

Sir Geoffrey Clifton-Brown MP
Chair of the Public Accounts Committee
House of Commons
London SW1A 0AA

26 February 2026

Dear Sir Geoffrey,

NS&I Contingent Liabilities further information

Thank you for your letter dated 12 February 2026 in which you requested further information regarding the contingent liabilities of which NS&I informed the Committee via letter on 17 December 2025.

I sincerely apologise that Parliament was not informed earlier to allow appropriate time for Parliamentary scrutiny and that the Committee were not given greater notice ahead of our session in December. I have set out below answers to your specific questions, including the steps we have taken to ensure this does not happen again.

To address your questions in order:

1) Why was the risk that a multi-source supply model may lead to additional liabilities for the government not considered earlier on in the transformation process?

As part of NS&I's transition from a single outsourced service delivery model to a multi-supplier model, contractual arrangements were designed so that operational loss liability (of which fraud loss is a subset) is allocated to suppliers where NS&I can evidence supplier fault. A residual scenario exists where fault cannot be clearly evidenced or is disputed and not upheld, in which case liability may remain with NS&I.

Funding requirements relating to the revised treatment for the fraud component were reflected in the financial cases of the 2023 and 2024 Business Transformation Programme Full Business Cases to capture the potential financial implication of fraud liability. At the time, NS&I did not assess it was entering into a contingent liability and therefore did not seek separate HM Treasury approval to take on this liability.

The decision to phase the transfer of operational staff to Sopra Steria (UK on 1 April 2025, with the Chennai back-office operations on 1 October 2025) taken in October 2024, required a further revision to the treatment for operational losses during this period, and highlighted a resulting low level residual operational loss impact post this date. We negotiated a service charge reduction during the phased staff transfer period to reflect this change, which exceeded the value of the contingent liability.

At the point these arrangements were agreed, NS&I assessed that this residual exposure did not constitute an additional accounting or contingent liability. This judgement was based on the requirements of IAS 37 Provisions, contingent liabilities and contingent Assets, which defines a contingent liability as arising from a past obligating event. At that stage, no such obligating event had occurred, and the exposure was therefore assessed as not giving rise to an accounting liability.

In NS&I's view, both operational losses reflected a change in risk allocation, rather than the creation of a new commitment to incur losses. NS&I viewed the residual exposure as arising in the normal course of business, consistent with its statutory role as a retail savings provider and standard practice in financial services. Under the 2014 Business Process Outsourcing (BPO) contract, the supplier retained all such liabilities which were covered under the fixed charges, which included provisions for the risks carried by the supplier. Under the multi-supplier model, liability sits with suppliers where fault can be evidenced and with NS&I only in limited residual circumstances.

2) Why, once HM Treasury formed their view in the autumn that the new arrangement did lead to new contingent liabilities, did it take additional time for you to notify myself and Parliament?

HM Treasury confirmed its position on 12 September 2025 that the operational and fraud loss exposures should be treated as contingent liabilities. NS&I initially disagreed with this assessment, taking the view that the losses arose in the normal course of business, consistent with its statutory role and established financial services practice.

This difference in judgement necessitated further detailed engagement with HM Treasury and central teams during autumn 2025, to determine the correct classification under Managing Public Money, including whether the liabilities met the criteria of being novel, contentious or repercussive, and therefore required the full approvals route and Parliamentary notification.

The matter was escalated to the NS&I Audit and Risk Assurance Committee at its 19 November 2025 meeting, including the differing judgements on classification, the requirement for retrospective approval and implications for governance and Parliamentary accountability. After considering the differing judgements, I accepted HM Treasury's guidance to treat them as contingent liabilities.

Once it was confirmed that the exposures should be treated as contingent liabilities and that retrospective approval was required, NS&I commenced the approvals process in November 2025. This included engagement with the Contingent Liability Central Capacity (CLCC) team within UK Government Investments (UKGI) to determine whether a full or summarised checklist was required, preparation of the contingent liability assessment, and drafting of the Written Ministerial Statement and Departmental Minute.

NS&I prepared these items, incorporating feedback from HM Treasury and the central teams. Formal HM Treasury consent requests were submitted on 10 December 2025, seeking retrospective approval and confirming the intention to proceed with Parliamentary notification.

As HM Treasury had confirmed its position that these exposures should be treated as contingent liabilities several months prior, and NS&I and HM Treasury had continued to engage on the matter following this, Ministerial approval was received at pace on 12 December 2025 and laid before Parliament on 17 December 2025.

I fully acknowledge our failure to notify Parliament and the Committee in a timely manner and apologise for this delay which arose from the need to resolve a genuine technical disagreement, ensure compliance with Managing Public Money, and follow the correct approvals and Parliamentary processes.

3) I note that HM Treasury have not yet provided retrospective approval. Can you explain why this is the case, and how you are working with them to gain this approval? Please can you also explain the consequences should they refuse to give such approval.

HM Treasury provided retrospective approval for NS&I to take on two contingent liabilities in December 2025, and this was confirmed to Parliament shortly after.

Alongside this, supplementary written approval was provided on 25 February 2026, alongside confirmation of the relevant reporting requirements. NS&I will continue to engage closely with HM Treasury to ensure expenditure under these contingent liabilities remains compliant, and NS&I meet all reporting requirements.

No payments in respect of these contingent liabilities were made pending receipt of formal written consent.

4) You say you have taken steps to strengthen internal assurance processes to ensure full compliance with Parliamentary expectations and Managing Public Money in the future. Please provide details of what [you have done].

NS&I has taken several steps to strengthen internal assurance and governance arrangements to prevent a recurrence of this issue, including:

- Engagement with HM Treasury Officer of Accounts (TOA) team earlier regarding significant or usual accounting matters and Managing Public Money considerations.
- Enhancing governance over accounting judgements. Significant or unusual accounting matters, particularly requiring TOA engagement, will be timebound and escalated to the Audit and Risk Assurance Committee for review, challenge, and to agree a way forward.
- Enhancing the monitoring of expenditure against approved liabilities and establishing clearer internal oversight arrangements, including regular reviews of emerging risks with updates provided to the Audit and Risk Assurance Committee, thereby enhancing transparency and accountability.

These steps are designed to ensure that any future commitments with potential Parliamentary implications are identified, assessed, and escalated appropriately, in line with Managing Public Money and Parliamentary expectations.

I hope this letter answers your specific questions and underlines my regret at the delay in notifying both Parliament and the Committee in good time. Should you wish to discuss this matter further, please do not hesitate to contact me.

Yours sincerely,



Dax Harkins
Chief Executive