

# NS&I: FORMULA FOR MODERNISATION

By **Simon Vessey**, Partner

**A leading success story in public sector reform is that of NS&I, one of the UK's largest savings organisations. CVA's work for HM Treasury on the modernisation strategy was the foundation for its revival.**

**By the mid 1990s, the body that would later become NS&I was showing its age. After 135 years, National Savings – the Treasury department set up as a secure savings scheme for ordinary wage earners and as a source of public funding – was nearing crisis point.**

A soaring cost base, a moribund operational culture and accounting disparities exposed by a critical National Audit report prompted National Savings' then-CEO to describe the organisation as "grossly old-fashioned and inefficient, with no clear direction or purpose".

Bad though this was, the fundamental problem facing National Savings was that voices in government were starting to ask: "What is the point of having it at all?"

Due to the lack of any agreed way of measuring or defining the value created by the organisation, there was no compelling answer. Radical action was needed if the department was to be a viable proposition.

In July 1996 National Savings became an executive agency of the Chancellor of the Exchequer, giving it greater autonomy in day-to-day management. The new CEO instituted a fundamental strategic review in close co-ordination with the Treasury, and CVA won the contract to support this.

A year later, the agency was credited with a Charter Mark for Excellence in Public Service, an achievement repeated in 2008.

Today, the renamed NS&I (National Savings and Investments) is one of the largest savings organisations in the UK, with almost 27 million customers and over £94 billion invested. Best known for Premium Bonds, held by over 23 million people, NS&I also offers a range of other savings and investments to suit different people's needs. NS&I has created over £2 billion of value for the taxpayer over the past decade.

## Remit and revival

So how was this dramatic turnaround achieved?

The challenge was to find a way of measuring National Savings' performance that could be expressed in net financial terms.

This was achieved through CVA's "value add" formula which calculated the difference in all-in costs between raising similar types of funds for the Exchequer on the wholesale markets through the Debt Management Office, and raising funds from retail investors through National Savings products.



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#### Figures at a glance

**91.5%**

Customer satisfaction  
(NS&I 2009–10 annual report)

**81%**

NS&I employees who believe the management team has a clear vision for the organisation  
(NS&I 2009–10 annual report)

**£1.4bn**

Net Value delivered to government  
(NS&I 2009–10 annual report)

As a result, National Savings' remit explicitly became the delivery of cost-effective funding for Government, and ultimately the taxpayer.

NS&I's existence could then be justified on hard economic terms, without needing to resort to appeals to unquantifiable social benefits such as encouraging savings. This freed the business to concentrate on how it could fulfil its remit most effectively.

One of the implications was how it allowed NS&I to change the way it saw itself. The old view of the business was essentially that of a data processing operation. NS&I needed to start thinking about itself as a sales operation.

Although a sales business needs a cost effective back office and slick processes to keep costs under control, the NS&I management needed to focus on brand, offer, customers and growth.

The solution was to outsource NS&I's entire business operations to the private sector, allowing the agency to refocus attention on areas key to its remit.

From a starting point of around 4,500 employees, most of whom were back office staff engaged in data processing and answering basic queries, NS&I left itself with a core of around 150 staff responsible for brand, product R&D, customer strategy, sales, channel mix and partner management.

All other staff and operations assets were transferred over to the outsourcing partner – an outsourcing contract on an unprecedented scale.

The arrangement contained three elements designed to reflect a true public-private partnership:

- ◆ Wider benefits for both NS&I and the outsourcing partner, including new investment opportunities. This allowed for the creation of an integrated operating platform and the transfer of significant business risk from the taxpayer to the private sector. In return, the outsourcing partner gained an operations business and workforce that could be leveraged to service other clients;
- ◆ A “whole business thinking” approach allowing for the outsourced business to revert back to NS&I at the end of the contract should circumstances dictate. This creates an incentive for NS&I to consider the impact of its long-term strategy on the operational cost base and the need for the business to be affordable;
- ◆ An innovative approach to “whole business management”, in which the outsourcing partner sits on NS&I's executive management team giving the associate business a key stakeholder voice.

#### NS&I today

NS&I has today changed almost beyond recognition, successfully bringing a private sector business ethos and expertise into the public sector.

This has allowed it to play a long game, developing and implementing a succession of five-year strategic plans. These have helped to build additional capability, streamlined the business model, and evolved the business to respond to changes in the market and in customer needs.

Freed from the need to micro-manage daily operations, NS&I has rarely stood still in terms of developing new tools and capabilities, launching new products and attracting an ever-growing amount of new deposits.

Many people have contributed to shaping NS&I into the success story it is today. But the starting point can be traced back to work undertaken by CVA with the Treasury.