Adding value

National Savings and Investments
Annual Report and Accounts 2007/08

ns&i

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£375 million created in Value Add in 2007/08

£5.9 billion Net Financing achieved during the year

£2.8 billion internet sales, 16% greater than the previous year

£2.6 billion telephone sales

92% of customers felt that NS&I customer service meets their needs

£13.8 billion in total sales, not including reinvestments, achieved by year-end

Over 3.4 million calls handled by Siemens at NS&I call centres during the year

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A constant in the financial market place

The past 12 months have confirmed NS&I's unique position in the UK financial markets. NS&I has strengthened its reputation for security, straightforwardness and integrity while delivering excellent customer service in uncertain times.

As we move into the second year of our new five-year strategy, **NS&I adding value**, we are realising our vision of securing a better financial future for our customers by providing the most valued and trusted savings experience.

This year we're incorporating two sets of accounts within our Annual Report so that you can see the whole picture of our financial performance in one document. This report therefore shows both our resource accounts, which show the costs of running NS&I, and our product accounts, which show customer transactions and balances.

Contents

Who we are

With more than £84 billion invested, NS&I is one of the UK's largest providers of savings products to personal savers and investors.

We are also a Government department and an Executive Agency of the Chancellor of the Exchequer.

Our vision

Securing a better financial future for our customers by providing the most valued and trusted savings experience.

Our mission

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

Our values

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

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

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

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

Delivered with a human touch, pace and confidence: we treat our customers as individuals, recognise their needs and act on their behalf decisively and professionally.

Our strategy

Our new five-year strategy, **NS&I adding value**, aims to deliver sustainable long-term value to stakeholders and customers by simplifying, modernising and diversifying the business as a whole. Specifically, we forecast to raise a total of around £21 billion in Net Financing and deliver more than £1.6 billion of Value Add.

Our Chairman's statement

Once again it's been a year of strength for NS&I. It's also been a year of significant change, both internally and externally, through which we have maintained high levels of customer service as well as successfully completing the first year of our major change programme.

Paul Spencer, Chairman

2007/08 was the first year of our new five-year strategy, **NS&I adding value**. This aims to build on the progress we've made in recent years towards becoming a truly modern customer-centric business with adding value as its prime objective. It's an ambitious plan, but already we've made real progress.

Market conditions, customer demand

Since the summer, the turbulence of the financial markets has resulted in a significant increase in sales of NS&I products. It's a tribute to everyone at NS&I and Siemens (our delivery partner) that we've retained focus during this time and have coped so ably with such volatile conditions to the benefit of customers and the taxpayer. As a result, we have emphatically exceeded our original Net Financing targets for 2007/08. This is not something we sought, but rather something that simply 'happened'. We did not actively seek to exploit the market at such a time. Indeed, we stopped discretionary marketing in late summer, and worked hard to provide consistent levels of customer service throughout this challenging period.

Our place in the financial services market

The events of this year have certainly confirmed our position in the UK savings market. Customers trust us to deliver value in a responsible and straightforward way, and with all the integrity and security that the backing of HM Treasury promises.

Behind the scenes we have developed new initiatives to promote financial capability, and during 2008/09 we will provide customers with even more relevant information about how to deal with important financial matters in their everyday lives.

The team

There have been a number of changes to the board this year. We have welcomed Simon Ricketts, an experienced Chief Information Officer, as Non-executive Director. The team from HM Treasury has changed during the past 12 months. Tamara Finkelstein and Sarah Tebbutt both made a significant contribution to the board and leave with our thanks. They have been replaced by Sam Beckett, Director of Fiscal Policy, and Mike Glycopantis, joint Head of Debt and Reserves Management. We look forward to working with the new team.

In terms of the executive team, we were sorry to say goodbye after six years to Sandra Postles, Director of People and Environment. She left to take a career break and we wish her well in her new life.

I hope you enjoy this report. It comes at a time of new beginnings for NS&I – a very exciting time in our development as an organisation. As we move into our second year of **NS&I adding value**, we're ready for whatever market conditions require, and we will continue to deliver a trusted savings experience to our customers and stakeholders.

Paul Spencer
Chairman

A safe home for people’s money

This year our reputation for security, straightforwardness and integrity has been a beacon for customers. NS&I has proved to be an organisation that customers trust; an organisation that is seen to deliver good service with a human touch, and provide a safe home for people’s money.

Our Chief Executive's review

It has been an exceptional year at NS&I. In a period of organisational change, and amid the turbulence of the financial markets, we've coped with unexpected levels of demand and maintained our strong customer focus. We've also successfully launched our new five-year strategy, **NS&I adding value**, and made significant progress in simplifying, modernising and diversifying the business in a sustainable way.

Jane Platt, Chief Executive

The last year has shown the strength and validity of our brand values and their resonance in the marketplace. The 'flight to safety' that followed the events of the summer generated unexpectedly high levels of customer interest and investment in NS&I products.

As a result of these unforeseen shifts in customer behaviour, and despite a deliberate move away from the previous strategy of growth in Net Financing to a focus on improving value for money, last year saw us exceed our targets for Net Financing and Value Add. Indeed, our final figure for Net Financing was £5.9 billion, which is our highest total ever. This was despite the fact that we stopped discretionary marketing in July 2007 after the successful second part of the Premium Bonds 50th anniversary campaign. Our level of deposits now stands in excess of £84 billion. At £375 million our Value Add for 2007/08 was also well above our £275 million target.

But it was our ability to handle the increased volumes this year without compromising the quality of our customer service that was, for me, the most pleasing aspect of our performance. The fact that we were able to cope well with demand and maintain our customer service levels is testament to our operational capabilities. We've shown that we have the right systems and people in place, and I would like to thank everyone at NS&I and Siemens who worked so hard to ensure the smooth running of the business.

At the same time, this was also the first year of our new five-year strategy, and it's been a period of change and adjustment for everyone at NS&I. We have made good progress in our key strategic target areas which is particularly pleasing at a time when it would have been easy to lose sight of the long term to cope with unexpected short-term demand.

To support the strategy we've implemented our new organisational design, which offers employees greater empowerment, transparency and recognition in a fair and open environment. Restructuring an organisation is never an easy process, but we've implemented the new design without any major disruption to business or impact on staff morale. In fact, our annual staff survey results have shown that, with the new structure in place, employee satisfaction and engagement is at a very high level.

Our progress in developing our direct proposition – telephone and online – also continues apace. Combined internet and telephone sales reached over £5.4 billion and accounted for over 39% of all sales. We intend to develop these channels further in the current year.

We also picked up a number of awards this year in recognition of our efforts to improve our working arrangements and minimise our environmental impact. For the first time, NS&I was awarded the environmental standard ISO140001. We also won several training and development awards for our Just Ask programme (a call centre initiative), plus our sponsored garden display won the President's Award and gold medal at the Chelsea Flower Show.

NS&I adding value

Our five-year strategy, **NS&I adding value**, is all about delivering sustainable long-term value to stakeholders by simplifying, modernising and diversifying the business. In this, the first year of **NS&I adding value**, we've made considerable progress against our core objectives.

Simplify

This year we began the process of simplifying our product range with the closure and repositioning of certain products. Following extensive customer feedback which indicated that some of our products were so similar as to be confusing, we closed Pensioners' Guaranteed Income Bonds and Capital Bonds and have repositioned Fixed Rate Savings Bonds as Guaranteed Income Bonds and Guaranteed Growth Bonds. These changes have helped us to eliminate product overlaps, fill in gaps and create a product range that is more streamlined and straightforward.

We have also been working to simplify the business by reviewing our terms and conditions and making it easier for customers to access products. To this end, we've launched a new distribution partnership with WHSmith, which is intended to strengthen our high street presence, offering customers greater ease-of-access to our products.

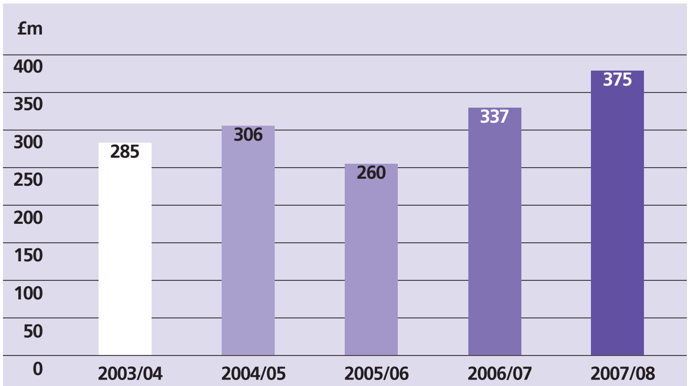
Our distribution arrangement continues with the Post Office® who remain a very important source of sales, last year generating £7.7 billion of the £13.8 billion total sales, excluding reinvestments. But it is important that customers can differentiate between NS&I products and other Post Office® products sourced from elsewhere, and I am pleased that we are making progress to simplify and clarify this issue.

Modernise

There have been a number of developments on the modernisation front in addition to the implementation of our new organisational design.

We have also carried out a major review of our systems and infrastructure needs. The aim is to ensure that we have the necessary systems and technology in place to underpin our high-quality direct channels and deliver long-term customer satisfaction. This process has led to the design and development of a new information systems programme, which we plan to roll out over the next few years and is designed to deliver service excellence.

Value Add



Diversify
Although the second phase of the Premium Bonds 50th anniversary generated sales of £1.4 billion, we've diversified our range and shifted the emphasis away from this product by bringing other key products to the fore and presenting alternative investment options. Premium Bonds only accounted for 43% of sales (including reinvestments) in 2007/08, compared with 59% the year before.

Sustain
Throughout the course of the year, we've delivered these new strategic changes in a sound and sustainable way. Not only have we been awarded ISO140001, but we've also followed sustainable business practice through our commitment to quality, integrity and good governance.

Accountability, governance and compliance

We have continued to improve our governance during the year and have worked hard to embed the Treating Customers Fairly (TCF) initiative, which we are embracing voluntarily, as we do with all relevant Financial Services Authority (FSA) standards. But at NS&I TCF is a state of mind as much as it is an industry programme: it impacts on every aspect of our working lives, is something we've been focusing on for some time, and is essential to the long-term sustainability of our business.

We've also continued to strengthen our governance structure and close-knit partnership with Siemens. Our Siemens Account Director sits on my NS&I executive management team. Operating on an inclusive and transparent partnership plane, we have tried to ensure that nothing that is driven by us internally comes as a surprise to Siemens or to our distribution partners Post Office® and WHSmith.

It's been an exceptional year in all respects, and I am very pleased that we've been able to deliver high customer service throughout all the changes and challenges that we've encountered.

During the year the Siemens Account Director for NS&I, Dave Ormrod, retired after three years in the role. He was instrumental in the significant improvements that have been made in joint planning and working. He left as our partnership score – which records the views of managers most involved in our interface with Siemens – reached its highest level ever, reflecting the openness of communications and working practices between the two teams. I wish him a long and happy retirement.

The new Siemens Account Director, Robert Heap, joins us from the Siemens team at the BBC and brings with him a wealth of account management and Siemens experience. I look forward to taking the partnership to even greater heights with him and his colleagues.

Our customers, our vision

With customers so central to our new strategy, we've been thinking about our position in the UK savings landscape and listening to customers' views about what NS&I means to them. As a result of this process, we've revised our vision statement as follows:

Securing a better financial future for our customers by providing the most valued and trusted savings experience

This statement, we feel, accurately conveys our commitment to the customer and our role in the savings market.

We are also well aware of the need for the industry to do considerably more to advance consumer understanding of financial matters – the 'financial capability agenda'. As one of the UK's key providers of financial products, we not only have a responsibility here, but also a unique opportunity to reach out to the UK savings market. With this in mind, we have developed online and other initiatives aimed at promoting financial capability, such as **youandyourmoney.info** which we launched in May 2008. Customer commitment can be seen in the successful programme to reunite customers with unclaimed assets through **mylostaccount.org**

So, an exceptional year in all respects, and I am personally very pleased that we've been able to deliver high customer service throughout all the changes and challenges that we've encountered. It has not been easy. That we have performed so well internally and externally during this period is, in my opinion, a very real achievement. Once again, I would like to extend my personal thanks to the team at NS&I and Siemens for their exceptionally hard work – both in dealing with this year's unprecedented levels of growth, and in helping to transform the business in a way that is professional and befitting of this organisation.

Jane Platt

Jane Platt
Chief Executive

NS&I adding value: strategy update

Our five-year strategy, **NS&I adding value**, is all about delivering sustainable long-term value to stakeholders by simplifying, modernising and diversifying the business. It's about improving value creation to bring added benefits to the taxpayer and the customer.

Strategically, **NS&I adding value** is rooted in the Landscape Review of 2005. The Landscape Review takes place every five years and establishes the basic framework for the way in which HM Treasury wants NS&I to develop.

The Landscape Review influenced the new strategy's shift of focus away from Net Financing to Value Add. Value Add is the name given to the way NS&I measures how cost-effective it is at raising finance for Government. The total costs of raising funds, including our operating costs and tax foregone, is compared to how much it would cost Government to raise funds in the wholesale market.

Our role is to raise financing for Government, and our aim for **NS&I adding value** is to focus on adding sustainable value for the taxpayer and customer rather than growing our market share. There is considerable potential to increase Value Add over and above the Government's fixed-interest bond market, or 'Gilt market' as it's known. After this year's unexpected and unavoidably high Net Financing figures, we do expect our Value Add to rise over the next five years and Net Financing to be closer to the original strategic concept.

Strategy phases

To achieve our strategic objectives, the implementation of **NS&I adding value** has been split into three stages:

- **Phase one – 'optimise and build'**
  This phase covers years one and two of the five-year strategy. It will require the development and testing of the new capabilities required to deliver **NS&I adding value**, especially the learning gained from our Direct ISA, plus the lessons to be learned from any new products we introduce. During this time, we are analysing customer requirements, streamlining our processes and standardising and modernising our product range.

- **Phase two – 'improve and leverage'**
  This phase covers years three and four of the five-year strategy and sees continued cost reduction through improved operations and improved internet capabilities. At this time, we will move our marketing focus from our key products to cross-selling relevant offers to each customer segment, as well as promoting our new capabilities to our target customer base.

- **Phase three – 'growth'**
  This covers year five of the strategy. At this time, the major transformation will have taken place, although there will still be some capability developments. The focus of this phase will be on promoting our new product offers and services to our target customer base.

Year two: the challenge ahead

NS&I adding value is an ambitious strategy, one that will demand a lot from all of us at NS&I and Siemens. However, we have a detailed plan for the year that will enable us to achieve our targets. This plan focuses on:

- sharpening our customer focus and building our knowledge of our customers
- improving our product mix and starting the migration of our products onto a new banking system
- increasing channel optimisation and encouraging customers to purchase products directly from us, while continuing to offer customers the choice of access through the Post Office® and WHSmith
- enhancing our skills and capability, enabling us to become even more delivery focused and faster moving
- reducing our operational costs to ensure we have an affordable and sustainable business model
- embedding compliance and risk in everything we do to improve the business overall.

NS&I adding value is an ambitious strategy, one that will demand a lot of all of us at NS&I and Siemens. However, we have a detailed plan for the year that will enable us to achieve our targets.

Sustainable development

This year we made good progress against our commitment to make NS&I even more socially and environmentally responsible. We developed and implemented a Sustainable Development Action Plan (SDAP), and are driving this plan forward. We also achieved ISO140001 accreditation ahead of Government targets.

Our key delivery partner, Siemens, shares and supports our sustainable development commitments. Internationally, Siemens has been included every year in the Dow Jones Sustainabilty Index (DJSI), which recognises companies with exceptional economic, social and environmental performance records.

Sustainability is at the heart of our business strategy, and we take seriously our commitment to sustainable business practice and governance. We seek to deliver long-term value to our stakeholders in a way that is financially viable and socially and environmentally responsible.

Our sustainable development policy

In 2006/07 we introduced our sustainable development policy. This policy provides a framework for the measurement of our social and environmental performance and the management of our activities. Our aim is to minimise our impact on the environment and maximise ways of promoting quality, integrity and good governance. Our sustainable development policy outlines our commitment, with reference to six specific stakeholder groups: customers, employees, partners, suppliers, communities and HM Treasury. It also sets out our broader commitments to:

- comply with all relevant legislative and regulatory requirements and associated codes of practice
- support the Government's sustainable development strategy
- support HM Treasury in its commitment to raising the rate of sustainable growth, considering environmental protection.

Our Sustainable Development Action Plan (SDAP)

Our SDAP builds on our sustainable development policy and describes the key actions we will undertake over the next five years to achieve our sustainability goals. The plan aims to address the six stakeholder groups identified in our policy, sets out five key action areas relevant to our business and is driven by our Sustainability Committee:

- using resources efficiently
- reducing carbon emissions
- supporting our community
- involving people
- leading by example.

Our SDAP marks the start of our formal sustainable development journey and a wide range of people within NS&I and Siemens have contributed to the plan and its implementation.

Accreditation

In February 2008, NS&I achieved ISO140001 accreditation. This is an international standard used to evaluate an organisation's environmental management systems. This is a significant achievement, which demonstrates our commitment to environmental sustainability, and shows that we are successfully controlling those aspects of our operations that can have an impact on the environment.

Through our promotion of payroll giving, this year we also achieved the Gold Award standard from the Payroll Giving scheme, with 26% of our staff now opting to make monthly donations to charity.

Action

Throughout the year we carried out a number of actions and initiatives aimed at maximising our positive environmental impact and minimising our negative impact. Our main activities for 2007/08 included:

Reducing paper consumption

- promoting direct channels and encouraging customers to switch from paper-based transactions
- encouraging customers to go online for financial information through our new You and your money website.

Reducing carbon emissions associated with NS&I operations

- upgrading desktop PCs to more energy-efficient models
- introducing sensor lighting in our corridors, toilets and kitchen areas, reducing electricity consumption.

Simplifying our product range to ensure transparency and clarity

- closing and repositioning certain products.

Being straightforward and fair in our dealings with stakeholders

- measuring our performance through our customer satisfaction and complaint handling survey, to enable us to get a baseline rating in 2008/09.

Encouraging employee engagement with sustainable development commitments

- carrying out an extensive review of accommodation and ergonomics within our London offices delivered practical improvements to working conditions and more paper recycling
- removing all wastepaper bins from desk areas and introducing recycling points.

Increasing fundraising efforts for Kidscape

- continuing to support the charity Kidscape through a variety of fun and engaging initiatives.

Giving staff additional leave for voluntary activities

- offering staff the option of two days special leave to volunteer for community work or other appropriate work.

Ensuring partners and suppliers are aware of, and support, NS&I's environmental procedures and obligations

- including Siemens colleagues in our Sustainability Committee
- ensuring our external agencies embrace our commitment to using renewable and recycled materials
- introducing sustainable procurement clauses in all new contracts with suppliers and partners
- implementing our direct marketing sustainability policy, with all marketing paper now coming from recycled sources and well-managed forests.

Working on our estate strategy to ensure buildings are fit for purpose and sustainability

- conducting a review of our three sites operated by Siemens
- developing plans to reduce the Blackpool site and relocate staff into an extended single building in Blackpool which will meet BREEAM (Building Research Establishment Environmental Assessment Method) standards – this will also release surplus assets, reduce running costs and improve the working environment
- installing a new, more energy-efficient heating system in our Glasgow office.

Waste recycling: performance and targets

Our waste recycling figures for 2007/08 were as follows:

- total annual waste: 13,608kg
- total recycled waste: 8,505kg
- percentage of waste recycled: 63%

These figures put us ahead of Government targets, which state that all departments must increase their recycling figures to 40% by 2010, and to 75% by 2020.

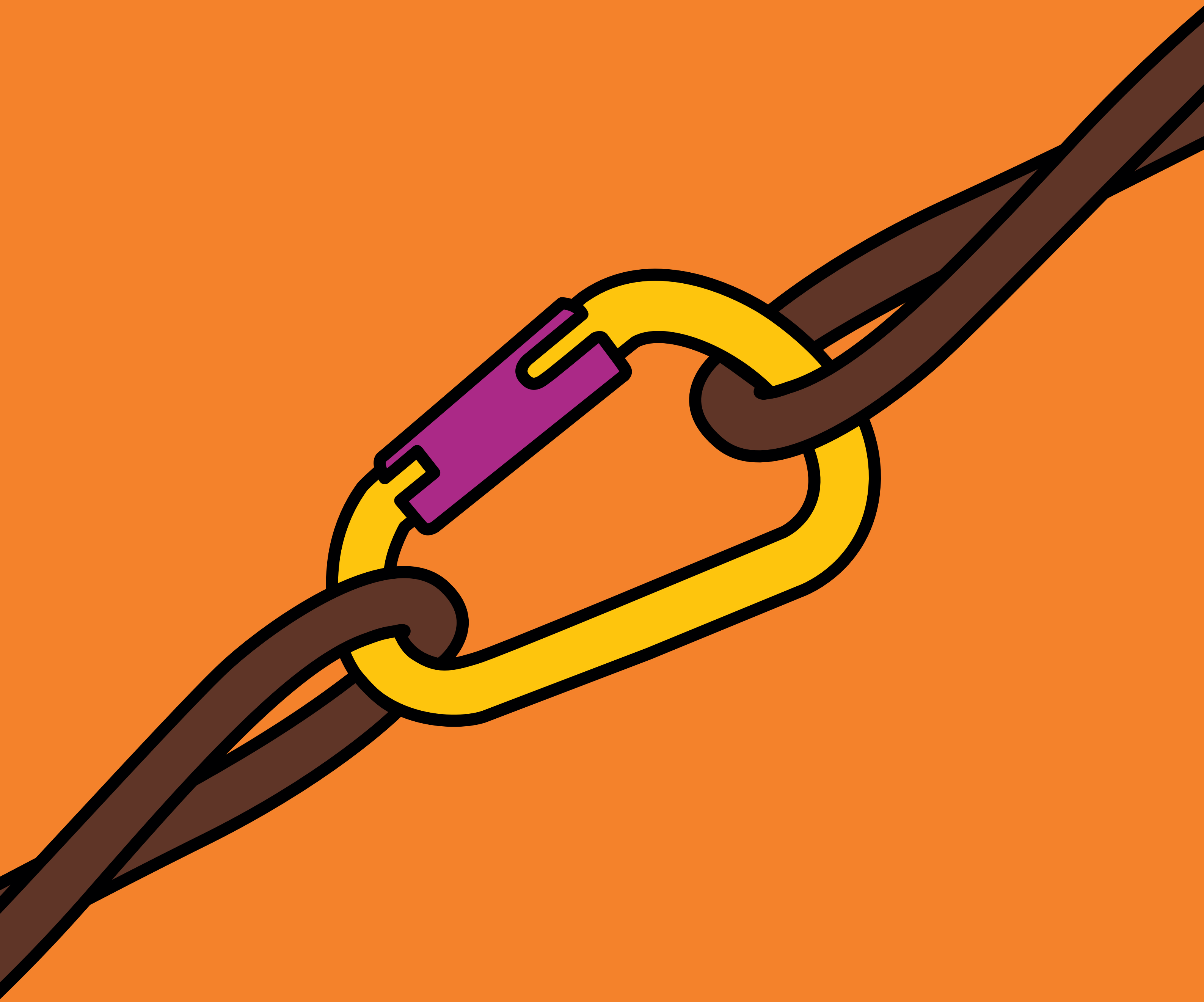
We've already met our target for 2010, and now need to focus on increasing our efforts to achieve the 75% target by 2020.

Going forward

We have faced a number of major challenges in implementing our SDAP, not least the fact that our headquarters are in a shared building which makes measurement difficult. However, in 2010 our lease expires and we are making sure that the specifications for the new premises take account of sustainability features.

Assessment

Our performance against our SDAP has been subject to independent audit, testing and assessment.



Customer satisfaction and trust

Customers have responded strongly to the NS&I brand, which is trusted and valued.

Our customers

After year one of **NS&I adding value**, we have succeeded not only in retaining our strong customer focus, but also in continuing to achieve very high levels of customer satisfaction. We have worked hard to understand our customers' needs and expectations and, as we move forward, are continuously looking to improve the customer experience.

The events of this year have confirmed NS&I's position in the marketplace. During the financial turbulence of 2007, customers have responded strongly to our position of trust and our promise of security. Throughout this period, they have shown that they understand and trust our brand.

Our commitment to customers has always been paramount, but in 2007/08 it resonated strongly for many members of the public. Throughout the year we concentrated on delivering an increasingly customer-centric business by providing investment security, straightforward information, and high levels of customer service. In line with our values, we continued to offer customers a straightforward savings experience, with no unnecessary product cross-selling, enticements or gimmicks. We also continued to price our products in a fair and consistent way.

As confirmation of our continued commitment to customer excellence, in November 2007 NS&I retained Charter Mark accreditation. The Charter Mark is a prestigious public sector award which, in our case, was given in recognition of NS&I and Siemens' joint commitment to providing excellent service to customers.

NS&I staff meeting customers at a recent event

Growth of new channels

Throughout the year, our expansion into new direct channels continued apace, and we've been working hard to improve our delivery systems and operational processes. By enhancing our direct channels, and bringing new distribution partners on board, we're now offering customers greater choice, control and ease-of-access in their interaction with NS&I. In 2007/08, the internet and telephone proved once again to be popular customer channels, together accounting for 39% of our total sales value – up 3% from last year.

In conjunction with Siemens, we began the modernisation of key information systems, carefully aligning our efforts and plans to maximise the pace of delivery and offer greater customer choice. We made enhancements to our Direct ISA system, which now has full servicing functionality, enabling customers to change or amend their details online. We will be using this model to upgrade and enhance other online products in the future. In the year, online sales were over 20% of our total sales.

Many of our telephony developments this year were less obvious to the general public, focusing as they did on technical improvements. We also continued the Just Ask training programme for call centre staff, which is designed to enhance our customer relationships and provide the best possible experience for callers. The high levels of service and training we have achieved in this area were recognised with a number of awards from UK, European and global bodies, including:

- Customer Service Excellence Award in the National Training Awards
- Most Effective Direct Channel and Most Effective Training Programme in the Institute of Financial Services (IFS) Awards
- Best Improvement Strategy (highly commended) in the European Call Centre Awards
- People and Innovation Award (shortlisted) in the Customer Contact Association (CCA) Awards.

We achieved CCA accreditation to global standards, meeting the recommendations for public service improvements set out in the Varney Review of 2006. We were also pleased to announce that Colin Ross, our Telephone Channel Manager, received the CCA Member of the Year Award for London, the South and Wales.

Over the entire year, market conditions did not increase overall call volumes significantly beyond our expectations. However, for three months we received exceptional volumes over very short periods and beyond normal patterns. The nature of calls to our centres changed, as customers required more in-depth explanations and reassurances, while the average purchase value went up. The result was that we required more staff to handle a comparable volume of calls over this period of time. It's a huge tribute to Siemens that this was delivered with such professionalism and calm. At year-end, telephone sales made up 19% of our total sales.

In the second half of the year, customers reverted to more traditional channels as economic uncertainties continued, showing a preference for face-to-face counter transactions. As a result, the Post Office®, our long-standing delivery partner, brought in £7.7 billion of sales for the year – well ahead of plan.

As we move into the second year of **NS&I adding value**, we will be looking to further improve the customer experience. Our strategic alignment with Siemens will pave the way for greater customer choice and service quality in our direct channels. Meanwhile, our new partnership with WHSmith promises greater ease-of-access and a familiar, high street environment for customers.

Throughout the year we concentrated on delivering an increasingly customer-centric business by providing investment security, straightforward information, and high levels of customer service.

Customer engagement, feedback and satisfaction

As part of our customer engagement programme, in January 2008 we invited a number of customers to an evening at the Science Museum in London. The event offered them a chance to meet members of our senior management and find out more about the business.

The event was a success, giving customers further insight into our operations, and allowing us the chance to meet with some of our stakeholders. This is particularly important to NS&I, as we don't have an annual general meeting and such opportunities are rare. We put great value on customer engagement, and this event enabled us to interact with customers and answer their questions. It will be used as a model for future engagement programmes.

We know from our conversations with customers that we have work to do in certain areas, such as deepening customer understanding of what we have to offer. However, we also know that we are doing many things right, and that NS&I remains a valued and trusted brand. This view was reinforced this year by our customer satisfaction survey, which showed that:

- 92% of customers who transacted with us in 2007/08 gave NS&I a 7 to 10 rating for customer service (with 10 representing service excellence); this exceeded our target of 90% for this customer group, and bettered last year's score of 91%
- those customers who gave a 7 to 10 rating cited the following reasons for their choice: no problems (31%); efficient staff and quick resolution of issues (22%) and knowledgeable and helpful staff (13%)
- 18% of those who rated below 7 said they had not many dealings with NS&I
- 83% of respondents who had a 'main other financial provider' (other than NS&I) gave that other provider a 7 to 10 rating for customer service, which compares favourably to NS&I's 92%.

Throughout the year we also conducted several research projects with our customers to better understand their expectations and needs. Through this research we are seeking to ensure that our work continues to progress in line with customer preferences and opinions. Customer feedback was also sought at the Science Museum event and regularly via postal surveys, focus groups and the internet. These responses will be fed directly into future NS&I developments.

Treating Customers Fairly

Treating Customers Fairly (TCF) is part of the Financial Services Authority's (FSA) work to help consumers achieve a fair deal in the financial services market. It is a key part of the FSA's move to deliver improved outcomes for retail consumers.

We have made good progress in helping to advance this principles-based regulatory agenda. As part of our TCF activity, we carried out research into customer definitions of fairness and measured how well we deliver against their expectations. Our findings show that we are performing well in this area, and we will use this research to inform our TCF work going forward.

Although our tracing service is now in its seventh year, in early 2008 we teamed up with the British Bankers' Association (BBA) and the Building Societies' Association (BSA) to launch and promote the website **mylostaccount.org.uk**. The site, which combines our tracing service with those of the BBA and the BSA, allows anyone who thinks they have a dormant or lost account to initiate a search via a single online application form.

We have also been working towards the launch of the You and your money website **youandyourmoney.info**, which is dedicated to delivering impartial financial information. In an increasingly complex market place, we want to give people access to clear and straightforward information, helping them to make informed decisions about their personal finances. This website provides a great opportunity to help promote financial capability in the UK.

Financial Ombudsman Service progress

NS&I has subscribed to the voluntary jurisdiction of the Financial Ombudsman Service (FOS) for the past two and a half years. During this time our customers have benefited from a process which gives clarity and transparency as well as clear timescales for complaints to be resolved.

Our central complaints team endeavours to resolve all complaints to the customer's satisfaction without the intervention of the Financial Ombudsman. Of the volume of total complaints recorded for last year, 27 cases were referred to the Ombudsman by our customers for an independent assessment, all of which were upheld in favour of NS&I. This demonstrates the quality of service offered to our customers together with that of the products we provide.

Media reporting and Quarterly Savings Survey

There was extensive media coverage of our activities in 2007/08. We came third out of 181 organisations in the 2007 Presswatch Savings Survey. We had over 90% positive NS&I media coverage in 2007.

Coverage was also generated by the Quarterly Savings Survey (QSS). Launched by NS&I in December 2004, the QSS aims to monitor national and regional trends in people's savings habits. Used by the media to keep track of savings trends, the QSS also helps to establish NS&I as an independent, authoritative and trusted voice in the market place.

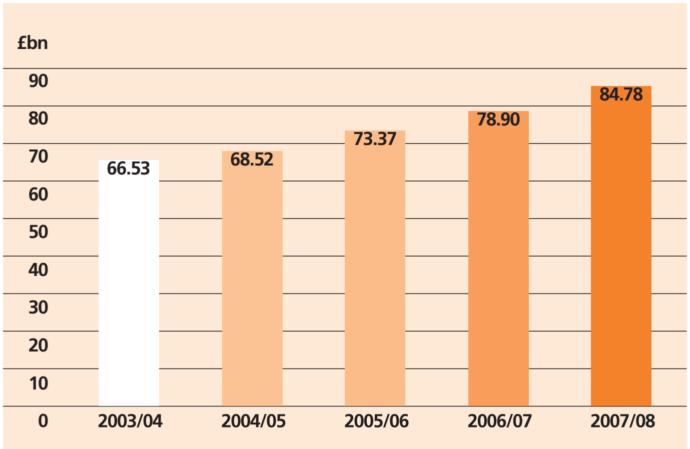
Brand awareness

Through the use of integrated media relations, advertising, event sponsorship, online marketing, relationships with independent financial advisors and direct mail, NS&I works hard to present a positive image of our brand to customers and key stakeholders. Our marketing efforts have played a key role in the rising sales of recent years, and in the growing public awareness of our unique brand position and reputation.

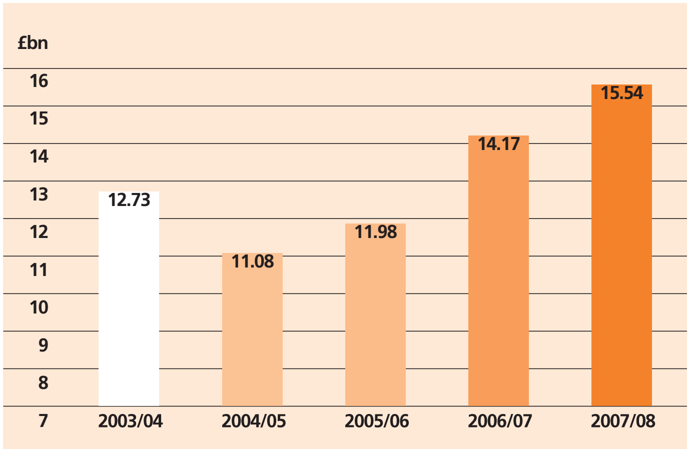
However, in late summer 2007, we looked set to exceed our Net Financing targets and, therefore, took the decision to go 'off air' – cancelling or postponing key marketing activities, including TV advertising, while honouring those initiatives we were committed to complete.

On the media relations side, we changed our emphasis from product promotion to brand promotion. We made good progress throughout the year in cementing our identity as a separate, stand-alone brand and business. Our aim is to be strongly associated with, but distinct from, the Post Office®, reflecting the fact that the two businesses are not linked corporately, and that the Post Office® also distributes other providers' products. This is something that our customers understand now better than ever before.

Total amount invested by customers at the end of the year



Gross sales of all NS&I products (including reinvestments)



Sponsorship events and partnerships

Throughout the year we continued to use sponsorship events to strengthen our brand. Our sponsorship of the Classic FM morning show, BBC Proms in the Park, various Royal Horticultural Society (RHS) activities and for the fourth consecutive year, The Classical BRIT Awards at the Royal Albert Hall, generated strong brand visibility and provided great opportunities to meet and interact with customers.

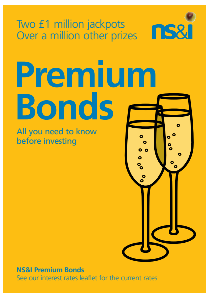
Our sponsorships are closely aligned to, and help reinforce, our brand values, and there is natural synergy between NS&I and our sponsorship partners. The customers we reach through our sponsorship events also represent important target customer segments.

Our 2007 sponsored display at the RHS Chelsea Flower Show focused on UK-produced vegetables and flowers. Winning the President's Award and a gold medal, this display has led to NS&I's sponsorship of the Grow Your Own Vegetables (GYOV) initiative. Helping to generate public enthusiasm for gardening, GYOV is also about encouraging people to think about savings in a way that is straightforward and clear. This initiative is closely linked to our financial capability programme and is part of our strategy to interest a wider audience in saving.

NS&I sponsorship of The Classical BRIT Awards in May 2007

Our products

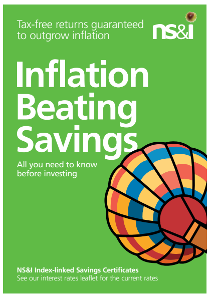
NS&I's range of savings and investment products is designed to meet a wide variety of customer needs. All our products are backed by HM Treasury, offering 100% capital security.



Premium Bonds

Two £1 million jackpots and more than a million other prizes a month

Instead of interest payments, customers have the chance to win tax-free prizes each month. There are two £1 million prizes and more than a million other prizes ranging from £50 to £100,000. Each £1 Bond has a separate and equal chance of winning a prize and customers can get their money back whenever they choose. Customers can invest from £100 up to £30,000 – the more Premium Bonds they have, the more chances they have to win.



Inflation-Beating Savings

Guaranteed to outgrow inflation as measured by the Retail Price Index (RPI), tax-free

With Inflation-Beating Savings (also known as Index-linked Savings Certificates), customers' savings will rise ahead of inflation – providing they hold them for at least a year. The value of Inflation-Beating Savings moves in line each year with the RPI, and they earn extra interest on top at guaranteed rates. Customers have a choice of terms, currently three or five years. They are free from Income Tax and Capital Gains Tax, so there's no tax to pay on the interest, and no need to declare anything on a tax return. Customers can invest up to £15,000 in each term and each Issue.

Fixed Interest Savings Certificates

Guaranteed returns, tax-free

With Fixed Interest Savings Certificates, the interest earned is fixed at the outset, so customers can work out exactly what return they'll get at the end of their chosen term. Customers can invest up to £15,000 in each term and each Issue. There are two terms currently on sale of two and five years. Customers can hold both Fixed Interest and Index-linked Savings Certificates, on top of any other tax-free savings that they hold.

Guaranteed Equity Bond

Growth potential linked to the FTSE 100 index with a 100% capital guarantee

This investment offers potential returns linked to the growth of the FTSE 100 over a fixed term, with no risk to a customer's investment even if the FTSE falls. The FTSE measures share prices only and doesn't include dividends. The returns are subject to averaging. The exact share of the FTSE 100 potential growth on offer differs from one Issue to the next – and each Issue is only available for a limited period. Customers can register to receive details of the latest offer as soon as it becomes available. Although the returns on the investment are liable to UK Income Tax when the Bond matures, they are paid gross.

Direct ISA

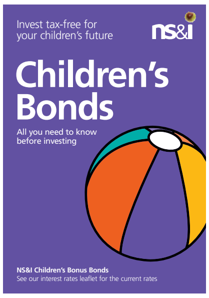
Our phone and internet-only ISA with an attractive tax-free rate

Our Direct ISA offers customers tax-free returns and a straightforward, secure way of saving up to £3,600 each tax year from 6 April 2008. It combines the convenience of managing their account online and by phone, along with an attractive tax-free interest rate – guaranteed to stay 0.30% above the base rate until at least April 2009.

Cash ISA

Tax-free saving the easy way

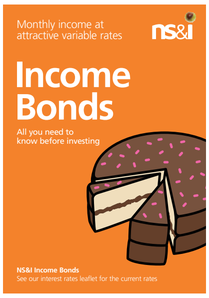
Customers can save up to £3,600 in our Cash ISA each tax year from 6 April 2008 without paying any tax on the interest. To open an account, customers need to deposit a minimum of £10 – they can then go on to make further deposits of £10 or more. They can manage their account at any Post Office® branch, by post or by phone, and they can access their money at any time with no notice or penalty.



Children's Bonus Bonds

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

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



Income Bonds

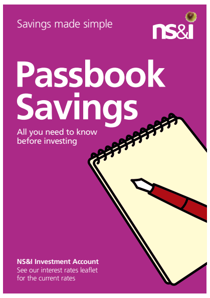
A monthly income at attractive variable rates

Income Bonds are for those customers who want to earn a regular income from their investment without being tied to a fixed term. Each month, we pay the interest into an account of the customer's choice and, if they invest £25,000 or more, we'll pay a higher rate of interest. Customers can also access their money whenever they like, with no notice or penalty. Although the interest is taxable, it is paid gross.

Easy Access Savings Account

The easy way to build up savings

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



Investment Account

Straightforward passbook savings account

With tiered interest rates and a passbook to help customers keep track of their money, it's easy to build up savings in an Investment Account. Customers can access their account at any time – without any notice period or penalty – making it easier to save and access their money. Although the interest is taxable, it is paid gross.

Guaranteed Growth Bonds

A guaranteed return on investment

Guaranteed Growth Bonds offer customers a guaranteed return on their investment, enabling them to plan confidently for the future. They also offer customers a choice of fixed rate terms (currently one, three or five years), so they can choose the term most suitable for them. Anyone aged 16 or over can invest, with a minimum purchase of £500. The maximum holding is £1 million, including any amount held in Guaranteed Income Bonds. Rates are guaranteed for the duration of the chosen term.

Guaranteed Income Bonds

A guaranteed monthly income

Guaranteed Income Bonds offer customers a choice of fixed rate terms (currently one, three or five years), so they can choose the term most suitable for them. This product provides a guaranteed monthly income and lets customers know exactly what return they'll see on their money. As with Guaranteed Growth Bonds, anyone aged 16 or over can invest, with a minimum purchase of £500. The maximum holding is £1 million, including any amount held in Guaranteed Growth Bonds.

Streamlining and simplifying our portfolio

As part of our new five-year strategy, **NS&I adding value**, we've begun the process of simplifying and rationalising our product portfolio. To this end, in February 2008 we closed Pensioners' Guaranteed Income Bonds and Capital Bonds on maturity, and repositioned Fixed Rate Savings Bonds as Guaranteed Income Bonds and Guaranteed Growth Bonds. We have written to all affected customers informing them of their options.

Funds invested by product type

	Invested at 31 March 08 £m	Invested at 31 March 07 £m
Premium Bonds	36,923	35,249
Fixed rate bonds	23,199	24,936
Variable rate products	20,193	18,467
Products no longer on sale	4,465	249
Total	**84,780**	**78,901**

Team spirit, cohesion and motivation

Our aim is to make NS&I a great place to work – a place where employees feel engaged, and are treated fairly and with respect at all times. Our good staff retention levels and low sickness absence, combined with employee satisfaction survey results, show us that we have a happy, strong and motivated team in place.

Our people

This year saw the implementation of our new organisational design. As well as supporting our five-year strategy, the new structure offers our staff greater empowerment, transparency, recognition and a fair environment in which to work. This restructuring process has enabled us to sharpen our people focus and enhance our employee proposition.

It's been a year of change and adjustment for everyone at NS&I. The implementation of our organisational design has meant a lot of movement internally, but we've successfully embedded the new structure with minimal fuss and disruption. We now have the right people with the right skills in the right place, which is essential to the successful delivery of **NS&I adding value**. And with the majority of vacancies filled and members of staff settled into new positions, our priority this year has been to review and fine-tune the new structure and the systems that support it.

At the heart of the new structure is a desire for each employee to understand and engage with their role within the business. As part of the organisational redesign, individual roles have been clarified, and people are now better informed about the part they play in achieving our strategy. In this way, the new structure has enhanced internal accountability, focus and knowledge-sharing, enabling everyone at NS&I to understand not only their own responsibilities but the needs and expectations of customers, and how we can work together to meet them.

The introduction this year of our internal 'i Can' event, where employees learnt about key strategic challenges and are shown how they can make a difference, is indicative of our renewed emphasis on transparency and empowerment. Our regular 'Nosh and Know' lunchtime employee briefings are likewise intended to keep staff up to date with strategy and business developments. These have been supplemented with 'Listening Breakfasts', at which the Chief Executive and another executive team member have an opportunity to listen to the issues colleagues want to raise and answer any questions they might have.

50% of NS&I employees took part in the Chase Corporate Challenge in 2007

NS&I Deal

This year we also introduced a new framework for people practices, 'NS&I Deal'. Replacing our former organisational framework, APPLAUSE, 'NS&I Deal' sets out a new employee offer which aims to secure:

- great place
- right skills
- fair rewards
- smart working.

'NS&I Deal' aims to deliver excellence by harnessing internal commitment and engagement. Within the Deal framework, there were numerous initiatives throughout the year aimed at improving our working environment, addressing people issues and becoming an employer of choice. These included a career development programme, with employees signing up for mentoring and guidance from colleagues including senior management; a pension awareness and education scheme; desktop refreshes for every member of staff; plus a Green Clean Day which saw us replacing our waste paper bins with recycling units – part of our commitment to sustainable development that has helped us to achieve ISO140001 accreditation for the first time ever. We also promoted our two day allocation for staff volunteering, and launched the Government-backed cycle-to-work initiative – complete with tax and national insurance relief – aimed at improving employee health and wellbeing and reducing our carbon footprint.

On the benefits front, we continued to offer employees annual health checks, free flu jabs and eye-care, plus subsidised gym membership and flexible working hours. This year also saw the launch of an online retail discount benefits scheme exclusively for our staff.

Through 'NS&I Deal', our aim is to make NS&I a great place to work – a place where employees feel engaged, and are treated fairly and with respect at all times. Our good staff retention levels and low sickness absence for the last 12 months (2.8 days per person for the year), combined with our employee satisfaction survey results, suggests that we're heading in the right direction. The fact that 50% of our London-based employees took part in this year's Chase Corporate Challenge, a 5.6km charity run, also indicates a good level of cohesion, team spirit and motivation among our employees.

We now have the right people with the right skills in the right place, which is essential to the successful delivery of NS&I adding value.

Pulse Survey

This year we continued to focus on attracting, retaining and developing the skills we need to run our business. We devoted more time to organisational learning and people development in pursuit of our business goals, and the success of these measures is reflected in this year's employee Pulse Survey results.

Conducted between 28 January and 15 February 2008, this year's Pulse Survey achieved an impressive response rate of 92%. The results of the survey show that NS&I offers:

- a healthy work-life balance
- good top-down and bottom-up communication
- good recognition
- good training and development opportunities
- strong senior leadership in which staff have confidence
- an inclusive environment.

Overall, this year's results were very encouraging, with NS&I performing significantly above external benchmarks. The results show that, in a time of organisational change, we've succeeded in keeping our employees focused and engaged, and have not lost sight of our people-priorities as we work to transform the business.

This year's Pulse Survey results, under key survey headings, were as follows:

My job
- 82% of respondents are able to achieve a healthy work-life balance
- 88% understand how their jobs contribute to the success of the organisation
- 79% feel their job makes good use of their skills and abilities.

Communication and teamwork
- 90% of respondents are aware of the organisation's long-term goals
- 74% feel it is safe to speak up and challenge the way things are done at NS&I
- 73% feel that their immediate line manager communicates effectively with them.

Reward, recognition and participation
- 69% of respondents are satisfied with the recognition they receive for doing a good job
- 59% are satisfied with their total benefits package.

Training and development
- 77% of respondents feel they are given a real opportunity to improve their skills in the organisation
- 70% believe they have the opportunity for personal development and growth.

Customers
- 92% of respondents believe that NS&I is committed to serving its customers well
- 90% believe the company is committed to customer satisfaction.

Senior management
- 75% of respondents have confidence in NS&I's senior management
- 69% believe that senior managers are sufficiently visible within the organisation
- 69% feel that senior management provides effective leadership.

Equality
- 91% of respondents believe they are treated with fairness and respect by the organisation
- 89% feel that NS&I respects individual differences (eg cultures, working styles, backgrounds, ideas).

Brand values
- 92% of respondents understand NS&I's brand values (90% buying into them)
- 88% understand NS&I's vision (88% buying into it).

Overall perceptions
- 97% of respondents say they are happy to go the extra mile at work when required
- 91% would be happy to recommend NS&I's products and services
- 88% would recommend NS&I as a good place to work.

Improving our performance

Although this year's Pulse Survey results were a cause for celebration, it is clear that in certain areas we need to improve our performance. One of the issues raised in the survey was cross-functional communication, and we are aware that we need to improve the way our departments interact with one another. Always quick to respond to our employees' concerns, we have already kick-started efforts to address this issue. We have devised a new induction scheme made up of comprehensive business learning modules, enabling new employees to sample and understand key aspects of the business. We'll also be organising more inter-departmental get-togethers and social events, and have launched the 'Get Involved' initiative, which encourages employees to take part in other departments' projects.

We're also looking to improve our performance management processes, and have just started to refresh our competency framework. The aim is for our new competency framework to become a key aspect of our leadership development programme, and to underpin all our training, development and HR initiatives going forward. We will be doing more to review and revise our performance framework in the next financial year.

Our board

Changes to our board

This year, Sandra Postles, Director of People and Environment, decided to take a career break to move her family to the south coast. We are currently recruiting for her replacement. Meanwhile, with the retirement of Maria Stafford, we have welcomed Simon Ricketts as Non-executive Director.

On the HM Treasury side, Tamara Finkelstein left to take on a senior role at the newly-formed Borders Agency, and Sarah Tebbutt took maternity leave. They have been replaced by Sam Beckett, Director of Fiscal policy, and Mike Glycopantis, joint Head of Debt and Reserves Management. Mike is temporary cover for Sarah Tebbutt.

The changes made to the executive management team (EMT) as reported last year have now bedded down and the team is working cohesively and with purpose as demonstrated by their achievements under challenging circumstances.

1 Paul Spencer

Non-executive Director and Chairman of the board

Paul joined the NS&I board as Non-executive Director in September 2003 before becoming Chairman in January 2005. He is currently Non-executive Director at WPP Group plc, TR Property Investment Trust plc, and Nipponkoa Insurance (Europe) Ltd; and Non-executive Chairman of the State Street Managed Pension Funds and Sovereign Reversions plc. He is no longer a Non-executive Director of Resolution Group plc. He was Chief Executive of Royal and Sun Alliance (UK) between 1998 and 2002.

2 Jane Platt

Chief Executive

Jane was appointed Chief Executive of NS&I in September 2006. Previously holding senior management roles at Reuters and, before that, as Chairman and Chief Executive of Barclays Stockbrokers, Jane brings a wealth of leadership experience to NS&I and, in particular, expertise in retail financial services, marketing and operations. This year she was also asked to take part in the capability review of HM Revenue & Customs on behalf of the Cabinet Office.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3 Michael Medlicott
Non-executive Director

Michael was appointed Non-executive Director in September 2003. He has 20 years' experience in the public and private sectors at board level. Michael is currently Chairman of Myriad Healthcare Ltd and of ING Investor Committee Atlas Infrastructure Fund, and Non-executive Director for Manchester Airport Group plc, OCS Group Ltd and the Heritage of London Trust Ltd. Until 2002, Michael was Transaction Director in the Principal Finance Group at Nomura International plc.

4 Martin Gray
Non-executive Director

Martin was appointed Non-executive Director in January 2005. He is also Non-executive Chairman of Evolution Securities Group. He was Chief Executive of NatWest UK between 1992 and 1999, and has held a number of board-level appointments within the financial services industry including NatWest Bank Group, MasterCard Inc Global board, and Visa Europe.

5 Peter Cornish
Director, Customer Offer

Peter joined NS&I in December 1998 to manage and develop the savings accounts and tax-free products, having held a number of roles at Lloyds TSB. He subsequently took responsibility for customer management before becoming acting Marketing Director in 2006. He was appointed as Director of Customer Offer in April 2007 and is responsible for developing and managing our products and the customer offer.

6 Sandra Postles (not pictured)
Director, People and Environment

Sandra left NS&I in January 2008. She was appointed as Human Resources Director in July 2003, and worked to align the HR strategy, employee environment and corporate communications with the organisation's overall business strategy. Previously Sandra held senior HR roles in the retail financial services and consulting sectors. While recruiting Sandra's replacement, the EMT has been supported by an interim director who has not been appointed to the board.

7 John Prout
Director, Customer Sales and Retention

John took up the role of Sales Director at NS&I in August 2003. Following the restructure he is now responsible for Net Financing and delivering the customer offer message. He has HR and sales senior management experience in the financial services and manufacturing sectors. Previous companies include Rover Group and the Parker Hannifin Corporation, and more recently, Prudential plc where he held a number of senior positions.

8 Steve Owen
Director, Channel Delivery and Management

Steve is responsible for the design and delivery of the outsourcing business model and for managing NS&I's key partnership with Siemens. Steve joined NS&I in 1993 as Deputy Head of Procurement. In 1997 he became the NS&I Project Manager responsible for delivery of the Public-Private Partnership project. He was appointed Director in February 2002.

9 Julian Hynd
Director, Change and Strategy Support

Julian joined NS&I in 2002 and was appointed Change and Strategy Support Director in April 2007, prior to which he was responsible for Corporate Development and Delivery. Julian is responsible for the development and delivery of the business strategy and our change agenda. Previously Julian held senior roles in the engineering, retail and financial service sector, latterly at Siemens South Africa.

10 Sam Beckett
Director, Fiscal Policy, HM Treasury

Sam is an HM Treasury representative on the NS&I board and a Non-executive member of HM Treasury's Debt Management Office board. She became Director of Fiscal Policy in January 2008 and is responsible for the fiscal policy framework. She is also responsible for fiscal policy advice, analysis and forecasting for public sector finances, and for Government debt, cash and reserves management. Prior to this she was Director of Policy and Planning and Director of Operations, and has three years' experience as an HM Treasury board member, plus 19 years' experience in macro and micro-economic policy making.

11 Mike Chilton
Director, Finance and Risk

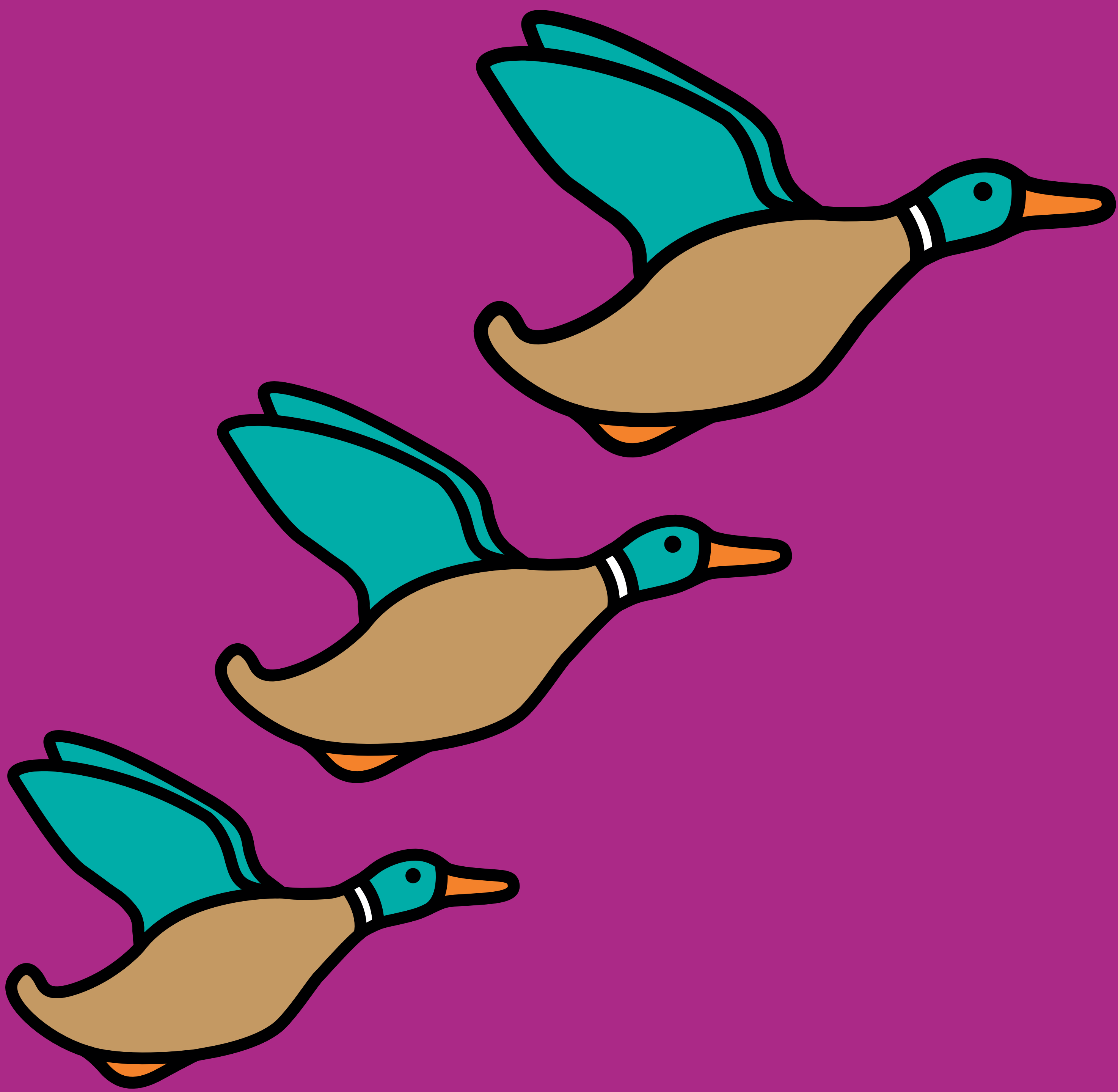
Mike joined NS&I as Finance Director in January 2007. Trained as a chartered accountant, Mike has over 20 years' commercial experience – most recently at Standard Chartered plc where he played an integral role in balancing finance and operational risk. At NS&I, Mike brings finance closer to our business objectives, while keeping a close eye on risk and compliance issues.

12 Simon Ricketts
Non-executive Director

Simon Ricketts was appointed Non-executive Director in July 2007. From 2003 to the end of 2007 he was the Chief Information Officer for Scottish and Newcastle plc. He is also the senior Non-executive Director of the Strategic Thought Group plc. Prior to this he spent 13 years with Cadbury Schweppes plc in various roles, including Operations Director of the Trebor Bassett Group, Managing Director of ITNET Ltd, and Group Chief Information Officer. Prior to this, he had a 10-year career at British Steel, holding roles in operations research, production and IT.

13 Mike Glycopantis (not pictured)
Debt and Reserves Management Team, HM Treasury

Mike is Head of the Debt and Reserves Management Team at HM Treasury, and joined the NS&I board as HM Treasury representative in February 2008. He joined HM Treasury in 1994 after spending four years working for KPMG as a chartered accountant. He has worked on privatisation and outsourcing, and has led teams working on tax and European policy, Customs & Excise, the European Commission and the Department for Education. Mike worked alongside National Savings, the Bank of England and the Royal Mint from within the DRM team from 1996 to 1998. He is currently working on a review of the Tripartite arrangements for managing financial crises and other banking reforms.



Lasting strategic alignment

Our partnerships remain an essential feature of our business, and as we've moved into **NS&I adding value** we've consolidated our working relationships and have worked hard to achieve lasting strategic alignment.

Our partners

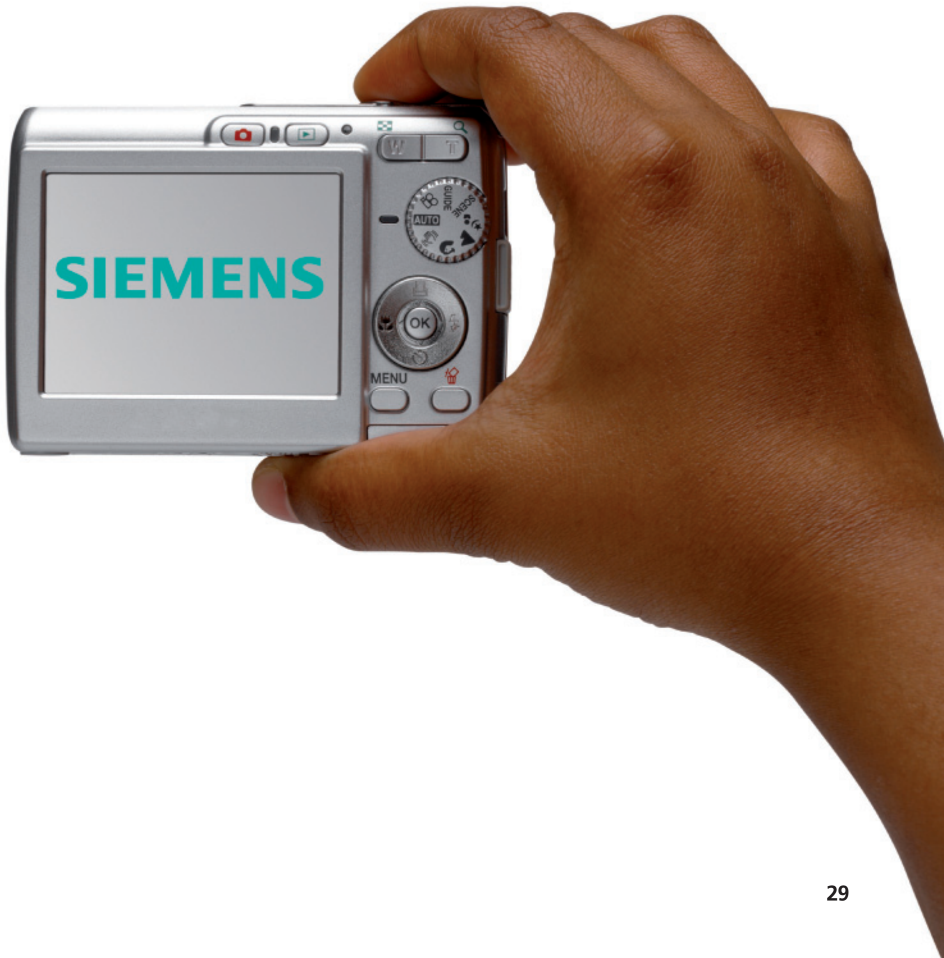
From a partnership perspective, the first year of **NS&I adding value** has been about aligning strategies and consolidating working relationships. With a view to providing service excellence and greater customer choice, we've also begun to enhance our delivery systems and have opened up new distribution channels.

In 1999 NS&I outsourced its operations activities to Siemens under a competitively tendered Public Private Partnership. Under NS&I's management, Siemens is responsible for collecting and repaying money invested by customers, maintaining customer records and dealing with customer correspondence and enquiries. The partnership has resulted in significant efficiencies and ensured that we can deliver service levels that meet standards of best practice in the retail financial sector.

Our partnership with Siemens remains an essential feature of our business, and as we've moved into **NS&I adding value** we've consolidated our working relationship and have worked hard to achieve a lasting strategic alignment. The past 12 months have demonstrated the operational strength and flexibility that this relationship has enabled.

It has certainly been a busy year for Siemens, who dealt exceptionally well with the anticipated increase in demand of the second phase of the Premium Bonds 50th anniversary campaign, and then with the increased volumes that resulted from the post-summer 'flight to safety'. To maintain high levels of customer service, Siemens had to be flexible in their deployment of resources at this time, moving previously trained back-office staff to work in the Customer Interaction Centre (CIC). They were also required to shift workloads between teams and draft in additional external resources to best meet demands.

This eventful period showed us that the systems we have in place with Siemens are both robust and flexible. We have shown that we can handle increased levels of customer demand and transactions while maintaining high levels of service.



Moving forward together

Working with Siemens, we have developed a new information systems strategy. This has enabled us to begin enhancing our delivery systems and operational processes. Similarly, our joint programme office and joint programme reporting are very visible manifestations of the close alignment of our organisations. This alignment has not only led to better governance, but has also sent a clear message to our stakeholders about the strength of our working relationship.

The systems we have in place with Siemens are both robust and flexible. We have shown that we can handle increased levels of customer demand while maintaining high levels of service.

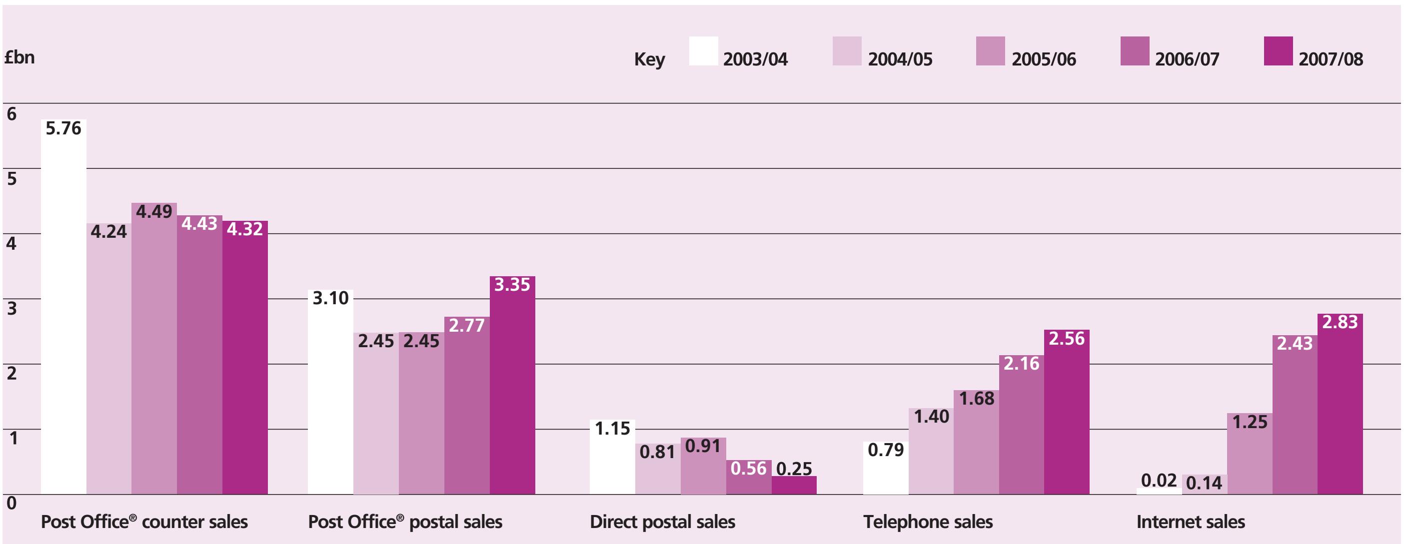
The Post Office® – across the UK

It was another good year for our relationship with our core distributor, the Post Office®, with sales coming in at £7.7 billion, up from £7.2 billion in 2006/07. The strength of this performance highlights a continued preference by many customers for face-to-face counter and postal transactions. The results demonstrate the value the Post Office® provides in offering trusted, traditional routes to NS&I products and information.

In the course of the year, NS&I and the Post Office® also worked to establish a better understanding of our respective business plans. At a time when both organisations are setting out their own financial services propositions, it was important that we clarified and consolidated our working relationship. We wanted to ensure mutual brand independence, while cementing our strategic togetherness.

As a result, the two organisations have been negotiating a new distribution contract which is designed to better reflect the way in which the two brands will work together. It is intended that recognition of multi-channel sales and fulfillment will be incorporated – signalling the dramatic increase in telephone and online opportunities.

Sales performance by channel



WHSmith – growing our high street presence

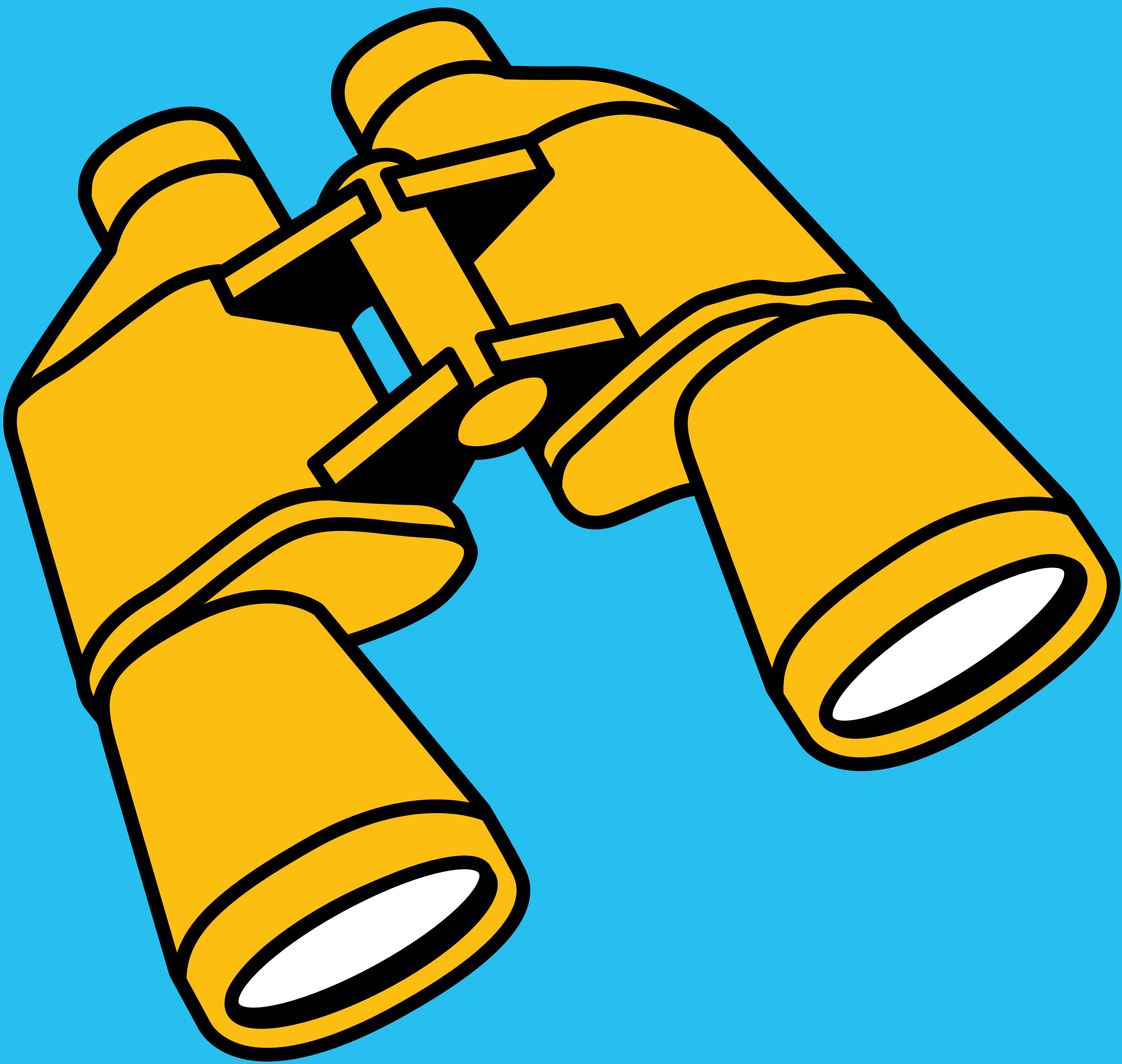
We were pleased to announce a new distribution contract with UK retailer WHSmith. The aim of this partnership is to promote key products – currently, Premium Bonds, Inflation Beating Savings and Income Bonds – to a wider high street audience, with WHSmith carrying in-store advertising and literature. After six months testing the operational delivery, the relationship went fully live in May 2008, and is an important part of our efforts to diversify our channels and improve access to product information.

Securing an NS&I presence in more than 400 high street stores, the distribution deal also encompasses 155 WHSmith travel stores located in UK airports and train stations. With an impressive annual customer footfall, these popular retail environments will enable us to reach out to new customers and increase brand awareness.

Key financial results

£bn	2007/08	2006/07
Total invested by customers in NS&I at the end of the year	£84.78	£78.90
Net Financing for Government during the year	£5.88	£5.56
Value Add for the year after allowing for operating costs	£0.38	£0.34
Net operating costs of NS&I	£0.15	£0.17
Gross sales of all NS&I products	£15.54	£14.17
Telephone sales	£2.56*	£2.16*
Sales generated via the internet	£2.83*	£2.43*
Sales through Post Office® counters	£4.32*	£4.43*
Sales by direct post • Direct postal sales • Post Office® lead generation	£5.36*	£4.85*
NS&I Premium Bond sales	£6.64	£8.42

*these sales are part of the gross sales above



The long-term view

NS&I seeks to deliver long-term value to stakeholders in a way that is both financially viable and socially and environmentally responsible. We support HM Treasury in its commitment to 'raising the rate of sustainable growth whilst continuing to support environmental protection'.

HM Treasury

When customers invest in NS&I products, they are lending to the Government. In return the Government pays interest, stock market-linked returns or prizes for Premium Bonds. HM Treasury uses the money invested in NS&I to manage the national debt cost-effectively, contributing to the Government's financing needs.

How we add value

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

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

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

What is Value Add?

Any money borrowed by the Government is called the national debt. A sizeable part of the Government's annual expenditure goes towards paying interest on this debt. We help to keep this expense down by providing funds at a lower cost than financing the same amount through Gilts and Treasury Bills.

Value Add is the name given to the way NS&I measures how cost-effective it is at raising finance for Government. The total costs of raising funds, including our operating costs and tax foregone, is compared to how much it would cost Government to raise funds in the wholesale market. The difference, ie saving, is our Value Add.

To achieve sustainable Value Add, it's important that we give our customers a fair deal. As we operate in an increasingly competitive market, we need to offer products that suit our customers' needs based on security, benefits and returns – backed by excellent service.

Value Add performance

Our Value Add measure has gone from £337m in 2006/07 to £375m in 2007/08, measured on a lagged basis. From 2006/07, NS&I switched to using lagged Value Add as the target measure of performance. However, historically we have used delagged Value Add.

Delagged Value Add allows for timing differences between interest rate changes being announced and the rate coming into effect. Lagged Value Add excludes any allowance for these timing differences. Our Value Add was £372 million on a delagged basis in 2007/08, up from £310 million in 2006/07.

Adjusting rates of interest (tax foregone)

As NS&I's tax-free products deprive HM Treasury of tax revenue, NS&I adjusts the rates offered on its products to take account of this lost revenue. Within the calculation of our Value Add we take into account the 'tax foregone' to HM Treasury as a result of these tax-free products. However, this does not apply to our ISA products. This is because tax-free ISAs are available across the financial services market and their impact is calculated by HM Revenue & Customs.

How we set interest rates

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

- comparing the cost of our variable rate products with the Bank of England base rate
- comparing the cost of our fixed rate products with the yield on equivalent Gilts.

We set our interest rates to meet Government's financing targets, while delivering consistently good value to our customers. We also consider the interest rates and terms and conditions offered on similar products by other providers in the market, as well as our own costs to provide each product when making interest rate decisions.

When we set our interest rates, our policy is always to be consistent with our pricing principles and our brand values, and that any changes meet the requirements of the Banking Code.

Landscape Review 2005

The Landscape Review takes place every five years and establishes the basic framework for NS&I's development as an organisation. In 2005 the Review was directed by a Steering Group consisting of officials from HM Treasury and NS&I, together with an independent member.

A summary of our progress against the 2005 Landscape Review recommendations can be found overleaf, and a summary of the Landscape Review report is available on the websites of both NS&I and HM Treasury.

Key recommendations from the Landscape Review

Key recommendations	Progress update
NS&I should retain as its sole purpose a remit to raise cost-effective debt finance. However, HM Treasury recognises that NS&I should allocate appropriate resources to meet broader sustainable development responsibilities in line with private sector practice in the financial services industry, drawing on partners where relevant.	We have made good progress on our Sustainable Development Action Plan (SDAP) – see pages 12 to 13 for details.
NS&I should retain its ability to offer unique tax-free products.	We continue to offer Premium Bonds and Saving Certificates, in addition to our range of taxable products and ISA products.
HM Treasury expects NS&I to comply fully with FSA requirements where applicable and NS&I should extend compliance with FSA requirements on a voluntary basis.	We have a detailed breakdown on how we are meeting FSA requirements; please see the section 'Meeting FSA requirements' overleaf.
HM Treasury should ensure that it is aware of the impact of NS&I on the wider retail financial savings market when setting financing targets. NS&I should ensure that it mitigates its impact through more transparent communication and reporting of overall aims and objectives, tax forgone, all key future targets, and a public quarterly business update.	We have continued to communicate regularly on this area, including a public quarterly business update. We have ensured that our strategy is focused on maximising Value Add subject to a defined Net Financing target. This target is set in agreement with HM Treasury based on their financing needs and is not aimed at growing our market share.
NS&I and HM Treasury should review issues of corporate governance, performance and risk management, both internally to NS&I and between NS&I and HM Treasury.	We have reviewed and enhanced our corporate governance, performance and risk management arrangements, and review these on a regular basis with HM Treasury.
NS&I should amend the measurement of Value Add in consultation with HM Treasury in order to present as accurate a measurement as possible.	In 2006/07, we moved to calculating Value Add on a 'lagged' basis. Prior to this, Value Add was calculated on a 'delagged' basis, which allowed for timing differences between interest rate changes being announced and the rate coming into effect. Lagged Value Add excludes any allowances for these timing differences. We continue to monitor both measures.
NS&I should develop a business case to evaluate adoption of the Tax Deduction Scheme for Interest.	A business case has been developed and agreed with HM Treasury. Further consultation is now required with HM Revenue & Customs.
NS&I should develop a revised corporate strategy to deliver the Government's debt finance objectives to 2010/11.	2007/08 was the first year of **NS&I adding value**, the new five year strategy designed to deliver sustainable long-term value to stakeholders by simplifying, modernising and diversifying the business.

Setting the standard

As an Executive Agency of the Chancellor of the Exchequer, NS&I seeks to follow best practice within Government in a range of areas. Our modernisation programme is progressing to plan, and our relationship with Siemens is widely recognised as one of the UK's most successful public / private partnerships.

Our overall objective for 2008/09

Our overall objective for 2008/09 is to deliver at least £275 million of Value Add and to raise between £3.25 and £4.75 billion in Net Financing. We aim to continue to deploy **NS&I adding value**, and to continue to test new approaches to processes and customer interactions, supporting the move to simplify, modernise and diversify the business.

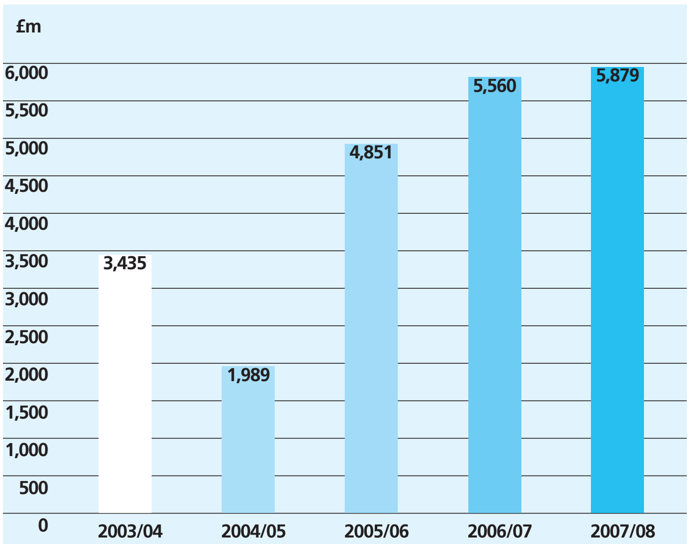
Meeting FSA requirements

NS&I is committed to adhering to the principles and standards of the Banking Code. We are pleased to report that in December 2007 NS&I was given a 'green' rating by the Banking Code Standards Board with no issues identified.

The Landscape Review 2005 determined that it was not appropriate for NS&I to be subject to FSA regulation because it is governed by specific legislation that regulates the way in which its products are managed and because all strategic decisions require Ministerial consent. The FSA formally stated that "…it is difficult to see how FSA regulation would (materially) enhance consumer protection". However, HM Treasury noted that it expects NS&I to comply fully with FSA requirements where applicable and NS&I should extend compliance with FSA requirements on a voluntary basis.

As NS&I holds no capital, has no lending or dealing activities and offers primarily simple deposit based products, many areas of the FSA regulatory regime are not directly relevant. The relevant FSA requirements have been identified and implementation has commenced on enhanced compliance and risk strategies to deliver these. Progress against the strategies is tracked monthly through the Compliance and Risk Committee, and progress is discussed every six months with the FSA.

Net Financing



Value Add

£m	2003/04	2004/05	2005/06	2006/07	2007/08
Value Add (delagged)	260	254	269	310	372
Adjustment for timing and other differences	25	52	(9)	27	3
Value Add (lagged)	**285**	**306**	**260**	**337**	**375**

Some of the ways in which NS&I has endeavoured to enhance the level of compliance with FSA and other regulations are:

- the adoption of a risk based approach to Anti-Money Laundering in line with the Money Laundering Regulations 2007; further automation is planned to reduce cost and enhance the customer experience
- enhancements to ensure Treating Customers Fairly (TCF) is at the heart of NS&I's activities, including revised arrangements for the development and approval of our customer communications to ensure that these are fair, clear and not misleading. This has included a comprehensive training programme for all staff
- reviews of data protection and information management in the light of recent Cabinet Office guidance
- improvements to the investigation and management of customer complaints
- NS&I maintains a programme of audit activity with the Post Office® and Siemens to ensure that the outsourcing arrangements are managed effectively. Additional compliance requirements are now being incorporated into the contractual arrangements with the Post Office®
- the refinement of governance arrangements through a number of new committees to cover key risk areas. This, along with enhanced policies and related management information, forms part of plans to enhance the risk framework. In 2008/09 NS&I plans to further develop and enhance key policies and ensure that these are embedded across NS&I and Siemens, along with an enhanced assurance process
- compliance and risk teams have been strengthened to help deliver this overall programme of work.

Service delivery measures (SDM) for 2007/08

The following table shows our performance against our 2007/08 targets.
The second table shows our future goals, objectives, performance measures and targets.

How we are doing

As part of the last two Government spending reviews – the 2004 Spending Review (SR2004), and the Comprehensive Spending Review 2007 (CSR2007) – Service Delivery Measures (SDMs) were established as part of a new reporting mechanism between NS&I and HM Treasury. These measure the performance of NS&I in relation to its overall objectives. Targets are agreed for each of the performance measures with the Economic Secretary to the Treasury as part of the annual corporate planning process.

SR 2004 SDM goals	SR 2004 SDM objectives	2007/08 targets	Performance
1. To achieve the financing remit and improve efficiency	To create at least an agreed amount of Value Add	At least £275 million	**MET** • Higher than expected fixed rate margins and lower management costs have lead to NS&I exceeding target • Value Add was £375 million in 2007/08
	To raise an amount of Net Financing within an agreed range	£2.8 billion (+/- £0.5 billion)	**NOT MET (Exceeded)** • Instability in the savings market led to NS&I exceeding target • Net Financing was £5.9 billion in 2007/08
2. To maintain the current high levels of customer satisfaction	To exceed a threshold of customer satisfaction with NS&I	At least 90% customer satisfaction levels	**MET AND ONGOING** • Satisfaction remained at or above 90% in every month of the year except for May 2007 when it was 89% • The average for the year was 93%
3. To maintain the current high levels of customer service	To achieve consistent accuracy in meeting challenging targets	At least 98.5%	**MET AND ONGOING** • Siemens performance against accuracy Key Performance Indicators (KPIs) remains strong • This target was achieved every month with an annual average of 99.4%
	To achieve consistent timelines in meeting challenging targets	At least 97%	**MET AND ONGOING** • Siemens performance against timeliness KPIs remains strong • This target was achieved every month with an average of 99.4% for the year
4. To improve the effectiveness of fraud management	To minimise the proportion of fraud resulting in actual loss	Less than 18%	**MET AND ONGOING** • Fraud by its nature is difficult to predict though NS&I continued to experience low levels over the period • The average for the year was 10%
5. Ratio of total NS&I administrative costs to average funds invested by customers	To invest in capability and continue to improve the efficiency of administering total funds	Less than 24.5 basis points	**MET AND ONGOING** • NS&I administrative costs have been below plan partly as a result of the lower than expected advertising spend required to support Net Financing targets • The ratio for the year was 18 basis points
6. To maintain Banking Code and Financial Ombudsman (FOS) compliance	To ensure compliance with the Banking Code	Self assessment of compliance checked by Banking Code Standards board	**MET AND ONGOING** • NS&I remains compliant with the Banking Code and received green status in this year's bi-annual review
	To ensure compliance with the FOS	At least 98%	**MET AND ONGOING** • This was a new measure for 2007/08. At least 98.8% of escalated complaints during the year were adjudicated in NS&I's favour

Service Delivery Measures (SDM) for 2008/09

CSR 2007 SDM goals	CSR 2007 SDM objectives	CSR 2007 SDM performance measures	2008/09 targets
1.Value Add	To create at least an agreed amount of Value Add	Absolute amount of (lagged) Value Add from NS&I products	At least £275 million
2. Net Finance	To raise an amount of Net Financing within an agreed range	Absolute amount of Net Financing from all NS&I products	£4.0 billion (+/- £750 million)
3. Customer satisfaction	To exceed a threshold level of customer satisfaction with NS&I	Average level of satisfaction against question, "How satisfied are you overall in terms of savings and investments with NS&I?"	At least 87%
4. Customer Service – timeliness	To meet a consistently high timeliness target	Average performance against timeliness KPI targets	At least 97%
5. Customer Service – accuracy	To meet a consistently high accuracy target	Average performance against accuracy KPI targets	At least 98.5%
6. Ratio of total NS&I administrative costs to average funds invested by customers	To invest in capability and continue to improve the efficiency of administering total funds	Ratio of total NS&I administrative costs to average funds invested by customers	Less than 23 basis points
7. Banking Code	To ensure compliance with the Banking Code	Self assessment of compliance checked by Banking Code Standard board	Compliance with Banking Code
8. Financial Ombudsman Service	To ensure compliance with the FOS	Percentage of complaints escalated to FOS adjudicated in our favour	At least 98%*
9. Fraud	To minimise the proportion of fraud resulting in actual loss	Ratio of net fraud losses to total customer repayments	Less than £35 per £1 million repayments**

* This metric was introduced during 2007/08. For 2008/09, it will continue to exclude fraud cases that will become eligible for FOS referral during the year, since we are unable to reasonably estimate the direct impact on this metric. We plan to include these cases from 2009/10 onwards.

** This metric has been substantially revised this year and is now more representative of our underlying fraud prevention performance.

Resource accounts
2007/08

Management commentary

National Savings and Investments (NS&I) is a Government Department and became an Executive Agency of the Chancellor of the Exchequer in 1996.

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

NS&I is one of the largest savings organisations in the UK, with over £84 billion of investors' money at the end of March 2008 (representing over 16% of the National Debt) and annual cash flows in excess of £28 billion.

NS&I administration costs are funded by Parliamentary Vote and are shown in these Resource Accounts. However, the interest 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 the National Loans Fund (NLF) and are shown in the NS&I Product Accounts. HM Treasury is responsible for the operation of the NLF.

Aims

NS&I helps to reduce the cost to the taxpayer of Government borrowing now and in the future. To achieve this, its single strategic objective is to provide retail funding for Government that is cost-effective in relation to funds raised on the wholesale market.

Vision

Securing a better financial future for our customers by providing the most valued and trusted savings experience.

NS&I adding value

A new five year strategy was launched on 1 April 2007. The new strategy will deliver sustainable long-term value to stakeholders by simplifying, modernising and diversifying the business.

The strategy will deliver:

- more than £1.6 billion of Value Add over five years
- around £21 billion in Net Financing over five years
- a substantially lower whole business cost, positioning the business for continued successful delivery of Value Add in the future.

By:

- **Building** low-cost channel capabilities that satisfy the long-term needs and expectations of the customer
- **Revitalising** the product range
- **Shifting** sales and fulfilment towards low-cost channels
- **Maintaining** a strong relationship with the Post Office® as a distributor
- **Delivering** our compliance strategy, and developing a compliance culture
- **Engaging** and **developing** our people and capabilities so that we can attract and retain the best talents.

The implementation of the strategy is tracked by metrics relating to both the sales and back-office operations that are embedded throughout the corporate balanced scorecard, rather than captured separately, reflecting the integrated management approach used within NS&I. NS&I uses the balanced scorecard methodology at a corporate and business unit level to ensure strategy is delivered to plan.

Market and competitive environment

NS&I competes for retail savings in the highly competitive cash deposit market. NS&I has a diverse portfolio of products that attract different types of savers.

2007/08 was a year of unprecedented market conditions. Inflation remained higher than expected, and the credit crunch and subsequent liquidity shortage had a profound effect on market and customer behaviour. NS&I experienced quite substantial inflows as a result of the flight to safety despite ceasing marketing activities in order to contain Net Financing.

The market and competitive environment during 2008/09 is anticipated to be uncertain and challenging. Retail investors are carefully balancing the need for safety against the opportunity to achieve higher returns. The impact on NS&I of market uncertainty and potential changes in the financial services compensation scheme are under review within NS&I to ensure that we respond appropriately to maintain sustainable long-term value to our stakeholders.

2007/08 performance against targets

During 2007/08, NS&I met all but one of the Service Delivery Measures (SDMs) set by HM Treasury. SDMs were agreed with HM Treasury as part of the 2004 Spending Review and replaced the previous Service Delivery Agreement.

NS&I SDMs are:

- to achieve the financing remit and improve efficiency
- to maintain the current high levels of customer satisfaction
- to maintain the current high levels of customer service
- to improve the effectiveness of fraud management
- to improve the efficiency of administration
- to maintain Banking Code and Financial Ombudsman Service (FOS) compliance.

NS&I's SDMs are shown in the HM Treasury section of the Annual Report.

2007/08 developments

2007/08 was the first year of **NS&I adding value**, a five-year strategy designed to modernise, simplify and diversify the business to deliver sustainable Value Add. This strategy seeks to capitalise on the window of opportunity to work with their operating partner, Siemens, to improve and lower the cost of operations whilst enhancing the customer proposition.

Highlights from 2007/08

- Value Add of £375 million against a remit of at least £275 million
- Net Financing of £5.9 billion against a remit of £2.8 billion. The higher than expected level of performance was primarily due to the flight to safety in the second half of the year
- excellent operational performance in the context of unexpectedly high volumes resulting from the flight to safety
- simplification of the product range commenced with the announced withdrawal of Capital Bonds and Pensioners' Guaranteed Income Bonds, and with the associated repositioning of Fixed Rate Savings Bonds
- an information systems strategy to underpin NS&I's adding value strategy was developed and agreed in conjunction with Siemens. This will facilitate better channel integration, reduce costs and improve customer service
- during the year, NS&I implemented a revised organisational design, which resulted in revisions to its internal structure to align the business with the needs of customers and the **NS&I adding value** strategy
- the challenging direct (telephone and internet) sales target of £4.8 billion was reached
- NS&I reinvigorated its tracing service for dormant accounts and, working with the British Bankers' Association (BBA) and Building Societies' Association (BSA), launched the successful **mylostaccount.org** website which resulted in £37 million of unclaimed assets being reunited with customers during 2007/08 (£12 million in 2006/07)
- as part of the move to voluntary compliance with relevant FSA standards, NS&I commenced the next phase of implementation of its enhanced compliance and risk strategies
- NS&I achieved its highest score ever in the NS&I and Siemens partnership survey, reflecting the health of this vital relationship.

Other notable achievements

- NS&I was given the judges' Highly Commended Award in The Sunday Times Customer Experience Awards having been finalists in both the Financial Services and Public Sector categories
- NS&I was given three awards for its Annual Report, Link magazine and the Premium Bonds 50th annivesary Link special by Communicators in Business, with the latter supplement also being awarded the trophy for best in class
- NS&I was awarded ISO14001:2004 in respect of its environmental management standards

- during the year, NS&I achieved Global Standards Accreditation from the Customer Contact Association (CCA) in recognition of the quality of service through its call centres and telephone channel manager, Colin Ross, gained the 'National CCA Member of the Year' award
- NS&I was winner of the *ifs* Financial Innovations awards 'Most Effective Training' for its 'Just Ask' programme; and NS&I was the UK winner in the Partnership category of the National Training Awards for the performance improvement delivered by the 'Just Ask' programme.

Targets for 2008/09

Targets for 2008/09 are to raise circa £4 billion of Net Financing (within a range of £3.25 billion to £4.75 billion) and to deliver at least £275 million Value Add.

NS&I SDMs remain in place for 2008/09:
- to achieve the financing remit and improve efficiency
- to maintain the current high levels of customer satisfaction
- to maintain the current high levels of customer service
- to reduce the ratio of total NS&I administrative costs to average funds invested by customers
- to maintain compliance with Banking Code regulations
- to ensure compliance with the Financial Ombudsman Service
- to minimise the proportion of fraud resulting in actual loss.

Principal risks and uncertainties facing NS&I

The key risks and uncertainties faced by NS&I which could cause its results to materially differ from expected results are set out below.

- Net Financing targets: NS&I's ability to remain within Net Financing remit depends on market conditions. This includes any potential impact of a weakening deposit market, or competition for retail deposits which distorts usual pricing patterns or material changes to depositor insurance arrangements
- Value Add targets: as NS&I results are on a lagged basis, unplanned changes in base rates will have a material impact on planned results
- availability of funding: the availability of Departmental Expenditure Limit (DEL) and additional End Year Flexibility (EYF) / Modernisation Funding (MF) could have a material effect on NS&I's ability to deliver the **NS&I adding value** strategy
- operational risks in the normal course of business: in any large organisation with many systems, processes, partners, suppliers and people, there is a risk that operational losses can occur. Sources of such risks include system reliability, IT security, failure of key partners or suppliers to deliver, change management, human error, fraud or failure to comply with legislation or regulations.

Expenditure

The NS&I Vote is approved by Parliament. For 2007/08 Parliament approved a resource budget of £170.294 million (2006/07 £179.294 million) a capital budget of £0.500 million (2006/07 £0.500 million) and a net cash requirement of £167.672 million (2006/07 £176.747 million).

The resource outturn was £153.607 million (2006/07 £168.615 million), capital outturn £0.045 million (2006/07 £0.068 million) and the net cash outturn was £155.224 million (2006/07 £157.603 million).

The difference between the resource budget and the resource outturn was £16.687 million (2006/07 £10.679 million). The following table shows the key differences between the Resource budget and outturn during 2007/08.

Difference between Resource budget and Resource Outturn

Overspend / (underspend) category	Difference between estimate and outturn £ million
Project costs were lower due to deferment and reduction in scope of projects whilst Information System Strategy was being agreed	(9.20)
Cancellation of TV advertising and direct marketing campaigns due to early achievement of Net Financing target	(6.27)
Professional fees lower due to the scaling down of the marketing programme	(2.35)
Lower depreciation and capital charges	(0.58)
Fees paid to Siemens and Post Office® were higher due to sale volumes exceeding targets	2.33
Other differences	(0.62)
Total underspend	**(16.69)**

The difference between the net cash requirement and the net cash outturn was £12.448 million (2006/07 £19.144 million). This was mainly due to the savings and postponements discussed above.

	2007/08 £'000s	2006/07 £'000s
Net Resource outturn (estimates)	**153,607**	**168,615**
Adjustments to remove:		
Provision voted for earlier years	–	–
Adjustments to additionally include:		
Non Voted expenditure in OCS	–	–
Consolidated Fund Extra Receipts in the OCS	–	(125)
Net operating cost (accounts)	**153,607**	**168,490**
Adjustments to remove:		
Capital grants to local authorities	–	–
Capital grants financed from the Capital Modernisation Fund	–	–
European Union income and related adjustments	–	–
Voted expenditure outside the budget	–	–
Adjustments to additionally include:		
Other Consolidated Fund Extra Receipts	–	–
Resource consumption of non departmental bodies	–	–
Unallocated resource provision	–	–
Other Adjustments	–	–
Resource budget outturn (budget) of which	153,607	168,490
Departmental Expenditure Limits (DEL)	153,607	168,490
Annually Managed Expenditure (AME)	–	–

Matters covered in the Departmental Report

The NS&I Departmental Report contains the Department's expenditure plans for 2009/10, and main estimates for 2008/09. The report provides details of NS&I's objectives and Service Delivery Measures. It also provides details of NS&I's CSR 2007 settlement and details of NS&I recruitment practice, public appointments and senior civil service salaries. The report was published in May 2008.

CSR2007 settlement – securing value for money for our stakeholders

As part of the 2007 Comprehensive Spending Review (CSR), NS&I agreed a settlement that requires average annual real reductions of 5% on its 2007/08 baseline costs for the period from 2008/09 to 2010/11, despite a planned rise in liabilities to investors over that period.

In 2007/08 NS&I's Departmental Expenditure Limit (DEL) was £170.3 million. In 2010/11 NS&I's total DEL will be £158.2 million. Around 72% of NS&I's DEL is spent on the Public Private Partnership with Siemens and on the Post Office® distribution contract.

NS&I adding value is aligned with the need to achieve value for money savings over the CSR period. The strategy also aims to increase the use of direct sales channels, thereby reducing distribution costs. To meet the transitional and up-front costs of **NS&I adding value**, the CSR settlement confirmed NS&I's access to Modernisation Funds (MF) and to End of Year Flexibility (EYF) in accordance with standard procedures. The **NS&I adding value** strategy aims to lower the cost of operations by simplifying, standardising and modernising the business.

It is also important that NS&I manages its balance sheet assets efficiently. NS&I's principal assets are the three operational sites that, with the exception of a few small areas of undeveloped land, are leased on a full repairing and insuring basis to Siemens. NS&I and Siemens have consistently worked together to identify opportunities to reduce accommodation costs and dispose of surplus assets. This work included the appraisal of a very wide range of options. NS&I has therefore identified a phased estate strategy programme, running to 2014 and beyond, that aims to realise the value of surplus assets as and when opportunities arise. This strategy received ministerial approval in early 2006. The two potential asset disposals identified below form part of the first phases of the agreed strategy. The strategy is subject to ongoing review to ensure that it reflects changing market conditions.

- the sale of the main building at NS&I's Blackpool site and an area of undeveloped surplus land of about 10 acres is progressing. NS&I intends to extend and modernise the Moorland Building on the Blackpool site and relocate all Blackpool based staff here.

- NS&I has some 11 acres comprising undeveloped land and surplus car park space in Glasgow. NS&I has been working with the local NHS Trust, who own an adjacent area of surplus land, on a joint approach to the market. This will allow both parties to achieve the maximum value for their respective surplus assets. NS&I and the NHS are currently in discussion with the local authority on widening the planning designation of the land prior to approaching the market.

Post balance sheet events

NS&I, as part of its estate rationalisation strategy, is in negotiations to sell part of its Blackpool site. The sale will have a material impact on the balance sheet.

There were no other reportable post balance sheet events between the balance sheet date and 9 July 2008, the date of authorisation of the accounts. The financial statements do not reflect events after that date.

Ministerial responsibility

NS&I is an Executive Agency of the Chancellor of the Exchequer. The Government Minister with portfolio for NS&I is the Economic Secretary to the Treasury (EST). The position was held by Ed Balls MP to June 2007. From June 2007 this position is held by Kitty Ussher MP. Details of the Minister's salary and pension entitlements are shown in HM Treasury's 2007/08 Resource Accounts.

Reporting of Personal Data related incidents

Incidents, the disclosure of which would in itself create an unacceptable risk of harm, may be excluded in accordance with the exemptions contained in the Freedom of Information Act 2000 or may be subject to the limitations of other UK information legislation.

Table 1 Summary of protected personal data related incidents formally reported to the Information Commissioner's Office in 2007/08

Date of Incident (month)	Nature of Incident	Nature of data involved	Number of people potentially affected	Notification steps
n/a	n/a	n/a	n/a	n/a
Further action on information risks	NS&I will continue to monitor and assess its information risks. Although no events are noted above, NS&I will ensure continuous improvement of its systems			

Table 2 Centrally recorded protected personal data related incidents not reported to the Information Commissioner's Office in 2007/08

Incidents deemed by the Data Controller not to fall within the criteria for report to the Information Commissioner's Office but recorded centrally within NS&I are set out in the table below. Small localised incidents are not recorded centrally and are not cited in the figures below.

Category	Nature of Incident	Total
I	Loss of inadequately protected electronic equipment, devices or paper documents from secured Government premises	nil
II	Loss of inadequately protected electronic equipment, devices or paper documents from outside secured Government premises	nil
III	Insecure disposal of inadequately protected electronic equipment, devices or paper documents	nil
IV	Unauthorised disclosure	nil
V	Other	nil

Table 3 Protected personal data related incidents in previous financial years

Total number of protected personal data related incidents formally reported to the Information Commissioner's Office by category number

	I	II	III	IV	V	Total
2006/07	nil	nil	nil	nil	nil	nil
2005/06	nil	nil	nil	nil	nil	nil
2004/05	nil	nil	nil	nil	nil	nil

Total number of protected personal data related incidents by category number

	I	II	III	IV	V	Total
2006/07	nil	nil	nil	nil	nil	nil
2005/06	nil	nil	nil	nil	nil	nil
2004/05	nil	nil	nil	nil	nil	nil

Code of Good Practice for Corporate Governance in Central Government Departments

The NS&I board reviewed its composition and practices against the Code of Good Practice for Corporate Governance in Central Government Departments and has concluded that it is highly compliant with the Code's provisions. One area where it was decided not to follow the Code is in the appointment of a Senior Independent Director. The board has identified HM Treasury as NS&I's main stakeholder and feels that HM Treasury representation on the board, together with agreement that the Non-executives will meet the responsible Minister annually, means that there is no need for a separate independent director other than the Chairman.

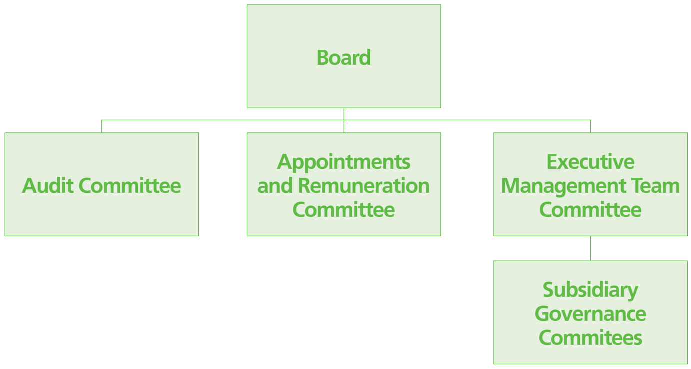
The board comprises the Chief Executive (who is also the Accounting Officer), six Executive Directors; four Non-executive Directors (appointed by the Chancellor of the Exchequer following an open recruitment process), and two representatives from the Debt and Reserves Management (DRM) area of HM Treasury. The four Non-executives are fully independent. The board is satisfied that each of the Non-executive Directors is independent. In reaching that conclusion, the board took into account a number of factors that might appear to affect their independence, including length of service on the board, cross-directorships, whether they have been an employee of the company or received remuneration other than directors' fees. In each case the board is completely satisfied that the independence of the relevant Non-executive Director is not compromised. The HM Treasury members, representing as they do NS&I's main stakeholder, are also considered to be independent. Full board meetings are held every two months, and additional board workshops are held to discuss specific issues, such as strategy and planning.

In the light of the Accounting Officer's overall Government delegated responsibility and accountability for the performance of NS&I, the board is advisory. However, to ensure good governance practice, individual board members act as if they have full corporate legal responsibilities, accepting the consequences of their actions, recommendations and decisions. The Chief Executive is therefore expected to accept the majority view of the board, except where she sees this as conflicting with her Accounting Officer responsibilities. Should such an occasion arise the board minutes would record why the Chief Executive declined to accept the majority view.

Operating within instructions and guidance from HM Treasury, and in support of the Chief Executive in the achievement of the Agency's objectives, the board operates within terms of reference which are published on NS&I's website.

In addition to its normal meetings the board meets regularly to review the way in which it operates in discharging its responsibilities; and the board Chairman discusses performance with board members on an individual basis, feeding back comments both individually and to the board as a whole. The board Chairman's performance is reviewed by the Chairman of the Appointments and Remuneration Committee.

The board has three key subsidiary committees as follows:



Executive members of the board who served during the year

Jane Platt (Chief Executive, Accounting Officer and Director of Savings) appointed in September 2006.

Mike Chilton (Finance and Risk Director) appointed in January 2007.

Peter Cornish (Customer Offer Director) appointed in April 2006 in an acting capacity. Appointed permanently in April 2007.

Julian Hynd (Change and Strategy Support Director) appointed in April 2007.

Steve Owen (Channel Delivery Director) appointed in February 2002.

Sandra Postles (People and Environment Director) appointed in July 2003 left in January 2008.

John Prout (Customer Sales and Retention Director), appointed in August 2003.

Representatives of HM Treasury:

Samantha Beckett (Director of Fiscal Policy) appointed in April 2008.

Tamara Finkelstein (Head of Government Treasury Management) left in February 2008.

Mike Glycopantis (Debt and Reserves Management joint Team Leader) appointed in February 2008.

Sarah Tebbutt (Debt and Reserves Management joint Team Leader) left in February 2008.

Board appointments

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

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

Non-executive members of the board

Paul Spencer, appointed in September 2003, became Chairman of the board in January 2005. He has a contract extension to September 2009.

Michael Medlicott, joined in September 2003 as Non-executive Director. He is contracted to September 2009.

Martin Gray, joined in January 2005 as Non-executive Director, appointed Chairman of the Audit Committee in July 2007. He has a contract extension to January 2011.

Simon Ricketts, appointed in July 2007 for a three-year term.

Audit Committee

The main responsibility of the Audit Committee is to advise the Accounting Officer and the board on:

- the adequacy of the strategic processes for risk, control and governance within NS&I and also NS&I work outsourced to Siemens
- the accounting policies, accounts and annual report of NS&I
- the adequacy of internal and external audit plans and the results of this work, along with managements responses to any issues identified
- assurances relating to the system of internal control both within NS&I and Siemens including internal audit arrangements within NS&I and the NS&I account within Siemens
- the adequacy of the risk mitigation policies for residual red top risks
- anti fraud policies, whistle-blowing processes and arrangements for special investigations.

The Audit Committee of NS&I meets quarterly. Membership of the Audit Committee during 2007/08 comprised Michael Medlicott (Chair) to July 2007, Martin Gray (Chair from July 2007), Simon Ricketts (from July 2007), and a member of HM Treasury's Debt and Reserves Management team. Executive Directors have a standing invitation to attend as do NS&I's Head of Internal Audit, the National Audit Office (NAO) and PriceWaterhouseCoopers, who are the NAO's framework partners for the NS&I product accounts. Siemens also have a standing invitation for appropriate matters.

During the year under review, the Audit Committee debated a wide range of issues including, but not limited to, the following:

- implementation progress on compliance and risk strategies
- enhancements to management of fraud
- business continuity arrangements
- the annual budget and annual accounts, including NS&I's preparatory work on the planned implementation in 2008/09 of International Financial Reporting Standards (IFRS)
- internal and external audit plans and progress against these plans, as well as the adequacy of management's responses to any issues identified.

Appointments and Remuneration Committee

The Committee's role relates to the pay and performance of senior NS&I staff. Full details of the Committee's membership, role and senior staff salary entitlements are given in the Remuneration Report on pages 49 to 52.

Board attendance

Name	Board (6 meetings)		Audit Committee (4 meetings)		Appointments and Remuneration Committee (3 meetings)	
	Possible	Actual	Possible	Actual	Possible	Actual
Jane Platt	6	6	4	4	3	3
Mike Chilton	6	5	4	4		
Peter Cornish	6	6				
Julian Hynd	6	5				
Steve Owen	6	6				
Sandra Postles	5	4			2	2
John Prout	6	5				
Paul Spencer	6	6			3	3
Martin Gray	6	5	4	4		
Michael Medlicott	6	6	1	1	3	3
Simon Ricketts	4	4	3	3		
Tamara Finkelstein (HM Treasury)	5	3				
Mike Glycopantis (HM Treasury)	1	1	1	1		
Sarah Tebbutt (HM Treasury)	6	5				

Executive Management Team Committee (EMT)

The EMT members are the Executive Directors of NS&I supported by the Company Secretary. The EMT meet twice a month to discuss issues relating to strategy, people and financial results, and to review the decisions and performance of subsidiary governance committees.

Auditors

The Comptroller and Auditor General is responsible for the audit of the Resource Accounts in accordance with section (7) of the Government Resources and Accounts Act 2000. The notional charge for audit of these Resource Accounts as disclosed in the accounts is £58,000 (2006/07: £58,000). There was no auditors' remuneration (actual or notional) for non-audit work.

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

NS&I's internal audit service provides an independent appraisal service for management by measuring and evaluating the adequacy, reliability and effectiveness of management and financial control systems. Internal audit make recommendations based on the appraisal of each system reviewed. An annual assurance report is provided to the Accounting Officer. NS&I chose to outsource the provision of internal audit services to ensure wholly independent and fully professional analysis and recommendations. NS&I's current provider is Deloitte who were appointed following a competitive process.

Jane Platt

Jane Platt
Chief Executive
National Savings and Investments
1 July 2008

Remuneration report

Appointments and Remuneration Committee

The Appointments and Remuneration Committee comprises two Non-executive Directors, Paul Spencer (as temporary chair to 1 March 2008), and Michael Medlicott (as Chairman from 1 March 2008). It also comprises two Executive directors: the Chief Executive and the People and Environment Director, Sandra Postles (to 31 January 2008). Tricia Ghatauray took over from Sandra Postles on an interim basis from 1 February 2008 but was not appointed to the board and attends as an observer. Support to the Committee is provided by Paul Farley (Group Head of Reward Lloyds TSB plc) in an independent advisory capacity.

The Committee's role is to determine NS&I's pay strategy for Senior Civil Service (SCS) members. This includes making final decisions on pay and bonus awards within the parameters set by the Cabinet Office for the SCS following recommendations by the Senior Salaries Review Body. The Committee also advises on the role and appointment of Executive NS&I board members. It also assesses the relative contribution of NS&I's SCS in achieving corporate objectives.

Service contracts

The remuneration arrangements of senior members are set out in their contracts and are subject to annual review in line with awards recommended by the Senior Salaries Review Body. The notice period for all senior members of NS&I does not exceed three months. The arrangements for early termination of senior members are made in accordance with the service contract of the relevant individual.

With the exception of the Chief Executive, whose remuneration is determined by HM Treasury, Executive board members' pay awards and bonuses are determined by the NS&I Appointments and Remuneration Committee.

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 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 bonus dependent on the achievement of targets set by HM Treasury.

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

Salary and pension entitlements

The salary and pension entitlements of the most senior members of staff are shown below. There were no taxable benefits in kind paid. Bonuses for 2007/08 were accrued.

The following section of the Remuneration Report has been subject to audit.

The salary and bonus entitlements of the Executive board members of NS&I were as follows:

Table A

Name	Salary £'000s	2007/08 Bonus £'000s (7)	Total £'000s	Salary £'000s	2006/07 Bonus £'000s	Total £'000s
Jane Platt (1) Chief Executive	180-185	35-40	215-225	100-105	15-20	115-120
Trevor Bayley (2) Finance Director	–	–	–	110-115	15-20	125-130
Mike Chilton (3) Finance and Risk Director	130-135	20-25	150-155	25-30	0-5	25-30
Peter Cornish (4) Customer Offer Director	95-100	15-20	110-120	90-95	10-15	105-110
Julian Hynd (5) Change and Strategy Support Director	90-95	10-15	100-110	–	–	–
Steve Owen Channel Delivery Director	105-110	15-20	120-130	100-105	15-20	115-120
Sandra Postles (6) People and Environment Director	80-85	–	80-85	85-90	10-15	100-105
John Prout Customer Sales and Retention Director	110-115	15-20	125-135	105-110	15-20	120-125

(1) Appointed 30 September 2006. Equivalent annual salary for 2006/07 was £175,000-£180,000.
(2) Retired 31 December 2006. Equivalent annual salary for 2006/07 was £145,000-£150,000.
(3) Appointed 22 January 2007. Equivalent annual salary for 2006/07 was £125,000-£130,000.
(4) Appointed Acting Customer Offer Director 1 April 2006. Appointment made permanent from 1 April 2007.
(5) Appointed Change and Strategy Support Director from 1 April 2007.
(6) Left 31 January 2008. Equivalent annual salary for 2007/08 was £95,000-£100,000.
(7) 2007/08 bonuses shown have been estimated based on the performance against targets of both NS&I and the individual Director, and are pending approval from the Appointments and Remuneration Committee and Cabinet Office.

Pension benefits of the Executive board members of NS&I were as follows:

Table B

Name	Real increase in pension at age 60 £'000s	Real increase in pension related lump sum at age 60 at 31 March 2008 £'000s	Total accrued pension at age 60 at 31 March 2008 £'000s	Pension related lump sum at age 60 31 March 2008 £'000s	Cash equivalent transfer value (CETV) at 31 March 2007(1) £'000s	Cash equivalent transfer value (CETV) at 31 March 2008 £'000s	Employee contributions and transfers £'000s	Real increase in CETV after adjustment for inflation and changes in market investment factors £'000s
Jane Platt Chief Executive	0-2.5	–	0-5	–	16	53	25-30	7
Mike Chilton Finance and Risk Director	0-2.5	–	0-5	–	4	33	10-15	17
Peter Cornish Customer Offer Director	0-2.5	2.5-5	10-15	30-35	151	202	0-2.5	26
Julian Hynd Change and Strategy Support Director	2.5-5	–	5-10	–	29	84	30-35(2)	17
Steve Owen Channel Delivery Director	0-2.5	5-7.5	35-40	105-110	531	652	5-7.5	30
Sandra Postles People and Environment Director	0-2.5	2.5-5	5-10	20-25	103	146	0-2.5	30
John Prout Customer Sales and Retention Director	2.5-5	–	10-15	–	167	244	15-20	38

(1) Due to refinements in CETV calculator there are slight differences between the final period CETV for 2006/07 and the start of period CETV for 2007/08.
(2) £5,000-£10,000 contributions and transfers in of £25,000-£30,000.

The salary entitlements of Non-executive Directors are provided in Table C

The remuneration of Non-executive Directors in bands is as follows:
Table C

Name	2007/08 £'000s	2006/07 £'000s
M Gray	10-15	10-15
M Medlicott	10-15	10-15
P Spencer (Chairman)	15-20	15-20
S Ricketts	10-15	10-15

Salary

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

Civil Service Pensions

Pension benefits are provided through the Civil Service Pension arrangements. From 30 July 2007, civil servants may be in one of four defined benefit schemes; either a 'final salary' scheme (classic, premium or classic plus); or a 'whole career' scheme (nuvos). These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, classic plus and nuvos are increased annually in line with changes in the Retail Prices Index (RPI). Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a good quality 'money purchase' stakeholder pension with a significant employer contribution (partnership pension account).

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

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

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

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

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi employer defined benefit scheme but NS&I is unable to identify its share of the underlying assets and liabilities. The scheme actuary valued the scheme as at 31 March 2007. You can find details in the resource accounts of the Cabinet Office: Civil Superannuation **civilservice-pensions.gov.uk**

For 2007/08 employers contributions of £1,269,883 were paid to the PCSPS (2006/07 £1,157,369) at one of four rates in the range 17.1% to 25.5% of pensionable pay, based on salary bands. The scheme's Actuary reviews employer contributions every four years following a full scheme valuation. From 2008/09, the salary bands will be revised but the rates will remain the same. The rates will be changing with effect from April 2009. The contribution rates are set to meet the cost of the benefits accruing during 2007/08 to be paid when the member retires, and not the benefits paid during the period to existing pensioners.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employers' contributions of £14,420 (2006/07 £14,112) were paid to one or more of the panel of three appointed stakeholder pension providers. Employer contributions are age related and range from 3% to 12.5% of pensionable pay. Employers also match employee contributions up to 3% of pensionable pay. In addition employer contributions of £1,003 (2006/07 £998), 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.

There were no contributions due to the partnership pension providers at the balance sheet date. There were no contributions prepaid at that date.

There were no additional pension liabilities during 2007/08 payable by the Civil Service Pension arrangements for individuals who retired early on health grounds.

Cash equivalent transfer values

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

A cash equivalent transfer value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The figures include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the Civil Service Pension arrangements.They also include any additional pension benefit accrued to the member as a result of their purchasing additional pension benefits at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

Real increase in CETV

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

Jane Platt

Jane Platt
Chief Executive
National Savings and Investments
1 July 2008

Sustainability report

NS&I has done a lot to make the organisation more socially and environmentally responsible, and has developed a Sustainable Development policy to help measure its performance and manage its activities in this area.

Environmental policy

NS&I is committed to sustainable business practice. Governance by the Sustainability Committee and the Sustainability Working Group drives actions on both environmental and sustainability issues. Siemens is engaged in both the Committee and the Working Group.

NS&I's policy reflects its aim to deliver long-term value to its stakeholders in a way which is both financially viable and socially and environmentally responsible. Everyone in NS&I has a role to play, especially those responsible for NS&I's buildings, plant, machinery or obtaining/using goods and services.

NS&I has developed staff engagement on environmental issues by providing publicity material and by encouraging staff to suggest ways in which improvements can be made.

Environmental action in NS&I

The main features of NS&I's sustainable development action plan are broken down into seven key areas:

Using resources efficiently

By improving customer service through the direct channels of telephone and internet, NS&I is striving to reduce paper-based transactions.

Reducing carbon emissions

By changing lighting and power saving electronic equipment, NS&I is reducing energy consumption. NS&I is also changing behaviour by having more telephone conference meetings rather than travelling between sites.

Supporting our community

Staff are entitled to two days special leave each year to support local community and environmental projects. Various charity organisations have benefited from professional support in this way.

Involving people

NS&I success in recycling (63% of waste being recycled) is testament to the support and involvement of staff.

Leading by example

NS&I ensures that partners and suppliers understand its commitment to sustainability. For example, NS&I's marketing agencies embrace their commitment to using renewable and recycled materials.

Purchasing

NS&I ensures its purchasing policy pays proper regard to environmental issues whilst still securing best value for money.

Information technology

NS&I ensures that appropriate energy and environmental standards are applied during the purchase, planning and development and disposal of information technology systems.

Suppliers

Payment of suppliers, policy and performance

NS&I is committed to a policy of prompt payment and is a signatory to the Better Payment Practice Code. It endeavours to pay all suppliers within 30 days of acceptance of the relevant goods and services or the receipt of a legitimate invoice if that is later.

During 2007/08, NS&I paid 89.3% (2006/07: 88.5%) of bills within this standard.

Employees

Training and development

NS&I recognises that training and development is essential for all its employees, to support them in their job roles, to meet team goals and to meet NS&I's business objectives. NS&I is committed to providing and maintaining a learning and development framework to Investors in People (IiP) standards, which encourages a 'learning culture' and strives for continuous improvement.

NS&I EMT and senior managers fully support the training and development of its staff through:

- providing resources such as finance, equipment, time and opportunities to ensure that all employees have the right skills and knowledge required to carry out their roles
- ensuring that all managers are aware of their role with regard to their staff's training and development, and that they have the skills and knowledge required to support their staff in identifying learning and development needs and to follow through with the implementation of that training and development in the workplace
- encouraging employees to pursue development over and above their job role and to give consideration to career development
- offering learning and development on a fair basis to all employees and ensuring that no employee receives less favourable treatment or consideration in relation to training and development on the grounds of their gender, sexual orientation, racial group, marital status, disability, age, religion or religious beliefs, working pattern or any other unlawful criteria or circumstances
- taking part in the corporate mentoring scheme.

Health and safety

NS&I recognises and accepts its responsibility as an employer for ensuring that, as far as is reasonably practical, every employee has a place of work which is both safe and without risk to health.

NS&I complies with current health and safety legislation, approved codes of practice, guidance documentation and British Standards, and satisfies the spirit as well as the legal requirements of the Health and Safety at Work Act 1974 and other relevant statutory provisions.

NS&I is committed to continuous assessment and improvement of the health and safety culture of the organisation.

Disabled employees

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

Pension liabilities

The majority of present and past employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS). The PCSPS is a defined benefit scheme which, in the main, provides benefits based upon length of service and final salary. The scheme is unfunded. Liability for payment of future benefits lies with the PCSPS. There is a separate scheme statement for the PCSPS as a whole. NS&I meets the cost of pension cover provided for its employees by payment of charges calculated on an accruing basis. The rate of the employer's contribution is determined from time to time by the Government Actuary and advised by HM Treasury. For 2007/08 the rates were between 17.1 and 25.5% (2006/07 17.1 and 25.5%) of pensionable pay depending on salary.

NS&I is required to meet the additional cost of benefits beyond the normal PCSPS benefits in respect of employees who retire early unless the retirement is on approved medical grounds. 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 its balance sheet.

Equal opportunities

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

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

Recruitment monitoring

NS&I operates fair and open competition for all recruitment campaigns, in line with Civil Service Commissioner's guidelines. Appointments are made against robust criteria which are applied throughout the recruitment and assessment process.

NS&I's recruitment campaign files are independently audited annually through a reciprocal agreement with The Office of the Rail Regulator (a Civil Service Commissioners requirement). This includes comparing CVs to the selection criteria and reviewing diversity breakdowns to ensure it was fair and robustly applied. NS&I submits an annual audit return to the office of the Civil Service Commissioners which summarises campaigns, policy and processes. All activities may then be subject to a further audit review by the Civil Service Commissioners and campaign files are kept for 12 months to comply with this requirement. NS&I has a monitoring system in place to ensure that recruitment is carried out on a basis of fair and open competition and selection on merit in accordance with the guidelines laid down by the Civil Service Commissioners.

During 2007/08 there were a total of 32 permanent and fixed term appointments which are summarised in the table below. There were no permitted exceptions to the recruitment principle of fair and open competition.

Permanent and fixed term appointments in 2007/08

	Non-executive Directors	Senior Civil Servants*	Range A	Range B	Range C	Range D
Male	1	0	7	3	1	2
Female	0	0	4	5	5	4
White	1	0	9	7	2	4
Non White	0	0	2	1	4	2
Disabled	0	0	0	0	0	0

* Includes Executive Directors

Statement of Accounting Officer's responsibilities

Under the Government Resources and Accounts Act 2000, HM Treasury has directed NS&I to prepare resource accounts for each financial year, detailing the resources acquired, held, or disposed of during the year and the use of resources by the department during the year. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of NS&I, and of its net resource outturn, resources applied to objectives, recognised gains and losses, and cash flows for the financial year.

In preparing the accounts, the Accounting Officer is required to comply with the requirements of the Government Financial Reporting Manual (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.

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

Jane Platt

Jane Platt
Chief Executive
National Savings and Investments
1 July 2008

Statement on internal control

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

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

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

2. The purpose of the system of internal control
The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of departmental policies, aims and objectives; to evaluate the likelihood of those risks being realised and the impact should they be realised; and to manage them efficiently, effectively and economically. The system of internal control has been in place in NS&I for the year ended 31 March 2008 and up to the date of approval of the accounts, and accords with HM Treasury guidance.

3. Capability to handle risk
The board, Audit Committee and executive management team (EMT) have primary responsibility for identifying and monitoring key risks that face NS&I. The board delegates the responsibility for overseeing the risk management process to the Audit Committee, with the Audit Committee reporting back to the board after each meeting. Every month EMT considers whether there are any new risks to the business to be registered, and regularly discusses the key risks as part of its monthly risk review. The Audit Committee formally reviews the key risks at least annually to ensure they remain valid and complete in the light of changing circumstances in the year and business plans for the coming year.

NS&I has a risk management strategy, a risk management framework and agreed risk management reporting protocols which are reviewed and approved annually by the Audit Committee.

The Audit Committee, chaired by an independent Director, is responsible for providing assurance, in conjunction with internal and external auditors, to the board on the existence and effectiveness of the overall processes for managing risk within NS&I and within the part of Siemens concerned with NS&I business.

NS&I's business model means that NS&I is critically reliant on its business partner, Siemens, for the delivery of strategic objectives. Consequently, NS&I has established joint processes with Siemens to manage the partnership as one business. These include Siemens representation at the NS&I EMT meetings and NS&I representation at Siemens NS&I Account operational management team meetings; joint working between project offices; joint project teams; and a Joint Audit and Risk Management Committee (JARMC). The JARMC updates the Audit Committee on the management of risks to the joint business. Across the whole business, Directors and operational managers are responsible for embedding risk identification and management within the design, documentation and operation of business processes, in line with agreed risk tolerances.

During 2007/08 a review of NS&I's committee structure was undertaken to enhance governance, empower staff and include Siemens personnel in all appropriate areas. This has further clarified responsibilities for, and delegation of, decision making and risk management to committees under EMT, allowing EMT to focus on strategy, people and financial results. The Compliance and Risk Committee has been strengthened, and risk issues are also covered in other governance committees where relevant. Additionally, key risks are now formally shared at least annually with HM Treasury.

The risk management process is led by the EMT, comprising the Executive Directors and the Siemens Account Director responsible for the NS&I account, who are responsible for:

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

4. The risk process

An analysis of key risks and the consequent significant sub-risks has been established through an ongoing programme of individual and collective discussion with the Executive Directors. With very few exceptions where sub-risks have been retained by the Directors, all sub-risks have been allocated to the senior managers. An organisation-wide risk register records all significant risks identified, links lower level risks through to the key risks, records mitigating controls and named risk managers. The Audit Committee reviews the key risks annually to ensure they remain valid and complete in the light of business plans for the coming year. For each key and sub-risk identified, the assessment and scoring of the probability and impact both before and after mitigating controls is performed using a consistent methodology on a risk matrix. The results of this are considered against our agreed organisational risk appetite as approved annually by the Audit Committee. Reviews of risks and their risk scores are performed regularly, by senior managers and the EMT. Where further action is necessary to reduce exposure, the action, and its intended effect on the status of the risk, is logged, responsibility allocated, and a completion date agreed. This ensures that there is ongoing tracking of any risk where exposure remains unacceptably high despite the controls that are in place. These risks are flagged as red, reviewed monthly by EMT and reported to the Audit Committee.

Management of risk is embedded in policy-making, planning and delivery by Executive Directors and senior managers who are responsible for ensuring the proper management of risks; and cascading implementation of the risk management strategy framework within their directorates and teams respectively. Senior managers are responsible for implementation of self assessment processes.

As part of the annual planning cycle, senior managers are required to identify the significant risks which could impact on the achievement of each main element of their proposed business plans for the year. These risks are then compared with the existing risk register, which is amended as necessary.

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

A programme management function ensures that all projects are subject to formal project management disciplines including an assessment of inherent and residual risks. Projects are governed by formal project management disciplines including regular review of project and programme risks overseen by the project board, EMT, Audit Committee and the board.

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

The risk management process continues to be enhanced and during 2007/08 NS&I undertook an end-to-end process review of risk management in the light of the Landscape Review recommendations and NS&I's associated commitment to implementing Financial Services Authority (FSA) standards on a voluntary basis where relevant.

This enhanced risk management framework is based on the FSA's risk and control model and aims to meet FSA expectations of firms of similar size and complexity. The components of the framework consist of a set of interlinked delegated authorities, committee terms of reference, policies, and role profiles which support the identification and management of risk. This is facilitated by the identification and operation of key risk indicators to help anticipate and monitor risk and classification within NS&I's risk appetite matrix, for onward categorisation and reporting to the requisite committee and policy owner. NS&I aims to develop a database to combine data on frauds, operational losses, audit actions, risks and controls to give a single repository of NS&I's risk profile. NS&I is also developing a policy dashboard to provide an 'at a glance' representation of the risks impacting NS&I's business profile and, ultimately, business strategy through the business scorecard. Underpinning NS&I's assurance arrangements, and as part of the framework, NS&I is building a 'three lines of defence model' that emphasises segregation of duties and the elimination of conflicts of interest.

The key achievements in 2007/08 are:

- enhancement of governance structures throughout NS&I
- good progress in implementing our risk and compliance plans
- continued strengthening of our compliance and risk teams
- enhanced compliance assurance information and the associated working relationships with Siemens
- enhanced anti-money laundering processes, including the adoption of a risk-based approach
- reviews of our data protection and information management which is aligned with the latest Cabinet Office guidance
- green status (pass) for the Banking Code audit conducted by the Banking Code Compliance board in November 2007.

Plans for 2008/09 include the continued strengthening of our risk management and compliance assurance processes and an increase in investment and resources in our fraud risk management capabilities.

5. Review of effectiveness

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

I have been advised on the implications of the results of my review of the effectiveness of the system of internal control by the board, the Audit Committee and a plan to address weaknesses and ensure continuous improvement of the system is in place.

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

The Executive Directors conduct regular reviews of the risk register, with the top risks being reported monthly to EMT for review. These are reviewed at least annually by the Audit Committee. The Audit Committee also reviews annually assurance on the overall system of internal control provided by the Head of Internal Audit, and advises the board of its assessment of the internal control system.

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

The overall internal audit plan and internal audit process for the NS&I business, led by Deloitte is based on management's assessment of risk throughout the business. In my opinion, and that of the Audit Committee, this appreciably enhances the internal audit process, and hence the value of the internal audit assurance. We will continue our ongoing process for assessing internal controls against best practice across all systems and products. The approach to reviewing effectiveness and plans to ensure the continuous improvement of the systems in place will be further refined in 2008/09.

Jane Platt

Jane Platt
Chief Executive
National Savings and Investments
1 July 2008

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

I certify that I have audited the financial statements of National Savings and Investments (the Department) for the year ended 31 March 2008 under the Government Resources and Accounts Act 2000. These comprise the Statement of Parliamentary Supply, the Operating Cost Statement and Statement of Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement and the Statement of Operating Costs by Departmental Aim and Objectives and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Accounting Officer and auditor

The Accounting Officer is responsible for preparing the Annual Report, which includes the Remuneration Report, and the financial statements in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions made thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Accounting Officer's Responsibilities.

My responsibility is to audit the financial statements and the part of the Remuneration Report to be audited in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000. I report to you whether, in my opinion, the information which comprises the Management Commentary, excluding the section headed 'Difference between resource budget and resource outturn', is consistent with the financial statements. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

In addition, I report to you if the Department has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by HM Treasury regarding remuneration and other transactions is not disclosed. I review whether the Statement on Internal Control reflects the Department's compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether this statement covers all risks and controls, or to form an opinion on the effectiveness of the Department's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Report and the unaudited part of the Remuneration Report, and consider whether it is consistent with the audited financial statements. I consider the implications for my certificate if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinions
I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Department's circumstances, consistently applied and adequately disclosed.

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

Opinions
In my opinion:

- the financial statements give a true and fair view, in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by HM Treasury, of the state of the Department's affairs as at 31 March 2008, and the net cash requirement, net resource outturn, net operating cost, operating costs applied to objectives, recognised gains and losses and cash flows for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000; and
- information which comprises the Management Commentary, excluding the section headed 'Difference between resource budget and resource outturn', is consistent with the financial statements.

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

Report
I have no observations to make on these financial statements.

T J Burr
Comptroller and Auditor General

National Audit Office
151 Buckingham Palace Road
Victoria
London SW1W 9SS

9 July 2008

Statement of Parliamentary Supply

Summary of resource outturn 2007/08

	Estimate £'000s			Outturn £'000s				£'000s
	Gross expenditure	A in A[1]	Net total	Gross expenditure	A in A	Net total	Net total outturn compared with estimate: saving	Prior year Outturn
Request for resources 1 To provide retail funds for the Government that are cost-effective in relation to funds raised on the wholesale market	176,040	(5,746)	**170,294**	159,232	(5,625)	**153,607**	**16,687**	168,615

Explanation of the variation between Estimate and Outturn are provided in the management commentary.

Net cash requirement 2007/08

	Notes	Estimate £'000s	Outturn £'000s	Net total outturn compared with estimate: saving	2006/07 £'000s Prior year outturn
Net cash requirement	3	**167,672**	**155,224**	**12,448**	**157,603**

Summary of income payable to the Consolidated Fund

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

		Forecast 2007/08		Outturn 2007/08	
	Notes	Income £'000s	Receipts £'000s	Income £'000s	Receipts £'000s
Operating income and receipts – excess A in A		–	–	–	–
Other non-operating income and receipts not classified as A in A	4	–	–	214	*214*
Total		**–**	**–**	**214**	***214***

The actual receipts surrendered to the Consolidated Fund were £ 214,093.

The notes on pages 66 to 75 form part of these accounts.

[1] A in A – Appropriations in aid. Full definition in Glossary

Operating cost statement
For the year ended 31 March 2008

Administration costs Request for resources:	Notes	2007/08 Staff costs £'000s	2007/08 Other Costs £'000s	2007/08 Income £'000s	2006/07 £'000s
Staff costs	7	8,937	–	–	8,275
Other administration costs	8	–	150,295	–	165,687
Operating income	9	–	–	(5,625)	(5,472)
Totals		**8,937**	**150,295**	**(5,625)**	**168,490**
Net operating costs				**153,607**	**168,490**

All income and expenditure is derived from continuing operations.

Statement of recognised gains and losses
For the year ended 31 March 2008

	Notes	2007/08 £'000s	2006/07 £'000s
Net gain on revaluation of tangible fixed assets	16	2,881	970
Total recognised gains for the financial year		**2,881**	**970**

The notes on pages 66 to 75 form part of these accounts.

Balance sheet
As at 31 March 2008

	Notes	31 March 08 £'000s	31 March 08 £'000s	31 March 07 £'000s	31 March 07 £'000s
Fixed assets					
Tangible fixed assets	10(a)	26,830		25,204	
Intangible fixed assets	10(b)	89		144	
Total fixed assets			26,919		25,348
Debtors falling due after more than one year	11(a)		–		1,539
Current assets					
Debtors	11(a)	2,167		4,452	
Cash at bank and in hand	12	1,426		189	
		3,593		4,641	
Current liabilities					
Creditors (falling due within one year)	13(a)	(20,113)		(26,356)	
Net current assets			(16,520)		(21,715)
Total assets less current liabilities			10,399		5,172
Provisions for liabilities and charges	14		(547)		(728)
Total assets less liabilities			**9,852**		**4,444**
Taxpayer's equity					
General Fund	15		(1,580)		(4,107)
Revaluation Reserve	16		11,432		8,551
			9,852		**4,444**

The notes on pages 66 to 75 form part of these accounts.

Jane Platt

Jane Platt
Chief Executive and Director of Savings
National Savings and Investments
1 July 2008

Cash flow statement
For the year ended 31 March 2008

	Notes	2007/08 £'000s	2006/07 £'000s
Net cash outflow from operating activities	17(a)	(155,179)	(157,535)
Capital expenditure	17(b)	(45)	(68)
Receipts due to the Consolidated Fund which are outside the scope of the Department's activities	4	214	277
Payments of amounts due to the Consolidated Fund		(214)	(7,680)
Financing	17(c)	158,750	155,503
Increase / (decrease) in cash in the period	17(d)	**3,526**	**(9,503)**

The notes on pages 66 to 75 form part of these accounts.

Statement of operating costs by departmental aim and objective
For the year ended 31 March 2008

Aim: To help reduce the cost to the taxpayer of Government borrowing now and in the future.
NS&I's strategic objective is:

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

During 2007/08 NS&I incurred the following resource costs in pursuit of its objective:

	2007/08 Gross £'000s	2007/08 Income £'000s	2007/08 Net £'000s	2006/07 Gross £'000s	2006/07 Income £'000s	2006/07 Net £'000s
Resource cost of objective	159,232	(5,625)	153,607	173,962	(5,347)	168,615
Operating income and receipts – excess A in A	–	–	–	–	(125)	(125)
Net operating cost	**159,232**	**(5,625)**	**153,607**	**173,962**	**(5,472)**	**168,490**

The notes on pages 66 to 75 form part of these accounts.

Notes to the accounts

1 Statement of accounting policies

These financial statements have been prepared in accordance with the 2007/08 Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM follow UK Generally Accepted Accounting Practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector.

In addition to the primary statements prepared under UK GAAP, the FReM also requires the department to prepare two additional primary statements. The Statement of Parliamentary Supply and supporting notes show outturn against estimate in terms of the net resource requirement and the net cash requirement. The Statement of Operating Cost by Departmental Aim and Objectives and supporting notes analyse the Department's income and expenditure by the objective agreed with the Minister.

Where the FReM permits a choice of accounting policy, the accounting policy which has been adjudged to be most appropriate to NS&I's circumstances for the purpose of giving a true and fair view has been selected. The Department's accounting policies have been applied consistently in dealing with items considered material in relation to the accounts.

1.1 Accounting convention

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

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

1.2 Tangible fixed assets

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

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

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

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

1.3 Intangible fixed assets

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

1.4 Depreciation and amortisation

In accordance with FRS 15 freehold land is not depreciated. Depreciation and amortisation is provided on freehold buildings and other fixed assets at rates calculated to write off the cost or valuation, less estimated residual value, of each asset evenly over its expected useful life. Lives, which are reviewed regularly, are normally in the following ranges:

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

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

1.5 Operating leases

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

1.6 Research and development

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

1.7 Website development and design costs

The costs of designing and developing the content of the NS&I website are expensed in the year in which they are incurred.

1.8 Operating income

Operating income is income which relates directly to the operating activities of the department. It is comprised of rent from external tenants.

1.9 Administration expenditure

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

1.10 Capital charges

A charge, reflecting the cost of capital utilised by NS&I, is included in the operating costs. The charge is calculated at the real rate set by HM Treasury, 3.5% for 2007/08, on the average carrying amount of all assets less liabilities except for:

- cash balances with the Office of the Paymaster General (OPG) where the charge is nil
- liabilities for amounts to be surrendered to the Consolidated Fund where the credit is nil.

1.11 Pensions

Past and present employees are covered by the provisions of the Principal Civil Service Pension Service Pension Scheme (PCSPS) which is non-contributory and unfunded. Liability for payment of future benefits is a charge to the PCSPS.

Departments, agencies and other bodies covered by the PCSPS meet the cost of pension cover provided for the staff they employ by payment of charges calculated on an accruing basis. There is a separate scheme statement for the PCSPS as a whole.

Full details are given in note 7 below.

1.12 Early departure costs

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

1.13 Other provisions

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

1.14 Value Added Tax

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

1.15 The Statement of Parliamentary Supply and the Statement of Operating Costs by Departmental Aim and Objectives

The information contained in the Statement of Parliamentary Supply and associated notes is based on Request for Resources information. NS&I has only one Request for Resources. This information forms part of the parliamentary approval process.

2 Reconciliation of outturn to net operating cost and against Administration Budget

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

	Notes	2007/08 £'000s Outturn	2007/08 £'000s Supply estimate	2007/08 £'000s Outturn compared with estimate	2006/07 £'000s Outturn
Net resource outturn	4	153,607	170,294	16,687	168,615
Non-supply income (CFERS)		–	–	–	(125)
Net operating cost		**153,607**	**170,294**	**16,687**	**168,490**

2(b) Outturn against final Administration Budget

	Notes	2007/08 £'000s Budget	2007/08 £'000s Outturn	2006/07 £'000s Outturn
Gross Administration Budget		176,040	159,232	173,962
Income allowable against final Administration Budget	5	(5,746)	(5,625)	(5,347)
Net outturn against Administration Budget		**170,294**	**153,607**	**168,615**

3 Reconciliation of resources to cash requirement

	Notes	Estimate £'000s	Outturn £'000s	Net total outturn compared with estimate: saving/(excess)
Resource outturn		170,294	153,607	16,687
Capital:				
• Acquisition of fixed assets	10	500	45	455
Non-operating A in A				
Proceeds of fixed asset disposals		–	–	–
Accruals adjustments				
• Non cash items	8	(5,622)	(3,877)	(1,745)
• Changes in working capital other than cash		1,600	5,195	(3,595)
Use of provision	14	900	254	646
Net cash requirement		**167,672**	**155,224**	**12,448**

4 Analysis of income payable to the Consolidated Fund

	Notes	2007/08 Forecast income £'000s	2007/08 Outturn receipts £'000s	2006/07 Forecast income £'000s	2006/07 Outturn receipts £'000s
Operating income and receipts excess A in A	5	–	–	125	–
Other non-operating income and receipts not classified as A in A	6	214	214	152	152
Total		**214**	**214**	**277**	**152**

5 Reconciliation of income recorded within the Operating Cost Statement to operating income payable to the Consolidated Fund

	Notes	2007/08 £'000s	2006/07 £'000s
Operating income	9	5,625	5,472
Income authorised to be appropriated-in-aid		(5,625)	(5,347)
Operating income payable to the Consolidated Fund		**–**	**125**

6 Non-operating income not classified as A in A

	2007/08 Income £'000s	2007/08 Receipts £'000s	2006/07 Income £'000s	2006/07 Receipts £'000s
Prior year fraud recoveries	214	214	135	135
Bank compensation for late settlement	–	–	17	17
Total non-operating income not classified as A in A	**214**	**214**	**152**	**152**

7 Staff numbers and related costs

Staff costs comprise:

	2007/08 £'000s Total	2007/08 £'000s Permanently employed staff	2007/08 £'000s Others	2006/07 £'000s Total
Wages and salaries	7,125	6,181	944	6,558
Social security costs	542	542	–	560
Other pension costs	1,270	1,270	–	1,157
Total net costs	**8,937**	**7,993**	**944**	**8,275**

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

For 2007/08 contributions of £1,269,883 were paid to the PCSPS (2006/07: £1,157,369) at rates determined by the Government Actuary and advised by HM Treasury. These rates were in the range 17.1 to 25.5% (2006/07: 17.1-25.5%) of pensionable pay based on salary bands. The scheme's Actuary reviews employer contributions every four years following a full scheme valuation. For 2008/09 the salary bands will be revised but rates will remain the same. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employer's contributions of £14,420 (2006/07: £14,112) were paid to one or more of a panel of four stakeholder pension providers. Employer contributions are age related and range from 3 to 12.5% (2006/07: 3 to 12.5%) of pensionable pay. Employers also match employee contributions of up to 3% of pensionable pay. In addition, employer contributions of £1,003, 0.8% (2006/07: £998, 0.8%) of pensionable pay, were payable to the PCSPS to cover the cost of future provision of lump sum benefits on death in service and ill health retirement of these employees. Contributions due to the partnership pension providers at the balance sheet date were nil. Contributions prepaid at that date were nil.

Average number of persons employed

Objective	2007/08 Permanently employed staff	2007/08 Others	2007/08 Total	2006/07 Total
Administration of NS&I	118	28	146	143
Total	**118**	**28**	**146**	**143**

8 Other administration costs

	Notes	2007/08 £'000s	2006/07 £'000s
Operational contract costs			
PPP provider costs	20	95,914	101,080
Selling agents		27,469	32,242
Giro fees, Link line, ATMOS and banking charges		1,384	1,272
		124,767	**134,594**
Marketing and research costs			
Marketing		11,554	17,062
Research		2,192	2,467
		13,746	**19,529**
Other expenditure			
Consultancy, internal audit contract and personnel costs		3,957	3,936
Professional services		2,346	2,152
Other costs		1,262	1,391
Losses and special payments		282	224
Audit of Ordinary Deposits White Paper Account		58	58
		7,905	**7,761**
Non cash items			
Tangible fixed assets depreciation	10(a)	1,289	1,110
Intangible fixed assets depreciation	10(b)	44	54
Prepayment amortisation	11(a)	1,539	1,539
Diminution in fixed assets		22	66
Loss on disposal of fixed assets		–	–
Changes in provisions	14	73	106
Cost of capital charge	15	255	321
Notional external audit fees: Product Accounts		597	549
Notional external audit fees: Resource Accounts		58	58
		3,877	**3,803**
Administration costs		**150,295**	**165,687**

Selling agents include our distribution partners, the Post Office®, WHSmith and other minor agents.

The external audit fees relating to Ordinary Deposits White Paper Account of £58,000 (2006/07: £58,000) are paid in cash. The National Audit Office (NAO) are NS&I's external auditors and received no remuneration for non-audit work. PriceWaterhouseCoopers (PWC) are NAO's framework partner for the product accounts audit. PWC did not undertake any non-audit work for NS&I.

9 Operating income

Operating income comprises:

	2007/08 £'000s	2006/07 £'000s
Rent from external tenants	5,625	5,472
Total operating income	**5,625**	**5,472**

Non-operating income and receipts not classified as Appropriations in Aid comprises amounts which relate to prior years, including prior year loss recoveries and loan recoveries. The actual receipts surrenderable were £214,093.

10 Fixed assets

10(a) Tangible fixed assets

	Freehold land and buildings £'000s	Information technology £'000s	Plant and machinery £'000s	Furniture and fittings £'000s	Total £'000s
Cost or valuation					
At 1 April 2007	28,616	326	724	3,721	33,387
Additions	–	12	8	25	45
Disposals	–	(17)	–	–	(17)
Revaluation	3,305	–	61	151	3,517
Downward revaluation	–	(14)	–	–	(14)
At 31 March 2008	**31,921**	**307**	**793**	**3,897**	**36,918**
Depreciation					
At 1 April 2007	(5,477)	(189)	(464)	(2,053)	(8,183)
Provided in year	(652)	(43)	(117)	(477)	(1,289)
Disposals	–	17	–	–	17
Backlog depreciation	(636)	–	–	–	(636)
Downward revaluation adjustment	–	3	–	–	3
At 31 March 2008	**(6,765)**	**(212)**	**(581)**	**(2,530)**	**(10,088)**
Net book value					
At 31 March 2007	23,139	137	260	1,668	25,204
At 31 March 2008	**25,156**	**95**	**212**	**1,367**	**26,830**

The freehold land and buildings were revalued at 31 March 2005 by professional valuers on an existing use basis. Chartered Surveyors Montagu Evans (Glasgow), Knight Frank (Durham), and Edmund Kirby (Blackpool) carried out the valuations in accordance with the Appraisal and Valuation Manual.

10(b) Intangible fixed assets

	Software licences 31 March 08 £'000s	Software licences 31 March 07 £'000s
Cost or valuation		
At 1 April	312	421
Additions	–	–
Disposals	–	(158)
Revaluation	(11)	49
At 31 March	**301**	**312**
Amortisation		
At 1 April	(168)	(199)
Provided in year	(44)	(54)
Disposals	–	158
Revaluation adjustment	–	(73)
At 31 March	**(212)**	**(168)**
Net book value		
At 31 March	**89**	**144**

11(a) Debtors

	Notes	31 March 08 £'000s	31 March 07 £'000s
Amounts due within one year:			
Consolidated Fund debtor	15	–	2,100
Deposits and advances		38	33
Prepayments and accrued income		571	233
PPP contract prepayment from asset transfer		1,539	1,539
Other debtors		19	547
		2,167	**4,452**
Amounts due after more than one year:			
PPP contract prepayment from asset transfer		–	1,539
Total debtors at 31 March		**2,167**	**5,991**

The number of employees with advances for season tickets purchases in excess of £2,500 at 31 March 2008 was five.

Under a contract signed with Siemens in January 1999 for the provision of operational services the majority of the Department's assets were re-classified as a prepayment at 31 March 1999 and subsequently transferred to Siemens on 1 April 1999, for a nominal sum. This had the effect of reducing charges that would otherwise have been payable to Siemens over the life of the contract. The prepayment is being amortised over the initial life (10 years) of the contract on a straight line basis.

11(b) Intra-Government balances – debtors

	Amount falling due within one year		Amount falling due after more than one year	
	31 March 08 £'000s	31 March 07 £'000s	31 March 08 £'000s	31 March 07 £'000s
Balance with other central Government bodies	–	2,100	–	–
Balance with public corporations and trading funds	–	–	–	–
Subtotal: intra-Government balances	–	2,100	–	–
Balance with bodies external to Government	2,167	2,352	–	1,539
Total debtors at 31 March	**2,167**	**4,452**	**–**	**1,539**

12 Cash at bank and in hand

	Notes	31 March 08 £'000s	31 March 08 £'000s	31 March 07 £'000s	31 March 07 £'000s
Balance at 1 April			189		7,403
Movement in cash balance (decrease) / increase	17(d)	3,526		(9,503)	
Exclude overdrawn HM Paymaster balance	13(a)	(2,289)		2,289	
Net change in cash balances			1,237		(7,214)
Closing cash balance 31 March			**1,426**		**189**
The following balances at 31 March are held at:					
Office of HM Paymaster General		1,418		–	
Commercial banks		8		189	
			1,426		189
The balance at 31 March comprises:					
Cash due to be paid to the Consolidated Fund			**1,426**		**189**

13(a) Creditors (amounts falling due within one year)

	31 March 08 £'000s	31 March 07 £'000s
HM Paymaster overdrawn bank balance	–	2,289
Taxation and social security	292	233
Trade creditors	10,156	11,250
Other creditors	124	119
Accruals	8,115	12,340
Amounts issued from the Consolidated Fund for supply but not spent at year end	1,426	–
Consolidated Fund creditor	–	125
Total creditors	**20,113**	**26,356**

At 31 March 2008 there were no creditors falling due after more than one year.

13(b) Intra-Government balances – creditors (amounts falling due within one year)

	31 March 08 £'000s	31 March 07 £'000s
Balance with other central Government bodies	1,718	253
Balance with public corporations and trading funds	1,314	3,823
Subtotal: intra-Government balances	3,032	4,076
Balance with bodies external to Government	17,081	22,280
Total creditors at 31 March	**20,113**	**26,356**

14 Provisions for liabilities and charges

	31 March 08 £'000s	31 March 08 £'000s	31 March 07 £'000s	31 March 07 £'000s
Movements in the provision for early departure cost:				
Balance at 1 April		728		1,045
Applied	(254)		(423)	
Increase in provision	73		106	
		(181)		(317)
Total early departure costs provision		547		728
Provisions for liabilities and charges		**547**		**728**

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

15 General fund

	Notes	31 March 08 £'000s	31 March 08 £'000s	31 March 07 £'000s	31 March 07 £'000s
Balance at 1 April			(4,107)		5,977
Parliamentary funding drawn down	17(c)		156,650		155,503
Net transfer from operating activities:					
Net operating cost		(153,607)		(168,490)	
CFERS repayable to Consolidated Fund		–		(125)	
			(153,607)		(168,615)
Year end adjustment:					
Consolidated Fund debtor		–		2,100	
Consolidated Fund creditors for cash unspent		(1,426)		–	
			(1,426)		2,100
Non cash charges:					
Cost of capital		255		321	
NAO		655		607	
			910		928
Balance at 31 March			**(1,580)**		**(4,107)**

16 Revaluation reserve

	31 March 08 £'000s	31 March 07 £'000s
Balance at 1 April	8,551	7,581
Arising on revaluation during the year (net)	2,881	970
Balance at 31 March	**11,432**	**8,551**

17 Notes to cash flow statement

(a) Reconciliation of operating cost to cash flows

	2007/08 £'000s	2006/07 £'000s
Net operating cost	153,607	168,490
Adjustments for non cash transactions	(3,877)	(3,803)
(Increase) / decrease in debtors	(184)	610
Decrease / (increase) in creditors	5,379	(8,185)
Use of provisions	254	423
Net cash outflow from operating activities	**155,179**	**157,535**

(b) Analysis of capital expenditure and financial investment

	2007/08 £'000s	2006/07 £'000s
Tangible fixed asset additions	45	68
Intangible fixed asset additions	–	–
Net cash outflow from investing activities	**45**	**68**

(c) Analysis of financing

	Notes	2007/08 £'000s	2006/07 £'000s
From the Consolidated Fund (Supply) – current year	17(d)	156,650	155,503
Cash surrender of part of prior year's unspent supply	17(d)	2,100	(7,403)
Net Financing		**158,750**	**148,100**

(d) Reconciliation of Net Cash Requirement to increase / (decrease) in cash

	2007/08 £'000s	2006/07 £'000s
Net Cash Requirement	(155,224)	(157,603)
From the Consolidated Fund (Supply) – current year	156,650	155,503
From the Consolidated Fund (Supply) – prior year	2,100	–
Cash surrender of part of prior year's unspent supply	–	(7,403)
(Decrease) / Increase in cash	**3,526**	**(9,503)**

18 Capital commitments

The following capital commitments existed at the balance sheet date:

	31 March 08 £'000s	31 March 07 £'000s
Contracted but not provided for	20	–
Authorised but not contracted	–	–
Total capital commitments	**20**	**–**

19 Commitments under operating leases

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

Land and buildings	31 March 08 £'000s	31 March 07 £'000s
Leases expiring within:		
• One year	–	–
• Two to five years	453	402
• After five years	–	–
	453	**402**

Other	31 March 08 £'000s	31 March 07 £'000s
Leases expiring within:		
• One year	3	5
• Two to five years	13	3
• After five years	11	11
	27	**19**

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

20 The Public Private Partnership (PPP) contract

In January 1999, NS&I signed a 10-year contract with Siemens for the provision of operational services, which came into effect on 1 April 1999. The initial 10-year contract was extended to a 15-year contract ending in March 2014. Exercising the option to extend on pre-agreed terms was covered in the terms of the original contract signed in 1999. The majority of NS&I's assets transferred to Siemens for a nominal sum, which had the effect of reducing charges which would otherwise have been payable to Siemens over the life of the contract. The majority of NS&I's staff also transferred to Siemens on 1 April 1999.

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

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

	£'000s
Amounts falling due within one year	78,118
Net present value of amounts falling due within two to five years	279,548
Net present value of amounts falling due within six to seven years	60,176

A discount rate of 3.5% has been used to derive the net present value of the payment stream in years two to seven.

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

21 Contingent liabilities disclosed under FRS 12

There were no contingent liabilities at 31 March 2008.

22 Post balance sheet events

NS&I, as part of its estate rationalisation strategy is in negotiations to sell part of its Blackpool site. The sale will have a material impact on the balance sheet.

There were no other reportable post balance sheet events between the balance sheet date and 9 July 2008, the date of authorisation of the accounts. The financial statements do not reflect events after that date.

23 Related party transactions

NS&I is an Executive Agency of the Chancellor of the Exchequer and a Government department.

The Post Office® is a major distributor of NS&I products and, as a public body, the Post Office® is a related party. NS&I had a significant number of transactions with Post Office® during the accounting period. NS&I's Post Office® costs during 2007/08 were £27,195,244 (2006/07: £28,917,000) for contract services and £117,500 for non-contract services (2006/07: £1,085,000).

NS&I entered into a 10-year PPP contract with Siemens for the provision of operational services, which came into effect on 1 April 1999. This was extended to 31 March 2014.

As the major provider of operational services, Siemens is a related party. Note 8 to these accounts contain details of amounts paid and payable under the contract during 2007/08 and note 20 to the accounts contains details of future commitments arising under the contract. Under the same contract Siemens has entered into an agreement to lease NS&I three operational sites in return for a monthly rent. Details of the amounts received and receivable are provided in note 9 to these accounts.

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

24 Resources by Departmental aims and objectives

During 2000/01 NS&I objectives were redefined as part of the quinquennial review of the department. HM Treasury confirmed NS&I had only one aim and one objective as noted on 'Statement of Parliamentary Supply' (shown on page 62). This has subsequently been confirmed in the Landscape Review in 2005. To comply with the Financial Reporting Manual (FReM) and the accounts direction in these accounts, the resources by departmental aims contains one objective. The associated administrative cost is therefore equal to the net resource outturn, as shown in the operating cost statement.

25 Losses and special payments

	No of cases	31 March 08 £'000s	No of cases	31 March 07 £'000s
Compensation payments	9	15	18	2
Fraud loss	159	267	161	192
Operational losses	3	–	2	–
Constructive losses	–	–	2	28
Other	–	–	3	2
Total	**171**	**282**	**186**	**224**

26 Financial instruments

FRS 13, Derivatives and Other Financial Instruments, requires disclosure of the role which financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities. Due to the way in which Government departments are financed, the Department's resource accounts are not exposed to the degree of financial risk faced by business entities. NS&I does not have powers to borrow or invest surplus funds.

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

Product accounts
2007/08

Foreword
Statutory background

NS&I
National Savings and Investments (NS&I) became an Executive Agency of the Chancellor of the Exchequer in 1996. Its origins can be traced back to the National Savings Bank in the 1860s. In February 2002 National Savings launched its new name and corporate identity and is now known as 'NS&I'.

NS&I is an integral part of the UK's debt management arrangements. Its sole aim is to help reduce the cost to the taxpayer of Government borrowing now and in the future, through the sale of savings and investment products to the retail market, thus providing retail funding for Government that is cost-effective in relation to funds raised on the wholesale market.

The Director of Savings, who is also NS&I's Chief Executive, is the Accounting Officer responsible for administering NS&I's products. The Chief Executive of NS&I is accountable to HM Treasury Ministers for the performance of the Agency and, as Accounting Officer, to Parliament for the proper, effective and efficient use of public funds. Accountability to HM Treasury Ministers is achieved via a governance framework, which includes a Framework Document, Corporate Plan, Service Delivery Measures and the annual Financing Remit.

Siemens
In January 1999, NS&I signed a 10-year contract with Siemens for provision of operational services which came into effect on 1 April 1999. The initial 10-year contract was extended to a 15-year contract ending in March 2014.

National Loans Fund (NLF)
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 NLF's borrowing needs are met indirectly through borrowing on its behalf by NS&I and the Debt Management Office (DMO). The NLF finishes every day with a nil balance on its bank account because any cash surpluses or deficits are offset by transfers to or from the Debt Management Account (DMA). HM Treasury is responsible for the operation of the NLF.

The Commissioners for the Reduction of National Debt (CRND)
Under the National Savings Bank Act 1971, Ordinary Account investments are passed to the CRND who invest them under section 18 of that Act. The CRND is part of the DMO.

Under the National Savings Stock Register Regulations 1976, some old un-cleared payments are also passed to the CRND for inclusion in the Unclaimed Dividends Account.

NS&I's products and regulation

These accounts cover transactions and balances on all of 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

British Savings Bonds	National Savings Stock Register Regulations 1976
Capital Bonds	National Savings Stock Register Regulations 1976
Children's Bonus Bonds	Savings Certificates (Children's Bonus Bonds) Regulations 1991
Deposit Bonds	National Savings Stock Register Regulations 1976
First Option Bonds	National Savings Stock Register Regulations 1976
Guaranteed Income Bonds and Guaranteed Growth Bonds (previously known as Fixed Rate Savings Bonds)	National Savings Stock Register Regulations 1976
Gift Tokens	–
Guaranteed Equity Bonds (GEB)	National Savings Stock Register Regulations 1976
Income Bonds	National Savings Stock Register Regulations 1976
Pensioners' Guaranteed Income Bonds	National Savings Stock Register Regulations 1976
Premium Bonds	Premium Savings Bonds Regulations 1972
Save As You Earn	Savings Contracts Regulations 1969
Savings Certificates	Savings Certificates Regulations 1991
Savings Stamps	National Savings Stamps Regulations 1969
Yearly Plan	Savings Certificates (Yearly Plan) Regulations 1984

Products governed by the National Savings Bank Act 1971

Easy Access Savings Account	National Savings Bank Regulations 1972
Individual Savings Account	National Savings Bank Regulations 1972
Investment Account	National Savings Bank Regulations 1972
Ordinary Account	National Savings Bank Regulations 1972
Treasurers' Account	National Savings Bank Regulations 1972

British Savings Bonds, Deposit Bonds, First Option Bonds, Gift Tokens, Ordinary Account, Save As You Earn, Savings Stamps, Treasurers' Account and Yearly Plan were not on sale during the year, but some customer funds are still invested within them. Capital Bonds and Pensioners' Guaranteed Income Bonds were taken off sale in February 2008.

NS&I subscribes to the Banking Code which provides greater transparency and improved communications with its customers. In November 2007, the Banking Code Compliance Board conducted a review of NS&I and gave a 'green' status. The next formal review is in 2009 and NS&I conducts annual self-assessments to ensure ongoing compliance.

Although NS&I is not regulated by the Financial Services Authority (FSA), NS&I recognises the relevant regulations and aims for voluntary compliance with relevant FSA standards and works in the spirit of the overall regulatory framework. Over the past 12 months, the focus has been on implementing and embedding relevant work practices and ensuring closer adherence to the relevant standards set out in the FSA handbook, and this focus will continue in the future.

NS&I joined the Financial Ombudsman Service (FOS) voluntary jurisdiction scheme in 2005. Under FOS jurisdiction, NS&I's complaints procedure has been streamlined to achieve clarity and transparency and to deliver greater simplicity for customers, who have access to the same dispute resolution process as other financial services providers.

NS&I strives to meet both regulatory and best practice standards that are applicable to NS&I within the financial services industry.

Accounts

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

Scope of the Product Accounts
These accounts record the transactions for the year ended 31 March 2008 on retail savings and investment products administered by NS&I and the balances in respect of those 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 either the NLF to fund public sector activity, or to the CRND where they are invested mainly in Government securities.
- *NS&I's administration costs.* These are funded by Parliamentary Vote and accounted for separately in the 'NS&I Annual Resource Accounts' in the Annual Report. However, the interest 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 the NLF account and these accounts.
- *Tax foregone*. Some NS&I products are tax free. The notional cost of tax foregone by the Exchequer is not recognised as a cost in these accounts, but is considered as part of NS&I's overall Value Add metric when computing how cost-effective NS&I has been at financing the national debt.

A separate White Paper account (Ordinary Deposits Account) is also published for the Ordinary Account.

Performance for the year
NS&I's objective is to provide the Government with cost-effective retail finance compared to funds raised on the wholesale market.

In pursuit of this objective, NS&I raised £15.54 billion through sales and deposits for the year ended 31 March 2008 (2006/07: £14.17 billion). After repayments and interest, total liabilities to customers (Net Financing) increased by £5.88 billion during 2007/08 to £84.78 billion.

In April 2007, NS&I successfully launched phase one of its **NS&I adding value** strategy.

During 2007/08, NS&I initiated its new Information System strategy to improve the overall efficiency of NS&I's customer recording system. NS&I also entered into a new distribution partnership with WHSmith aiming to provide customers with greater choices in how they transact with NS&I.

Looking forward
In 2008/09, NS&I aims to raise circa £4.0 billion in Net Financing (within a range of £3.25 billion to £4.75 billion) and will continue to implement its **NS&I adding value** strategy, aiming to deliver at least £275 million Value Add in 2008/09.

Audit
These accounts have been audited by the Comptroller and Auditor General whose Certificate and Report appear on pages 84 and 85.

Jane Platt

Jane Platt
Chief Executive
National Savings and Investments
1 July 2008

Statement of Accounting Officer's responsibilities

Under the Government Resources and Accounts Act 2000, NS&I is required to prepare accounts covering all its products for each financial year in accordance with HM Treasury Accounts Direction.

The accounts are prepared on an accruals basis and must give a true and fair view of the products' balances at the year-end, and of the income and expenditure and cash flows for the financial year.

HM Treasury has appointed the Director of Savings as Accounting Officer for NS&I, with responsibility for preparing the NS&I Product Accounts and for transmitting them to the Comptroller and Auditor General.

In preparing the accounts, the Accounting Officer is required to comply with the requirements of the Government Financial Reporting Manual (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.

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

The Accounting Officer's responsibility for the keeping of information relating to proper records includes the responsibility for the maintenance, integrity and upkeep of the product accounts on the NS&I website.

Jane Platt

Jane Platt
Chief Executive
National Savings and Investments
1 July 2008

Statement on internal control

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

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

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

2. The purpose of the system of internal control
The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of departmental policies, aims and objectives; to evaluate the likelihood of those risks being realised and the impact should they be realised; and to manage them efficiently, effectively and economically. The system of internal control has been in place in NS&I for the year ended 31 March 2008 and up to the date of approval of the accounts, and accords with HM Treasury guidance.

3. Capability to handle risk
The board, Audit Committee and executive management team (EMT) have primary responsibility for identifying and monitoring key risks that face NS&I. The board delegates the responsibility for overseeing the risk management process to the Audit Committee, with the Audit Committee reporting back to the board after each meeting. Every month EMT considers whether there are any new risks to the business to be registered, and regularly discusses the key risks as part of its monthly risk review. The Audit Committee formally reviews the key risks at least annually to ensure they remain valid and complete in the light of changing circumstances in the year and business plans for the coming year.

NS&I has a risk management strategy, a risk management framework and agreed risk management reporting protocols which are reviewed and approved annually by the Audit Committee.

The Audit Committee, chaired by an independent Director, is responsible for providing assurance, in conjunction with internal and external auditors, to the board on the existence and effectiveness of the overall processes for managing risk within NS&I and within the part of Siemens concerned with NS&I business.

NS&I's business model means that NS&I is critically reliant on its business partner, Siemens, for the delivery of strategic objectives. Consequently, NS&I has established joint processes with Siemens to manage the partnership as one business. These include Siemens representation at the NS&I EMT meetings and NS&I representation at Siemens NS&I Account operational management team meetings; joint working between project offices; joint project teams; and a Joint Audit and Risk Management Committee (JARMC). The JARMC updates the Audit Committee on the management of risks to the joint business. Across the whole business, Directors and operational managers are responsible for embedding risk identification and management within the design, documentation and operation of business processes, in line with agreed risk tolerances.

During 2007/08 a review of NS&I's Committee structure was undertaken to enhance governance, empower staff and include Siemens personnel in all appropriate areas. This has further clarified responsibilities for, and delegation of, decision making and risk management to committees under EMT, allowing EMT to focus on strategy, people and financial results. The Compliance and Risk Committee has been strengthened, and risk issues are also covered in other governance committees where relevant. Additionally, key risks are now formally shared at least annually with HM Treasury.

The risk management process is led by the EMT, comprising the Executive Directors and the Siemens Account Director responsible for the NS&I account, who are responsible for:

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

4. The risk process

An analysis of key risks and the consequent significant sub-risks has been established through an ongoing programme of individual and collective discussion with the Executive Directors. With very few exceptions where sub-risks have been retained by the Directors, all sub-risks have been allocated to the senior managers. An organisation-wide risk register records all significant risks identified, links lower level risks through to the key risks, records mitigating controls and named risk managers. The Audit Committee reviews the key risks annually to ensure they remain valid and complete in the light of business plans for the coming year. For each key and sub-risk identified, the assessment and scoring of the probability and impact both before and after mitigating controls is performed using a consistent methodology on a risk matrix. The results of this are considered against our agreed organisational risk appetite as approved annually by the Audit Committee. Reviews of risks and their risk scores are performed regularly, by senior managers and the EMT. Where further action is necessary to reduce exposure, the action, and its intended effect on the status of the risk, is logged, responsibility allocated, and a completion date agreed. This ensures that there is ongoing tracking of any risk where exposure remains unacceptably high despite the controls that are in place. These risks are flagged as red, reviewed monthly by EMT and reported to the Audit Committee.

Management of risk is embedded in policy-making, planning and delivery by Executive Directors and senior managers who are responsible for ensuring the proper management of risks; and cascading implementation of the risk management strategy framework within their directorates and teams respectively. Senior managers are responsible for implementation of self assessment processes.

As part of the annual planning cycle, senior managers are required to identify the significant risks which could impact on the achievement of each main element of their proposed business plans for the year. These risks are then compared with the existing risk register, which is amended as necessary.

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

A programme management function ensures that all projects are subject to formal project management disciplines including an assessment of inherent and residual risks. Projects are governed by formal project management disciplines including regular review of project and programme risks overseen by the project board, EMT, Audit Committee and the board.

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

The risk management process continues to be enhanced and during 2007/08 NS&I undertook an end-to-end process review of risk management in the light of the Landscape Review recommendations and NS&I's associated commitment to implementing Financial Services Authority (FSA) standards on a voluntary basis where relevant.

This enhanced risk management framework is based on the FSA's risk and control model and aims to meet FSA expectations of firms of similar size and complexity. The components of the framework consist of a set of interlinked delegated authorities, committee terms of reference, policies, and role profiles which support the identification and management of risk. This is facilitated by the identification and operation of key risk indicators to help anticipate and monitor risk and classification within NS&I's risk appetite matrix, for onward categorisation and reporting to the requisite committee and policy owner. NS&I aims to develop a database to combine data on frauds, operational losses, audit actions, risks and controls to give a single repository of NS&I's risk profile. NS&I is also developing a policy dashboard to provide an 'at a glance' representation of the risks impacting NS&I's business profile and, ultimately, business strategy through the business scorecard. Underpinning NS&I's assurance arrangements, and as part of the framework, NS&I is building a 'three lines of defence model' that emphasises segregation of duties and the elimination of conflicts of interest.

The key achievements in 2007/08 are:

- enhancement of governance structures throughout NS&I
- good progress in implementing our risk and compliance plans
- continued strengthening of our compliance and risk teams
- enhanced compliance assurance information and the associated working relationships with Siemens
- enhanced anti-money laundering processes, including the adoption of a risk-based approach
- reviews of our data protection and information management which is aligned with the latest Cabinet Office guidance
- green status (pass) for the Banking Code audit conducted by the Banking Code Compliance board in November 2007.

Plans for 2008/09 include the continued strengthening of our risk management and compliance assurance processes and an increase in investment and resources in our fraud risk management capabilities.

5. Review of effectiveness

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

I have been advised on the implications of the results of my review of the effectiveness of the system of internal control by the board, the Audit Committee and a plan to address weaknesses and ensure continuous improvement of the system is in place.

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

The Executive Directors conduct regular reviews of the risk register, with the top risks being reported monthly to EMT for review. These are reviewed at least annually by the Audit Committee. The Audit Committee also reviews annually assurance on the overall system of internal control provided by the Head of Internal Audit, and advises the board of its assessment of the internal control system.

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

The overall internal audit plan and internal audit process for the NS&I business, led by Deloitte, is based on management's assessment of risk throughout the business. In my opinion, and that of the Audit Committee, this appreciably enhances the internal audit process, and hence the value of the internal audit assurance. We will continue our ongoing process for assessing internal controls against best practice across all systems and products. The approach to reviewing effectiveness and plans to ensure the continuous improvement of the systems in place will be further refined in 2008/09.

Jane Platt

Jane Platt
Chief Executive
National Savings and Investments
1 July 2008

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

I certify that I have audited the financial statements of National Savings and Investments' Products Accounts for the year ended 31 March 2008 under the Government Resources and Accounts Act 2000. These comprise the Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement 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

The Accounting Officer is responsible for preparing the Foreword and the financial statements in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions made thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Accounting Officer's Responsibilities.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000. I report to you whether, in my opinion, the Foreword is consistent with the financial statements. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

In addition, I report to you if National Savings and Investments has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit. I review whether the Statement on Internal Control reflects National Savings and Investments' compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether this statement covers all risks and controls, or to form an opinion on the effectiveness of National Savings and Investments' corporate governance procedures or its risk and control procedures.

I read the other information contained in the Foreword and consider whether it is consistent with the audited financial statements. I consider the implications for my certificate if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinions
I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are most appropriate to National Savings and Investments' circumstances, consistently applied and adequately disclosed.

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

Opinions
In my opinion:

- the financial statements give a true and fair view, in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by HM Treasury, of the state of National Savings and Investments' affairs as at 31 March 2008, and of the income and expenditure and cash flows for the year then ended;
- the financial statements have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000; and
- information given within the Foreword is consistent with the financial statements.

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

Report
I have no observations to make on these financial statements.

T J Burr
Comptroller and Auditor General

National Audit Office
151 Buckingham Palace Road
Victoria
London SW1W 9SS

9 July 2008

Income and expenditure statement (I&E)
for the year ended 31 March 2008

	Notes	2007/08 £'000s	2006/07 £'000s
Interest and prizes receivable by investors	3	3,330,390	2,876,933
Gain on revaluation of embedded derivatives		169,934	68,380
		3,500,324	2,945,313
Interest and prizes payable financed by the NLF	4	(3,324,725)	(2,873,362)
Interest and prizes payable financed by the CRND	5	(5,665)	(3,571)
Loss on revaluation of embedded derivatives		(169,934)	(68,380)
		(3,500,324)	(2,945,313)
Net cost		–	–

The notes on pages 89 to 97 form part of these accounts.
An analysis of the income and expenditure by product is disclosed in note 2.

Balance sheet
as at 31 March 2008

	Notes	31 March 08 £'000s	31 March 07 £'000s
Assets			
Held by the NLF	4	83,707,804	77,965,989
Held by the CRND	5	336,186	340,196
		84,043,990	78,306,185
Current assets			
Cash and cash equivalents		527,591	430,962
Debtors	6	215,946	171,540
		743,537	602,502
Creditors: amounts falling due within one year	7	(7,275)	(7,823)
Net current assets		736,262	594,679
		84,780,252	**78,900,864**
Liabilities			
Liability to investors			
– Principal	8	(83,483,638)	(77,571,565)
– Accrued interest and prizes	8	(1,254,012)	(1,289,572)
		(84,737,650)	(78,861,137)
Unclaimed funds	9	(42,602)	(39,727)
		(84,780,252)	**(78,900,864)**

The notes on pages 89 to 97 form part of these accounts.

Jane Platt

Jane Platt
Chief Executive and Director of Savings
National Savings and Investments
1 July 2008

Cash flow statement
for the year ended 31 March 2008

	Notes	2007/08 £'000s	2006/07 £'000s
Cash flow from operating activities			
Net increase in total funds invested		5,879,388	5,560,163
Increase in debtors		(44,406)	(34,291)
(Decrease) / increase in creditors		(548)	592
Net cash transfer to the NLF and the CRND	10	(5,737,805)	(5,498,055)
Net cash flow from operating activities		96,629	28,409
Net increase in cash and cash equivalents		96,629	28,409
Cash and cash equivalents, beginning of the year		430,962	402,553
Cash and cash equivalents, end of the year		**527,591**	**430,962**

The notes on pages 89 to 97 form part of these accounts.

Notes to the accounts

1 Accounting policies

Presentation of accounts

The accounts are prepared in accordance with an Accounts Direction given by HM Treasury under the Government Resources and Accounts Act 2000 to the extent specified therein and with HM Treasury's Government Financial Reporting Manual (FReM). The principal accounting policies applied in the preparation of the accounts are set out below.

Interest and prizes recognition

Interest and prizes earned by investors are recognised in accordance with the terms and conditions applicable to each product. Capitalised interest is accrued and included in interest and prizes earned in the Income and Expenditure (I&E) Statement and liabilities to investors principal in the balance sheet. Interest and index linking, where applicable, are accrued from the date of receipt 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.

Financed by the CRND / NLF

The interest and prizes earned by investors are funded by the CRND (Ordinary account only) and the NLF (all other products). The accounting policy for the CRND / NLF interest is as outlined under 'Interest and prizes recognition' and is therefore equal and opposite in total, resulting in a net cost of zero.

Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand. For the purpose of the cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above.

Financial assets

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

Relationships with the CRND and the NLF
NS&I is the Government's retail savings agency. All funds from investors are payable to either the NLF or the CRND and all liabilities to investors are discharged from funds payable by the NLF and the CRND, on a statutory basis. Risks relating to liabilities to investors are met wholly by the NLF and the CRND. Further, the Product Accounts present only a part of the Government's overall financing requirement managed by the HM Treasury through the NLF and the CRND (with recourse to the Consolidated Fund), and is financed ultimately from the Government's tax revenues or borrowings. Due to the nature of these arrangements, the risk management and capital disclosure requirements of 'Financial Reporting Standard 29, Financial Instruments: Disclosure' are not applicable for these accounts.

The analysis by principal liability and accrued interest of the total funds held by / financed by the NLF (note 4) and the CRND (note 5) does not equal the total funds invested by product (note 8) ie liability to investors. This is due to timing differences in the flow of funding and defunding movements between NS&I and its agents and the NLF / CRND via HM Treasury's bank account at the Bank of England. This difference is represented by the net of cash plus debtors minus other creditors.

Financial liabilities
All financial liabilities are measured at amortised cost using the effective interest method unless stated otherwise. The treatment of GEB is an exception, as noted under the 'financial assets' policy above. Financial liabilities are derecognised when 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. Investments are considered valid when investors satisfy Evidence of Identity requirements. Payments are recognised as a reduction in the liability to the investor on the date of the payment instrument. Where payment instruments are not cashed by the investor within their stipulated time limit, the liability to the investor is reinstated under 'Out of date warrants' then transferred to the CRND as unclaimed money after an appropriate period.

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.

Derivative financial instruments
A derivative embedded in a product is accounted for as a stand-alone derivative if it is not evidently closely related to the product. It is recognised initially, and subsequently measured, at fair value. Gains and losses arising from changes in the fair value of a derivative are recognised in the I&E statement.

In March 2002, NS&I began to issue GEBs in partnership with the DMO. GEBs include an embedded equity derivative which is exposed to equity index risk and interest rate risk over the life of each GEB issue. The DMO enters into a hedge for each GEB issue to mitigate these risks. The hedge is comprised of two forward derivatives. Both are reported at market value. NS&I does not hold the underlying position being hedged.

Financial Reporting Standard 26, Recognition and Measurement, requires all embedded derivatives which are not closely related to the host contract to be separately accounted for from the host contract. The separated embedded derivative must be measured at fair value through the I&E statement.

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

The fair value of the embedded derivative is set at an equal and opposite value to the hedging derivative with both values being reflected on the liability and asset sides of the balance sheet respectively.

2 Transactions with investors by product

	Received from investors £'000s	Interest and prizes earned £'000s	Paid to investors including tax deducted at source £'000s	Increase /(decrease) in investors fund £'000s	Invested at 31 March 08 £'000s	Invested at 31 March 07 £'000s
British Savings Bonds	–	–	(17)	(17)	2,656	2,673
Capital Bonds	30,748	45,392	(191,686)	(115,546)	1,017,086	1,132,632
Children's Bonus Bonds	53,985	52,117	(109,362)	(3,260)	1,306,302	1,309,562
Deposit Bonds	–	–	(318)	(318)	5,538	5,856
Easy Access Savings Account	981,473	52,815	(549,928)	484,360	1,530,474	1,046,114
First Option Bonds	–	8,800	(26,625)	(17,825)	180,184	198,009
Guaranteed Income Bonds and Guaranteed Growth Bonds (Fixed Rate Savings Bonds)	394,788	32,897	(134,187)	293,498	863,498	570,000
Gift Tokens	–	–	(4)	(4)	1,531	1,535
Guaranteed Equity Bonds	55,575	(53,479)	(346,634)	(344,538)	1,009,304	1,353,842
Income Bonds	1,601,660	394,814	(1,108,339)	888,135	8,225,132	7,336,997
Individual Savings Account	1,454,778	194,596	(366,847)	1,282,527	3,993,408	2,710,881
Investment Account	541,871	223,766	(974,945)	(209,308)	5,434,264	5,643,572
Ordinary Account	1,598	5,665	(12,965)	(5,702)	307,292	312,994
Pensioners' Guaranteed Income Bonds	519,466	138,775	(847,631)	(189,390)	2,896,069	3,085,459
Premium Bonds	6,637,597	1,378,016	(6,341,256)	1,674,357	36,923,456	35,249,099
Save As You Earn	–	410	(1,677)	(1,267)	10,062	11,329
Savings Certificates	3,259,538	853,467	(1,922,573)	2,190,432	21,029,230	18,838,798
Savings Stamps	–	–	(3)	(3)	5,773	5,776
Treasurers' Account	2,265	1,690	(46,592)	(42,637)	19,465	62,102
Yearly Plan	–	649	(4,755)	(4,106)	19,528	23,634
Total	**15,535,342**	**3,330,390**	**(12,986,344)**	**5,879,388**	**84,780,252**	**78,900,864**

First Option Bonds and Fixed Rate Savings Bonds are the only products which have tax deducted at source. From 23 February 2008 Fixed Rate Savings Bonds were renamed as Guaranteed Income Bonds (GIB) and Guaranteed Growth Bonds (GGB). Guaranteed Equity Bonds (GEB) interest earned figure includes a revaluation loss from the embedded derivative at 31 March 2008 of £169,934,000 (2006/07: £68,380,000).

3 Interest and prizes receivable by investors

	2007/08 £'000s	2006/07 £'000s
National Loans Fund	3,324,725	2,873,362
Commissioners for the Reduction of the National Debt	5,665	3,571
Total	**3,330,390**	**2,876,933**

4 Amounts held by the NLF

	2007/08 £'000s	2006/07 £'000s
As at 1 April	77,965,989	72,454,795
Interest and prizes earned by investors	3,324,725	2,873,362
Received from the NLF	(11,928,171)	(10,427,154)
Paid to the NLF	14,326,823	13,011,843
Amortisation of GEB principal liabilities due to fair value accounting	18,438	53,143
As at 31 March	**83,707,804**	**77,965,989**

The amounts held by the NLF as at 31 March 2008 relate to the following products:

	Principal liability £'000s	Accrued interest £'000s	Total £'000s
Capital Bonds	985,548	28,394	1,013,942
Children's Bonus Bonds	1,252,226	50,181	1,302,407
Easy Access Savings Account	1,461,292	–	1,461,292
First Option Bonds	174,157	4,968	179,125
Guaranteed Income Bonds and Guaranteed Growth Bonds (Fixed Rate Savings Bonds)	823,509	14,485	837,994
Guaranteed Equity Bonds	751,465	247,405	998,870
Income Bonds	8,067,749	28,952	8,096,701
Individual Savings Account	3,764,610	187,992	3,952,602
Investment Account	5,351,958	53,083	5,405,041
Pensioners' Guaranteed Income Bonds	2,890,813	4,680	2,895,493
Premium Bonds	36,474,095	108,798	36,582,893
Save As You Earn	4,898	5,143	10,041
Savings Certificates	20,441,636	492,043	20,933,679
Treasurers' Account	18,242	223	18,465
Yearly Plan	18,895	364	19,259
Total	**82,481,093**	**1,226,711**	**83,707,804**

The GEB accrued interest figure at 31 March 2008 of £247,405,000 (2006/07: £417,339,000) represents the fair value on the hedging derivative contained within the GEB products. Accordingly, the GEB principal liability is amortised using the effective interest rate method as described in note 1: Financial assets.

5 Amounts held by the CRND

	2007/08 £'000s	2006/07 £'000s
As at 1 April	340,196	353,335
Interest and prizes earned by investors	5,665	3,571
Received from the CRND	(14,312)	(20,878)
Paid to the CRND	4,637	4,168
As at 31 March	**336,186**	**340,196**

The amounts held by the CRND as at 31 March 2008 relate to the following products:

	Principal liability £'000s	Accrued interest £'000s	Unclaimed monies £'000s	Total £'000s
British Savings Bonds	–	–	2,627	2,627
Gift Tokens	–	–	1,526	1,526
Income Bonds	–	–	2,916	2,916
Ordinary Account	292,240	1,326	–	293,566
Pensioners' Guaranteed Income Bonds	–	–	418	418
Premium Bonds	–	–	29,365	29,365
Saving Stamps	–	–	5,768	5,768
Total	**292,240**	**1,326**	**42,620**	**336,186**

6 Debtors

	2007/08 £'000s	2006/07 £'000s
Agents	208,749	171,174
Other debtors	7,197	366
	215,946	**171,540**

NS&I products are distributed by the Post Office® and on a limited product range with WHSmith. Both are NS&I agents providing a brochure pick up services and NS&I website references to the customer. The Post Office® also provides a face-to-face counter service for customers who want to make repayments or purchases of NS&I products.

7 Other creditors

	2007/08 £'000s	2006/07 £'000s
NLF	48	81
HM Revenue & Customs	–	12
Agents	173	7,668
Other creditors	7,054	62
	7,275	**7,823**

8 Liability to investors

	Principal liability £'000s	Accrued interest £'000s	Liability 31 March 08 £'000s	Liability 31 March 07 £'000s
Capital Bonds	988,692	28,394	1,017,086	1,132,632
Children's Bonus Bonds	1,256,121	50,181	1,306,302	1,309,562
Deposit Bonds	5,538	–	5,538	5,856
Easy Access Savings Account	1,530,474	–	1,530,474	1,046,114
First Option Bonds	175,216	4,968	180,184	198,009
Guaranteed Income Bonds and Guaranteed Growth Bonds (Fixed Rate Savings Bonds)	849,013	14,485	863,498	570,000
Guaranteed Equity Bonds	761,899	247,405	1,009,304	1,353,842
Income Bonds	8,184,033	38,152	8,222,185	7,334,474
Individual Savings Account	3,805,416	187,992	3,993,408	2,710,881
Investment Account	5,381,181	53,083	5,434,264	5,643,572
Ordinary Account	305,966	1,326	307,292	312,994
Pensioners' Guaranteed Income Bonds	2,887,659	7,979	2,895,638	3,085,177
Premium Bonds	36,771,918	122,274	36,894,192	35,222,161
Save As You Earn	4,919	5,143	10,062	11,329
Savings Certificates	20,537,187	492,043	21,029,230	18,838,798
Treasurers' Account	19,242	223	19,465	62,102
Yearly Plan	19,164	364	19,528	23,634
Total	**83,483,638**	**1,254,012**	**84,737,650**	**78,861,137**

9 Unclaimed funds

	2007/08 £'000s	2006/07 £'000s
British Savings Bonds	2,656	2,673
Gift Tokens	1,531	1,535
Income Bonds	2,947	2,523
Pensioners' Guaranteed Income Bonds	431	282
Premium Bonds	29,264	26,939
Saving Stamps	5,773	5,775
	42,602	**39,727**
Aged one year or less	–	–
Aged more than one year but not more than two years	–	–
Aged more than two years but not more than five years	7,133	6,566
Aged more than five years	35,469	33,161
	42,602	**39,727**

Unclaimed funds represent old uncleared payments to investors which are transferred to the CRND under the National Savings Stock Register Regulations 1976. Unclaimed funds are repayable to investors on demand. The above amounts differ to those presented under 'Unclaimed monies' in note 5 due to timing differences between transferring to the CRND and when the payments become unclaimed funds.

10 Net cash transfer to the NLF and the CRND

	2007/08 £'000s	2006/07 £'000s
NLF		
Received from the NLF	11,928,171	10,427,154
Paid to the NLF	(14,326,823)	(13,011,843)
	(2,398,652)	(2,584,689)
CRND		
Received from the CRND	14,312	20,878
Paid to the CRND	(4,637)	(4,168)
	9,675	16,710
Interest/prizes earned	(3,330,390)	(2,876,933)
Amortisation of GEB principal liabilities due to fair value accounting	(18,438)	(53,143)
Net cash outflow	**(5,737,805)**	**(5,498,055)**

Cash received from investors is not invested by NS&I but passed daily to the NLF for all products apart from the Ordinary Account where cash is passed to the CRND. Cash is drawn from the NLF or the CRND for payments to investors as and when required.

11 Categorisation of financial assets and liabilities

	2007/08 £'000s	2006/07 £'000s
Assets		
Financial assets measured at fair value through I&E statement	247,405	417,339
Loans and receivables	84,012,531	78,060,386
Cash	527,591	430,962
	84,787,527	**78,908,687**
Liabilities		
Financial liabilities measured at fair value through I&E statement	(247,405)	(417,339)
Financial liabilities measured at amortised cost	(84,540,122)	(78,491,348)
	(84,787,527)	**(78,908,687)**

12 Product maturity profile

All products are repayable on demand except for GEB products which are repayable in accordance with their terms. The maturity profile for the total liability for all products is as follows:

	Variable rate and index linked products 31 March 08 £'000s	Fixed rate products 31 March 08 £'000s	Non-interest bearing products 31 March 08 £'000s	Total 31 March 08 £'000s
Maturing in one year or less or repayable on demand	70,745,689	13,354,147	48,866	84,148,702
Maturing in more than one year but not more than two years	412,150	–	–	412,150
Maturing in more than two years but not more than five years	215,183	–	–	215,183
Maturing in more than five years	4,217	–	–	4,217
	71,377,239	**13,354,147**	**48,866**	**84,780,252**

	Variable rate and index linked products 31 March 07 £'000s	Fixed rate products 31 March 07 £'000s	Non-interest bearing products 31 March 07 £'000s	Total 31 March 07 £'000s
Maturing in one year or less or repayable on demand	63,967,295	13,834,313	98,104	77,899,712
Maturing in more than one year but not more than two years	387,211	–	–	387,211
Maturing in more than two years but not more than five years	607,377	–	–	607,377
Maturing in more than five years	6,564	–	–	6,564
	64,968,447	**13,834,313**	**98,104**	**78,900,864**

13 Fair values of assets and liabilities

	Total per accounts 31 March 08 £'000s	Fair value 31 March 08 £'000s
Assets		
Held by the NLF – all products apart from GEB	82,708,934	81,605,502
Held by the NLF – GEB	998,870	988,803
Held by the CRND	336,186	336,186
Cash and cash equivalents	527,591	527,591
Debtors	215,946	215,946
	84,787,527	**83,674,028**
Liabilities		
Fixed rate products	(13,292,806)	(12,189,376)
GEB	(1,009,304)	(999,235)
Floating rate products	(70,429,276)	(70,429,276)
Non interest bearing products	(48,866)	(48,866)
Other creditors	(7,275)	(7,275)
	(84,787,527)	**(83,674,028)**

	Total per accounts 31 March 07 £'000s	Fair value 31 March 07 £'000s
Assets		
Held by the NLF – all products apart from GEB	76,612,147	75,322,846
Held by the NLF – GEB	1,353,842	1,318,874
Held by the CRND	340,196	340,196
Cash and cash equivalents	430,962	430,962
Debtors	171,540	171,540
	78,908,687	**77,584,418**
Liabilities		
Fixed rate products	(13,636,553)	(12,347,252)
GEB	(1,353,842)	(1,318,874)
Floating rate products	(63,841,654)	(63,841,654)
Non interest-bearing products	(68,815)	(68,815)
Other creditors	(7,823)	(7,823)
	(78,908,687)	**(77,584,418)**

There is no material difference between the carrying value and the fair value of the floating rate products (except GEB), non interest-bearing products, other creditors and debtors, therefore all of these balances are deemed to be at fair value. The fair value of the fixed rate products is derived by discounting future expected cash flows using the relevant gilt rates obtained from DMO. Any impact of early repayments is ignored as the impact of these is immaterial. The fair value of the assets held by NLF is a mirror of the related liabilities which it guarantees subject to timing differences.

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

14 Market and credit risk

NS&I is a Government agency. NS&I's principal activity is financing a part of the Government borrowing by selling savings and investments products to retail savers and investors. Monies received by NS&I are passed to the NLF or the CRND who guaranteed to honour the product terms and conditions in the form of a hundred percent HM Treasury guarantee. Therefore NS&I does not face any material market risk.

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

15 Events after the balance sheet date

There are no other reportable post balance sheet events between the balance sheet date and 9 July 2008, the date of authorisation of the accounts. The financial statements do not reflect events after that date.

Annex – Accounts Direction

Accounts Direction given by HM Treasury in accordance with section 7(2) of the Government Resources and Accounts Act 2000.

1. The Department of National Savings and Investments shall prepare accounts for its Product Accounts for the year ending 31 March 2008 (and each subsequent financial year) that give a true and fair view of the state of affairs of the Product Accounts at the balance sheet date and of their income and expenditure and cash flows for the year then ended. The accounts shall be prepared under the historical cost convention modified to include certain financial instruments at valuation and in accordance with applicable accounting standards.

2. The accounts shall be consistent with relevant requirements of the Government Financial Reporting Manual, except to the extent set out below:
   a. an income and expenditure account shall be prepared instead of an Operating Cost Statement;
   b. the Statement of Parliamentary Supply and the Statement of Operating Costs by Departmental Aim and Objectives are not relevant to the Product Accounts; and
   c. the accounts shall follow the requirements of FRS 23 (IAS 21) The Effects of Changes in Foreign Exchange Rates (instead of SSAP 13, Foreign Currency Translation), FRS 25 (IAS 32) Financial Instruments: Presentation), FRS 26 (IAS 39) Financial Instruments: Measurement, and FRS 29 (IFRS 7) Financial Instruments: Disclosures (instead of FRS 13 Derivatives and other financial instruments: disclosures) other than Appendix E, Capital disclosures.

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

4. This Accounts Direction supersedes that issued on 23 May 2007.

David Watkins
Head, Financial Reporting Policy
HM Treasury
28 May 2008

Glossary

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 resource accounts.

Banking Code
A voluntary code that sets standards of good banking practice. NS&I and most banks, building societies and credit card companies subscribe to the Code.

Basis points
This is usually one hundredth of a percentage point, and is used in quoting movements in interest rates of yields on securities.

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

Capital
The total amount of deposits in the customer's account, or the original investment in the customer's Bond or Certificate.

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

Delagged
In relation to our Value Add (see below), this is a measure which allows for timing differences between product interest rate changes being announced and the rate coming into effect.

Delegated Expenditure Limit (DEL)
Expenditure limit within which a Government department has responsibility for allocation, though some elements may be demand-led.

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

Dormant holdings
Savings or investments belonging to a customer with whom we've lost contact.

Equities
Investments (shares) in a company listed on a stock market.

End of Year Flexibility (EYF)
A financial system that allows Government departments to carry forward any unspent resources from one year to the next.

Executive Agency
NS&I is 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.

Independent Financial Advisers (IFAs)
Financial intermediaries are professional advisers on investments and financial products, regulated by the Financial Services Authority.

Financial Ombudsman Service (FOS)
The Independent service for settling disputes between businesses that provide financial services and their customers.

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

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

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

Gross interest
The taxable rate of interest without deduction of UK Income Tax.

Gross sales
Total sales of NS&I products including reinvestments.

Growth
How the customer's savings grow through the addition of interest.

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

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

Inflation beating
Inflation beating is achieved through the addition of interest, on top of index-linking.

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

ISAs (Individual Savings Accounts)
Tax-free savings accounts that allow investment in cash or stocks and shares up to a certain limit in each tax year. NS&I offers a Cash ISA and a Direct ISA.

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

Net interest
This is the rate of interest payable after the deduction of UK Income Tax at the rate specified by law.

Net Financing
Net Financing (NF) is the measure of the net change of NS&I funds, ie total inflows from new deposits and retention of maturing monies, less the total outflows from withdrawals and interest or prize draw payments. A positive Net Financing figure represents a positive contribution to Government financing.

Public / Private Partnership (PPP)
A long-term partnership between a public sector and private sector organisation, designed for mutual benefit. Our 10-15 year PPP with Siemens encompasses the provision of transaction processing together with front and back-office operations.

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

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

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

Siemens
Siemens is our partner responsible for improving the efficiency and effectiveness of our business operations and call centres.

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

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

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

Tiered interest rates
Where the interest rates increase according to how much money you have invested.

Treasury Bills
Treasury Bills are short-term Government bonds. They don't earn interest. Instead, they are sold at a discount to their face value.

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

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

Value Add
A measure of our cost-effectiveness in raising finance for Government. The total cost of NS&I raising funds is compared to how much it would cost the Government to raise funds through the wholesale market via gilts and Treasury Bills.

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

Warrant
A type of payment – similar to a cheque.

Wholesale markets
Used to describe the market in which non-retail financial services customers operate, for example the sale of Gilts or Treasury Bills by the Government to banks and other financial institutions such as pension funds or other fund managers.

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

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

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

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Thank you
NS&I would like to thank all staff and customers for their contribution to the 2007/08 Annual Report.

*Our UK customer service team is available every day from 7am until midnight. We don't use premium rate numbers – maximum call charge 4p per minute from a BT landline as at July 2008; charges from other providers may vary. For your security, and to maintain the highest levels of service, calls may be recorded.
**Calls from mobiles may be chargeable.

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