government Banking Service	482	34,487
Balance at 31 March	482	34,487
Corresponding liability for payments to be made on behalf of HM Treasury	(482)	(34,487)

Client funds are being held on behalf of HM Treasury for the payment of sums through NS&I to Equitable Life savers as part of business-to-business activities under the Equitable Life Payment Scheme. This scheme closed in 2016–17. At 31 March 2017, NS&I was holding £117,000 (2016: £34,487,000).

Client funds are also being held on behalf of HM Revenue and Customs for the operation of the Tax-Free Childcare scheme which was launched in 2017. The balance held for HMRC was £365,000 (2016: Nil). NS&I is also holding £114,000 (2016: Nil) of contributions from parents. These parent monies are excluded from NS&I's Statement of financial position as third party assets.

12 Trade payables and other liabilities

at 31 March

	2017 £000	2016 £000
Amounts falling due within one year:		
VAT	554	54
Taxation and social security	271	276
Trade payables	5,188	4,940
Other payables	202	180
Accruals	17,753	7,901
Deferred income	5,718	3,138
Consolidated Fund extra receipts due to be paid to the Consolidated Fund	1	3
Amounts issued from the Consolidated Fund for supply but not spent at year end	1	13
Total trade and other payables	29,688	16,505
Amounts falling due after more than one year:		
Deferred income ⁽¹⁾	20,718	14,799
Non-current liabilities	20,718	14,799
Total trade payables and other liabilities	50,406	31,304

(1) Amounts falling due after more than one year refer to deferred income that will be brought into operating income over the life of business-to-business services that NS&I operates for its clients.

13 Provisions for liabilities and charges

	Provision for Glasgow sports ground £000	Total £000
Balance at 1 April 2016	–	–
Provided in the year	–	–
Provision written back	–	–
Provisions utilised in the year	–	–
Balance at 31 March 2017	–	–
Balance at 1 April 2015	693	693
Provided in the year	–	–
Provision written back	(296)	(296)
Provisions utilised in the year	(397)	(397)
Balance at 31 March 2016	–	–

14 Movement in revaluation reserve

	Note	2017 £000	2016 £000
Revaluation reserve changes:			
Balance in revaluation reserve 1 April		(6,692)	(9,520)
Total downward revaluation of non-current assets	6	59	13
Charged to expenditure	3	154	49
Upward revaluation	5, 6	(297)	(102)
Revaluation movement		(84)	(40)
Sale of assets	8, 5	6,287	2,859
Depreciation adjustment		58	9
Subtotal		6,345	2,868
Balance at 31 March		(431)	(6,692)

15 Commitments under leases

The future minimum lease payments under operating leases are given in the table below, discounted to present value and analysed between future years.

	2017 £000	2016 £000
Obligations under operating leases comprise:		
Buildings:		
Not later than one year	1,493	1,692
Later than one year and not later than five years	3,578	4,094
Later than five years	7,856	8,109
Total at 31 March	12,927	13,895

16 Commitments under the Public-Private Partnership contract

In May 2013, following a competitive tender, NS&I entered into a new seven-year PPP contract with Atos for the provision of operational services, which came into effect on 1 April 2014. The contract is to design, develop, procure, finance and operate, including maintaining, certain assets over the period of the contract to enable the provision of a back office function and Customer Interaction Centre. The contract value is over £600 million for the seven-year operational term in nominal terms, however this will vary depending on the level of stock and business-to-business activity.

If Atos meets the performance standards in the contract, the service charge payable under the contract at constant price levels would be:

	£000
At 31 March 2017	
Amounts falling due within one year	87,219
Net present value of amounts falling due within two to five years	212,991
	300,210

	£000
Comparable figures at 31 March 2016 were:	
Amounts falling due within one year	84,683
Net present value of amounts falling due within two to five years	310,490
	395,173

The total amount payable to Atos will vary depending on the levels of stock and business-to-business activity. These amounts cannot be predicted with any certainty.

17 Other financial commitments

There were no other financial commitments at 31 March 2017 (31 March 2016: Nil).

18 Contingent liabilities disclosed under IAS 37

There were no material contingent liabilities at 31 March 2017 (31 March 2016: Nil).

19 Related party transactions

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

NS&I carried out a number of significant transactions with the Government Banking Service, Ministry of Justice (Office of Accountant General), the Office for National Statistics, the Home Office, HM Treasury, HM Revenue and Customs and the Government Internal Audit Agency and a small number of immaterial transactions with other government departments: Government Legal Department, the Cabinet Office, Department for Culture, Media & Sport (National Archives), Department for Work and Pensions, FCO Services and the Financial Ombudsman Service. All related party transactions undertaken were at arm's length.

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

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

	2017	2016
At 31 March	£000	£000
Executive Directors and Non-executive Directors	2,173	2,961

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

20 Events after the reporting period date

There are no reportable events between the Statement of financial position date and 26 June 2017, the date of authorisation of these accounts. The financial statements do not reflect events after that date.

Product Accounts background

Accounts

These accounts have been prepared under a direction issued by HM Treasury in accordance with section 7(2) of the Government Resources and Accounts Act 2000. This direction is at Annex 1 to these accounts on page 125.

Scope of the Product Accounts

These accounts record transactions for the year ended 31 March 2017 on retail savings and investment products administered by NS&I and balances in respect of these products as at that date. They do not include:

- *The investment or use of funds.* Customer funds are not directly invested by NS&I. They are passed to the National Loans Fund (NLF) to fund public sector activity.
- *NS&I's administration costs.* These are funded by Parliamentary Vote. They are accounted for separately in the Accountability Report section of the Annual Report and in the Resource Accounts. However, the interest and prizes costs on NS&I products are included in the total cost of servicing the national debt, and these costs are therefore reflected as a charge on both the NLF account and these accounts.
- *Business-to-business activities.* NS&I holds funds on behalf of other government departments as part of its business-to-business activities. These monies are included in NS&I's resource accounts, where relevant, and do not form part of the Product Accounts.

The National Loans Fund

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

NS&I's products and regulation

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

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

Products governed by the National Debt Act 1972

Children's Bonds (previously known as Children's Bonus Bonds)	The National Savings (No.2) Regulations 2015
65+ Guaranteed Growth Bonds	The National Savings (No.2) Regulations 2015
Guaranteed Income Bonds and Guaranteed Growth Bonds (previously known as Fixed Rate Savings Bonds)	The National Savings (No.2) Regulations 2015
Income Bonds	The National Savings (No.2) Regulations 2015
Premium Bonds	The National Savings (No.2) Regulations 2015
Savings Certificates	The National Savings (No.2) Regulations 2015

Products governed by the National Savings Bank Act 1971

Direct Saver Account	The National Savings Regulations 2015
Individual Savings Account	The National Savings Regulations 2015
Investment Account	The National Savings Regulations 2015
Residual Account	The National Savings Regulations 2015

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

Savings Certificates, Children's Bonds, Guaranteed Income Bonds and Guaranteed Growth Bonds have had unclaimed matured funds transferred to the Residual Account in order to continue earning interest for customers.

Notable events during the year ended 31 March 2017

During the year ended 31 March 2017, all the remaining one-year 65+ Guaranteed Growth Bonds reached maturity. 65+ Guaranteed Growth Bonds were launched on 15 January 2015 and went off sale on 15 May 2015. The bonds were issued in one- and three-year terms.

The one-year bonds began to mature on 15 January 2016 and customers were given an option to cash in their investment, reinvest into NS&I's Guaranteed Growth Bonds or other products currently on sale. By the end of May 2016, all one-year bond holdings had matured.

Up until 5 April 2016, interest earned on Guaranteed Bonds and 65+ Guaranteed Growth Bonds had 20% tax deducted at source and paid directly by NS&I to HMRC on behalf of investors. Effective 6 April 2016, tax is no longer deducted at source on these products and any capitalised interest is paid in full to investors.

Audit

These accounts have been audited by the Comptroller and Auditor General, whose Certificate and Report appears on pages 82 and 83.

Statement of comprehensive income for the year ended 31 March

	Note	2016-17 £000	2015-16 £000
Income			
Interest and prizes financed by the NLF	4	2,333,765	2,067,732
Interest and prizes financed by the NLF		2,333,765	2,067,732
Cost			
Interest and prizes earned by investors		(2,333,765)	(2,067,732)
Interest and prizes earned by investors	2	(2,333,765)	(2,067,732)
Income less cost		-	-

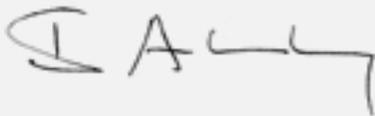
The notes on pages 113 to 124 form part of these accounts.

An analysis of interest and prizes by product is disclosed in note 3.

Statement of financial position at 31 March

	Note	2017 £000	2016 £000
Current assets			
Held by the NLF	4	146,042,880	133,989,355
Other receivables	5	236,342	232,812
Cash and cash equivalents	9	663,663	930,872
Total current assets	10	146,942,885	135,153,039
Current liabilities			
Liability to investors	6	(146,940,258)	(135,148,451)
Other payables	7	(2,627)	(4,588)
Total current liabilities	10	(146,942,885)	(135,153,039)
Net current assets		-	-
Assets less liabilities		-	-

The notes on pages 113 to 124 form part of these accounts.



Ian Ackerley
Chief Executive
National Savings and Investments

22 June 2017

Statement of cash flows for the year ended 31 March

	Note	2016-17 £000	2015-16 £000
Cash flows from operating activities			
Income less cost		–	–
Increase in net funds held by the NLF	8	(12,053,525)	(11,424,582)
(Increase)/decrease in other receivables	5	(3,530)	162,958
Increase in total funds invested	2	11,791,807	11,259,918
(Decrease)/increase in other payables	7	(1,961)	2,788
Net cash flow from operating activities		(267,209)	1,082
Net (decrease)/increase in cash and cash equivalents in the period	9	(267,209)	1,082
Cash and cash equivalents at the beginning of the period	9	930,872	929,790
Cash and cash equivalents at the end of the period	9	663,663	930,872

The notes on pages 113 to 124 form part of these accounts.

Notes to the accounts

1 Statement of accounting policies

These accounts are prepared in accordance with the 2016–17 Government *Financial Reporting Manual (FReM)* issued by HM Treasury subject to exemptions outlined in clause 3 of the Product Accounts direction issued by HM Treasury, which is disclosed at Annex 1. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context.

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

1.1 Accounting convention

These accounts have been prepared under the historical cost convention.

1.2 Standards in issue but not in force

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for NS&I's accounting periods beginning on or after 1 April 2017. NS&I has not early-adopted the standards, amendments and interpretations described below.

1.2.1 IFRS 9 – Financial instruments (effective from annual periods beginning on or after 1 January 2018)

IFRS 9 will replace IAS 39 *Financial instruments: recognition and measurement*. IFRS 9 will address classification and measurement issues and impairments, in particular how impairments of financial assets should be calculated and recorded. The standard will address hedge accounting with more detailed guidance and principles on hedge accounting. The International Accounting Standards Board published the final version of IFRS 9 in July 2014. The IASB has stated that, effective from February 2015, entities newly applying IFRS 9 will need to apply the version published in July 2014. Mandatory application of IFRS 9 is for annual periods beginning on or after 1 January 2018. This is not expected to have a significant impact on the Product Accounts, given that ISA 39 classification and measurement requirements used by NS&I have largely been carried forward into IFRS 9.

1.2.2 IFRS 15 – Revenue from contracts (effective from annual periods beginning on or after 1 January 2018)

This standard exempts financial instruments and therefore has no impact on the Product Accounts.

1.2.3 Other amendments to the FReM

Other amendments to the FReM due to come into effect on or after 1 April 2017 are considered to have no impact on NS&I.

1.3 Interest and prizes recognition

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

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

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

Interest has been recognised and disclosed in accordance with IAS 18 and IAS 1 in these accounts.

1.4 Financed by the NLF

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

1.5 Cash and cash equivalents

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

1.6 Financial liabilities

Financial liabilities primarily comprise the deposits and investments made by customers in NS&I's products. All financial liabilities are measured at amortised cost using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest over the relevant period up to the date of maturity. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial liability or, where appropriate, a shorter period. Financial liabilities include other payables. Financial liabilities are derecognised when the obligation is discharged.

A receipt from an investor is recognised as a liability when NS&I or one of its agents receives a payment instrument for a valid investment. Repayments to investors are recognised as a reduction in the liability to the investor on the date of the payment instrument. Where payment instruments are not cashed by the investor within their stipulated time limit, the liability to the investor is reinstated.

If an investor decides to reinvest funds in the same or another product, this is termed a reinvestment and is recognised as a payment and new receipt. An automatic or default rollover of funds within the same product, which requires no action by the investor, is not recognised as a payment or receipt. The undiscounted maturity profiles for the total liability for all products are disclosed in note 12.

1.7 Relationship with the NLF

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

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

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

1.8 Financial assets

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

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

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

2 Transactions with investors by product

2(a) Current year

	Received from investors	Interest and prizes earned by investors	Paid to investors including tax deducted at source	Transfer to Residual Account	Increase/ (decrease) in investors' funds	Invested 31 March 2017
	£000	£000	£000	£000	£000	£000
Children's Bonds	22,752	12,010	(93,375)	(18,594)	(77,207)	459,722
Direct Saver	6,858,983	72,506	(4,718,717)	–	2,212,772	9,745,322
65+ Guaranteed Growth Bonds	20	368,876	(1,181,746)	–	(812,850)	9,467,693
Guaranteed Bonds	1,008,638	130,912	(790,498)	(4)	349,048	6,619,837
Income Bonds	9,967,730	165,888	(4,321,594)	–	5,812,024	19,377,157
Individual Savings Account	761,355	45,098	(621,011)	–	185,442	4,474,634
Investment Account	361,039	13,892	(426,271)	–	(51,340)	2,633,832
Premium Bonds	15,219,121	807,320	(8,330,052)	–	7,696,389	69,556,624
Residual Account	36,253	608	(51,056)	27,446	13,251	639,403
Savings Certificates	790,022	716,655	(5,033,551)	(8,848)	(3,535,722)	23,966,034
Total	35,025,913	2,333,765	(25,567,871)	–	11,791,807	146,940,258

2(b) Prior year

	Received from investors	Interest and prizes earned by investors	Paid to investors including tax deducted at source	Transfer to Residual Account	Increase/ (decrease) in investors' funds	Invested 31 March 2016
	£000	£000	£000	£000	£000	£000
Children's Bonds	13,484	14,310	(114,563)	(29,991)	(116,760)	536,929
Direct Saver	5,178,530	69,952	(3,282,907)	–	1,965,575	7,532,550
65+ Guaranteed Growth Bonds	2,707,335	470,156	(3,982,003)	–	(804,512)	10,280,543
Guaranteed Bonds	2,415,503	108,595	(847,791)	(13)	1,676,294	6,270,789
Income Bonds	5,468,405	152,164	(3,308,987)	–	2,311,582	13,565,133
Individual Savings Account	995,294	59,018	(579,553)	–	474,759	4,289,192
Investment Account	308,786	20,273	(408,167)	–	(79,108)	2,685,172
Premium Bonds	14,149,735	773,960	(7,666,403)	–	7,257,292	61,860,235
Residual Account	32,688	595	(55,138)	31,953	10,098	626,152
Savings Certificates	195,595	398,709	(2,027,657)	(1,949)	(1,435,302)	27,501,756
Total	31,465,355	2,067,732	(22,273,169)	–	11,259,918	135,148,451

Amounts received from investors include cash received in the period plus reinvestments into the same or another product due to an investor instruction. They exclude automatic or default rollovers within the same product that require no action from an investor.

Amounts paid to investors include both capital and interest payments.

Guaranteed Bonds comprise Guaranteed Income Bonds and Guaranteed Growth Bonds.

Up until 5 April 2016, interest earned on Guaranteed Bonds and 65+ Guaranteed Growth Bonds had 20% tax deducted at source and paid directly by NS&I to HM Revenue and Customs on behalf of investors. Effective 6 April 2016, tax is no longer deducted at source on these products and any capitalised interest is paid in full to investors. The total tax deducted in 2016–17 was £781,000 (2015–16: £100,698,000).

3 Interest and prizes

	Note	2016–17 £000	2015–16 £000
Total interest and prizes earned in year	2	(2,333,765)	(2,067,732)
Add accrued interest and prizes opening balance		(552,434)	(453,935)
Less interest capitalised in year		1,372,862	1,206,671
Less interest and prizes paid in year		804,500	766,002
Add movements in out-of-date warrants and outstanding prizes in year		(3,699)	(3,440)
Accrued interest and prizes at 31 March	6	(712,536)	(552,434)

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

4 Amounts held by the NLF

	Note	2016–17 £000	2015–16 £000
At 1 April		133,989,355	122,564,773
Interest and prizes financed by the NLF		2,333,765	2,067,732
Received from the NLF	8	(24,462,793)	(21,748,711)
Paid to the NLF	8	34,182,553	31,105,561
At 31 March		146,042,880	133,989,355

The amount held by the NLF includes interest and prizes accrued in 2016–17 of £631,901,000 (2015–16: £475,498,000).

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

5 Other receivables

	2017 £000	2016 £000
Agents	236,183	232,568
Other receivables	159	244
Total	236,342	232,812

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

6 Liability to investors

6(a) Current year

	Principal liability	Accrued interest and prizes	Liability
	£000	£000	31 March 2017 £000
Current liabilities			
Children's Bonds	452,754	6,968	459,722
Direct Saver	9,745,322	–	9,745,322
65+ Guaranteed Growth Bonds	9,355,699	111,994	9,467,693
Guaranteed Bonds	6,584,977	34,860	6,619,837
Income Bonds	19,349,548	27,609	19,377,157
Individual Savings Account	4,431,507	43,127	4,474,634
Investment Account	2,630,940	2,892	2,633,832
Premium Bonds	69,420,181	136,443	69,556,624
Residual Account	636,383	3,020	639,403
Savings Certificates	23,620,411	345,623	23,966,034
Total liability to investors	146,227,722	712,536	146,940,258

Principal liability comprises initial investment plus capitalised interest that has been added to the holding where applicable. Accrued interest and prizes comprise only interest and prizes earned that have not been paid out or capitalised and added to the holding. The accrued interest disclosed above (£712,536,000) is accrued interest in respect of the principal liability to investors. Note 4 discloses accrued interest (£631,901,000) in respect of balances held by the NLF. The difference between these amounts is due to outstanding interest liabilities (£80,635,000) which have been drawn down from the NLF and are pending settlement, such as prizes and interest warrants.

All products are repayable on demand and therefore are classified as current liabilities.

6(b) Prior year

	Principal liability £000	Accrued interest and prizes £000	Liability 31 March 2016 £000
Current liabilities			
Children's Bonds	525,634	11,295	536,929
Direct Saver	7,532,550	–	7,532,550
65+ Guaranteed Growth Bonds	10,146,086	134,457	10,280,543
Guaranteed Bonds	6,242,135	28,654	6,270,789
Income Bonds	13,539,896	25,237	13,565,133
Individual Savings Account	4,232,763	56,429	4,289,192
Investment Account	2,680,229	4,943	2,685,172
Premium Bonds	61,729,942	130,293	61,860,235
Residual Account	623,296	2,856	626,152
Savings Certificates	27,343,486	158,270	27,501,756
Total liability to investors	134,596,017	552,434	135,148,451

7 Other payables

	2017 £000	2016 £000
NLF	257	176
HM Revenue and Customs	–	1,841
Other payables including sales repayments and evidence of identity repayments	2,370	2,571
Total	2,627	4,588

The HM Revenue and Customs payable relates to tax deducted at source on interest capitalised on Guaranteed Bonds and 65+ Guaranteed Growth Bonds, which is in the process of being settled. Effective 6 April 2016, tax on capitalised interest is no longer deducted at source and the amount outstanding in 2017 is nil (2016: £1,841,000).

8 Movement in net funds held by the NLF

	2016–17 £000	2015–16 £000
Received from the NLF	24,462,793	21,748,711
Paid to the NLF	(34,182,553)	(31,105,561)
Net inflow to the NLF	(9,719,760)	(9,356,850)
Interest and prizes payable to investors	(2,333,765)	(2,067,732)
Increase in net funds held by the NLF	(12,053,525)	(11,424,582)

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

9 Cash and cash equivalents

	2017 £000	2016 £000
Balance at 1 April	930,872	929,790
Net change in cash and cash equivalent balances	(267,209)	1,082
Balance at 31 March	663,663	930,872

All balances were held by the Exchequer. No cash balances were held with commercial banks.

10 Categorisation of financial assets and liabilities

	2017 £000	2016 £000
Assets		
Loans and receivables	146,279,222	134,222,167
Cash and cash equivalents	663,663	930,872
Total	146,942,885	135,153,039
Liabilities		
Financial liabilities measured at amortised cost	(146,942,885)	(135,153,039)
Total	(146,942,885)	(135,153,039)

11 Market, liquidity and credit risk

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

NS&I's banking services provider is the Government Banking Service (GBS). GBS had contracted the Royal Bank of Scotland Group (RBSG) and Citigroup to provide transaction processing services for NS&I. Monies held at RBSG and Citigroup are transferred to the Government's accounts at the Bank of England during, and/or at the end of, each day to mitigate credit risks to both NS&I and HM Treasury. From 22 July 2016, Citigroup ceased to be a GBS-contracted banking supplier for NS&I and all banking services transitioned solely to RBSG. In the event that the banks were unable to meet their obligations, HM Treasury would step in to provide NS&I with the necessary funds to meet its liabilities to investors as part of the HM Treasury underwritten guarantee. Therefore, NS&I does not face any material credit risk. Credit risk relating to the agents and other debtors is not material and is mitigated by the short settlement periods, which are typically less than seven days.

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

12 Product maturity profile

12(a) Current year

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

	2017 Variable rate, prize-based and index-linked products £000	2017 Fixed rate products £000	2017 Non-interest bearing products £000	2017 Total £000
Maturing in one year or less or repayable on demand	126,894,614	19,976,823	68,821	146,940,258
Total	126,894,614	19,976,823	68,821	146,940,258

12(b) Prior year

	2016 Variable rate, prize-based and index-linked products £000	2016 Fixed rate products £000	2016 Non-interest bearing products £000	2016 Total £000
Maturing in one year or less or repayable on demand	114,308,732	20,782,842	56,877	135,148,451
Total	114,308,732	20,782,842	56,877	135,148,451

Variable rate products include Direct Saver, Income Bonds, Investment Account and interest-earning balances in the Residual Account. Other products are prize-based Premium Bonds and Index-linked Savings Certificates.

Fixed rate products include Children's Bonds, 65+ Guaranteed Growth Bonds, Guaranteed Bonds and Fixed Interest Savings Certificates. These are classified according to the earliest period when a customer can demand repayment.

Non-interest bearing products are historical balances on products which have been closed and maturities which are temporarily awaiting customer instruction. These historical balances are held within the Residual Account.

13 Fair values of assets and liabilities

13(a) Current year

	2017 Total per accounts £000	2017 Fair value £000
Assets		
Held by the NLF	146,042,880	146,679,401
Other receivables	236,342	236,342
Cash and cash equivalents	663,663	663,663
Total	146,942,885	147,579,406
Liabilities		
Fixed rate products	(19,976,823)	(20,613,344)
Variable rate products	(126,894,614)	(126,894,614)
Non-interest bearing products	(68,821)	(68,821)
Other payables	(2,627)	(2,627)
Total	(146,942,885)	(147,579,406)

13(b) Prior year

	2016 Total per accounts £000	2016 Fair value £000
Assets		
Held by the NLF	133,989,355	134,893,977
Other receivables	232,812	232,812
Cash and cash equivalents	930,872	930,872
Total	135,153,039	136,057,661
Liabilities		
Fixed rate products	(20,782,842)	(21,687,464)
Variable rate products	(114,308,732)	(114,308,732)
Non-interest bearing products	(56,877)	(56,877)
Other payables	(4,588)	(4,588)
Total	(135,153,039)	(136,057,661)

Note 12 states which products are in each of the above categories.

There is no material difference between the carrying value and the fair value of the variable rate products, non-interest bearing products, other payables and receivables. The variable rate products in the fair value table include all variable rate, prize-based and index-linked products. The rates for variable rate products are determined by our operating framework and are closely linked to current retail savings rates; therefore they are deemed to be at fair value. The fixed rate products are products with rates being fixed for the duration of the products' term. The fair value of the fixed rate products is derived by discounting future expected cash flows using relevant gilt rates. Any impact of early repayments is ignored, as their impact is immaterial. Subject to timing differences, the fair value of the assets held by the NLF is a mirror of the related liabilities which it guarantees.

14 Fair value hierarchy disclosures

IFRS 13 *Fair Value Measurement* applies when another IFRS, in this case IFRS 7, requires an entity to disclose the fair value of its assets and liabilities. It sets out how to fair value assets and liabilities and requires an entity to classify these into fair value hierarchy levels, based on the significance of inputs used in the measurement. These fair value hierarchy levels are as follows:

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

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

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

The following table presents financial assets and liabilities measured at fair value in accordance with the fair value hierarchy.

14(a) Current year

	Level 1 2017 £000	Level 2 2017 £000	Total 2017 £000
Assets			
Held by the NLF – fixed rate products	–	20,719,887	20,719,887
Held by the NLF – variable rate products	–	125,892,672	125,892,672
Other assets ⁽¹⁾	966,847	–	966,847
	966,847	146,612,559	147,579,406
Liabilities			
Liability to investors – fixed rate products	–	(20,613,344)	(20,613,344)
Liability to investors – variable rate products	–	(126,894,614)	(126,894,614)
Other liabilities ⁽²⁾	–	(71,448)	(71,448)
	–	(147,579,406)	(147,579,406)

14(b) Prior year

	Level 1 2016 Reclassified ⁽³⁾ £000	Level 2 2016 Reclassified ⁽³⁾ £000	Total 2016 £000
Assets			
Held by the NLF – fixed rate products	–	21,701,166	21,701,166
Held by the NLF – variable rate products	–	113,137,672	113,137,672
Other assets ⁽¹⁾	1,218,823	–	1,218,823
	1,218,823	134,838,838	136,057,661
Liabilities			
Liability to investors – fixed rate products	–	(21,687,464)	(21,687,464)
Liability to investors – variable rate products	–	(114,308,732)	(114,308,732)
Other liabilities ⁽²⁾	–	(61,465)	(61,465)
	–	(136,057,661)	(136,057,661)

(1) Other assets include non-interest bearing products, cash and cash equivalents and other receivables.

(2) Other liabilities include non-interest bearing products and other payables.

(3) The fair value levels for 2015–16 figures have been reclassified in line with emerging industry practice.

15 Related party transactions

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

The DMO, NLF and HM Treasury are related parties. NS&I's relationships with these parties are mentioned in the Product Accounts background section, pages 108 and 109. In addition, note 4 contains details of the NLF transactions.

Up until 5 April 2016, NS&I carried out transactions with HM Revenue and Customs (HMRC) on behalf of investors, in respect of tax deducted at source (2016–17: £0.78 million; 2015–16: £98.90 million) on interest earned on 65+ Guaranteed Growth Bonds and Guaranteed Bonds. The outstanding tax due to HMRC at 31 March 2017 was nil (2016: £1.84 million). In this regard as a public body, HMRC is a related party.

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

The deposits of Executive and Non-executive Directors, with the exception of Premium Bonds, are disclosed on page 107 of this Annual Report and Accounts and Product Accounts.

16 Events after the reporting period date

There are no reportable events between the Statement of financial position date and 26 June 2017, the date on which these accounts are authorised. The financial statements do not reflect events after that date.

Annex 1: Product Accounts direction

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

1. This direction applies to the Department of National Savings and Investments.
2. The Department of National Savings and Investments shall prepare accounts for its Product Accounts for the year ending 31 March 2016 (and each subsequent financial year) that give a true and fair view of the state of affairs of the Product Accounts at the reporting date and of their income and expenditure and cash flows for the year then ended.
3. The accounts shall be prepared in accordance with applicable accounting standards, and shall be consistent with relevant requirements of the extant Government *Financial Reporting Manual (FReM)* except to the extent set out below:
 - a. a Statement of Comprehensive Income shall be prepared instead of a Statement of Comprehensive Net Expenditure; and
 - b. the Statement of Parliamentary Supply and the Statement of Changes in Taxpayers' Equity are not relevant to the Product Accounts.
4. Compliance with the requirements of the FReM will, in all but exceptional circumstances, be necessary for the accounts to give a true and fair view. If, in these exceptional circumstances, compliance with the requirements of the FReM is inconsistent with the requirement to give a true and fair view, the requirements of the FReM should be departed from only to the extent necessary to give a true and fair view. In such cases, informed and unbiased judgement should be used to devise an appropriate alternative treatment which should be consistent with both the economic characteristics of the circumstances concerned and the spirit of the FReM. Any material departure from the FReM should be discussed in the first instance with the Treasury.
5. This Accounts Direction shall be reproduced as an Appendix to the Product Accounts.
6. This Accounts Direction supersedes all previous directions.



Michael Sunderland
Acting Deputy Director,
Government Financial Reporting
HM Treasury
19 April 2016

Section 4

Other Information

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Departmental Report information

The 2016–17 Departmental Report information shown in the tables below is not consistent with the information shown in the 2016–17 Accounts. As a result, there is no direct link to the Statement of comprehensive net expenditure found in the Accounts.

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

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

There are also further differences brought about by treatments in HM Treasury's required budgetary framework which are not used in the IFRS accounts. The main items of this type are shown below:

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

The above treatments have been used for the figures shown in each year of the Departmental Report. As a result, the data shown in this Departmental Report does not directly reconcile to the Accounts.

Table 1: Total departmental spending

	Outturn 2012–13 £000	Outturn 2013–14 £000	Outturn 2014–15 £000	Outturn 2015–16 £000	Outturn 2016–17 £000	Plans 2017–18 £000	Plans 2018–19 £000	Plans 2019–20 £000
Resource DEL								
Section A: Administration	167,203	146,990	223,865	155,453	132,333	137,911	132,700	120,300
Total resource DEL	167,203	146,990	223,865	155,453	132,333	137,911	132,700	120,300
of which:								
Pay	10,350	11,327	10,811	11,236	11,731	12,800	12,800	12,800
Net current procurement ⁽¹⁾	154,231	132,978	211,725	142,848	119,401	122,171	116,860	104,360
Current grants and subsidies to the private sector and abroad	–	–	–	–	–	–	–	–
Current grants to local government	–	–	–	–	–	–	–	–
Depreciation ⁽²⁾	1,809	1,872	583	734	751	2,300	2,400	2,500
Other	813	813	746	635	450	640	640	640
Resource AME								
Section B: Administration	1,181	347	420	(682)	(262)	3,300	3,300	3,300
Total resource AME	1,181	347	420	(682)	(262)	3,300	3,300	3,300
of which:								
Pay	–	–	–	–	–	–	–	–
Net current procurement ⁽¹⁾	–	–	–	–	–	–	–	–
Current grants and subsidies to the private sector and abroad	–	–	–	–	–	–	–	–
Current grants to local government	–	–	–	–	–	–	–	–
Net public service pensions ⁽³⁾	–	–	–	–	–	–	–	–
Take-up of provisions	6	–	683	(296)	–	300	300	300
Release of provisions	(16)	(77)	(45)	(397)	–	–	–	–
Depreciation ⁽²⁾	1,191	424	(218)	11	(262)	3,000	3,000	3,000
Other	–	–	–	–	–	–	–	–
Total resource budget	168,384	147,337	224,285	154,771	132,071	141,211	136,000	123,600
of which:								
Depreciation	3,000	2,296	365	745	489	5,300	5,400	5,500

Table 1: Total departmental spending (continued)

	Outturn 2012–13 £000	Outturn 2013–14 £000	Outturn 2014–15 £000	Outturn 2015–16 £000	Outturn 2016–17 £000	Plans 2017–18 £000	Plans 2018–19 £000	Plans 2019–20 £000
Capital DEL								
Section A: Administration	34	1,517	1,383	(1,585)	(12,482)	620	630	650
Total capital DEL	34	1,517	1,383	(1,585)	(12,482)	620	630	650
of which:								
Net capital procurement ⁽⁴⁾	34	1,517	1,383	(1,585)	(12,482)	620	630	650
Current grants to the private sector and abroad	–	–	–	–	–	–	–	–
Capital support for local government	–	–	–	–	–	–	–	–
Capital support for public corporations	–	–	–	–	–	–	–	–
Other	–	–	–	–	–	–	–	–
Capital AME								
Total capital AME	–	–	–	–	–	–	–	–
of which:								
Capital grants to the private sector and abroad	–	–	–	–	–	–	–	–
Net lending to the private sector	–	–	–	–	–	–	–	–
Capital support for public corporations	–	–	–	–	–	–	–	–
Other	–	–	–	–	–	–	–	–
Total capital budget	34	1,517	1,383	(1,585)	(12,482)	620	630	650
Total departmental spending⁽⁵⁾	165,418	146,558	225,303	152,441	119,100	136,531	131,230	118,750
of which:								
Total DEL	164,237	146,211	224,883	153,123	119,362	133,231	127,930	115,450
Total AME	1,181	347	420	(682)	(262)	3,300	3,300	3,300

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

(2) The depreciation charge shown only relates to owned assets.

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

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

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

Table 2: Public spending control

Resources	Supply Estimate			Supplementary Estimate			Final provision	Final outturn	Differences		
	Admin £000	Other current £000	Gross total £000	A in A £000	Net total £000	Change in gross provision £000	Change in A in A £000	Change in net provision £000	£000	£000	£000
Spending in DEL	195,200	–	195,200	(51,000)	144,200	(5,111)	–	(5,111)	139,089	132,333	6,756
Spending in AME	–	3,300	3,300	–	3,300	(500)	–	(500)	2,800	(262)	3,062
Total	195,200	3,300	198,500	(51,000)	147,500	(5,611)	–	(5,611)	141,889	132,071	9,818

Capital	Supply Estimate			Supplementary Estimate			Final provision	Final outturn	Differences
	Capital £000	Change in gross provision £000	Change in A in A £000	Change in net provision £000	£000	£000	£000	£000	£000
Spending in DEL	610	(8,320)	–	(8,320)	(7,710)	(12,482)	4,772		

Table 3: NS&I capital employed

	Outturn 2012–13 £000	Outturn 2013–14 £000	Outturn 2014–15 £000	Outturn 2015–16 £000	Outturn 2016–17 £000	Plans 2017–18 £000	Plans 2018–19 £000	Plans 2019–20 £000
Assets on balance sheet at end of year								
Non-current assets								
Intangible	65,704	50,645	61,615	57,048	57,748	70,000	71,000	73,000
Property, plant and equipment	23,231	20,281	23,047	14,323	11,729	15,400	16,500	16,400
of which:								
Land and buildings	14,643	11,959	12,279	1,802	2,000	2,000	2,100	2,200
Information technology	6,638	4,662	6,379	8,020	6,521	9,500	10,500	10,000
Plant and machinery	26	214	468	1,017	909	1,100	1,100	1,100
Furniture and fittings	1,924	2,700	2,370	2,689	2,277	2,600	2,600	2,900
Assets under construction	–	746	1,551	795	22	200	200	200
Non-current receivables	4,371	–	–	–	7,593	3,101	–	–
Current assets	179,944	23,318	3,758	49,476	16,515	5,000	6,000	8,000
Creditors <1 year	(201,837)	(41,830)	(36,061)	(50,992)	(30,170)	(15,000)	(14,000)	(15,000)
Provisions <1 year	(132)	(56)	(16)	–	–	–	–	–
Creditors >1 year	(15,486)	(4,601)	–	(14,799)	(20,718)	(10,000)	(8,000)	(6,000)
Provisions >1 year	–	–	(677)	–	–	–	–	–
Capital employed within main department	55,795	47,757	51,666	55,056	42,697	68,501	71,500	76,400

Table 4: Administration Budget

	Outturn 2012–13 £000	Outturn 2013–14 £000	Outturn 2014–15 £000	Outturn 2015–16 £000	Outturn 2016–17 £000	Plans 2017–18 £000	Plans 2018–19 £000	Plans 2019–20 £000
Section A: Administration	167,203	146,990	223,865	155,453	132,333	137,911	132,700	120,300
Total Administration Budget	167,203	146,990	223,865	155,453	132,333	137,911	132,700	120,300
of which:								
Pay	10,350	11,327	10,811	11,236	11,731	12,800	12,800	12,800
Expenditure	188,738	175,198	227,337	175,127	157,453	201,111	220,900	228,500
Income	(31,885)	(39,535)	(14,283)	(30,910)	(36,851)	(76,000)	(101,000)	(121,000)

Table 5: NS&I staff numbers

Staff numbers at:	1 April 2012	1 April 2013	1 April 2014	1 April 2015	1 April 2016	1 April 2017 ⁽¹⁾
Permanent	140	170	164	173	166	184
Others	15	25	14	12	11	3
Total	155	195	178	185	177	187

(1) The staff numbers shown in the table above for 1 April do not agree with the table in the Remuneration and Staff Report. Those figures are calculated by averaging the staff numbers over the year while the numbers above are shown on spot dates.

Table 6: NS&I consultancy and professional services

	Outturn 2012–13 £000	Outturn 2013–14 £000	Outturn 2014–15 £000	Outturn 2015–16 £000	Outturn 2016–17 £000
Consultancy services	1,742	789	80	–	–
Professional services	7,516	6,222	2,149	2,491	1,919
Contract staff	1,143	451	1,487	853	923
Other services	1,544	1,920	1,704	1,691	1,900
Total	11,945	9,382	5,420	5,035	4,742

Glossary

Accounting Officer

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

Accrued interest

Interest earned by the customer that has not yet been paid out or capitalised.

Annually Managed Expenditure (AME)

Spending which does not fall within the Departmental Expenditure Limit (DEL). Expenditure in AME is generally less predictable and controllable than expenditure within the DEL.

Appropriations in aid (A in A)

Income received by a government department which it is authorised to retain to finance related expenditure. Such income is voted by Parliament and accounted for in departmental accounts.

Basis point

This is one-hundredth of a percentage point (0.01%).

Bonds

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

BREEAM

BREEAM (Building Research Establishment Environmental Assessment Method), first published by the Building Research Establishment (BRE) in 1990, is the world's longest established method of assessing, rating and certifying the sustainability of buildings.

Business-to-business services

Payment processing services provided to other government departments, agencies and arm's-length bodies by NS&I Government Payment Services. The 'client' department pays NS&I to manage the payments on its behalf; payments are processed using NS&I's established technology, skills and processes, reducing the cost to the department and ultimately the taxpayer.

Capitalised interest

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

Consolidated Fund

The Consolidated Fund is the Government's general bank account for revenue and expenditure. It is held at the Bank of England.

Contact Centre Association (CCA)

The CCA is the leading independent authority on customer contact strategies and operations. It offers accreditation under the CCA Global Standard® – a set of key contact centre operations and customer service principles which have been defined and agreed by industry experts and stakeholders. Retaining accreditation under CCA Global Standard® Version 6 is one of NS&I's service delivery measures.

Court Funds Office

The Court Funds Office provides a banking and administration service for some 184,000 customers, with a total of £2.3 billion cash and £0.1 billion securities held under the control of the civil courts in England and Wales, including the Court of Protection.

Customer Interaction Centre (CIC)

NS&I's Customer Interaction Centre (CIC) manages all telephone sales and enquiries, as well as handling customer emails and social media queries. It is operated and managed in partnership with Atos and is open all year round, 24 hours a day.

Departmental Expenditure Limit (DEL)

The expenditure limit within which a government department has responsibility for resource allocation.

Digital

In the context of channels available for customers to interact with NS&I, digital refers to all non-postal direct channels – including telephone.

Director of Savings

The person appointed by HM Treasury to manage NS&I in accordance with the statutory functions set out in the National Debt Act 1972 and the National Savings Bank Act 1971. Since we became an Executive Agency, the Director of Savings has also been the Chief Executive and the Accounting Officer.

Equitable Life Payment Scheme

Established by the Government to 'implement the Parliamentary and Health Ombudsman's recommendation to make fair and transparent payments to Equitable Life policyholders, through an independent payment scheme, for their relative loss as a consequence of regulatory failure' (*The Coalition: our programme for government*, Cabinet Office, 2010).

Executive Agency

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

Financial Conduct Authority (FCA)

The FCA is the UK's independent body responsible for regulation of conduct in retail and wholesale financial markets and some prudential regulation.

Financial Ombudsman Service (FOS)

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

Fixed term

The period of time for which an interest rate is fixed.

Gilts (or gilt-edged stock)

Gilts are UK government securities issued by HM Treasury and listed on the London Stock Exchange.

Gross inflows

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

65+ Guaranteed Growth Bonds

A special savings measure announced by HM Treasury in the 2014 Budget, designed to offer market-leading interest rates to support savers who rely on their savings during retirement. The 65+ Bonds were based on NS&I's Guaranteed Growth Bonds product, with rates set by HM Treasury. One-year and three-year 65+ Guaranteed Growth Bonds were on sale from January to May 2015.

Index-linked

For Index-linked Savings Certificates, this means that the value of a certificate moves in line with changes in inflation.

Inflows

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

Investment Guaranteed Growth Bonds (IGGB)

A special savings measure announced by HM Treasury in the 2016 Autumn Statement, designed to offer a market-leading interest rate to support savers. Investment Guaranteed Growth Bonds are based on NS&I's Guaranteed Growth Bonds product, with rates set by HM Treasury. IGGB were on sale from 11 April 2017.

ISO14001

ISO14001 is the international standard that specifies requirements for an effective environmental management system. It provides a framework that an organisation can follow, rather than establishing environmental performance requirements.

Issue

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

Main Estimate/Supply Estimate

The means through which departments seek Parliamentary approval for their spending plans for the year ahead. Presented to Parliament within five weeks of the Budget Statement.

National Loans Fund (NLF)

The National Loans Fund is the Government's main account for borrowing and lending. It is administered by HM Treasury, with the bank account maintained at the Bank of England.

Net Financing

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

Public-Private Partnership (PPP)

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

Reserve Claim

As part of the spending plans announced in Spending Reviews, the Government allocates a Reserve for genuinely unforeseen contingencies that departments cannot absorb within their Departmental Expenditure Limit (DEL). Where a department makes a Reserve Claim, it is subject to an assessment of need, realism and affordability at the time at which the funds are released and requires approval by the Chief Secretary to the Treasury. Support from the Reserve to departments' resource or capital DELs is non-recurrent, i.e. it will not affect departments' Spending Review baselines.

Resource Departmental Expenditure Limit (RDEL)

Forms part of voted limits on departmental spending in line with budgetary controls along with Resource Annually Managed Expenditure (AME) and Capital Departmental Expenditure Limit (CDEL). RDEL can either be in Administration costs or Programme costs. NS&I's RDEL matches its Administration costs. NS&I does not have any RDEL in Programme costs. CDEL and AME are included in Programme costs.

Retail Prices Index (RPI)

A measure of price inflation, calculated by the Office for National Statistics each month.

Spending Review

Spending Reviews set budgets for government departments. They outline the improvements that the public can expect from government spending.

Supplementary Estimate

The means by which departments seek to amend Parliamentary authority provided through Main Estimates by altering the limits on resources, capital and/or cash or varying the way in which provision is allocated. Normally presented in January of each year.

Tax foregone

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

Tax-free

When used in the context of NS&I products, this means that interest earned or prizes won are exempt from UK Income Tax and Capital Gains Tax.

Treasury Bills

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

UK Debt Management Office (DMO)

Part of the Treasury group responsible for cash management on behalf of the Exchequer and the sale of government stock (gilts) and Treasury Bills.

UK government securities

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

Unclaimed assets

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

Value Indicator

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

Calculating the Value Indicator

First we calculate the cost of delivering Net Financing and servicing existing customers' deposits by adding together:

- the cost of interest and, for Premium Bonds, prizes earned by investors in NS&I's products
- management costs to deliver NS&I products (less the equivalent management costs of running the Debt Management Office, which issues government gilts; and less the revenue NS&I receives for providing payment processing services for other public bodies)
- tax foregone on NS&I's total stock of tax-free products (i.e. tax revenue potentially not received by HM Treasury for NS&I's tax-free products, such as Savings Certificates).

We then calculate the comparator cost to the Government if it were to replace all the deposits held by NS&I through the wholesale markets in the following way (excluding 65+ Guaranteed Growth Bonds and Investment Guaranteed Growth Bonds):

- Fixed rate products: we compare the interest cost for each of our fixed rate products and terms (i.e. Savings Certificates and Guaranteed Growth/Income Bonds across one-, three- or five-year terms) with the interest cost of an equivalent maturity gilt. So, for example, the interest cost of a five-year term of NS&I's Fixed Interest Savings Certificates is compared with the interest cost of a five-year gilt; and a three-year term of NS&I's Guaranteed Growth Bonds is compared with a three-year gilt. These costs are calculated on a term-by-term and product-by-product basis, then added together to give a total comparator cost for our fixed-term products.
- Variable rate products: we calculate the average length of time our customers hold a variable rate product and then compare the interest cost of delivering this with the cost of delivering an equivalent maturity gilt.

We then add the comparator costs for fixed and variable rate products together. The cost of delivering Net Financing and servicing existing customers' deposits is then subtracted from the total comparator cost figure to give the Value Indicator figure.

Variable rate products

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

Warrant

A type of payment similar to a cheque.

Contacts and more information

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

Internet

Visit our website



nsandi.com

Visit our YouTube channel



youtube.com/nsandi

Email



enquiries@nsandi.com

Twitter

For customer enquiries



[@nsandihelp](https://twitter.com/nsandihelp)

For news and updates



[@nsandi](https://twitter.com/nsandi)

Telephone

For sales and general enquiries, call us free on



08085 007 007

Our customer service team is available 24 hours a day, seven days a week. Calls may be recorded.

Textphone

Use our free textphone service if you have Minicom equipment



0800 056 0585

Post

Write to us at



NS&I, Glasgow G58 1SB

Thank you

NS&I would like to thank all colleagues for their contribution to the 2016–17 Annual Report and Accounts.

