



# Accounts

2002-03



## Resource accounts

As required by HM Treasury the financial statements on pages 40 to 63, the Foreword and other statements on pages 31 to 37 and the Certificate and Report of the Comptroller and Auditor General on page 38, have been reproduced in full from those included in the National Savings and Investments Resource Accounts for 2002-03. This document was presented to Parliament on 16 July 2003 under House of Commons reference 949 and published by The Stationery Office.

The accounts contained in the National Savings and Investments Annual Report and Accounts 2002-03 are in the format prescribed by HM Treasury for the presentation of Resource Accounts to Parliament. The Resource Accounts presented on 16 July 2003 did not include material contained in the National Savings and Investments Annual Report and Accounts for 2002-03, notably the Chief Executive's Foreword, the review of 2002-03 and performance against key targets. The accounts and the Certificate and Report of the Comptroller and Auditor General, should be read in that context.



**Alan Cook**  
Chief Executive  
National Savings and Investments

17 September 2003

## Foreword to the accounts

### Statutory background

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

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

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

### Aims and objectives

The Agency's aim is to help reduce the cost to the taxpayer of government borrowing now and in the future. To achieve this National Savings and Investments' strategic objective is to provide retail funds for the Government that are cost effective in relation to funds raised on the wholesale market. Further details are set out in the National Savings and Investments' *Framework Document (2000)*. The administrative cost of delivering National Savings and Investments objective during 2002-03 is shown in Schedule 5 of these accounts.

In pursuit of its objective, financing through National Savings and Investments in 2002-03 was at a cost competitive with equivalent financing through gilt-edged stock and Treasury Bills. Sales, deposits and interest earned on National Savings and Investments' products during the period totalled £12.3 billion and withdrawals and interest paid totalled £11.6 billion; and there was a net increase over the year of £0.7 billion in the overall level of financing provided by National Savings and Investments to the Government. Further details of the Agency's performance targets and a review of the Agency's performance against these targets will be included in the Annual Report.

### Principal activity

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

### Important events occurring since the year end

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

### Matters covered in the Departmental Report

The National Savings and Investments Departmental Report contains the Department's expenditure plans for 2004-05, and the main estimates for 2003-04. The report provides details of National Savings and Investments' objectives and Service Delivery Agreement (SDA) targets and its achievements and plans in respect of the modernising government agenda. It also provides details of recruitment practice, public appointments and senior civil service salaries. The report was published in May 2003.

### 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 2002-03 the rates were between 12% and 18.5% of pensionable pay depending on salary.

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

### Payment of suppliers

National Savings and Investments is committed to a policy of prompt payment and is a signatory to the Better Payment Practice Code. We endeavour to pay all suppliers within 30 days of acceptance of the relevant goods and services or the receipt of a legitimate invoice if that is later. Payment terms are agreed with suppliers when purchasing goods and services and National Savings and Investments representatives alert suppliers to the Department's standard payment terms. During the year 94.4% of bills were paid within this standard.

### Disabled employees

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

- to interview all candidates with a disability who meet the minimum criteria for a job vacancy and consider them on their abilities
- to ask disabled employees at least annually what can be done to make sure they develop and use their abilities at work
- to make every effort when employees become disabled to keep them in employment

- to take action to ensure that key employees develop the awareness of disability needed to make these commitments work
  - to review these commitments annually, plan to improve them, and to inform all employees of progress and future plans.
- The application and impact of National Savings and Investments' employment policies, practices and procedures, including those covering recruitment, promotion and performance appraisal, are monitored to ensure equality of opportunity for our disabled staff. The Department also provides any special equipment or assistance required by disabled staff to help them perform their job.

## Equal opportunities

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

## Recruitment monitoring

National Savings and Investments has a monitoring system in place to ensure that recruitment is carried out on a basis of fair and open competition and selection on merit in accordance with the guidelines laid down by the Civil Service Commissioners and is subject to internal audit.

During 2002-03 there were a total of 24 appointments which is summarised in the table below. There were no permitted exceptions to the recruitment principle of fair and open competition.

	Senior Civil Servants	Range A	Range B	Range C	Range D
Male	1	5	3	4	1
Female	0	0	2	6	2
White	1	5	5	8	3
Non white	0	0	0	2	0
Disabled	0	0	0	0	0

## Audit

These accounts have been audited by the Comptroller and Auditor General whose Certificate and Report appear on pages 12 and 13.

## Audit committee

The audit committee of National Savings and Investments meets quarterly and is chaired by James Turner, one of the Agency's non-executive directors. In addition to the chairman, membership of the audit committee during 2002-03 comprised Maria Stafford, another of the non-executive directors, the Chief Executive, and the Finance Director. The other executive directors have a standing invitation to attend, as does the Agency's Head of Internal Audit. All of the above attended all meetings. HM Treasury, the National Audit Office, and Siemens Business Services also have standing invitations, and were represented at all of the meetings.

## Ministerial responsibility

National Savings and Investments is an Executive Agency of the Chancellor of the Exchequer. The government minister with portfolio for National Savings and Investments was, until 29 May 2002 the Economic Secretary to the Treasury (EST), followed by the Financial Secretary to the Treasury (FST). During the accounting period the positions of EST and FST were held by Ruth Kelly MP. The ministerial salary of the FST is not met by National Savings and Investments. Details of the minister's salary and pension entitlements are shown in the Treasury's 2002-03 Resource Accounts.

## Board members

Membership of the National Savings and Investments Board during the financial year 2002-03 and subsequently up to the date of preparation of these accounts comprised:

### Non-executive Directors:

Richard Wright Non- executive Chairman of the Board  
 Judy Lowe  
 Maria Stafford  
 James Turner

### Executive Directors:

Peter Bateau CBE Chief Executive; Accounting Officer and Director of Savings (until 30 August 2002)  
 Alan Cook Chief Executive; Accounting Officer and Director of Savings (appointed 30 September 2002)  
 Trevor Bayley Finance Director  
 Jeannie Bevan Strategy Director (until 31 October 2002)  
 Gill Cattanach Commercial Director  
 Steve Owen Partnerships and Operations Director  
 Scott Speedie Personnel Director (until 30 August 2002)

## Representatives of HM Treasury:

Paul Mills            Team Leader Debt and Reserves Management  
 Stephen Evans      Debt and Reserves Management

## Board changes

Peter Bareau retired from the post of Accounting Officer and Director of Savings on 30 August 2002. Alan Cook was appointed to the above position through open competition from 30 September 2002.

Trevor Bayley was acting CEO between Peter Bareau's departure and Alan Cook taking on his responsibilities as CEO.

Scott Speedie retired from the position of Personnel Director on 30 August 2002.

Jeannie Bevan, Strategy Director, left National Savings and Investments on 31 October 2002.

## Board appointments

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

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

Alan Cook            – until September 2007  
 Trevor Bayley      – until June 2006  
 Judy Lowe          – until August 2003  
 Maria Stafford     – until December 2004  
 James Turner      – until August 2003  
 Richard Wright    – until December 2004

Gill Cattanach and Steve Owen are permanent members of the Senior Civil Service.

## Remuneration of the Board members

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

With the exception of the Chief Executive, whose remuneration is determined by the Treasury, executive Board members' pay awards and bonuses were determined by the National Savings and Investments Appointments and Remuneration Committee with reference to the guidelines laid down by the Cabinet Office on the basis of the Senior Salaries Review Body Report (2002). Salaries are adjusted on the basis of performance.

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

Chairman            – Judy Lowe  
 Advisor             – Tim Wilson (Head of Reward, Lloyds TSB Bank Plc)  
                           – Peter Bareau CBE (until August 2002)  
                           – Richard Wright  
                           – Alan Cook (from September 2002)  
 Secretary          – Anne Layen (until February 2003)  
                           – Sean Corr (from February 2003)

Non-executive members' remuneration is set by the Treasury at a fixed rate.

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

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



## Alan Cook

Chief Executive  
 National Savings and Investments

16 July 2003



“ I want my daughter to know that she has a head start in life. Her **Children’s Bonus Bonds** will help buy her first car or go towards university fees. The money I’m saving now will give Jyoti a greater benefit in the future. ”

**Dipti Shah, mother of Jyoti, 13 (pictured), London**

## Statement of Accounting Officer's responsibilities

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

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

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

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

- observe the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis
- make judgements and estimates on a reasonable basis
- state whether applicable accounting standards, as set out in the *Resource Accounting Manual*, have been followed, and disclose and explain any material departures in the accounts
- prepare the accounts on a going-concern basis.

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

## Statement on internal control

### 1. Scope of responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of National Savings and Investments' policies, aims and objectives, set by the Financial Secretary to the Treasury, while safeguarding the public funds and Departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting.

The Minister, while maintaining accountability, has delegated day-to-day dealings with National Savings and Investments to HM Treasury's Debt and Reserves Management team, two representatives of which sit on the Board.

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

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Departmental policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in National Savings and Investments for the year ended 31 March 2003 and up to the date of approval of the Annual Report and Accounts, and accords with Treasury guidance.

### 3. Capacity to handle risk

National Savings and Investments has a risk management strategy, a risk management policy and agreed risk management reporting protocols which have been endorsed by the Board, the Audit Committee and myself.

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

The risk management process is led by the Executive Management Team comprising the executive directors and senior managers who are responsible for implementation of the risk management strategy, for developing and overseeing the risk management policy, for identifying and evaluating strategic risks and designing, operating and monitoring a suitable system of internal control. The responsibility for the management of each top risk is assigned to an Executive Management Team member.

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

National Savings and Investments' business model means that we are critically reliant on our business partner Siemens Business Services for the delivery of our strategic objective. Consequently, we have established a joint Business Management Board (BMB) with Siemens Business Services to manage the partnership as one business. The BMB has delegated responsibility for the monitoring of joint risks to a Joint Audit and Risk Management Committee (JARMC). JARMC meetings take place ahead of the Audit Committee meetings. The Audit Committee receives direct input from the Siemens Business Services Account's Head of Audit and Risk Management.

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

### 4. The risk environment

In National Savings and Investments, the main processes which we have in place for identifying, evaluating, and managing risk are:

- An analysis of key risks has been established through workshops with the executive directors and senior managers and an analysis of lower level risks has been developed using a Control Risk Self Assessment (CRSA) process across the whole business. An organisation wide risk register is being maintained which records all significant risks identified, links lower level risks through to the key risks, records mitigating controls and named risk managers.
- For each 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 by executive directors and senior managers, the Executive Management Team and the Board.

Our management of risk is embedded in policymaking, planning and delivery by executive directors who are responsible for ensuring the proper management of risks within their own directorates and cascading implementation of the risk management strategy and policy within their directorates. Senior managers 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.

These approaches will be further refined in 2003-04 to further embed risk management within National Savings and Investments' business. In addition, a review of the contingency plans for all those risks that are inherently red will be carried out.

I am aware that continuing work needs to be carried out to ensure our business continuity plans are co-ordinated and remain fully adequate.

### 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 reviews the management of each key 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 National Savings and Investments to learn from its experiences and the commitment and speed at which corrective actions are implemented. The Board also reviews the internal and external risk profile for the coming year and considers if current internal control arrangements are likely to be effective.

The Executive Management Team conducts periodic reviews of the risk register and reports on significant residual risks to the Board.

The Audit Committee reviews the assurance on the overall system of internal control provided by the Head of Internal Audit and advises the Board of its assessment of the internal control system.

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

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

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

The approach to reviewing effectiveness and plans to ensure the continuous improvement of the systems in place will be further refined in 2003-04.



**Alan Cook**

Director of Savings  
National Savings and Investments

16 July 2003

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

I certify that I have audited the financial statements on pages 40 to 63 under the Government Resources and Accounts Act 2000. These financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain fixed assets, and the accounting policies set out on pages 47 to 48.

### Respective responsibilities of the Accounting Officer and Auditor

As described on page 35 the Accounting Officer is responsible for the preparation of the financial statements in accordance with the Government Resources and Accounts Act 2000 and Treasury directions made thereunder and for ensuring the regularity of financial transactions. The Accounting Officer is also responsible for the preparation of the other contents of the Accounts. My responsibilities, as independent auditor, are established by statute and guided by the Auditing Practices Board and the auditing profession's ethical guidance.

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

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

I review whether the statement on pages 36 and 37 reflects the Department's compliance with the Treasury's guidance entitled *Corporate Governance: Statement on Internal Control*. I report if it does not meet the requirements specified by the Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements.

### Basis of audit opinion

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

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

### Opinion

In my opinion:

- the financial statements give a true and fair view of the state of affairs of the Department for National Savings and Investments at 31 March 2003 and of the net resource outturn, resources applied to the objective, recognised gains and losses and cash flows for the year then ended, and have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by the Treasury; and
- in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.


I have no observations to make on these financial statements.



**John Bourn**  
Comptroller and Auditor General

14 July 2003

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



“ Financial security is a major concern these days and my National Savings and Investments are in safe hands, because they are a government agency backed by the Treasury. That’s a very good guarantee, don’t you think? No other financial institution can offer me anything better. ”

**Jess Martin, Glasgow**  
Fund raising volunteer for PDSA Charity

# Summary of resource outturn

## Schedule 1

### SUMMARY OF RESOURCE OUTTURN

for the year ended 31 March 2003

	Gross expenditure	Estimate A in A	Net total	Gross expenditure	A in A	Outturn Net Total <sup>1</sup>	Net Total outturn compared with estimate saving/ (excess)	Prior year outturn
	1	2	3	4	5	6	7	8
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Request for resources	175,721	(4,551)	<b>171,170</b>	164,129	(4,460)	<b>159,669</b>	<b>11,501</b>	<b>174,073</b>
Non-operating cost A in A	–	–	–	–	–	–	–	–
Net Cash requirement			<b>170,608</b>			<b>155,500</b>	<b>15,108</b>	<b>163,847</b>
<b>Reconciliation of resources to cash requirement</b>								
		Note	£'000			£'000	£'000	
<b>Net total resources</b>			<b>171,170</b>			<b>159,669</b>	<b>11,501</b>	
<b>Capital:</b>								
Acquisition of fixed assets		5	300			213	87	
<b>Non-operating cost A in A</b>								
<b>Accruals adjustments</b>								
Non-cash items		3	(4,812)			(6,013)	1,201	
Changes in working capital other than cash		7	4,050			328	3,722	
Changes in creditors falling due after more than one year								
Use of provision		11	(100)			1,303	(1,403)	
<b>Net cash requirement</b>			170,608			155,500	15,108	

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

- (i) A number of planned projects were re-scheduled leading to a significant reduction in resources consumed in year (over £10 million)
- (ii) Publicity expenditure was lower than anticipated (£0.6 million)
- (iii) Expenditure at The Post Office was lower than anticipated but this was offset by higher charges at Giro bank

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

- (i) Because of the re-scheduling of a number of projects less cash was required
- (ii) Publicity expenditure was lower than anticipated
- (iii) Expenditure at The Post Office lower than budgeted
- (iv) Creditors increased by £0.6 million and debtors increased by £0.045 million.

#### <sup>1</sup> Actual outturn – resources:

Actual amount net resources: Outturn £159,668,850.63. Actual amount of savings in resources over estimate £11,501,149.37.

#### Actual outturn – cash:

Net cash requirement: Outturn net requirement £155,500,269.96 which is £15,107,730.04 less than estimate.

(continued overleaf)

The Notes on pages 47 to 63 form part of these accounts.

## Analysis of income payable to the Department and is payable to the Consolidated Fund

In addition to appropriations in aid (A in A) the following income relates to the Consolidated Fund (*cash receipts being shown in italics*).

	2002-03 Forecast		2002-03 Outturn	
	Income £'000	<i>Receipts</i> <i>£'000</i>	Income £'000	<i>Receipts</i> <i>£'000</i>
Operating income and receipts-excess A in A	–	–	–	–
Non-operating income and receipts-excess A in A	–	–	–	–
<b>Subtotal</b>	–	–	–	–
Other operating income and receipts not classified as A in A	–	–	–	–
Other non-operating income and receipts not classified as A in A	–	–	249	249
Other amounts collectable on behalf of the Consolidated Fund	–	–	–	–
Total <sup>2</sup>	–	–	249	249

<sup>2</sup>The total receipts surrendered to the Consolidated Fund were £249,290.35.

The Notes on pages 47 to 63 form part of these accounts.

## Schedule 2

### OPERATING COST STATEMENT

for the year ended 31 March 2003

	Notes £'000	2002-03 £'000	(restated) 2001-02
<b>Administration costs</b>			
Staff costs	2	6,945	6,859
Other administration costs	3	<u>157,184</u>	<u>171,590</u>
Gross administration costs		164,129	178,449
<b>Operating income</b>	4	<u>(4,460)</u>	<u>(4,376)</u>
<b>Net resource outturn</b>		<u>159,669</u>	<u>174,073</u>

All income and expenditure are derived from continuing operations.

To comply with revised disclosure requirements of the 2002-03 Resource Accounting Manual staff costs are required to include seconded, agency and temporary staff.

2001-02 staff costs had to be restated to take account of the requirement.

### STATEMENT OF RECOGNISED GAINS AND LOSSES

for the year ended 31 March 2003

	Notes	2002-03 £'000	2001-02 £'000
Net gain on revaluation of tangible fixed assets	13	<u>1,004</u>	<u>1,851</u>
<b>Total recognised gains and losses for the financial year</b>		<u>1,004</u>	<u>1,851</u>

The Notes on pages 47 to 63 form part of these accounts.

## Schedule 3

**BALANCE SHEET**

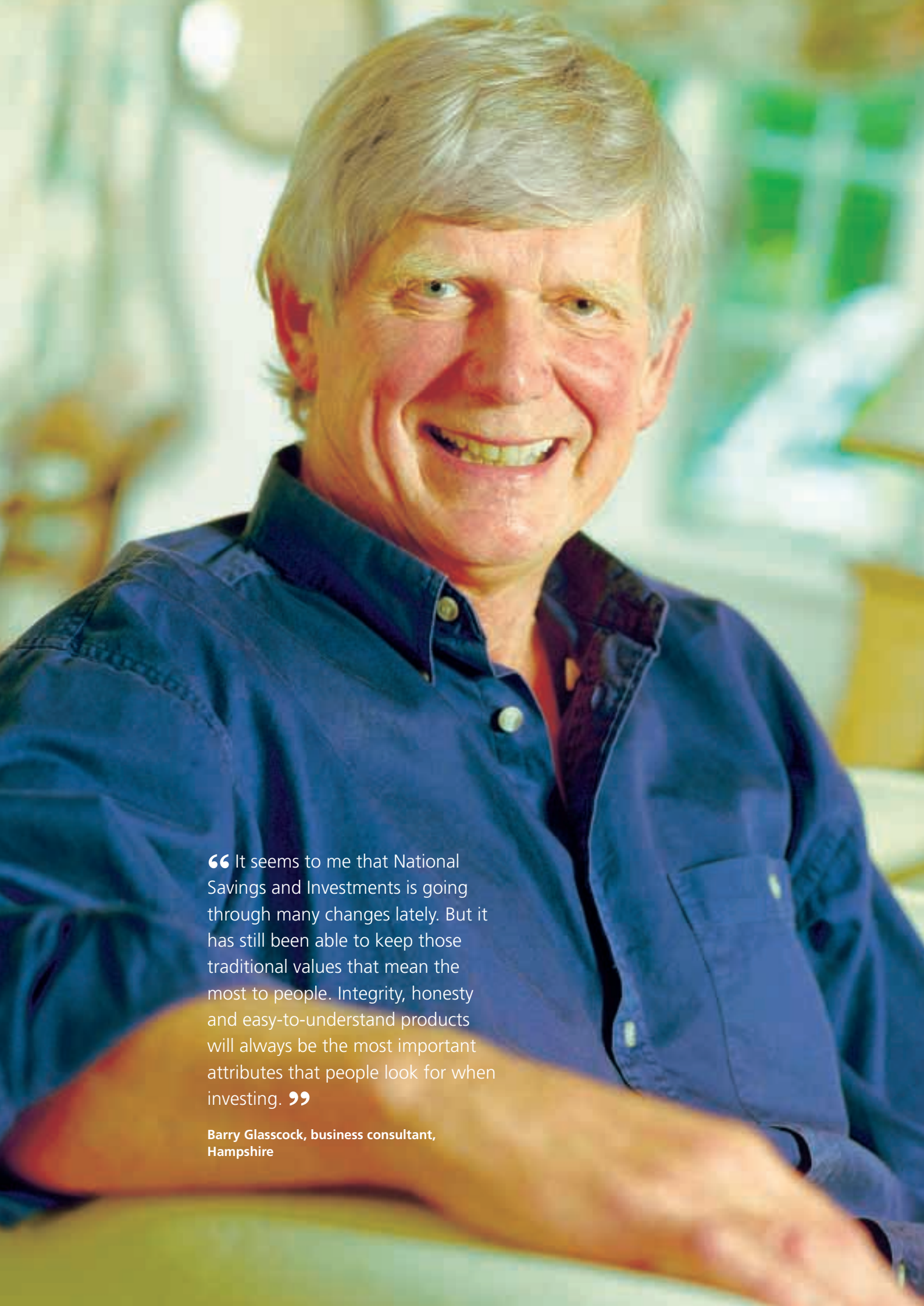
as at 31 March 2003

	Notes	£'000	31 March 2003 £'000	31 March 2002 £'000
<b>Fixed assets</b>				
Intangible fixed assets	6.1		200	154
Tangible fixed assets	6.2		<u>28,306</u>	<u>28,157</u>
Total fixed assets			28,506	28,311
<b>Current assets</b>				
Debtors due after more than one year	8	7,711		9,272
Debtors due within one year	8	3,158		2,199
Cash at bank and in hand	9	<u>4</u>		<u>1,947</u>
Total current assets		10,873		13,418
<b>Current liabilities</b>				
Creditors (due within one year)	10	<u>(16,117)</u>		<u>16,756</u>
<b>Net current assets</b>			<u>(5,244)</u>	<u>(3,338)</u>
<b>Total assets less current liabilities</b>			23,262	24,973
Provisions for liabilities and charges	11		<u>(1,720)</u>	<u>(2,061)</u>
<b>Total assets less liabilities</b>			<u>21,542</u>	<u>22,912</u>
<b>Taxpayer's equity:</b>				
General Fund	12		14,065	16,439
Revaluation Reserve	13		<u>7,477</u>	<u>6,473</u>
	14		<u>21,542</u>	<u>22,912</u>

The Notes on pages 47 to 63 form part of these accounts.


**Alan Cook**Chief Executive  
National Savings and Investments

16 July 2003



“ It seems to me that National Savings and Investments is going through many changes lately. But it has still been able to keep those traditional values that mean the most to people. Integrity, honesty and easy-to-understand products will always be the most important attributes that people look for when investing. ”

**Barry Glasscock, business consultant,  
Hampshire**

## Schedule 4

**CASHFLOW STATEMENT**

for the year ended 31 March 2003

	Notes	2002-03 £'000	2001-02 £'000
Net cash outflow from operating activities	15(i)	(155,115)	(163,725)
Capital (expenditure)/receipts and financial investment	15(ii)	(190)	(122)
Receipts due to the Consolidated Fund which are outside the scope of the Department's activities		249	71
Payments of amounts due to the Consolidated Fund		(2,391)	(1,780)
Financing	15(iii)	<u>154,608</u>	<u>165,989</u>
<b>Increase/(decrease) in cash in the period</b>	9	<u>(2,839)</u>	<u>433</u>

**Reconciliation between change in cash and change in cash balances**

	Notes	2002-03
Increase/(decrease) in cash in the period		(2,839)
Increase/(decrease) in HM Paymaster overdraft	8, 10, and 12	<u>896</u>
Net change in cash balances	9	<u>(1,943)</u>

The Notes on pages 47 to 63 form part of these accounts.

## Schedule 5

### RESOURCES BY DEPARTMENTAL AIMS AND OBJECTIVES

for the year ended 31 March 2003

**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 2002-03 National Savings and Investments incurred the following resource costs in pursuit of its objective:

	Notes	2002-03 £'000	2001-02 £'000
Resource cost of objective	23	159,669	174,073
<b>Net resource outturn</b>		<u>159,669</u>	<u>174,073</u>

The Notes on pages 47 to 63 form part of these accounts.

## NOTES TO THE ACCOUNTS

### 1. Accounting policies

The financial statements have been prepared in accordance with the 2002-03 Resource Accounting Manual (RAM) issued by HM Treasury. The accounting policies contained in the RAM follow UK generally accepted accounting practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector. Where the RAM permits a choice of accounting policy, the accounting policy which has been judged to be most appropriate to the particular circumstances of the Department for the purpose of giving a true and fair view has been selected. The Department's accounting policies have been applied consistently in dealing with items considered material in relation to the accounts.

#### 1.1 Accounting convention

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

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

#### 1.2 Intangible fixed assets

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

#### 1.3 Tangible fixed assets

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

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

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

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

During 2002-03 the value of the Department's land and buildings was restated using an index contained in an Office for National Statistics (ONS) and Department Trade and Industry (DTI) publication entitled, *Quarterly Building Price and Cost Indices*. The specific index used was the 'tender price index of public sector buildings non-housing'.

Any revaluation reserve balances realised on asset disposals are transferred to the General Fund. Individual desks, chairs, computer furniture and cabinets generally fall below the prescribed capitalisation limit, but these assets are grouped together for capitalisation purposes.

#### 1.4 Depreciation and amortisation

In accordance with FRS 15 freehold land is not depreciated.

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

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

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

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

## 1.5 Operating leases

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

## 1.6 Research and development

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

## 1.7 Website development and design costs

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

## 1.8 Operating income

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

## 1.9 Administration expenditure

Administration costs reflect the costs of running the Department. These include both those administrative costs controlled under the administration cost-control regime under the RAB 1 implementation phase (through the Departmental Expenditure Limits) and those that are in the Annually Managed Expenditure (capital charges other than those on the Civil Estate and all other non-cash items), together with associated operating income.

## 1.10 Notional charges

A notional charge, reflecting the cost of capital utilised by the Department, is included in the operating costs. The charge is calculated at the Government's standard rate of 6% in real terms on all assets less liabilities except for:

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

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

## 1.11 Pensions

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

Full details are given in Note 2 below.

## 1.12 Early departure costs

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

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

## 1.13 Value Added Tax (VAT)

The activities of the Department are entirely business and exempt under the terms of the VAT legislation. VAT is not recoverable on exempt business activities. Irrecoverable VAT is charged to the relevant expenditure category or included in the capitalised purchase of fixed assets. In general output tax does not apply.

## 2. Staff numbers and costs

### A. Staff costs consist of:

	2002-03 £'000	(restated) 2001-02 £'000
Wages and salaries	4,817	4,289
Social security costs	400	370
Other pension costs	690	622
Total payroll costs	5,907	5,281
Inward secondments, temporary and agency staff	1,038	1,578
Total staff costs	6,945	6,859

For 2002-03 contributions of £690,044.64 were paid to the PCSPS (2001-02 £622,318.58) at rates determined by the Government Actuary and advised by the Treasury. These rates were in the range 12-18.5% of pensionable pay.

To comply with revised disclosure requirements of the 2002-03 Resource Accounting Manual staff costs are required to include seconded, agency and temporary staff. 2001-02 staff costs had to be restated to take account of the requirement.

### B. The average number of whole time equivalent staff employed by National Savings and Investments, (including senior management), during the year was 125. (2001-02 118).

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

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

Name and Title	Age	Salary		Bonus		Real increase in pension at age 60		Total accrued pension at age 60 at 31 March	
		2002-03 £'000	2001-02 £'000	2002-03 £'000	2001-02 £'000	2002-03 £'000	2001-02 £'000	2002-03 £'000	2001-02 £'000
Peter Bateau CBE (1) <i>Chief Executive</i>	59	45-50	115-120	5-10	20-25	0-2.5	0-2.5	5-10	5-10
Alan Cook (2) <i>Chief Executive</i>	49	70-75	–	10-15	–	0-2.5	–	0-5	–
Trevor Bayley <i>Finance Director</i>	51	110-115	80-85	10-15	5-10	0-2.5	–	0-5	0-5
Jeannie Bevan (3) <i>Strategy Director</i>	51	65-70	100-105	5-10	10-15	0-2.5	0-2.5	5-10	0-5
Gill Cattanach <i>Commercial Director</i>	39	90-95	80-85	10-15	10-15	0-2.5	0-2.5	5-10	0-5
Richard Douglas (4) <i>Finance Director</i>	46	–	5-10	–	–	–	–	–	25-30
Steve Owen <i>Partnerships and Operations Director</i>	43	85-90	10-15	10-15	5-10	2.5-5	0-2.5	10-15	5-10
Scott Speedie (5) <i>Personnel Director</i>	58	30-35	70-75	–	5-10	0-2.5	0-2.5	30-35	30-35

(1) retired August 2002

(2) appointed September 2002

(3) resigned October 2002

(4) resigned April 2001

(5) retired August 2002

Bonuses for 2002-03 are accrued.

The salary entitlements of non-executive directors are provided in Note 3 to the accounts.

### Salary

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

### Pension

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

#### (a) Classic Scheme

Benefits 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. Members pay contributions of 1.5% of pensionable earnings. On death, pensions are payable to the surviving spouse at a rate of half the members pension. On death in service, the scheme pays a lump sum benefit of twice pensionable pay and also provides a service enhancement on computing the spouse's pension. The enhancement depends on length of service and cannot exceed 10 years. Medical retirement is possible in the event of serious ill health. In this case, pensions are brought into payment immediately without actuarial reduction and with service enhanced as for widow(er) pensions.

#### (b) Premium Scheme

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 commute some of their pension to provide a lump sum up to a maximum of 3/80ths of final pensionable earnings for each year of service or 2.25 times pension if greater (the commutation rate is £12 of lump sum for each £1 of pension given up.) Members pay contributions of 3.5% of pensionable earnings. On death, pensions are payable to the surviving spouse or



“ We form a partnership with our clients to help them achieve long term financial security. National Savings and Investments might not offer the highest returns but they do offer capital security and peace of mind. They have expanded their range of products which now has something to offer all age groups. ”

**Vivienne Starkey, 'Equal Partners'**  
Independent Financial Adviser, London

eligible partner at a rate of 3/8ths the member's pension (before any commutation). On death in service, the scheme pay a lump-sum benefit of three times pensionable earnings and also provides a service enhancement on computing the spouse's pension. The enhancement depends on length of service and cannot exceed 10 years. Medical retirement is possible in the event of serious ill health. In this case, pensions are brought into payment immediately without actuarial reduction. Where the member's ill health is such that it permanently prevents them undertaking any gainful employment, service is enhanced to what they would have accrued at age 60.

(c) Classic Plus Scheme

This is essentially a variation of *premium*, but with benefits in respect of service before 1 October 2002 calculated broadly as per classic.

Pensions payable under *classic*, *premium*, and *classic plus* are increased in line with the Retail Prices Index.

(d) Partnership Pension Account

This is a stakeholder-type arrangement where the employer pays a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product. The employee does not have to contribute but where they do make contributions, these will be matched by the employer up to a limit of 3% (in addition to the employer's basic contribution).

Employers also contribute a further 0.8% of pensionable salary to cover the cost of risk benefit cover (death in service and ill health retirement). The member may retire at any time between the ages of 50 and 75 and use the accumulated fund to purchase a pension. The member may choose to take up 25% of the fund as a lump sum.

**3. Other administration costs**

Other administration costs comprise:

	2002-03 £'000	(restated) 2001-02 £'000
PPP contract costs	87,983	102,442
Selling agents	39,491	41,527
Marketing and research costs	13,077	10,981
Accommodation	564	408
Telecommunication and computer services	251	254
Printing and postage costs	105	171
Giro fees and banking	3,543	2,595
Consultancy, internal audit contract and personnel costs	4,815	6,930
Operating leases for hire of equipment	18	22
Losses	202	389
Ordinary Deposits White Paper Account audit fee	58	58
Product accounts audit fee	18	15
Notional audit fees	455	447
Interest expense incurred on provision	123	127
Increase in early departure provision	716	861
Provision for asbestos removal	818	-
Depreciation and amortisation of fixed assets	998	947
Amortisation of PPP contract prepayment	1,539	1,539
Reversal of diminution	-	(395)
Permanent diminution in fixed assets	24	37
Loss on disposal of assets	-	2
Notional cost of capital charge	1,340	1,576
Other costs	1,061	641
Exceptional items	(15)	16
	<u>157,184</u>	<u>171,590</u>

Selling agents include Post Office Limited and other minor agents.

Exceptional items in 2001-02 included a late payment charge and accrued Inland Revenue penalty and interest payments of £10,882 and £4,000 respectively. The penalty and interest payments were waived by the Inland Revenue during negotiations of the tax liability and did not have to be paid.

To comply with revised disclosure requirements of the 2002-03 Resource Accounting Manual staff costs are required to include seconded, agency and temporary staff. 2001-02 administration costs had to be restated to take account of the requirement.

Non-cash items comprise:

	£'000	2002-03 £'000	2001-02 £'000
Depreciation and amortisation		2,537	2,486
Reversal of diminution in fixed assets		-	(395)
Permanent diminution in fixed assets		24	37
Loss/(profit) on disposal		-	2
Notional cost of capital charge		1,340	1,576
Increase in provisions (see Note 11)		1,657	988
Notional audit fees:			
Product Accounts	350		343
Resource Accounts	48		47
Investment Deposits White Paper Account	<u>57</u>	<u>455</u>	<u>57</u>
		<u>6,013</u>	<u>5,141</u>

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

The costs of travel and subsistence and hospitality for the year to 31 March 2003 were £423,423 and £48,942 respectively (2001-02 £445,908 and £36,616). These costs are included in the total for consultancy, internal audit contract and personnel costs.

Other costs include remuneration of non-executive directors, as follows:

Name and title	2002-03 £'000	2001-02 £'000
Judy Lowe <i>Non-executive director</i>	10-15	10-15
James Turner <i>Non-executive director</i>	10-15	10-15
Maria Stafford <i>Non-executive director</i>	10-15	0-5
Richard Wright <i>Non-executive director</i>	15-20	0-5

#### 4. Operating income

Operating income comprises:

	2002-03 £'000	2001-02 £'000
Discount receivable	14	30
Rent from external tenants	4,446	4,346
	<u>4,460</u>	<u>4,376</u>

The discount receivable comprises the discount allowed from making prepayments to Paymaster, in respect of early retirement costs. Non-operating income and receipts not classified as Appropriations in Aid comprises amounts which relate to prior years, including prior year loss recoveries and loan recoveries. The total receipts surrendered were £249,290.35.

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

	2002-03 £'000	2001-02 £'000
Capital expenditure	213	122
Appropriations in Aid	—	—
	<u>213</u>	<u>122</u>

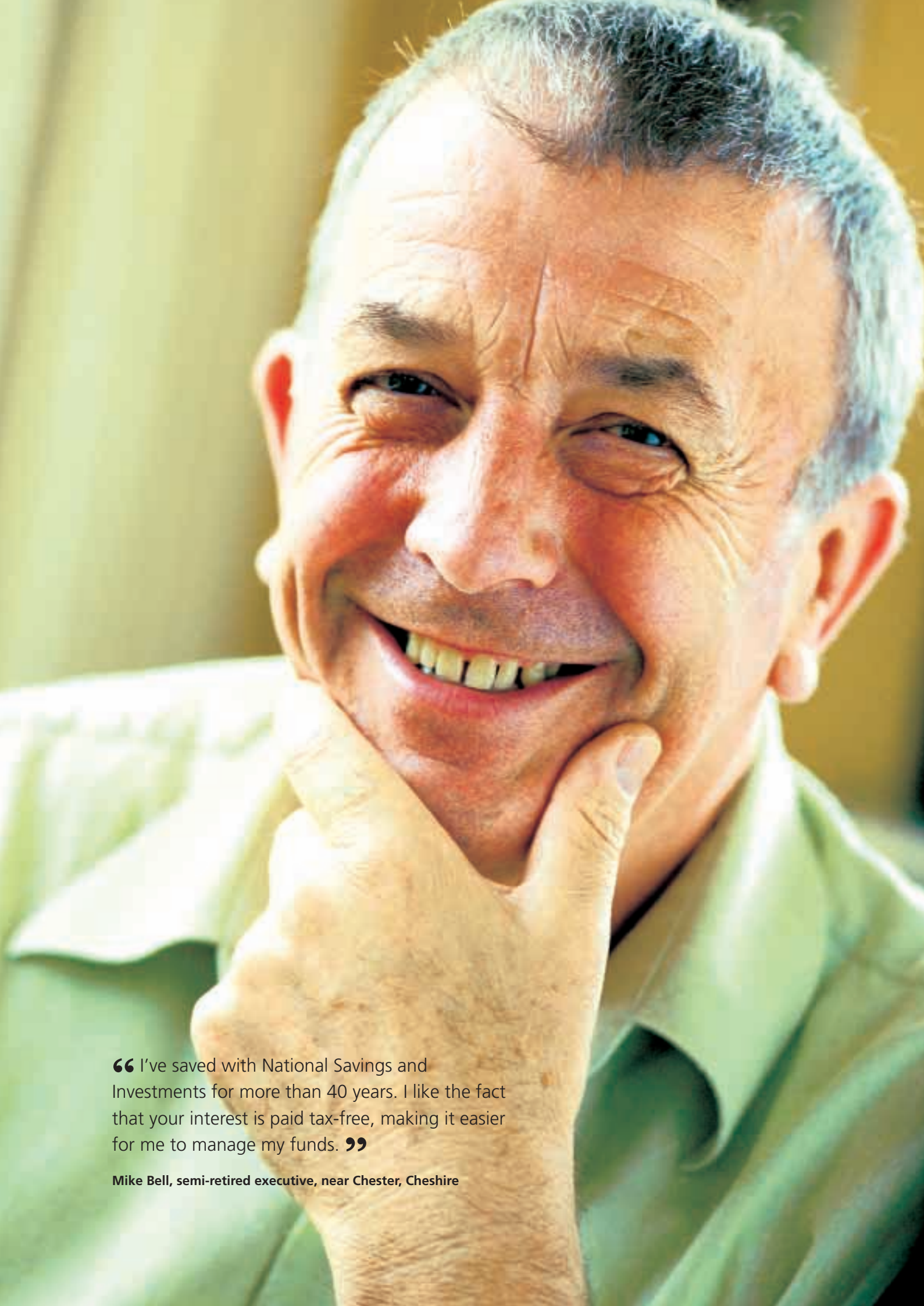
## 6. Fixed assets

### 6.1 Intangible fixed assets

	Software licences 31 March 2003 £'000	Software licences 31 March 2002 £'000
<b>Cost or valuation</b>		
At 1 April	214	191
Additions	110	45
Disposals	–	–
Permanent diminution	(20)	(22)
At 31 March	<u>304</u>	<u>214</u>
<b>Amortisation</b>		
At 1 April	(60)	(36)
Provided in year	(49)	(37)
Disposals	–	–
Diminution adjustment	5	13
At 31 March	<u>(104)</u>	<u>(60)</u>
<b>Net book value</b>		
At 31 March	<u>200</u>	<u>154</u>

### 6.2 Tangible fixed assets

	Freehold land and buildings £'000	Computers and telecoms £'000	Plant and equipment £'000	Furniture and fittings £'000	Total £'000
<b>Cost or valuation</b>					
At 1 April	27,735	182	663	2,464	31,044
Additions	–	92	–	11	103
Disposals	–	–	–	–	–
Revaluation	1,051	–	23	28	1,102
Permanent diminution	–	(13)	–	–	(13)
At 31 March	<u>28,786</u>	<u>261</u>	<u>686</u>	<u>2,503</u>	<u>32,236</u>
<b>Depreciation</b>					
At 1 April	(2,388)	(43)	(102)	(354)	(2,887)
Provided in year	(593)	(36)	(69)	(251)	(949)
Disposals	–	–	–	–	–
Backlog depreciation	(91)	–	(3)	(4)	(98)
Diminution adjustment	–	4	–	–	4
At 31 March	<u>(3,072)</u>	<u>(75)</u>	<u>(174)</u>	<u>(609)</u>	<u>(3,930)</u>
<b>Net book value</b>					
At 31 March 2003	<u>25,714</u>	<u>186</u>	<u>512</u>	<u>1,894</u>	<u>28,306</u>
At 31 March 2002	<u>25,347</u>	<u>139</u>	<u>561</u>	<u>2,110</u>	<u>28,157</u>



“ I’ve saved with National Savings and Investments for more than 40 years. I like the fact that your interest is paid tax-free, making it easier for me to manage my funds. ”

**Mike Bell, semi-retired executive, near Chester, Cheshire**

**7. Movements in working capital other than cash**

	2002-03 £'000	2001-02 £'000
(Decrease)/increase in debtors	45	(171)
Decrease/(increase) in creditors	(607)	(6,094)
Adjustment for movement on provisions	695	(59)
	<u>133</u>	<u>(6,324)</u>
Transitional adjustment being adjustment for outstanding Balances relating to the Department's Appropriation Accounts for 2000-01	195	–
	<u>328</u>	<u>(6,324)</u>

The overdrawn bank balance is not included as a movement in creditors' balances

**8. Debtors**

	£'000	31 March 2003 £'000	31 March 2002 £'000
<b>Amounts due within one year:</b>			
Consolidated Fund Debtor (see Notes 9, 10 and 12)		892	–
Deposits		500	500
Advances		38	31
Other debtors		29	2
Early departure annuity		8	44
Prepayments and accrued income		152	83
PPP contract prepayment from asset transfer		1,539	1,539
		<u>3,158</u>	<u>2,199</u>
<b>Amounts due after more than one year</b>			
Early departure annuity	8		16
Advances	5		19
PPP contract prepayment from asset transfer	<u>7,698</u>		<u>9,237</u>
		<u>7,711</u>	<u>9,272</u>
Total debtors		<u>10,869</u>	<u>11,471</u>

The number of employees with advances for season tickets and house purchases in excess of £2,500 at 31 March 2003 was three. Under a contract signed with Siemens Business Services in January 1999 for the provision of operational services the majority of the Department's assets were re-classified as a prepayment at 31 March 1999 and subsequently transferred to Siemens Business Services on 1 April, for a nominal sum. This had the effect of reducing charges that would otherwise have been payable to Siemens Business Services over the life of the contract. The prepayment is being amortised over the life of the contract on a straight line basis.

## 9. Cash at bank and in hand

	31 March 2003 £'000	31 March 2002 £'000
<b>Balance at 1 April</b>	1,947	1,514
Movement in cash balance (Decrease)/increase Note 15	(2,839)	433
Exclude Overdrawn HM Paymaster Balance Notes 8, 10 and 12	896	–
<b>Net change in cash balances</b>	<u>(1,943)</u>	<u>433</u>
<b>Closing cash balance 31 March</b>	<u>4</u>	<u>1,947</u>

### The following balances at 31 March are held at:

Office of HM Paymaster General	–	1,944
Commercial banks	<u>4</u>	<u>3</u>
	<u>4</u>	<u>1,947</u>

### The balance at 31 March comprises:

#### Cash due to be paid to the Consolidated Fund:

Amounts issued from the Consolidated Fund for supply but not spent at year end	4	1,947
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The balance at HM Paymaster General was overdrawn by £896,548.10 on the 31 March 2003. This amount has been shown in creditors due within one year. A debtor balance with the Consolidated Fund has also been set up to reflect the net overdrawn balance £892,269.96. The difference being balances held at a local bank of £4,268.97 and cash £9.17.

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

	31 March 2003 £'000	31 March 2002 £'000
HM Paymaster Overdrawn Bank Balance (see Notes 8, 9 and 12)	896	–
Other creditors	472	597
Vote surplus due to the Consolidated Fund	–	2,141
Consolidated Fund Extra Receipts to be surrendered	–	–
Inland Revenue	28	118
Accruals	13,118	12,992
Early departure provision (see Note 11)	785	908
Asbestos rectification provision	818	–
	<u>16,117</u>	<u>16,756</u>

Accruals include amounts payable to Siemens Business Services under the PPP contract for services received but not invoiced. At 31 March 2003 there were no creditors falling due after more than one year.

## 11. Provisions for liabilities and charges

	£'000	31 March 2003 £'000	31 March 2002 £'000
<b>Movements in the provision for early departure costs:</b>			
Balance at 1 April		2,969	3,098
Annual offset of pre-funding	(57)		(124)
Applied	(1,246)		(993)
Increase in provision	<u>839</u>		988
		<u>(464)</u>	
Total early departure costs provision		2,505	2,969
Amount payable within one year (see Note 10)		<u>(785)</u>	<u>(908)</u>
Provision falling due after more than one year		1,720	2,061
<b>Establishment of provision for asbestos rectification:</b>			
Balance at 1 April		–	–
Provision in year		818	–
Applied		<u>–</u>	<u>–</u>
Total asbestos rectification provision		818	–
Amount payable within one year		<u>(818)</u>	<u>–</u>
Provision falling due after more than one year		<u>–</u>	<u>–</u>
Provisions for liabilities and charges		<u>1,720</u>	<u>2,061</u>

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

## 12. General fund

	£'000	31 March 2003 £'000	31 March 2002 £'000
At 1 April		16,439	24,641
Vote Financing	154,608		165,989
Vote surplus due to the Consolidated Fund	–		(2,141)
Consolidated Fund Debtor (see Notes 8, 9 and 10)	892		–
Transferred from the operating cost statement	(159,669)		(174,073)
Notional items (see Note 3)	<u>1,795</u>		2,023
		<u>(2,374)</u>	
At 31 March		<u>14,065</u>	<u>16,439</u>

## 13. Revaluation Reserve

	£'000	31 March 2003 £'000	31 March 2002 £'000
At 1 April		6,473	4,622
Surplus on fixed asset revaluation (see Note 6.2)	1,102		1,973
Backlog depreciation charge (see Note 6.2)	<u>(98)</u>		(122)
		<u>1,004</u>	
At 31 March		<u>7,477</u>	<u>6,473</u>

## 14. Net movement in Government funds

	2002-03 £'000	2001-02 £'000
Net movement in General Fund (see Note 12)	(2,374)	(8,202)
Net movement in Revaluation Reserve (see Note 13)	1,004	1,851
Net movement in Government Funds	(1,370)	(6,351)
Opening balance	22,912	29,263
Closing balance	21,542	22,912

## 15. Notes to the cashflow statement

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

	2002-03 £'000	2001-02 £'000
Net operating cost	159,669	174,073
Adjustments for non-cash transactions (see Note 3)	(6,013)	(5,141)
Adjustments for movements in working capital other than cash (see Note 7)	156	(6,324)
Use of provisions	1,303	1,117
Net cash outflow from operating activities	155,115	163,725

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

	2002-03 £'000	2001-02 £'000
Intangible fixed asset additions (see Notes 5 and 6.1)	99	45
Tangible fixed asset additions (see Notes 5 and 6.2)	91	77
Proceeds of disposal of fixed assets	—	—
Net cash outflow/(inflow) from investing activities	190	22

Intangible Fixed Asset additions in Notes 5 and 6.1 include an amount of £110,000. The difference (£11,000) is software that was purchased and used during the year but not paid for.

Fixed Asset additions in Notes 5 and 6.2 include an amount of £103,000. The difference (£12,000) represents equipment that was purchased and in use but not paid for.

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

	2002-03 £'000	2001-02 £'000
From the Consolidated Fund	154,608	165,989
<b>Net Financing (Increase)/decrease in cash</b>	<b>154,608</b>	<b>165,989</b>
	<b>2,839</b>	<b>(433)</b>
	<b>157,447</b>	<b>165,556</b>
Adjust for payments and receipts not related to supply:		
Amounts due to the Consolidated Fund received in prior year and paid over	(2,142)	(1,709)
Amounts due to the Consolidated Fund received and not paid over	—	—
Transitional adjustment being adjustment for outstanding balances relating to the Department's Appropriation Accounts for 2000-01	195	—
<b>Net cash requirement (Schedule 1)</b>	<b>155,500</b>	<b>163,847</b>



“ I don't know a lot about finance, but I still want to make sure that my money is protected. I just need information that's easy to understand and tells me exactly where I'm putting my money and what I'll get back – no complicated doublespeak. ”

**Rachel Heathfield,**  
Advertising Copywriter, London

## 16. Capital commitments

The following capital commitments existed at the balance sheet date:

	31 March 2003 £'000	31 March 2002 £'000
Contracted but not provided for	46	–
Authorised but not contracted	–	124
	<u>46</u>	<u>124</u>

## 17. Commitments under operating leases

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

	31 March 2003 £'000	31 March 2002 £'000
<b>Leases expiring within:</b>		
One year	2	5
Two to five years	8	5
After five years	9	9
	<u>19</u>	<u>19</u>

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

## 18. Administration cost limits

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

	Outturn £000's	2002-03 Limits £000's	Outturn £000's	2001-02 Limits £000's
Request for resources 1 (Gross Limit)	157,456	168,398	172,093	178,522
	<u>157,456</u>	<u>168,398</u>	<u>172,093</u>	<u>178,522</u>

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

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

National Savings and Investments is committed to making annual payments to Siemens Business Services and these payments are set to reduce significantly over the life of the contract as National Savings and Investments gains from the capital investment and operational efficiency brought about by this agreement. The estimated capital value of the contract is £38 million.

The level of annual payment is specified in the contract but may vary according to transaction volumes, new product and service channel developments and the level of Siemens Business Services' performance. It will also be uplifted each year in line with movements in the Retail Prices Index. If Siemens Business Services were 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	77,882
Net present value of amounts falling due within two to five years	241,130
Net present value of amounts falling due within six to seven years	39,624

During 2001-02 National Savings and Investments entered into an agreement with Siemens Business Services that they should develop an e-commerce capability. This is in addition to the services provided under the original contract. £4.1 million was incurred during 2002-03. The unitary fee is being uplifted to include the cost of this development and is included in the future commitments shown above.

A discount rate of 6% has been used to derive the NPV of the payment stream in years two to seven.

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

### 20. Contingent liabilities

There were no contingent liabilities at 31 March 2003.

### 21. Post balance sheet events

There were no post balance sheet events.

### 22. Related party transactions

National Savings and Investments is an Executive Agency of the Chancellor of the Exchequer and a whole government department. Post Office Limited is a major distributor of National Savings and Investments products and, as a public body, Post Office Limited is a related party. National Savings and Investments had a significant number of transactions with Post Office Limited during the accounting period.

National Savings and Investments entered into a ten-year PPP contract with Siemens Business Services for the provision of operational services, which came into effect on 1 April 1999. As the major provider of operational services Siemens Business Services is a related party. Note 3 to these accounts contains details of amounts paid and payable under the contract during 2002-03 and Note 18 to the accounts contains details of future commitments arising under the contract. Under the same contract Siemens Business Services has entered into an agreement to lease National Savings and Investments' three operational sites in return for a monthly rent. Details of the amounts received and receivable are provided in Note 4 to these accounts.

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

### 23. Schedule 5

During 2000-01 National Savings and Investments' objectives were redefined as part of the quinquennial review of the Department. The Treasury confirmed National Savings and Investments had only one aim and one objective. To comply with the Resource Accounting Manual and the accounts direction in these accounts, schedule 5 contains one aim and one objective. The associated administrative cost is therefore equal to the net resource outturn, as shown in Schedule 2 to these accounts.

### 24. Losses and special payments

During 2002-03 111 cases of loss were brought to account, totalling £202,198.65 (2001-02 £389,544). There were in addition to the above losses three cases which totalled £53,066 for constructive losses arising from interest rate changes which were outside the control of National Savings and Investments.

#### Details of cases over £100,000

Cash losses one case £113,001.51

The above loss relates to a major product fraud.

## GLOSSARY OF TERMS

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

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

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

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

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

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

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

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

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

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

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

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

**Equities** – investments (shares) in a company listed on a stock market.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## Contacts and more information

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

### Telephone

- Call us on 0845 964 5000. Lines are open 24-hour, 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](http://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:

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

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

### Head office

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Tel: 020 7348 9200

### Thank you

National Savings and Investments would like to thank all staff and customers for their contribution to the 2002-03 Annual Report.

### Cover picture

We have featured Steve Downey and Jill Waters, who manage our customer services and call centres, on the cover of this report.



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