

Great effort Bravo
Excellent results
Thank you Encore
First class service
A successful year

national savings
& investments



ns&i

We've had a remarkable year at NS&I. By working hard to develop new sales channels and publicise our products, we achieved our targets and outstanding service.

Trevor Bayley Acting Chief Executive

National Savings and Investments

Annual Report and Accounts 2005-06

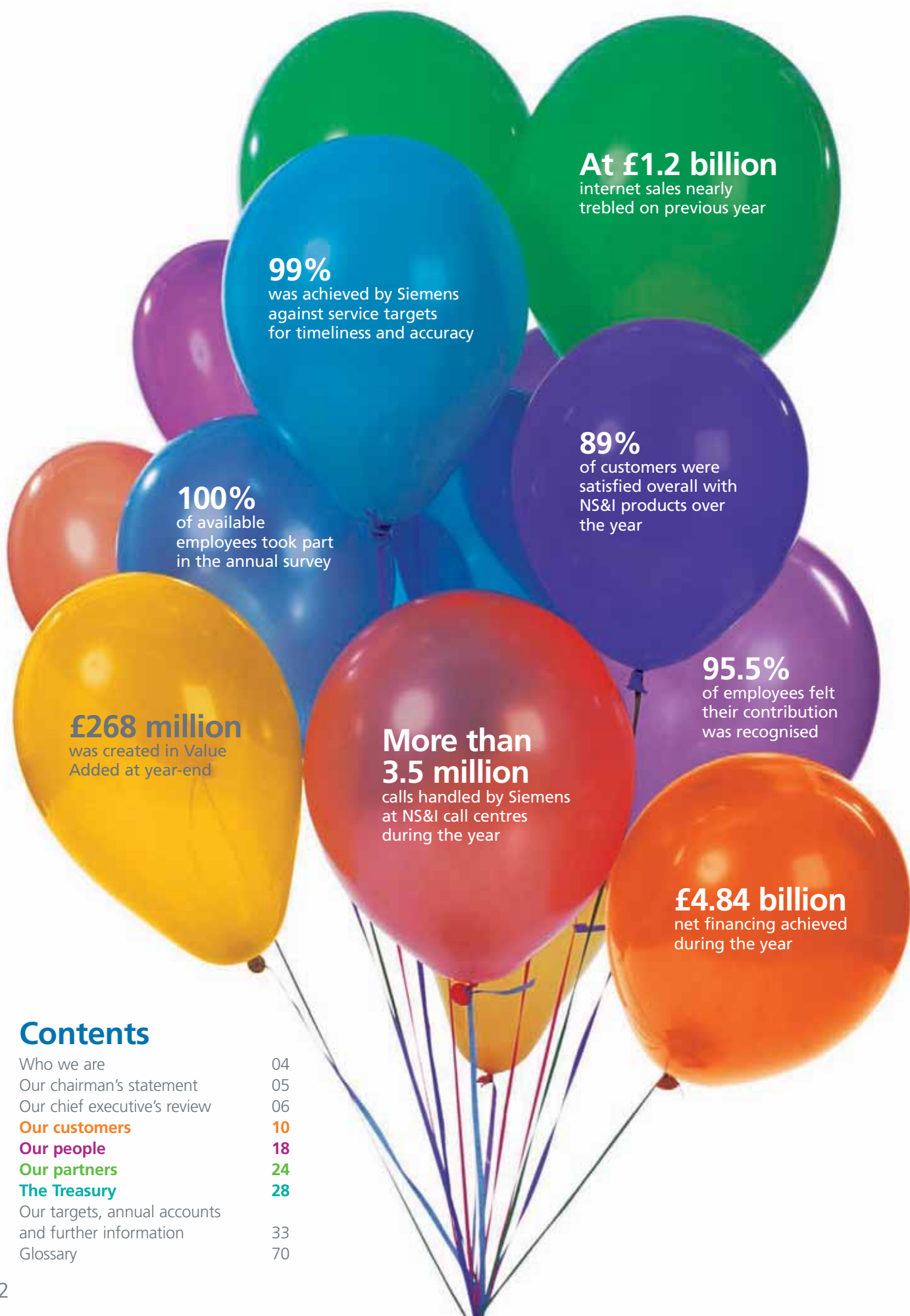


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At £1.2 billion
internet sales nearly
trebled on previous year

99%
was achieved by Siemens
against service targets
for timeliness and accuracy

89%
of customers were
satisfied overall with
NS&I products over
the year

100%
of available
employees took part
in the annual survey

95.5%
of employees felt
their contribution
was recognised

£268 million
was created in Value
Added at year-end

**More than
3.5 million**
calls handled by Siemens
at NS&I call centres
during the year

£4.84 billion
net financing achieved
during the year

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A year worth celebrating...

From winning awards for our website to meeting our financial targets, we've had an incredibly successful year. We think it's time to celebrate all of our amazing achievements.



A toast from Emma, part of our culture-changing HR team

Who we are

With more than £73 billion invested, National Savings and Investments 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

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

Our mission

Our overall aim is to help reduce the cost to the taxpayer of government borrowing now and in the future. With this in mind, our single strategic objective is to provide 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 unique promise of 100% security, backed by HM Treasury

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

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

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

Our strategy

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

Our way

NS&I is committed to a way of working that can be described as:

- Progressive
- Decisive
- Working together as a team
- Straightforward
- Trustworthy

Our chairman's statement

In my second year as Chairman, I am delighted to provide an opening view of NS&I's performance for our most successful year in recent times.



Our overall target is to raise £15 billion in net financing over five years (by 2007/08) and deliver £1.3 billion in savings (known as Value Added) to the Treasury. Our excellent performance over the past year means that we're racing ahead to reach our goal.

Modernising NS&I

Throughout the year we made great strides in modernising how we deliver a trusted brand with unique savings opportunities. Our ongoing improvements in how customers can save and invest with us continued to deliver excellent results – from refreshing and re-launching our award-winning website to signing a new marketing partnership with Tesco Personal Finance. We also let our customers know more about those choices as we raised our profile through very successful TV advertising, sponsorship with Classic FM and our long-standing relationship with Post Office Ltd.

Our people

Behind this success is a great team of people who work together in one of the strongest and most successful public/private partnerships in the UK. Together, 131 NS&I employees and 1,700 Siemens Business Services (Siemens) employees run a unique business model – and they run it with shared direction, passion and commitment to achieving the best.

Through the year we have had some changes to the Board. Alan Cook left NS&I as Chief Executive in February 2006, moving to take up the post of Managing Director at Post Office Ltd. In his three and a half years with NS&I, he led the partnership in defining how it was going to achieve modernisation and engaged people across the NS&I/Siemens partnership in bringing the vision to life. He left with our very best wishes and congratulations on his new role. Trevor Bayley, our Deputy Chief Executive and Finance Director, took over the reins as Acting Chief Executive and, alongside the Executive Management Team, has led the organisation with clarity and commitment without missing a beat. Trevor is due to retire in late 2006 and will be missed by all.

We also said goodbye to Karen Jones, who left as Marketing Director in March 2006. She made an important contribution in raising NS&I's profile throughout the year and I would like to thank her. In April 2006, Sue Owen left HM Treasury and NS&I as non-executive Director. We thank her for her huge support both on the Board and in HM Treasury, and we wish her luck in her new role.

Dharmesh Tailor and Peter Cornish have stepped up as Acting Head of Finance and Acting Marketing Director respectively, and my thanks go to them in giving the Executive Management Team (EMT) tremendous support during this period.

Looking forward

We continue to benefit from low base rates, and current market conditions help to make our unique range of secure products more appealing. While the FTSE has continued to demonstrate unpredictable volatility, people aren't yet moving capital away from cash-based savings and investments towards stocks and shares. At NS&I we look forward to going even further in offering great value and providing customers, old and new, with a wider choice of straightforward products and ways of accessing our service.

It's been a highly successful year for one of the UK's most trusted financial services brands. Thanks to all involved – our partners, our customers and our people should all be proud of what has been achieved. I hope you enjoy reading more about our progress.

Paul Spencer Chairman

A handwritten signature in blue ink that reads "Paul Spencer". The signature is stylized and includes a flourish at the end.

Our chief executive's review

We've had a remarkable year at NS&I. By working hard to develop new sales channels and publicise our products, we achieved our targets and outstanding service.



In the third year of our five-year strategy, we have added £4.84 billion to our total net financing taking total funds invested to more than £73 billion; and we created £268 million Value Added in our mission to help reduce the cost of borrowing to the Government. This leaves us very strongly placed to deliver the agreed £15 billion net financing and more than £1.3 billion Value Added to Treasury by March 2008.

We experienced a slow start to the year, but thanks to an excellent response to our new sales channels – in particular the internet – we've met our revised target of £4.84 billion net financing. An impressive achievement by any standard.

Our return to television advertising for the first time in six years was also a major factor in achieving such outstanding results. The campaign we ran between June 2005 and January 2006, fronted by Sir Alan Sugar, was instrumental in raising NS&I's public profile.

But we're not alone in celebrating our success – our achievements have been recognised with three major awards in the past year. We received the DBA Design Effectiveness Award for our modern, user-friendly website and, in conjunction with Siemens, the Call Centre Association Excellence Award for the quality of our service. And jointly with EuroDirect, we won the Data Strategy Award for completing what was judged to be the largest ever database cleansing exercise in Europe – involving numerous customer segmentation projects and some 60 million customer records. Even though we're not in business to win awards, those we do win acknowledge how we've successfully transformed our business.



An outstanding performance

The past year saw our best performance so far in our five-year strategy Direction 2007 – both in terms of net financing and Value Added. We're on target to deliver £15 billion growth by the end of 2007/08, having reached the £10.3 billion mark as of 31 March 2006.

The success of our integrated advertising and marketing campaign led to better-than-anticipated sales and an improvement in retention. Our retention rates have maintained excellent levels (86-88%) throughout the year – a real feat within the financial services industry. The growth of the internet has also played an important role, with the second half of the year seeing online sales reach as much as £121 million a month. The introduction of a second £1 million Premium Bonds prize in August, combined with the integrated TV advertising campaign, reinvigorated sales – lifting them by 50% over the remainder of the year, compared to the same period last year.

The commitment of Post Office Ltd also played a crucial part. It ran its own advertising and marketing campaigns to support our activities, which helped to increase both awareness of our products and sales.

No matter how good the products, a savings organisation can only excel with excellent customer service and a committed workforce. NS&I has benefited from both, and their impact on this year's success should not be underestimated. The active and ongoing support we've received from our partner, Siemens, is vital to us. Siemens continues to attain incredibly high performance levels and support us by developing modern, cost-effective processes and systems designed to deliver great service. In 2005/06 Siemens achieved 99.32% against a 97% timeliness target and 99.29% against a target of 98.5% for accuracy – an excellent result for one of our busiest ever years.

New ways for our customers to reach us

A core part of our modernisation strategy involves developing new channels and partnerships – providing greater choice in the ways that our customers can reach us. We've seen superb growth year-on-year in sales via telephony, with an increase from £1.4 billion to £1.7 billion. In 2005 we opened a new call centre in Glasgow to cope with growing demand. Our award-winning website has continued its early progress with sales leaping from £450 million in 2004/05 to £1.2 billion in 2005/06.

To complement all this, we linked up with Tesco Personal Finance in a new marketing partnership and, from 1 March 2006, NS&I product literature for Premium Bonds and Inflation-Beating Savings has been available in more than 700 Tesco stores. Both our new relationship with Tesco and the development of the internet as a sales channel demonstrate how we are continuing to diversify, offering a wider choice of access. Each channel plays a crucial role in helping us reach our customers and they enable NS&I to reach a wider audience.

As more customers are demanding more convenient ways of accessing their finances, we created our first direct-only product. Direct ISA was launched on 6 April 2006 as a phone and internet only account, with an interest rate guaranteed to stay 0.55% above the Bank of England base rate for the first two years. Early signs are encouraging, indicating that Direct ISA is an attractive offer to customers.



Treating customers fairly

On 1 September 2005, we moved away from the jurisdiction of the NS&I Adjudicator to the Financial Ombudsman Service for the handling of complaints – bringing us in line with the rest of the financial services industry. In addition, while not directly regulated by the FSA, we continue to benchmark ourselves against its guiding principles – ensuring we treat our customers fairly and that we continue to offer straightforward, relevant products. We constantly review our processes to ensure they maintain these standards and meet industry best practice in terms of compliance.

Helping to understand the UK's savings needs

Our Quarterly Savings Survey, now in its second year, allows us to keep abreast of our customers' changing needs, and provides a useful insight into consumer saving trends for the media. For the third year running we have topped the PressWatch savings league tables, which measures press coverage for different financial services organisations. This success is down to the hard work of our talented media team, and has been vital in raising the profile of NS&I and in understanding some of the UK's savings issues. We look forward to building on our close relationship with the media and offering insight into the nation's savings habits during the next year.

A great place to work

At NS&I, we recognise that the key to our continued success is our determination to put employees at the heart of the organisation – creating a working environment that challenges, motivates and rewards them. Our annual Pulse survey benchmarks employee's opinions about the organisation against those elsewhere in the financial and public sectors – this year, it revealed record numbers of satisfied employees.

We also have the opportunity to show recognition of people's contribution to the business through our 'Praise' programme, which gives everyone the opportunity to nominate those people who have 'gone the extra mile'. 'Praise' has helped to create an environment for exceptional work, and in the last two years it has been supplemented by annual achievement awards for NS&I and Siemens people. These awards are presented to both individuals and teams at Live Link, our annual business strategy conference.

In 2005/06, our 131 employees also worked hard together to raise funds for charity. We will reinforce this in 2006/07 by introducing a new corporate citizenship programme that encourages our people to give something back by offering up to two days' special leave for charitable work.



Onwards and upwards

We aim to build on our tremendous achievements of 2005/06 and maintain our current pace, especially when it comes to delivery of our key objectives in new business, customer retention, employee satisfaction levels and partnerships. The internet and telephone will continue to play a vital role in creating and fulfilling sales and service requirements. On the back of these two popular sales channels, we look forward to building on the early success of Direct ISA, celebrating the 50th anniversary of Premium Bonds and sponsorship of BBC Proms in the Park

As we move into the fourth year of Direction 2007, not only will we focus on our £3 billion net financing and £245 million Value Added targets but we'll be looking ahead to what comes next. We've already started developing a new corporate plan to take us through to 2012, and we'll expand on this next year.

Our success in the past year has taken us a long way towards delivering our vision of being recognised as the UK's leading and most trusted savings and investment organisation.

My thanks go to former Chief Executive Alan Cook for having the vision to create Direction 2007 – a five-year plan which galvanised the organisation, gave us all an increased sense of purpose and inspired the success of the past year. I'd also like to mention the unwavering support I received from everyone following Alan's departure – thanks to their commitment and enthusiasm, we continue to surpass expectations.

Trevor Bayley Acting Chief Executive



Our customers

Two of our Direction 2007 objectives are focused on the customer: improving the data and knowledge we have about our customers; and developing genuine and ongoing relationships with them. By putting customers at the heart of our business, we've become a truly modern organisation.

Focusing on our customers

Making NS&I a household name

Thanks to our integrated campaigns across PR, press, radio, direct marketing, online and TV we've doubled brand awareness of NS&I and increased both sales and retention. Crucially, we've managed to communicate our brand consistently whilst ensuring it remains relevant to our different customers.

Our first TV advertising campaign for six years featured Sir Alan Sugar, and was designed to bring NS&I and our products to a wider audience. The campaign ran from August to October 2005, and was shown again from December 2005 through to the end of January 2006. Following the first run of the TV campaign, sales exceeded £1 billion for each of the three successive months August, September and October, and again in January 2006.

Through our sponsorship of the Classical BRITS (for the third year running) and a show garden at the Chelsea Flower Show (for the second year running), we were able to bring NS&I to the attention of some of our key customer groups. The Post Office® ran an in-branch promotion of our summer and January Premium Bonds campaigns, with co-branded marketing materials on display in all 14,300 branches. Our continued sponsorship of the Classic FM Morning Show means that we reach 3.7 million listeners every morning. And our direct response campaigns brought in a record £2 billion worth of sales.

As a result of increased awareness, NS&I was included in the top 20 rankings in Adwatch, Presswatch and Directwatch surveys run by Marketing Magazine.

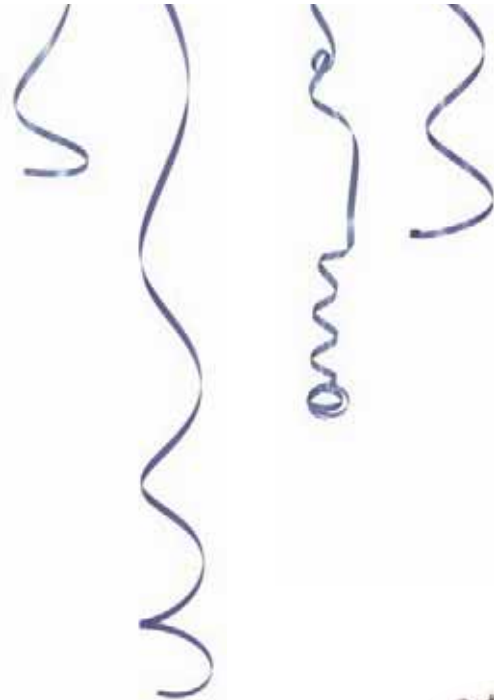
Wider choice of access

The internet and telephone are two of our most popular channels for customers, with nearly one million online visits per month and 13,000 telephone calls to NS&I every day. The website has seen rapid growth since its launch in January 2005, and sales have risen from £450 million in 2004/05 to £1.2 billion in 2005/06. It now makes up 11.3% of our total sales.

Similarly, we've seen excellent growth in telephony with sales going from £1.4 billion in 2004/05 to £1.7 billion in 2005/06. To help deal with this large number of calls, we opened a third call centre based in Glasgow in June 2005. And thanks to the support of Siemens during our marketing campaign, we were able to handle the increase in volume – with virtually no missed calls.

We also launched our 'Just Ask' programme, which aims to increase sales and customer satisfaction through the service provided via our call centres. Its key objective is to create a proactive customer relationship ethos – encouraging our staff to have relevant, informed conversations with customers rather than simply reacting to enquiries. With more than 3.5 million calls from customers each year, we can use these links to build stronger relationships, promote new offers and services, and help customers decide which products best suit their needs. 'Just Ask' also helps to increase motivation among staff, giving them opportunities to truly engage with customers and share their product knowledge.

Thanks to the success of the 'Just Ask' programme, we are now achieving £1 million additional sales per month per team, with an average purchase value of £10,000. And 80% of our team achieved 99% scores on customer satisfaction.



Website traffic

Figures from 2004-05 and 2005-06

Number of visits per month

2004-05	525,000
2005-06	833,000

Average visits per day

2004-05	17,280
2005-06	27,500

Number of visitors per month

2004-05	292,000
2005-06	516,000

Page views per month

2004-05	2.35 million
2005-06	4.75 million

Sales (value) per month

2004-05	£37.5 million
2005-06	£104 million

Sales applications (number) per month

2004-05	12,186
2005-06	33,705





“By removing the one-month notice period from their Investment Account and offering a mini cash ISA with ‘no strings’ and a competitive interest rate, NS&I deserves recognition for its efforts to look after and build on its customer base.”

Andrew Hagger, Head of News and Press
at Moneyfacts.co.uk

Transactions with investors (unaudited)

	£m	Unaudited 2005-06 £m	Audited 2004-05 £m
Received from investors		14,272	11,082
Interest and prizes earned		2,538	2,362
		16,810	13,444
Paid to investors	-11,955		-11,450
Tax deducted on interest	-6		-6
		-11,961	
Increase/(Decrease) in liability to investors		4,849	1,988
Funds invested at the beginning of the year		68,520	66,532
Funds invested at the end of the year		73,369	68,520

Transactions and funds invested by product (unaudited)

Product	Unaudited Received from investors £m	Unaudited Interest and prizes earned £m	Unaudited Paid to investors including tax deducted at source £m	Unaudited Invested at 31 March 2006 £m	Audited Invested at 31 March 2005 £m
Premium Bonds	7,821	862	-4,186	31,102	26,605
Fixed rate products	1,995	835	-2,554	24,128	23,852
Variable rate products	4,456	832	-5,180	17,871	17,763
Products no longer on sale	0	9	-41	268	300
Total	14,272	2,538	-11,961	73,369	68,520



Our new marketing partnership with Tesco meant that from March 2006 onwards, customers could pick up product information on Premium Bonds and Inflation-Beating Savings (also known as Index-linked Savings Certificates) from more than 700 Tesco stores across the country. This makes it easier and more straightforward for people to access information on NS&I and to save or invest in our products.

Getting to know our customers' needs

Since 2004, our Quarterly Savings Survey has highlighted savings patterns and predictions across the UK savings market. We use it to find out who has been saving, how much they save, target levels, objectives and whether savings are increasing or decreasing overall.

The survey is also used by the media to keep track of savings trends. During 2005 the survey was cited in 318 print and online articles and in 98 broadcast pieces. It's helped to establish NS&I as the authoritative and trusted voice on savings.

Providing great customer service

Every month, we ask 500 NS&I customers what they think of our products and services. In 2005, 89% of our customers were satisfied overall with our products, compared to a rating of 85% for their other main providers of savings and investments – a significant improvement on last year's feedback.

In August 2005 we ran a number of discussion groups with customers and non-customers looking at the customer journey when using NS&I and other financial service providers – from initial contact to the end of the relationship. The aim of this research was to help us better understand customer expectations at different points of the relationship. The insight gained from these discussions is being fed into a customer focus programme that will be rolled out across the organisation.

To ensure we meet industry best practice when it comes to handling customer complaints, we are now under the jurisdiction of the Financial Ombudsman Service. Additionally, we aim to follow the FSA's principles on treating customers fairly and providing straightforward, industry-compliant products.



“Nowadays NS&I has modernised its operations and offers savers a huge choice of investment vehicles, including equity-linked products and innovative ideas – all with the backing of HM Treasury.”

Dr Ros Altmann, Independent pensions expert



Tommi from Purchasing and Mark from IT make their selection





Congratulations!

In the past year, our products and services received these awards:

- DBA Design Effectiveness Awards: Digital Media Award (NS&I website)
- Marketing Direct Awards: Gold Award for best work by a Database Bureau (NS&I and EuroDirect – Developing customer insight through quality data)
- Call Centre Association Excellence Awards: Best in Sector – Financial Services (NS&I and Siemens)
- Investors in People re-accreditation
- NS&I Savings Survey has reached the finals of the Chartered Institute of Public Relations (CIPR) Awards
- NS&I Annual Report 04/05 has reached the finals of CIPR Awards

Modernising products to meet customer needs

June 2005 saw the 30th anniversary of Index-linked Savings Certificates, which have been rebranded as Inflation-Beating Savings. It remains a unique product designed to stay ahead of inflation, a feature that clearly appeals to customers with over 600,000 people having invested more than £9.5 billion in Inflation-Beating Savings to date.

In August 2005, we launched a second £1 million Premium Bonds prize to make our most popular product an even more attractive investment. With more than £5.7 billion invested in Premium Bonds since we introduced the second jackpot, it has been a real success.

In April 2006, we introduced Direct ISA to offer our customers an easier way of managing their savings. As the latest addition to our tax-free range, it offers our highest rate – guaranteed to stay 0.55% above the base rate until April 2008. It also offers customers the added convenience of managing their account by phone and internet. Early signs show that Direct ISA is already proving a popular investment for customers.

We've also developed a media centre in Blackpool to give ERNIE – the machine that generates winning Premium Bonds numbers – a new, stylish image. It enables the media to see what ERNIE looks like and film demonstration draws, helping to explain the draw process and reassure the public that it is both random and secure. It opened in April 2006, coinciding with the 50th anniversary of the Premium Bonds scheme.



Our range of products

NS&I's range of 13 savings and investment products is designed to meet a wide variety of needs. All of them offer 100% guaranteed security for your capital.



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 up to £30,000 – the more Premium Bonds they have, the more chances they have to win.



Inflation-Beating Savings

Guaranteed to outgrow inflation, tax-free

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



Fixed Interest Savings Certificates

Guaranteed returns, tax-free

Customers can hold Fixed Interest as well as Index-linked Savings Certificates, on top of any other tax-free savings they hold. The key difference with Fixed Interest Savings Certificates is that the interest they will earn 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 two or five years.



Direct ISA

Our phone and internet-only ISA with our highest tax-free rate

Like our cash mini ISA, our Direct ISA offers customers tax-free returns and a straightforward, secure way of saving up to £3,000 each tax year. It combines the convenience of managing their account online and by phone, along with a very competitive tax-free interest rate – guaranteed to stay 0.55% above the base rate until April 2008.



Cash mini ISA

Tax-free saving the easy way

Customers can save up to £3,000 in our cash mini ISA each tax year without paying any tax on the interest. 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®, by post as well as by phone, and they can access their money at any time, with no notice or penalty.



Guaranteed Equity Bond

FTSE 100 index growth potential with a 100% capital guarantee

This investment offers potential returns linked to the growth of the FTSE 100 over a set term, with no risk to a customer's investment even if the stock market falls. The exact share of the FTSE 100 growth on offer differs from one issue to the next – and each issue is only available for a limited period. Customers can register to receive details of the latest offer as soon as it becomes available. Although the returns on the investment are taxable, they are paid gross.



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.



Capital Bonds

Fixed rates that rise every year over five years

Capital Bonds earn fixed interest at rates that rise each year for five years – so customers can know at the outset exactly how much their investment will be worth at the end of the term. They are available in series, each of which has its own guaranteed rate of return, and customers can invest any amount from £100 up to £1 million. Although the interest is taxable each year, it is added to the Bond gross.



Pensioners Guaranteed Income Bonds

Guaranteed monthly income for those aged 60 or over

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



Fixed Rate Savings Bonds

Guaranteed returns, flexible terms

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



Income Bonds

A regular monthly income at attractive variable rates

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

Our people

Our people initiatives are a key part of our Direction 2007 strategy, and are really starting to show results. By providing our people with the skills and tools they need to deliver excellent performance, we've improved our profile both as an organisation and as an employer – making NS&I a truly great place to work.

The heart of NS&I

A framework for success

Through our organisational engagement framework, APPLAUSE, we run an extensive range of cultural change initiatives – all designed to help our people deliver excellent performance by changing attitudes, challenging ways of working, sharing knowledge and celebrating success together.

During 2005/06 we aimed to build on our achievements in the previous year, while focusing on two key areas that were highlighted in our 2004 Pulse survey: providing career management and development; and creating a compelling employment offer that encourages people to stay at NS&I. By taking a proactive approach to developing and valuing our people – stimulating pride in the organisation, ensuring engagement and job satisfaction, and offering fair rewards – we can ensure that our people feel truly committed to NS&I.

Developing skills and capabilities

We've enhanced our leadership programme (lead!) to move on from personal development to looking at wider organisational challenges. This included managing a multi-stakeholder working environment (looking at both long-standing and new distribution partners), managing different channels and operating in the modern retail finance marketplace. We held two 2-day group events in June and November, alongside a series of skills workshops.

And we spread our learning on personal effectiveness – gained from the 2004 lead! programme – across the whole organisation. This was done through in-house workshops where teams worked together to become more aware of their own behaviour and how it affects other people.

Growing talent

Additionally, we held a series of workshops to explore how we can get a better understanding of the people and capabilities we need to drive our progress. Talent management at NS&I requires a unique approach – for example, many people come to us from the private sector for quite specific career development – so it took some time to gain an accurate understanding of the issues.

We identified that we needed to focus on retaining key people by offering varied career and learning opportunities – from secondments within the civil service or with partner organisations to on-the-job learning – and on developing future leaders. Our talent management programme will build on our existing approach to individual development, whilst also taking a more strategic view on organisational development. Work on our talent programme is ongoing, and will be implemented across the organisation in 2006/07.

Improving our cultural climate

We aim to create an equal and inclusive working culture that attracts, retains and engages talented people – by understanding, respecting and valuing difference. We already have recruitment, employment, training and promotion policies in place that demonstrate our commitment to diversity. In addition, we ran a series of interactive drama-based workshops, which we encouraged everyone to attend, to raise issues associated with diversity. Actors played out various scenarios to demonstrate some of the complexities and grey areas of diversity. These scenarios were taken from real-life examples within the organisation, relating to work-life balance, gender, and ethnic and religious orientation.

“Overall, we observed many positive aspects of the current reward arrangements including general satisfaction with pay, well-regarded training and development opportunities, and positive employee perceptions of leadership and the working environment at NS&I.”

Daniel Puckey, Reward Management Consultant at Towers Perrin, commenting on the results of a reward review undertaken last year.



Working together successfully are Stan from Facilities, Jim from Sales, and Sue from Marketing

Pulse survey results summary – comparison between October 2004 and 2005

	October 2004	October 2005	Difference
Diversity	67.4%	87%	+19.6%
Recognition	86.8%	95.5%	+8.7%
Communication effectiveness	86.3%	91%	+4.7%
Leadership effectiveness (line managers)	87.5%	93.4%	+5.9%
Teamwork	83.4%	86.4%	+3.0%
A great place to work	66.9%	69.2%	+2.3%
Work-life balance	66.9%	51%	-15.9%

Always listening

Each year, we conduct a quarterly online survey and an annual telephone survey called Pulse. These capture people's attitudes on a range of topics to do with our culture and ways of working, as well as measuring our progress against key objectives.

Our last annual telephone survey took place in October 2005, and we received 100% response from the available workforce. The results were extremely positive and showed improvement in most areas – with good feedback on leadership, individual performance, fairness and respect, recognition and teamwork.

- 98% of people felt that their individual performance had improved as a result of new skills developed in the past year
- 87% feel that NS&I is effective or very effective at treating individuals with fairness and respect
- 95.5% feel that their contribution is recognised some or most of the time
- 86.4% feel that teamwork is effective or very effective
- 69.2% would recommend NS&I as a great place to work

A better reward package

Our performance management system allows us to offer greater pay differentiation, so we can give better pay increases to people who do exceptionally well in their roles. It has also clarified the application of our bonus scheme. We improved our reward package by introducing additional flexible benefits – including childcare vouchers, an interest-free home computing loan and the option to buy and sell annual leave.



Highlights of how NS&I compares to other organisations

	NS&I	Central government	Financial services
I am satisfied with my career opportunities	65%	31%	39%
I think it's safe to speak up and challenge the way things are done	66%	44%	57%
Senior management provides effective leadership	93%	30%	54%

Source: ORC International, December 2005

Streamlining the way we work

Through our LEAN programme, we give employees the opportunity to improve how they work through understanding customer needs and reviewing working processes – both within NS&I and across the partnership with Siemens. Once we've identified a particular process that needs improving, we bring together a cross-functional team of people who take part in the process as part of their day-to-day jobs. The team agrees what they're going to focus on, maps out the existing process and identifies where they can improve the process by reducing waste or unnecessary work.

Adopting LEAN has created numerous benefits – from empowering people to changing how they work to encouraging communication between different teams and more efficient ways of working. It ensures that both NS&I and Siemens have a clear understanding of what the other is trying to achieve.

We completed our roll-out of LEAN training for everyone across the organisation in autumn 2005, with a total of 752 training days over the 12-month roll-out period. So far, over 120 improvements in day-to-day working have been identified and implemented – leading to savings of just under £100,000 and 267 people days. This has meant that people can spend more time focusing on value-added activities. There are plans to use LEAN methodologies to review a further 20 processes in 2006-07.

Celebrating success

'Praise' is our recognition scheme that says 'thank you' to NS&I, Siemens and other suppliers and partners who have gone the extra mile. People are nominated by their colleagues, and they receive a small gift – such as chocolates or vouchers – as a gesture of recognition. In the past year, there were 644 Praise awards.

Live Link is a yearly two-day event involving everyone at NS&I, along with key employees and managers from Siemens. As well as looking back on the organisation's achievements in the past year and the strategic targets for the coming year, it's an opportunity to celebrate individual achievement. This is complemented by our Live Link Awards, where individuals and teams in NS&I and Siemens are voted for on the basis of their contribution to the year's achievements.



Thank you from our Board



Our Board from left to right:

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 chief executive and non-executive board level. Michael is currently non-executive Director for Manchester Airport Group PLC, the Heritage of London Trust Ltd, John Laing PLC and Laing Rail Ltd. Until 2002, Michael worked in the financial services sector as Transaction Director in the Principal Finance Group at Nomura International PLC.

Martin Gray, Non-executive Director

Martin was appointed non-executive Director in January 2005. He is also non-executive chairman of Evolution Securities and non-executive Director of Miller Insurance 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.

Sandra Postles, Human Resources Director

Sandra was appointed as Human Resources Director in July 2003. She works to align the HR strategy with the organisation's overall business strategy. Previously Sandra held senior HR roles in the retail and financial services sectors, including Personnel Director for a major UK accountancy practice, before moving into management consultancy in 1998.

Peter Cornish, Acting Marketing Director

Peter joined NS&I in December 1998, prior to which he was responsible for the investment services of a private bank. As Acting Marketing Director, Peter is responsible for customer strategy, customer offer, customer insight, product management and development as well as marketing communications, including direct response, media relations, brand and corporate communications.

John Prout, Sales Director

John took up the role of Sales Director at NS&I in August 2003. He has wide-ranging HR and sales senior management experience in both the financial services and manufacturing sectors, having held a number of senior positions at Parker Hannifin and Rover Group before moving to Prudential plc from 1987 to 2001.

Changes to the Board

Our Chief Executive, Alan Cook, left in February to become Managing Director at Post Office Ltd. Trevor Bayley, Deputy Chief Executive and Finance Director, took over as Acting Chief Executive. Marketing Director Karen Jones left at the end of March and Peter Cornish stepped up as Acting Marketing Director in April 2006.

Sue Owen has moved from the Treasury to be Director General of Corporate Performance at the Department for International Development and Sarah Tebbutt is on maternity leave. Lowri Khan remains a Treasury representative, now joined by David Howes.



Lowri Khan,
Sarah Tebbutt (not pictured)
Joint Heads of Debt and Reserves Management Team,
HM Treasury

Sarah Tebbutt and Lowri Khan job-share as Joint Heads of the Debt and Reserves Management Team, HM Treasury. In the Treasury, Lowri has worked in various posts including, most recently, leading the Myners Review of the Governance of Life Mutuals. Sarah has worked in the Treasury, the Cabinet Office and at the UK representation in Brussels.

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, Resolution Group PLC, and Nipponkoa Insurance (Europe) Ltd; and non-executive Chairman of the State Street Managed Pension Funds and Sovereign Reversions PLC. He was Chief Executive of Royal and Sun Alliance (UK) between 1998 and 2002.

Steve Owen,
Partnership and Operations Director
Steve is responsible for the design and delivery of the outsourcing business model and for managing NS&I's key partnership with Siemens Business Services. 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. Appointed Director in February 2002.

Maria Stafford,
Non-executive Director
Maria was appointed non-executive Director in January 2002. She is a member of the Council and Audit Committee of the University of Sheffield; deputy Chairman of Peterborough and Stamford NHS Foundation Trust Board of Governors; a member of the Audit Committee at the Department of Constitutional Affairs at Westminster; and non-executive Director of Opportunity Peterborough – an urban regeneration company.

Trevor Bayley,
Acting Chief Executive
Director of Savings
Department Accounting Officer
Trevor joined NS&I in June 2001 as Finance Director, and is responsible for all financial matters, compliance, project and programme management, risk management and strategic planning. Previously he was Group Finance Director and then Corporate Development Director at Britannia Building Society.

David Howes,
Head of the Expenditure Branch, Debt and Reserves Management Team
David Howes is Head of the Expenditure Branch in the Debt and Reserves Management team. David joined the Treasury in January 2005 from Reuters where he worked in a series of positions based in the UK, USA and Asia – latterly as country manager for Malaysia and Brunei.

Our partners

Through our partnerships, we create new channels to reach customers, deliver our services efficiently and modernise our customer offer to meet evolving needs. Whilst our ongoing partnerships with Siemens and the Post Office® remain integral to our business, over time we are looking to build new partnerships to become even more accessible.

Forging strong relationships

An enduring and evolving relationship

Our 145-year relationship with the Post Office® continues to play a vital role in the business, generating more than 60% of our sales (around £6.9 billion). While we are diversifying through new channels and raising awareness of our direct phone and internet channels, our strategy is to ensure that the Post Office® continues to be a key source of sales.

With over-the-counter transactions in 2005/06 accounting for £4.47 billion and postal applications accounting for £2.4 billion, the Post Office® provides the foundation of NS&I's sales. And as the UK's largest retail network with more than 14,300 branches, it brings NS&I to a wide and diverse customer base. It serves 29 million customer visits each week, and 17p in every £1 spent in Britain comes through the Post Office® network.

Many customers prefer to buy NS&I products in person and the average amount invested in non-account products is close to £3,000. Therefore, the Post Office® plays a crucial role in providing face-to-face contact with our customers.

Keeping up with changing times

The Post Office® is undergoing changes to become a more modern organisation. These changes are beginning to show results and the Post Office® is increasingly becoming known as a key provider of financial products and services. In turn, this will open NS&I up to new customer groups and sales opportunities. Together we will continue to look at ways of making the partnership even more beneficial for both parties and for our customers.

Creating mutual benefits

Our partnership with Siemens is based on day-to-day service excellence and long-term improvement – enabling both parties to achieve their business objectives while meeting the government mandate of providing cost-effective financing. Our 'Just Ask' programme aims to build on the strength of our existing partnership – increasing sales and improving customer experience by delivering a more in-depth, tailored telephone service. By finding out more about customer needs, we can offer suitable products, improve satisfaction and build stronger relationships with them.

The overwhelming response to our integrated marketing campaign meant that Siemens had to mobilise its resources in order to meet the increased demand for information over the telephone. As a result of our return to television advertising, we saw a new peak in call volumes – but thanks to Siemens' planning and hard work, there were virtually no missed calls.

We also formed a joint project team with Siemens to assess the impact of our marketing partnership with Tesco on IT and operations, amongst other issues. Together, we agreed actions that needed to be taken before the pilot roll-out of NS&I brochures in Tesco stores and implemented them. The pilot itself enabled us to prepare for the full roll-out in 2006.

Alongside key performance indicators, we measure Siemens' performance for timeliness and accuracy – these measures are called Service Delivery Measures (SDM) targets. The figures for SDM targets were excellent, with Siemens achieving 99.32% for timeliness against a target of 97%, and 99.29% for accuracy against a target of 98.5%. This is even more remarkable, considering we had record levels of sales activity in the past year.

The success of the Siemens/NS&I partnership was recognised with a Call Centre Association Excellence Award in November 2005. Together we won the Best in Sector award for the financial services industry, which recognises the highest standards in customer service.



"Another excellent year for our Delivery Team at NS&I, but this mainly serves to raise the bar for the future. We accepted that challenge when we won the contract, and it's great to see our two organisations demonstrating the value of such an innovative partnership."

Tom White, Managing Director, Siemens Business Services, GB&I



"This year, several successful joint marketing ventures have signposted the way forward and instigated an era of closer co-operation in this area. This will bring benefits to both parties, as well as improving customer service."

Graham Halliday, Banking & Financial Services Director, Post Office Ltd



Continuous improvement

However, we are always looking at ways in which we can further improve our partnership – primarily through our partnership development programme. We gathered feedback from people across the partnership to identify where we could make improvements – via surveys, workshops, the Pulse surveys and Live Link. The results of the annual Pulse telephone survey indicated that NS&I employees have a high level of confidence in the partnership, with 85% saying it continues to improve.

To ensure that we develop the partnership, we've highlighted four key themes for us to focus on: mapping objectives and relationships; better change processes; better communications; and behaviour development. Involving the Siemens management team in the leadership programme was an essential part of this. And, as part of our objective to communicate more effectively across the partnership, we held a series of roadshows outlining future plans for NS&I and Siemens. These took place in Durham, Blackpool and Glasgow.

We also established new internal communication channels for the partnership. Our Communications team was publicly recognised by winning Best in Class for a special publication to mark the launch of the Tesco relationship at the 2006 British Association of Communicators in Business Awards.



Steve and Dave celebrate the success of the partnership

“The operational flexibility and resilience that defines the Siemens contribution to the outstanding NS&I business success has been fully tested this past year – and has passed with flying colours. Equally demanding for Siemens, as a true long-term business partner, is the challenge of maintaining this operational excellence while driving and supporting the ongoing transformation of NS&I systems, processes and culture.”

Dave Ormrod, NS&I Account Director, Siemens

“Index-linked Savings Certificates offer protection against inflation with the added benefit of being tax-free – forming a valuable part of any portfolio and enabling people to draw on their capital quickly if and when they need to.”

Peter Nellist, Independent Financial Adviser at Clarke Willmott

New partnerships, new channels

In September, we embarked upon a new marketing partnership with Tesco Personal Finance as part of our drive to reach new customers and increase brand and product awareness. With around 17.5 million customers passing through Tesco stores each week across the length and breadth of the country, this arrangement enables NS&I to access a wider customer base than ever before.

The first stage of the new partnership saw the launch of a pilot in a small number of Tesco stores in November 2005. Once the operational systems were tried and tested, this was extended in March 2006 to some 700 stores. As the partnership moves forward, we are testing different promotional approaches and options.

Growing a key channel

Independent Financial Advisers (IFAs) are responsible for recommending investments to the value of around £80 billion per year in the UK. This means that they have the potential to be another major channel for NS&I. Furthermore, the number of fee-based financial planners has expanded in the past year – this is a target audience for NS&I, particularly as we don't pay commission on the sale of our products.

To make the most of opportunities to engage with IFAs, we have been developing a communication strategy to promote our products to this group of financial planners. Our strategy has been built around communicating to those who focus less on individual product sales, and adopt a more holistic approach to giving their customers financial advice. This allows NS&I to be seen as the rock solid foundation of any balanced portfolio.

We have already seen average recordable monthly sales grow in 2006, and we know that IFAs are playing a key role in many of our sales received through other channels. We plan to continue to develop this important channel over the coming year.



The 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 Premium Bonds prizes. HM Treasury uses the money invested to manage the national debt cost-effectively, which contributes to the Government's financing needs.

NS&I and the Government

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, i.e. personal savers and investors, through National Savings and Investments

What is Value Added?

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

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

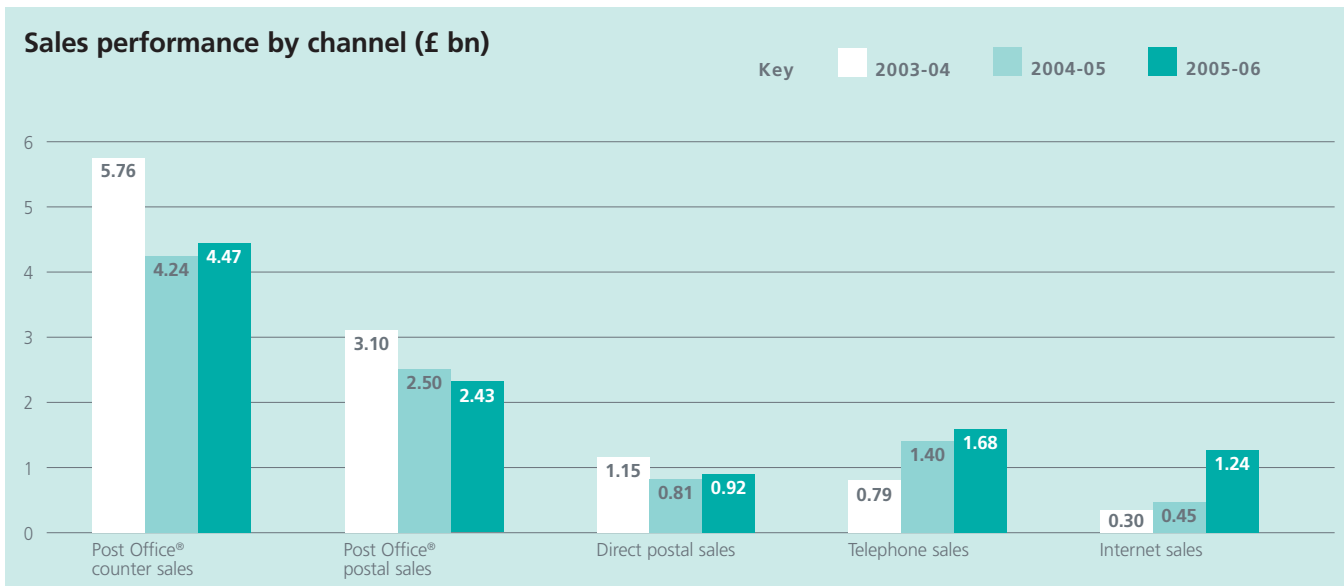


Total invested by customers in NS&I at the end of the year	£73.37 billion
Net financing (unaudited) for Government during the year	£4.84 billion
Value Added (delagged) for the year after allowing for operating costs	£267.5 million
Net operating costs of NS&I	£175.2 million
Gross sales of all NS&I products	£11.92 billion
Telephone sales	*£1,675 million
Sales generated via the internet	*£1,245 million
Sales through Post Office® Counters	*£4.47 billion
Sales by direct post	*£3.35 billion
Direct postal sales	
Post Office® lead generation	
NS&I Premium Bonds sales	£7.8 billion

*these sales are part of the gross sales above.



Simon, from our Strategy team, shares in the year's success



Value Added performance

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

Over the last five years, this 'delagged' performance measure of Value Added has increased from £176.3 million achieved in 2001/02 to £268 million achieved in 2005/06.

Adjusting rates of interest (tax foregone)

As products with tax-free returns deprive the Exchequer of revenues, we take account of the amount of tax foregone through the purchase of these products by adjusting the rates of interest offered to the customer. This ensures that the full cost of the product is captured in the Value Added. However, this does not apply to our ISA products. Tax-free ISAs are available across the financial services market and their impact is calculated by HM Revenue and Customs.

How we set interest rates

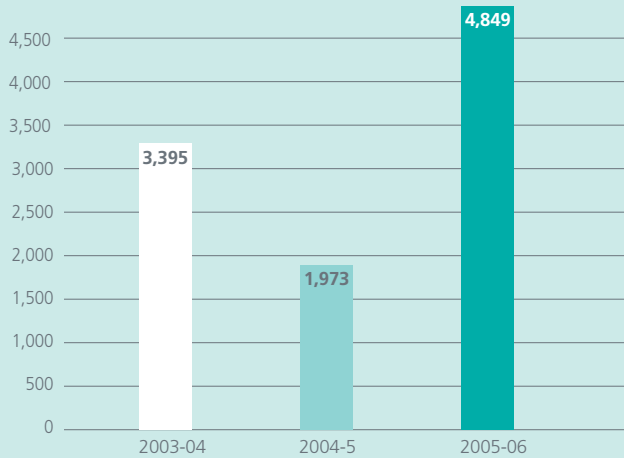
As with any commercial operation, a reasonable return must be provided to both customers and owners. For NS&I, the owner is the Government. The return is assessed by comparing our overall cost of funds with two benchmarks:

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

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

Net financing figures (£ m)



Value Added figures (£ m)

	2003-04	2004-05	2005-06
Value Added	285.3	306.0	250.77
Adjustment for timing & other differences	(24.9)	(52.3)	16.74
Value Added (delagged)	260.4	253.7	267.51

Landscape Review

As an Executive Agency, NS&I is periodically reviewed by HM Treasury through an exercise called the Landscape Review – the process for assessing the effectiveness for delivering policy within an agency structure. Following the recent review, which concluded that NS&I effectively delivered policy, the remit for NS&I remains focused on delivering cost-effective debt financing.

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 ahead of plan, and our relationship with Siemens is widely recognised as one of the UK's most successful public/private partnerships.

Our overall objective for 2006/07

Achieve £3 billion net financing and at least £245 million Value Added

How we plan to achieve this:

Customer value and products

- continue to modernise and develop new products to meet changing customer needs
- strengthen existing customer retention initiatives
- improve the customer experience

People and leadership

- continue to build capability and develop potential
- create opportunities for stretch and challenge
- aspire to be one of the top 100 'Great Places to Work'

Channel development

- continue migration to direct channels
- embed Tesco partnership
- continue to develop the relationship with the Post Office®

Partnership and change

- develop further e-capability in line with changing customer needs
- facilitate growth and channel shift cost-effectively
- improve customer handling capability

Our targets annual accounts and further information

Aiming even higher

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

How we are doing

As part of the 2004 Spending Review (SR2004), Service Delivery Measures (SDMs) were established as part of a new reporting mechanism between NS&I and HMT. These measure the performance of NS&I in relation to its overall objectives. Targets are agreed for each of the performance measures with the Economy Secretary to the Treasury as part of our annual corporate planning process. These SDMs will be reviewed in 2006-07 as part of the Comprehensive Spending Review 2007.

Targets 2003-04

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

Targets 2004-2005

Goals	Objectives	Performance measures	Targets
To achieve the financing remit and improve efficiency	To create at least an agreed amount of Value Added	Absolute amount of (delagged) Value Added from NS&I products, excluding Index-linked Saving Certificate Extension Terms	At least £200 million
	To raise an amount of Net Financing within an agreed range	Absolute amount of Net Financing from all NS&I product	£2.0 billion (+/-£1.0 billion)
	To invest in capability and subsequently return the efficiency of administering total funds to the level achieved in 2002-03	Ratio of total NS&I costs to average funds invested by customers	Less than 30 basis points
To improve the effectiveness of fraud management satisfaction	To minimise the proportion of fraud resulting in actual loss	Ratio of net fraud losses after blame assessment to total fraud detected	Less than 25%
To improve the accessibility of NS&I for customers	To increase the proportion of customer interactions with NS&I capable of being carried out via non-paper-based means	Ratio of the number of customers initiated transactions capable of being carried out via non-paper-based means to the total number of customer transactions	At least 70%
	To increase the percentage of customer interactions with NS&I actually carried out to non-paper-based means	Ratio of the number of customer initiated transactions actually carried out via non-paper-based means to the total number of customer transactions	At least 28%
To maintain the current high levels of customer service and satisfaction	To achieve consistent accuracy in meeting increasingly challenging targets	Average performance against Accuracy Key Performance Indicator targets	At least 98.5%
	To achieve consistent timeliness in meeting increasingly challenging targets	Average performance against Timeliness Key Performance Indicator targets	At least 96%
	To establish and then exceed a threshold level of customer satisfaction with NS&I	Average levels of satisfaction against question, "How satisfied are you in terms of savings and investments with NS&I?"	At least 80%

Targets 2005-2006

SR 2004 SDM Goals	SR2004 SDM Objectives	Performance measures	2005-06Targets
To achieve the financing remit and improve efficiency	To create at least an agreed amount of Value Value Added	Absolute amount of (delagged) Value Added from NS&I products, excluding Index-Linked Saving Certificate Extension Terms	At least £215 million
	To raise an amount of Net Financing within an agreed range	Absolute amount of Net Financing from all NS&I products	£3.5 billion which was revised in year to £4.2 billion (+£0.6 bn or -0.4bn)
To maintain the current high levels of customer satisfaction	To exceed a threshold level of customer satisfaction with NS&I	Average responses from question: "How satisfied are you overall in terms of savings and investments with NS&I?"	At least 84%
To maintain the current high levels of customer service	To achieve consistent accuracy in meeting increasingly challenging targets	Average performance against Accuracy Key Performance Indicator targets	At least 98.5%
	To achieve consistent timeliness in meeting increasingly challenging targets	Average performance against Timeliness Key Performance Indicator targets	At least 97%
To improve the effectiveness of fraud management	To minimise the proportion of fraud resulting in actual loss	Ratio of net fraud losses after blame assessment to total fraud detected	Less than 25%
Ratio of total NS&I administrative costs to average funds invested by customers	To invest in capability and continue to improve the efficiency of administering total funds	Ratio of total NS&I administrative costs to average funds invested by customers	Less than 28 basis points
To maintain Banking Code Compliance	To ensure compliance with the Banking Code	Self assessment of compliance checked by Banking Code Standard Board that NS&I remain compliant	Agreement by Banking Code Standard Board that NS&I remain compliant

Service delivery measures (SDM) for 2006-07

SR2004 SDM Goals	SR2004 SDM Objectives	SR2004 SDM Performance measures	2006-07 Targets
To achieve the financing remit and improve efficiency	To create at least an agreed amount of Value Value Added	Absolute amount of (delagged) Added from NS&I products, excluding Index Linked Saving Certificate Extension Terms	£245m
	To raise an amount of Net Financing within an agreed range	Absolute amount of Net Financing from all NS&I product	£3.0 billion (+£900 million or -£100 million)
To maintain the current high levels of customer satisfaction	To exceed a threshold level of customer satisfaction with NS&I	Average level of satisfaction against question, "How satisfied are you overall in terms of savings and investments with NS&I?"	At least 88%
To maintain the current high levels of customer service	To achieve consistent accuracy in meeting increasingly challenging targets	Average performance against Accuracy Key Performance Indicator targets	At least 98.5%
	To achieve consistent timeliness in meeting increasingly challenging targets	Average performance against Timeliness Key Performance Indicator targets	At least 97%
To improve the effectiveness of fraud management	To minimise the proportion of fraud resulting in actual loss	Ratio of net fraud losses after blame assessment to total fraud detected	Less than 20%
Ratio of total NS&I administrative costs to average funds invested by customers	To invest in capability and subsequently return the efficiency of administering total funds to the level achieved in 2002-03	Ratio of total NS&I administrative costs to average funds invested by customers	Less than 26 basis points
To maintain Banking Code Compliance	To ensure compliance with the Banking Code	Self assessment of compliance checked by Banking Code Standard Board that NS&I remain compliant	Agreement by Banking Code Standards Board

Management Commentary

Statutory Background

National Savings was established as a Department in 1969, previously being part of the Post Office, and was also established as an Executive Agency of the Chancellor of the Exchequer on 1 July 1996. As part of the business transformation programme National Savings launched a new name and corporate identity in February 2002 and is known as 'National Savings and Investments'.

National Savings and Investments (NS&I) administration costs are funded by Parliamentary Vote, while the interest costs on NS&I products are included in the total cost of servicing the National Debt. Therefore these costs are reflected as a charge on the National Loans Fund (NLF) and do not feature in these resource accounts. HM Treasury is responsible for the operation of the NLF. These Resource Accounts only provide NS&I's cost of administration with the NS&I Product Accounts being prepared separately.

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

Aim

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

NS&I is a major savings providers in the United Kingdom with 26 million customers and £73 billion invested in its products.

National Savings and Investments Strategy

NS&I developed a five year strategy in 2002-03 aimed at growing the business through a greater emphasis on meeting the needs of the customers, while still continuing to modernise the business and delivering cost effective financing.

The overall strategic intent of the five year strategy is to raise £15 billion in net financing and £1.3 billion value added between 2003-04 and 2007-08. Overall the first three years of the five year strategy have been extremely successful in terms of business growth and value creation.

2005-06 was a successful year buoyed by continued favourable market conditions which led to higher than planned retention levels.

As a result the original net financing target was increased from £3.5 billion to £4.2 billion (with an upper limit of £4.8 billion). The outturn for the year was £4.84 billion. The value added target of £215 million was also exceeded with an outturn of £268 million.

Net financing is the net positive inflow of funds i.e. total inflows from new deposits and retention of maturing monies less outflows from withdrawals, while value added is the method of measuring cost effective financing. Value added includes the total cost of raising finance, including NS&I's operating costs and tax foregone, and is compared to how much it would cost the government to raise funds in the wholesale market.

Market and Competitive Environment

NS&I competes for retail savings in the highly competitive cash deposit market. In 2005-06 NS&I continued to benefit from the reluctance of investors to invest heavily in equities and other more risky products, due to being seen as secure through the HM treasury guarantee.

The market is expected to remain broadly similar in the year ahead and should allow for further steady growth.

2005-06 Performance

NS&I met all Service Delivery Measures (SDM's) targets set by HM Treasury during 2005-06. SDM's were agreed with HM Treasury as part of Spending Review 2004 and replaced the previous Service Delivery Agreement.

NS&I SDM's are:

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

The following table compares the main targets against final outturns.

Service delivery measures (SDM) for 2005-2006

SR 2004 SDM Goals	SR2004 SDM Objectives	2005-06 Targets	Performance
1. To achieve the financing remit and improve efficiency	To create at least an agreed amount of Value Added	At least £215 million	MET At the end of 2005-06 the full year outturn for Value Added was £268 million.
	To raise an amount of net financing within an agreed range	£3.5 billion which was revised in year to £4.2 billion (+£0.6 billion to (-£0.4 billion)	MET At the end of 2005-06 the full year outturn for net financing was £4.84 billion
2. To maintain the current high levels of customer satisfaction	To exceed a threshold of customer satisfaction with NS&I	At least 84% customer satisfaction levels	MET 89% average customer satisfaction levels
3. To maintain the current high levels of customer service	To achieve consistent accuracy To achieve consistent timeliness	At least 98.5% At least 97%	MET Accuracy against key performance indicators was 99.29% Timeliness against key performance indicators was 99.32%
4. To improve the effectiveness of fraud management	To minimise the proportion of fraud resulting in actual loss	Less than 25%	MET Level of fraud resulting in actual loss was 9.96%
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 28 basis points	MET At the end of 2005-06 the ratio was 24.7 basis points
6. To maintain Banking Code Compliance	To ensure compliance with the Banking Code	Agreement by Banking Code Standard Board that NS&I remain compliant	MET To ensure compliance with the banking code

2005-06 Developments

In 2005-06 NS&I continued its operational change programme aimed at modernising the organisation and providing customers with greater choice in how they transact with us.

A new channel distribution deal with Tesco was signed and rolled out to more than 700 stores helping to increase both the awareness of NS&I products and channel choice for customers. Additionally there was also a significant improvement in sales through the internet channel, both in number of customers, consistent with our strategy for improving sales through lower cost channels. This channel diversification has however been achieved without compromising service levels to customers are impacting negatively on the existing other channels such as the Post Office, who remain the major channel for NS&I products.

Other key developments during 2005-06:

- NS&I returned to television advertising after a gap of five years, raising customer awareness of the brand, increasing sales and retention as well as attracting a number of new customers.
- A Direct ISA product was launched successfully on 6 April 2006 to coincide with the new tax season, with all the development work having been completed during 2005-06.
- Index-linked Savings Certificates were successfully re-branded as Inflation Beating Savings

Targets for 2006-07

Short term goals for 2006-07 include raising £3.0 billion of net financing and creating at least £245 million Value Added.

NS&I SDM's remain in place for 2006-07:

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

Landscape Review

During 2005 HM Treasury conducted a Landscape Review of NS&I and concluded that NS&I was fit for purpose and was delivering the targets it was set up to do. It also re-confirmed the single strategic objective of raising cost effective financing for the next five years.

Landscape Reviews, previously called Quinquennial Reviews, are conducted every five years and the last review undertaken on NS&I was the Quinquennial Review in 2000.

Expenditure

NS&I's Vote is approved by Parliament. For 2005-06 Parliament approved a resource budget of £182.294 million, capital budget of £0.500 million and a net cash requirement of £180.173 million.

The resource outturn was £175.203 million, capital outturn £0.237 million and the net cash outturn was £170.270 million.

The difference between the resource budget and the resource outturn was £7.091 million. The following table shows the key differences between during 2005-06.

Difference between resource budget and resource outturn

	Difference between estimate and outturn £ (million)
Deferment of marketing campaign	(£2.3)
Postponement of the introduction of new product	(£0.8)
Legacy Management project efficiencies and rescheduling	(£0.8)
Single Customer View Project	(£1.0)
Banking Code Compliance	(£1.0)
Other administrative expenditure underspend	(£1.2)
Total	(£7.1)

The difference between capital budget and outturn was £0.263 million.

The difference between the net cash requirement and the net cash outturn was £9.903 million. This was partly due to the savings and postponements discussed above and also due to the increase in the level of creditors at the year end.

Matters covered in the Departmental Report

The NS&I Departmental Report contains the Department's expenditure plans for 2007-08, and the main estimates for 2006-07. The report provides details of NS&I objectives and Service Delivery Agreement targets and its achievements and plans in respect of the modernising government agenda. It also provides details of recruitment practice, public appointments and senior civil service salaries. The report was published in June 2006.

Ministerial responsibility

NS&I is an Executive Agency of the Chancellor of the Exchequer. For 2005-06, the government minister with portfolio for NS&I was the Financial Secretary to the Treasury (FST) and the position was held by Stephen Timms MP. From May 2005, the government minister responsible for NS&I changed to the Economic Secretary to the Treasury (EST) and the position was held by Ivan Lewis MP until May 2006, when Ed Balls MP took over the position.

The ministerial salary of the FST is not met by NS&I. Details of the minister's salary and pension entitlements are shown in the Treasury's 2005-06 Resource Accounts.

Executive Members of the Board who served during the year

Alan Cook (Chief Executive; Accounting Officer and Director of Savings), who joined in September 2002, left NS&I in February 2006 to take up the Managing Director position at the Post Office from March 2006.

Trevor Bayley (Finance Director), appointed in June 2001. Appointed Acting Chief Executive on Alan Cook's departure.

Karen Jones (Marketing Director), appointed in April 2005 and resigned in March 2006.

Steve Owen (Partnership and Operations Director), appointed in February 2002.

Sandra Postles (Human Resources Director), appointed in July 2003.

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

Representatives of HM Treasury

Sue Owen Director EMU (Policy & Preparation)

Sarah Tebbutt Debt and Reserves Management Team Leader

Lowri Khan Debt and Reserves Management Team Leader

David Howes Head of Expenditure DRM

Board appointments

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

Non-Executive Members of the Agency

Paul Spencer, appointed September 2003, became Chairman of the Board January 2005. He has been offered a contract extension to September 2009. which has not yet been formally accepted.

Michael Medicott, joined September 2003 as Non-Executive Director, appointed Chairman of Audit Committee January 2005 and has accepted an extension to September 2009.

Martin Gray, was appointed 1 January 2005 for three year term.

Maria Stafford was appointed 1 January 2002. Reappointed 1 January 2005 for three years.

Audit Committee

The Audit Committee of National Savings and Investments meets quarterly and is chaired by Michael Medicott one of the non-executive directors, who assumed the role when Paul Spencer relinquished the chairmanship and his membership of the committee on becoming chairman of the NS&I board

in January 2005. In addition, membership of the audit committee during 2005-06 comprised Martin Gray; a member of HM Treasury's Debt and Reserves Management team; the Chief Executive; and the Finance Director. The other executive directors have a standing invitation to attend as do the Agency's Head of Internal Audit; HM Treasury Exchequer Funds and Accounts; the National Audit Office and Price WaterhouseCoopers, who are the NAO's appointed auditor's for the NS&I product accounts. Siemens Business Services also have a standing invitation for appropriate matters.

Appointments and Remuneration Committee

The Committee's role relates to the pay and performance of senior National Savings and Investments staff. Full details of the Committee's membership, role and senior staff salary entitlements are given in the Remuneration report on pages 8 to 12.

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 (2004-05, £56,000). There was no auditor remuneration (actual or notional) for non-audit work.

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

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. Our current provider is Deloitte who were appointed following a competitive process.

Signed 30 June 2006



Trevor Bayley Acting Chief Executive
National Savings and Investments

Remuneration Report

Appointments and Remuneration Committee

The Appointments and Remuneration Committee consists of two non-executive directors of the Agency, Maria Stafford, Chairman, Paul Spencer, the Chief Executive and the Human Resources Director Sandra Postles. The Chief Executive post was held by Alan Cook to 28 February, after which Trevor Bayley replaced him on an acting basis. 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 the Agency's pay strategy for Senior Civil Service members. This includes making final decisions on pay and bonus awards within the parameters set by the Cabinet Office for the Senior Civil Service 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 the Agency'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 six 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 were determined by the NS&I Appointments and Remuneration Committee with reference to the guidelines lay down by the Cabinet Office on the basis of the Senior Salaries Review Body Report (2004). Salaries are adjusted on the basis of performance.

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

Non executive directors have fixed term appointments not exceeding three years. Normally they can only serve for two terms of office. Their remuneration is accounted for in other costs. The details of their payments are shown below (Table C).

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 2005-06 were accrued. Trevor Bayley and Alan Cook (until his departure) were members of the Civil Service Supplementary (Earnings Cap) Scheme.

The salary and bonus entitlements of the most senior members of National Savings and Investments were as follows:

Table A

£000s	2005-06 Salary £000s	Bonus £000s	Total £000s	2004-05 Salary £000s	Bonus £000s	Total £000s
Alan Cook (2)						
Chief Executive	145-150	–	145-150	150-155	25-30	180-185
Trevor Bayley (4)						
Finance Director	125-130	15-20	145-150	120-125	15-20	135-140
Gill Cattanach (1)						
Marketing Director	–	–	–	75-80	–	75-80
Karen Jones (3)						
Marketing Director	110-115	–	110-115	–	–	–
Steve Owen						
Partnerships and Operations Director	100-105	15-20	115-120	90-95	15-20	105-110
Sandra Postles						
HR Director	80-85	10-15	95-100	75-80	10-15	90-95
John Prout						
Sales Director	100-105	15-20	115-1200	95-100	10-15	110-115

(1) Resigned 7 January 2005 (2) Resigned 28 February 2006 (3) Resigned 31 March 2006 (4) Appointed Acting CEO 1 March 2006

Pension Benefits of the most senior members of the most senior members of National Savings and Investments were as follows:

Table B

Name and Title	Real Increase in Pension at age 60	Real increase in pension related lump sum at age 60 at 31 March	Total accrued pension at age 60 at 31 March	Pension related lump sum at age 60	Cash equivalent transfer value (CETV) at 31 March 2005	Cash equivalent transfer value (CETV) at 31 March 2006	Employee contributions and transfers	Real increase in CETV after adjustment for inflation and changes in market investment factors
	2005-06 £000's	2005-06 £000's	2005-06 £000's	2005-06 £000's	£000	£000	£000	2005-06 £000's
Alan Cook								
Chief Executive	0-2.5	5-7.5	5-10	20-25	76	137	0-2.5	39
Trevor Bayley								
Finance Director	0-2.5	2.5-5	5-10	15-20	83	132	0-2.5	27
Karen Jones								
Marketing Director	0-2.5	-	0-5	-	-	27	2.5-5	23
Steve Owen								
Partnerships and Operations Director	2.5-5	7.5-10	30-35	90-95	342	502	5-7.5	42
Sandra Postles								
HR Director	0-2.5	2.5-5	0-5	10-15	65	105	0-2.5	25
John Prout								
Sales Director	0-2.5	-	0-5	-	38	78	2.5-5	27

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

The remuneration of Non-executive Directors in bands, as follows:

Table C

Name and title	2005-06 £'000	2004-05 £'000
M. Stafford	10-15	10-15
M Medicott	10-15	10-15
P Spencer	15-20	15-20
M Gray	10-15	0-5

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

Employee contributions are set at the rate of 1.5 per cent of pensionable earnings for classic and 3.5 per cent for premium and classic plus. Benefits in classic accrue at the rate of 1/80th of pensionable salary for each year of service. In addition a lump sum equivalent to three years' pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic there is no automatic lump sum (but members may give up (commute) some of their pension to provide a lump sum). Classic plus is essentially a variation of premium but with benefits in respect of service before 1 October 2002 calculated broadly as per classic.

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

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

Cash Equivalent Transfer Values


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 CETV figures, and from 2003-04 the other pension details, include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the CSP arrangements and for which the CS Vote has received a transfer payment commensurate to the additional pension liabilities being assumed. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

Real increase in CETV

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

Signed 30 June 2006



Trevor Bayley Acting Chief Executive
National Savings and Investments

Sustainability Report

Environmental policy

National Savings and Investments (NS&I) remains fully committed to playing its part in the preservation of natural resources and in preventing environmental pollution. Facilities Management have responsibility for implementing the policy in London whilst in the locations responsibility rests with SBS.

Our policy is to carry out our business so that we take full account of the needs of the environment. 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.

We have developed staff awareness on environmental issues by providing publicity material and by encouraging staff to suggest ways in which improvements can be made.

Environmental action in National Savings and Investments

The main features of the action plan are:

Energy Conservation

Reduce the energy consumption of our buildings and equipment through an ongoing programme of energy efficiency measures.

Water Conservation

Avoid water wastage through the installation of water metering and flow restricting equipment in our buildings and through close monitoring of actual consumption.

Plant and Machinery

Maintain our plant, machinery and office equipment and operate it efficiently within its performance specifications.

Paper

Ensure that paper is used economically and use recycled paper where practical and economic.

Recycling

Continue with existing recycling schemes and to consider other options for recycling.

Ozone Depleting Substances

Reduce the use of products containing ozone depleting substances such as chlorofluorocarbons, halon-based fire fighting systems and chlorofluorocarbon based refrigerants and carbon tetrachlorides.

Litter

Comply with the Environment Protection Act 1990 together with the related Code of Practice on the Clearing of Litter. To ensure that waste from business activity is disposed of quickly and safely in accordance with statutory and regulatory requirements.

Purchasing

Ensure that our purchasing policy pays proper regard to environmental issues whilst still securing best value for money.

Information Technology

Ensure the 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. We endeavour to pay all suppliers within 30 days of acceptance of the relevant goods and services or the receipt of a legitimate invoice if that is later.

During 2005-06 NS&I paid 85.5 per cent (2004-05 97.8 per cent) of bills within this standard.

Employees

Training and Development

NS&I recognise 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.

The Executive Management Team and Business Unit Leaders 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.

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 will comply with current health and safety legislation, approved codes of practice, guidance documentation and British Standards, and will satisfy 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 National Savings and Investments' employment policies, practices and procedures, including those covering recruitment, promotion and performance appraisal, are monitored to ensure equality of opportunity for our disabled staff. The agency also provides any special equipment or assistance required by disabled staff to help them perform their job.

Pension liabilities

The majority of present and past employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS). The PCSPS is a defined benefit scheme which, in the main, provides benefits based upon length of service and final salary. The scheme is non-contributory and unfunded. Liability for payment of future benefits lies with the PCSPS. There is a separate scheme statement for the PCSPS as a whole. The department meets the cost of pension cover provided for its employees by payment of charges calculated on an accruing basis. The rate of the employer's contribution is determined from time to time by the Government Actuary and advised by the Treasury. For 2005-06 the rates were between 16.2 and 24.6 per cent (2004-05 12 and 18.5 per cent) of pensionable pay depending on salary.

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

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 Commissioners 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 CV's to the selection criteria and reviewing diversity breakdowns to ensure it was fair and robustly applied. NS&I submit an annual audit return to the office of the Civil Service Commissioners which summarises campaigns, policy and processes. All activities may then be subject to a further audit review by the Civil Service Commissioners and campaign files are kept for 12 months to comply with this requirement. 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 2005-06 there were a total of 21 permanent and fixed term appointments which is summarised in the table below. There were no permitted exceptions to the recruitment principle of fair and open competition.

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

Signed 30 June 2006



Trevor Bayley Acting Chief Executive
National Savings and Investments

Statement of Accounting Officer's responsibilities

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

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

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

In preparing the accounts, the Accounting Officer is required to comply with the Government *Financial Reporting Manual (FReM)* prepared by HM Treasury, and in particular to:

- observe the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;

- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards, as set out in the Government *Financial Reporting Manual* have been followed, and disclose and explain any material departures in the accounts; and
- prepare the accounts on a going-concern basis.

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

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

Statement on system of internal control

1. Scope of responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of National Savings and Investments (NS&I's) policies, aims and objectives, whilst safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting.

Although, as Accounting Officer, I retain sole responsibility for the system of internal control within NS&I, I am assisted in discharging this responsibility by the NS&I Board, which, in addition to me and the other NS&I executive directors, comprises four independent non-executive directors and two representatives of HM Treasury, who provide the key assurance link back to Treasury Ministers. The Minister, whilst maintaining accountability, has delegated day-to-day dealings with NS&I to HM Treasury's Debt and Reserves Management (DRM) team. The NS&I Board have assumed overall responsibility for monitoring the effectiveness of the Agency's risk management processes. I and my senior staff 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. It enables management to evaluate the likelihood of those risks being realised and the impact should they be realised; and to manage them efficiently, effectively and economically to an overall level acceptable to NS&I. The system of internal control has been in place in NS&I for the year ended 31 March 2006 and up to the date of approval of the accounts, and accords with 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. EMT regularly discusses the key risks as part of its quarterly risk review, and the Board 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 policy and agreed risk management reporting protocols which are approved annually by the Board.

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 that part of Siemens Business Services concerned with NS&I business.

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

The risk management process is led by the Executive Management Team comprising the executive directors and the Siemens Business Services Director responsible for the NS&I account, who are responsible for

- implementation of the risk management strategy
- developing and overseeing the risk management policy
- 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 sub-risks has been established through an ongoing programme of individual and collective discussion with the executive directors. With very few exceptions where sub-risks have been retained by the Directors, all sub-risks have been allocated to Business Unit Leaders or senior managers. An organisation-wide risk register is maintained which records all significant risks identified, links lower level risks through to the key risks, records mitigating controls and named risk managers. The Board reviews the key risks at least annually to ensure they remain valid and complete in the light of business plans for the coming year. For each key and sub-risk identified, the assessment and scoring of the probability and impact both before and after mitigating controls is performed using a consistent methodology on a risk matrix. The results of this are considered against our agreed organisation risk appetite as approved annually by the Board. Reviews of risks and their risk scores are performed regularly, and at least quarterly by executive directors, Business Unit Leaders, and the Executive Management Teams.

Where further action is necessary to reduce exposure, the action and its intended effect on the status of the risk is logged; responsibility allocated; and a completion date agreed. Progress on the action is tracked, and missed completion dates on residually red risks are reported monthly through to the Executive Management team and bi-monthly to the board via the Corporate Balanced Scorecard. Missed dates on other risks are reported to the relevant EMT member via the Business Unit Balanced Scorecards. Risks where exposure remains unacceptably high despite controls are flagged as red, and are reviewed quarterly by Business Unit Leaders, the Executive Management Team and the Audit Committee, and bi-annually by the board.

As part of the annual planning cycle, Business Unit Leaders were required to identify the significant risks which could impact on the achievement of each main element of their proposed business plans for 2005/06. These risks were then compared with the existing risk register, which was amended as necessary. This process now forms an integral part of future business planning.

Contingency plans are in place for all sub-risks where exposure is inherently unacceptable. Our management of risk is embedded in policymaking, planning and delivery by executive directors and Business Unit Leaders who are responsible for ensuring the proper management of risks; and cascading implementation of the risk management strategy and policy within their directorates and teams respectively. Business Unit Leaders are responsible for implementation of self assessment processes.

A programme management function ensures that all projects are subject to formal project management disciplines including an assessment of inherent and residual risks.

Projects are governed by formal project management disciplines including regular review of project and programme risks overseen by the project board, Executive Management Team and the Board.

Business Unit Leaders provide written sign-offs to the relevant executive directors that they are satisfied that all their sub-risks are either adequately controlled, or that plans are in place to provide that control. In addition, Executive Management Team members provide me with equivalent written sign-offs for the key risks for which they have responsibility. Executive directors also provide written assurance that an adequate system of internal control operates within their directorates and that, to the best of their knowledge, their staff comply with all relevant legal and regulatory requirements. These approaches continue to be refined to further embed risk management within NS&I's business. During 2005-06, considerable progress continued to be made on developing our business continuity plans.

During 2005-06 training has been provided to all key risk and sub risk owners in the use of new risk management software, which will become operational in 2006-07. The new software and associated processes will provide greater ownership of risk and risk management processes.

Compliance policies and procedures have been strengthened during 2005-06 after the appointment of a new head of Compliance in January 2005. This has led to:

- A review of the existing evidence of identity policy to include anti money laundering procedures more generally including a risk assessment of our products and channels
- Implementation of a financial promotions sign-off regime including awareness training provided to the marketing and sales teams by the FSA
- Introduction of computer based training for awareness on Data Protection Act, Freedom of Information Act and Money Laundering
- Implementing a comprehensive compliance focussed audit programme to give assurance to EMT
- Working closely on partnership programmes with Post Office and Tesco

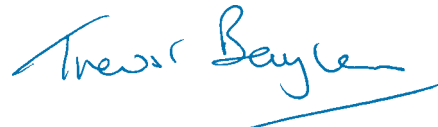
Key initiatives for 2006-07 focus around developing our capability to adhere to industry best practice using FSA requirements as a basis.

5. Review of effectiveness

As Accounting Officer, I also have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive directors and managers within the department and Siemens Business Services, who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. The Board satisfies itself on the adequacy of the risk management process and reviews the management of each key residually red risk at least annually by examining evidence of performance against objectives and targets, the timely identification and assessment of significant risks, the prioritisation of risks and the allocation of resources to address areas of exposure, the ability of NS&I to learn from its experiences and the commitment and speed with which corrective actions are implemented. The Board also reviews the internal and external risk profile for the coming year and considers if current internal control arrangements are likely to be effective.

The Executive Management Team conducts quarterly reviews of the risk register and reports on residually red risks to the Audit Committee, which in turn reviews residually red risks each quarter, and reviews annually the assurance on the overall system of internal control provided by the Head of Internal Audit; and advises the Board of its assessment of the internal control system. The Head of Internal Audit provides the Audit Committee with regular reports on internal audit activity, including his independent opinion on the adequacy and effectiveness of the system of internal control, together with recommendations for improvement. As reported last year the wider remit given to Deloitte following their re-appointment as NS&I's internal auditors has enabled the production of one overall audit plan and audit process for the NS&I business, led by Deloitte. In my opinion, and that of the Audit Committee, this has continued to appreciably enhance the internal audit process, and hence of the value of the internal audit assurance. We will continue our ongoing process for assessing internal control 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 2006/07.

Signed 30 June 2006



Trevor Bayley Acting Chief Executive
National Savings and Investments

The certificate and report of the comptroller and auditor general to the house of commons

I certify that I have audited the financial statements of National Savings and Investments for the year ended 31 March 2006 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 Cashflow 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.

Respective responsibilities of the Accounting Officer and auditor

The Accounting Officer is responsible for preparing the Annual 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 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 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. I also report to you if, in my opinion, the Annual Report is not consistent with the financial statements, 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 pages 48 to 50 reflects the Department's compliance with HM Treasury's guidance on the Statement on Internal Control, and I report if it does not.

I am not required to consider whether the Accounting Officer's statements on internal control cover 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 consider whether it is consistent with the audited financial statements. This other information comprises of only the Annual Report, the unaudited part of the Remuneration Report, and the Management Commentary. I consider the implications for my report 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 opinion

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 Departments 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 2006 and the net cash requirement, net resource outturn, resources applied to objectives, recognised gains and losses and cashflows 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
- in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

I have no observations to make on these financial statements.

Signed 4 July 2006



John Bourn National Audit Office
Comptroller and Auditor General

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

Statement of Parliamentary Supply

Summary of Resource Outturn 2005-06 (£000s)

	Estimate			Outturn				Prior year outturn
	Gross Expenditure	A in A	Net Total	Gross Expenditure	A in A	Net Total	Net total Outturn compared with estimate: saving	
Request for resources 1 To provide retail funds for the Government that are cost effective in relation to funds raised on the wholesale market	187,544	(5,250)	182,294	180,415	(5,212)	175,203	7,091	165,764

Net Cash Requirement 2005-06

	Note	Estimate	Outturn	2005-06 £0.00 Net total outturn compared with estimate: saving	2004-05 £0.00 Prior Year Outturn
Net Cash requirement	3	180,173	170,270	9,903	163,843

Summary of income payable to the Consolidated Fund

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

	Note	Forecast 2005-06		Outturn 2005-06	
		Income	Receipts	Income	Receipts
Total	4	-	-	208	208

The actual receipts surrendered to the Consolidated Fund were £208,395.12.

Explanation of the variation between Estimate and outturn are provided in the Management Commentary.

The notes on pages 57 to 69 form part of these accounts.

Operating Cost Statement

For the year ended 31 March 2006

	Note	Staff Costs	Other Costs	2005-06 £000 Income	2004-05 £000
Administration Costs					
Request for resources:					
Staff Costs	5	8,167			7,226
Other Administration Costs	6		172,248		163,216
Operating Income	7			(5,212)	(4,678)
Totals		8,167	172,248	(5,212)	165,764
Net Operating Costs			175,203	165,764	

All income and expenditure are derived from continuing operations.

Statement of recognised gains and losses

For the year ended 31 March 2006

	Notes	2005-06 £'000	2004-05 £'000
Net gain/(loss) on revaluation of tangible fixed assets	14	1,450	(2,947)
Total recognised gains and losses for the financial year		1,450	(2,947)

The notes on pages 57 to 69 form part of these accounts.

Balance Sheet

As at 31 March 2006

	Notes	31 March 2006	31 March 2005
		£'000	£'000
Fixed assets			
Tangible fixed assets	8.1	25,318	24,841
Intangible fixed assets	8.2	222	141
Total fixed assets		25,540	24,982
Debtors falling due after more than one year			
	9	3,079	4,622
Current assets			
Debtors	9	1,742	1,604
Cash at bank and in hand	10	7,403	4,158
		9,145	5,762
Current liabilities			
Creditors (due within one year)	11	(23,161)	(17,833)
Net current assets		(14,016)	(12,071)
Total assets less current liabilities		14,603	17,533
Provisions for liabilities and charges	12	(1,045)	(1,575)
Total assets less liabilities		13,558	15,958
Taxpayer's Equity:			
General Fund	13	5,977	9,827
Revaluation Reserve	14	7,581	6,131
		13,558	15,958

The notes on pages 57 to 69 form part of these accounts.

Signed 30 June 2006



Trevor Bayley Acting Chief Executive
National Savings and Investments

Cashflow Statement

For the year ended 31 March 2006

	Notes	2005-06 £'000	2004-05 £'000
Net cash outflow from operating activities	15(a)	(170,035)	(163,690)
Capital (expenditure)/ and financial investment	15(b)	(235)	(153)
Receipts due to the Consolidated Fund which are outside the scope of the department's activities		208	464
Payments of amounts due to the Consolidated Fund		(2,665)	(3,265)
Financing	15(c)	175,973	168,001
Increase/(decrease) in cash in the period	15(d)	3,246	1,357

The notes on pages 57 to 69 form part of these accounts.

Statement of operating costs by departmental aim and objective

For the year ended 31 March 2006

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

National Savings and Investments strategic objective is:

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

During 2005-06 National Savings and Investments incurred the following resource costs in pursuit of its objective:

	Gross £000	2005-06 Income £000	Net £000	Gross £000	2004-05 Income £000	Net £000
Resource Cost of Objective	180,415	(5,212)	175,203	170,442	(4,678)	165,764
Net Operating Cost	180,415	(5,212)	175,203	170,442	(4,678)	165,764

The notes on pages 57 to 69 form part of these accounts.

Notes to the accounts

1. Statement of accounting policies

These financial statements have been prepared in accordance with the 2005-06 *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 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 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 comprises rent from external tenants and a discount receivable.

1.9 Administration expenditure

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

Notes to the accounts

1.10 Capital Charges

A charge, reflecting the cost of capital utilised by National Savings and Investments is included in the operating costs. The charge is calculated at the real rate set by HM Treasury, 3.5% for 2005-06 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; and
- 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 5 below.

1.12 Early departure costs

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

Details of pre-funded amounts outstanding in respect of early departure costs are provided in note 7 to the accounts.

1.13 Other provisions

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

1.14 Value Added Tax (VAT)

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

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. National Savings and Investments 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

	Outturn	Supply Estimate	2005-06 £000 Outturn compared with Estimate	2004-05 £000 Outturn
Net Resource Outturn	175,203	182,294	7,091	165,764
Net Operating Cost	175,203	182,294	7,091	165,764

2(b) Outturn against final Administration Budget

	Note	Outturn	2005-06 £000 Budget	2004-05 £000 Outturn
Gross Administration Budget		187,544	180,415	170,442
Income allowable against final Administration Budget	7	(5,250)	(5,212)	4,678
Net Outturn against Administration Budget		182,294	175,203	165,764

3. Reconciliation of resources to cash requirement

	Note	Estimate	Outturn	Net total outturn compared with estimate: saving/excess
Resource Outturn		182,294	175,203	7,091
Capital:				
Acquisition of fixed assets	8	500	237	263
Investments		-		
Non Operating A in A				
Proceeds of fixed asset disposals		-	(2)	2
Accruals adjustments				
• Non –cash items	6	(5,471)	(3,914)	(1,557)
• Changes in working capital other than cash		1,950	(1,948)	3,898
• Changes in creditors falling due after more than one year				
Use of provision	12	900	694	206
Net cash requirement		180,173	170,270	9,903

4. Analysis of income payable to the Consolidated Fund

	Income	Receipts	2005-06 Forecast Income	2005-06 Outturn Receipts
	£'000	£'000	£'000	£'000
Other non-operating income and receipts not classified as Ain A	-	-	208	208
Total	-	-	208	208

5. Staff numbers and related costs

A. Staff costs comprise:

	Total	Permanently Employed Staff	2005-06 £000 Others	2004-05 £000 Total
Wages and Salaries	6,524	5,854	670	5,980
Social security costs	535	535		496
Other pension costs	1,108	1,108		750
Total Net Costs	8,167	7,497	670	7,226

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

For 2005-06 contributions of £1,084,624 were paid to the PCSPS (2004-05 £745,700.) at rates determined by the Government Actuary and advised by the Treasury. These rates were in the range 16.2-24.6 per cent (2004-05, 12-18.5 per cent) of pensionable pay based on salary bands. The scheme's Actuary reviews employer contributions every four years following a full scheme valuation. The salary bands and contribution rates were revised for 2005-06 and will remain unchanged until 2008-09. 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 £23,451.65 (2004-05 £4,169) were paid to one or more of a panel of four stakeholder pension providers. Employer contributions are age related and range from 3 to 12.5 per cent (2004-05: 3 to 12.5 per cent) of pensionable pay. Employers also match employee contributions of up to 3 per cent of pensionable pay. In addition, employer contributions of £1,414, 0.8 per cent (2004-05: £402, 0.8 per cent) of pensionable pay, were payable to the PCSPS to cover the cost of future provision of lump sum benefits on death in service and ill health retirement of these employees. Contributions due to the partnership pension providers at the balance sheet date were nil. Contributions prepaid at that date were nil.

Average number of persons employed

The average number of whole time equivalent staff employed by National Savings and Investments, (including senior management and agency and interim staff), during 2005-06 year was 135. (2004-05, 132).

Objective	Total	Permanently employed staff	2005-06	2004-05
			Others	Total
Administration of National Savings and Investments	135	115	20	132
Total	135	115	20	132

6. Other administration costs

	2005-06 £000	2004-05 £000
Operational Contract Costs		
PPP Provider Costs	107,628	99,426
Selling Agents	29,031	30,630
Giro fees, Link line, ATMOS and banking	3,128	4,148
	139,787	134,204
Marketing and Research Costs		
Marketing	19,500	16,219
Research	2,466	1,184
	21,966	17,403
Other expenditure		
Consultancy, internal audit contract and personnel costs	3,193	3,364
Other Costs	3,115	2,662
Losses	215	262
Audit of Ordinary Deposits White Paper Account	58	58
	6,581	6,346
Non Cash items		
Depreciation and amortisation	1,086	1,042
Prepayment amortisation	1,539	1,539
Diminution in fixed assets	41	1,226
Loss on disposal of fixed assets	1	2
Changes in provisions (note 11)	164	304
Cost of capital charge	517	624
Notional audit fees:		
Product Accounts	508	470
Notional audit fees:		
Resource Accounts	58	56
	3,914	5,263
Administration Costs	172,248	163,216

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

The audit fees relating to Ordinary Deposits White paper Account of £58,000 (2004-05, £58,000) are paid in cash. National Savings and Investments' auditors received no remuneration for non-audit work.

7. Operating Income

Operating income comprises:

	2005-06 £000	2004-05 £000
Discount receivable	-	2
Rent from external tenants	5,212	4,676
	5,212	4,678

The discount receivable comprises the discount allowed from making prepayments to Paymaster (1836), in respect of early retirement costs.

Non-operating income and receipts not classified as Appropriations in Aid comprises amounts which relate to prior years, including prior year loss recoveries and loan recoveries. The actual receipts surrenderable were £208,395.12.

8. Fixed assets

8.1 Tangible fixed assets

	Freehold land & buildings £'000	Information Technology £'000	Plant & Machinery £'000	Furniture & fittings £'000	Total £'000
Cost or valuation					
At 1 April	25,900	254	738	3,576	30,468
Additions		61	19	7	87
Disposals		(13)		(2)	(15)
Revaluation	1,642			54	1,696
Downward Revaluation		(9)	(16)		(25)
At 31 March	27,542	293	741	3,635	32,211
Depreciation					
At 1 April	(3,886)	(120)	(336)	(1,285)	(5,627)
Provided in year	(569)	(45)	(65)	(354)	(1,033)
Disposals		12			12
Backlog depreciation	(245)				(245)
At 31 March	(4,700)	(153)	(401)	(1,639)	(6,893)
Net book value					
At 31 March 2006	22,842	140	340	1,996	25,318
At 31 March 2005	22,014	134	402	2,291	24,841

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.

8.2 Intangible fixed assets

	Software licences 31 March 2006 £'000	Software licences 31 March 2005 £'000
Cost or valuation		
At 1 April	287	260
Additions	150	103
Disposals	-	
Downward revaluation	(16)	(76)
At 31 March	421	287
Amortisation		
At 1 April	(146)	(151)
Provided in year	(53)	5
Disposals		
Revaluation adjustment		
At 31 March	(199)	(146)
Net Book Value		
At 31 March	222	141

9. Debtors

	31 March 2006 £'000	31 March 2005 £'000
Amounts due within one year:		
Deposits and Advances	55	58
Early departure annuity		7
Prepayments and accrued income	148	-
PPP contract prepayment from asset transfer	1,539	1,539
	1,742	1,604
Amounts due after more than one year:		
Deposits and Advances	-	3
PPP contract prepayment from asset transfer	3,079	4,619
Total debtors	4,821	6,226

The number of employees with advances for season tickets and house purchases in excess of £2,500 at 31 March 2006 was three.

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

10. Cash at bank and In hand

	31 March 2006 £'000	31 March 2005 £'000
Balance at 1 April	4,158	2,801
Net Change in cash balances	3,245	1,357
Closing Cash Balance 31 March	7,403	4,158
The following balances at 31 March are held at:		
Office of HM Paymaster General	7,399	4,146
Commercial banks	4	12
	7,403	4,158
The balance at 31 March comprises:		
Cash due to be paid to the Consolidated Fund	7,403	4,158

11. Creditors (amounts falling due within one year)

	31 March 2006 £'000	31 March 2005 £'000
Taxation and social security	181	178
Trade Creditors	11,070	12,771
Other Creditors	263	98
Accruals	4,244	628
Amounts issued from the Consolidated Fund for supply but not spent at year end	7,403	4,158
Total	23,161	17,833

At 31 March 2006 there were no creditors falling due after more than one year.

12. Provisions for liabilities and charges

	31 March 2006 £'000	31 March 2005 £'000
Movements in the provision for early departure costs:		
Balance at 1 April	1,575	2,258
Annual offset of pre-funding		(4)
Applied	(694)	(983)
	(694)	(987)
Increase in provision	164	304
	(530)	(683)
Total early departure costs provision	1,045	1,575
Establishment of provision for product fraud losses		
Balance at 1 April		-121
Provision in year	-	
Applied	-	(121)
Provisions for liabilities and charges	1,045	1,575

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.

13. General Fund

	£'000	31 March 2006 £'000	31 March 2005 £'000
Balance at 1 April		9,827	10,598
Parliamentary Funding			
Drawn down	175,973		165,200
Deemed Supply	1,700		2,801
		177,673	168,001
Net transfer from Operating Activities Net Operating Cost		(175,203)	(165,764)
Consolidated Fund Creditors for cash unspent		(7,403)	(4,157)
Non cash charges			
Cost of capital	517		624
NAO	566		526
		1,083	1,150
Balance at 31 March		5,977	9,827

14. Revaluation Reserve

	31 March 2006 £'000	31 March 2005 £'000
Balance at 1 April	6,131	9,078
Arising on revaluation during the year (net)	1,450	(2,947)
	7,581	6,131
Realised element of revaluation reserve (See Note 13)		
Balance at 31 March	7,581	6,131

15. Notes to the Cashflow Statement

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

	2005-06 £000	2004-05 £000
Net operating cost	175,203	165,764
Adjustments for non-cash transactions (See Note 3)	(3,914)	(5,142)
(Increase)/Decrease in Debtors	135	(1,139)
Increase/(Decrease) in Creditors	(2,083)	3,220
Use of provisions	694	987
Net cash outflow from operating activities	170,035	163,690

(b): Analysis of capital expenditure and financial investment

	2005-06 £000	2004-05 £000
Tangible fixed asset additions (See notes 5 and 8.1)	87	50
Intangible fixed asset additions (See notes 5 and 8.2)	150	103
Proceeds of disposal of fixed assets	(2)	-
Net cash outflow from investing activities	235	153

(c): Analysis of financing

	2005-06 £000	2004-05 £000
From the Consolidated Fund (Supply)- current year	175,973	168,001
Amounts from Consolidated Fund prior year	-	-
	175,973	168,001
Amounts due to the Consolidated Fund received in prior year and paid over		(2,801)
Cash surrender of part of prior year's unspent supply	(2,457)	
Net Financing	173,516	165,200

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

	2005-06 £000	2004-05 £000
Net Cash requirement	(170,270)	(163,843)
From the Consolidated Fund (Supply)- Current Year	175,973	168,001
Amounts due to the Consolidated Fund received in prior year and paid over		(2,801)
Cash surrender of part of prior year's unspent supply	(2,457)	
Increase in cash	3,246	1,357

16. Capital commitments

The following capital commitments existed at the balance sheet date:

	31 March 2006 £'000	31 March 2005 £'000
Contracted but not provided for	-	1
Authorised but not contracted	-	40
	-	41

17. Commitments under operating leases

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

	31 March 2006 £'000	31 March 2005 £'000
Leases expiring within:		
One year		
Two to five years	443	440
After five years		
	443	440
	31 March 2006 £'000	31 March 2005 £'000
Leases expiring within:		
One year	19	4
Two to five years	6	10
After five years	9	9
	34	23

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

18. The Public Private Partnership (PPP) Contract

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

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

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

	£'000
Amounts falling due within one year	84,571
Net present value of amounts falling due within two to five years	282,332
Net present value of amounts falling due within six to eight years	167,179

A discount rate of 3.5% has been used to derive the NPV of the payment stream in years two to eight.

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

19. Contingent liabilities disclosed under FRS 12

There were no contingent liabilities at 31 March 2006.

20. Post Balance Sheet events

There were no post balance sheet events.

21. Related party transactions

NS&I is an Executive Agency of the Chancellor of the Exchequer and a whole government department

Post Office Counters Limited (POCL) is a major distributor of National Savings and Investments products and, as a public body, POCL is a related party. National Savings and Investments had a significant number of transactions with POCL during the accounting period. National Savings and Investments POCL costs during 2005-06 were £27,504,000 (2004-05 £29,972,000) for contract services and an additional 2005-06 £1,200,000 (2004-05 £1,060,000) for non contract services. Alan Cook (CEO) was initially appointed as a non executive director of Post Office Limited for a fixed term of three years from March 2005; however he joined Post Office Limited as the Managing Director on 1 March 2006.

National Savings and Investments entered into a ten year PPP contract with SBS for the provision of operational services, which came into effect on 1 April 1999. This was extended to 31 March 2014. As the major provider of operational services SBS is a related party. Note 3 to these accounts contains details of amounts paid and payable under the contract during 2004-05 and note 19 to the accounts contains details of future commitments arising under the contract. Under the same contract SBS has entered into an agreement to lease NS&I three operational sites in return for a monthly rent. Details of the amounts received and receivable are provided in note 4 to these accounts.

During the year, none of the Board members, members of key management staff or other related parties has undertaken any material transactions with 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.

22. Resources by departmental aims and objectives

During 2000-2001 NS&I's objectives were redefined as part of the quinquennial review of the department. The Treasury confirmed National Savings and Investments had only one aim and one objective. This has subsequently been confirmed in the Landscape Review in 2006. To comply with the *Financial Reporting Manual (FRM)* 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.

23. Losses and Special Payments

	No of Cases	31 March 2006 £'000	No of Cases	31 March 2005 £'000
Compensation Payments	57	28	48	40
Fraud Loss	243	178	213	210
Operational Losses	2	7	2	11
Other	2	2	6	1
Total	304	215	269	262

24. Financial Instruments

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

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

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

Glossary

AER (Annual Equivalent Rate)

A notional rate which illustrates what the rate of interest would be if the interest was compounded each time it was paid. Where interest is paid annually, the quoted rate and the AER are the same.

BACS (Bankers' Automated Clearing Service)

An electronic payment system that allows us to make direct credits to the customer's bank or building society account.

Banking Code

A voluntary code that sets standards of good banking practice. National Savings and Investments and most banks, building societies and credit card companies subscribe to the Code.

Basis points

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 National Savings and Investments, a bond is another name given to fixed-interest securities – particularly 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 Added (see below), this is a measure which allows for timing differences between product interest rate changes being announced and the rate coming into effect.

Director of Savings

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

Executive Agency

National Savings and Investments 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

Professional advisers on investments and financial products, regulated by the Financial Services Authority.

Financial Services Authority (FSA)

The regulator for the financial services industry in the UK.

Fixed or guaranteed rate products

Savings and investments which have rates of interest fixed at the outset for a specified period.

Freedom of Information (FOI)

Under the Freedom of Information Act 2000, each public authority is required to produce a Publication Scheme outlining the different types of information it will publish, or intends to publish, how the information will be published, and whether it is free to access the information or if there is a charge.

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.

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 as well 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. National Savings and Investments offers a cash mini 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.

Marketable

Securities, including gilts, which can be bought and sold at any time at current market prices.

Net interest

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

Power of Attorney

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

Public Private Partnership (PPP)

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

Retail market

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

Repo rate

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

RPI (Retail Price Index)

The most frequently used measure of price inflation, calculated by the Office for National Statistics each month.

Siemens Business Services

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

Swaps

An exchange of payments between two parties. 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 a variable or floating rate at pre-determined intervals (see Hedge).

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.

Trust deed

A formal document that lays down the terms of a trust.

Trust holding

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

UK Debt Management Office (DMO)

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

UK Government Securities

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

Value Added

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

Variable rate products

Savings and investments where the rate of interest can be changed 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 sale of gilts or Treasury Bills etc to banks and other financial institutions such as pension or other fund managers.

Contacts and more information

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

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

Internet

Visit our website at www.nsandi.com

Textphone

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

Post

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

Banking Code

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

Key commitments of the Banking Code are to:

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

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

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Thank you

National Savings and Investments would like to thank all staff and customers for their contribution to the 2005-06 Annual Report.



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