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NATIONAL
EMPLOYMENT
SAVINGS TRUST

National Employment Savings Trust Corporation annual report and accounts

2014-2015

National Employment Savings Trust Corporation

Annual report and accounts 2014 - 2015

Presented to Parliament pursuant to schedule 1 to the Pensions Act 2008

Ordered by the House of Commons to be printed on 14 July 2015

HC 229

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Contents

This report has been prepared in accordance with section 414C of the Companies Act 2006 as interpreted for the public sector (the strategic report), and with chapter 5 of part 15 of the Companies Act 2006 and schedule 7 of SI 2008 No.410 as interpreted for the public sector context (the director's report).

Chapter one

Strategic report

1.1 Chair's statement

I'm delighted to present my first annual report as Chair of NEST Corporation. I've joined the organisation at the end of what was another landmark year for NEST and I'm relishing the challenges to come.

The number of employers coming under the auto enrolment duties increases exponentially from now until 2018, so the hard work has only just started. So far NEST has progressed well, clearly fulfilling the role intended for it by both the Pensions Commission and government. NEST of course is only one part of the story, with others in the industry, the regulator, intermediaries and employers all playing a huge part in ensuring auto enrolment is a success.

I would like to give particular thanks to NEST Corporation's first Chair, Lawrence Churchill, whose term of office came to an end on 31 January 2015, for steering NEST through the fast-moving waters of those first few years of auto enrolment. He, along with the other Trustee Members and the team at NEST, has helped establish NEST as one of the major auto enrolment schemes.

Our focus for next year will undoubtedly be continuing to manage high volumes as thousands more employers meet their staging dates. NEST couldn't have managed the volumes it did last year without the help and commitment of our administration provider Tata Consultancy Services (TCS). They've once again proven themselves, both in terms of the capability of their systems and in their professional and innovative approach to helping NEST Corporation achieve its implementation objectives.

Aside from the practical aspects associated with the continued roll-out of auto enrolment, this has also been a landmark year in terms of pension policy changes. The government's reforms to how people access their pension pots effective from April 2015 have meant that NEST Corporation will need to adapt its investment strategy to reflect changing member needs. We had a good response to our consultation on how NEST Corporation may need to respond to meet the needs of members in this new landscape. This summer we presented our conclusions, setting out what we think 'good' looks like for our members. The challenge ahead will be to ensure our members can access the solutions they need at the point they need them.

Member engagement, particularly as people approach later life, is likely to be a critical area of focus over the next few years. Similarly, tactics and approaches for those who don't engage with their options need to be thought through carefully. Our aim is to help ensure members can access their pots in ways that work well for them.

NEST Corporation continues to work closely with government, industry, trade and consumer bodies to ensure our members' interests are represented. This year NEST Corporation gave evidence to the Work and Pensions Select Committee inquiry into progress with auto enrolment. We also responded to relevant government and regulatory consultations including consultations on governance, fiduciary duties, quality standards and the future of workplace pensions.

NEST Corporation also welcomed the confirmation by government this year that the restrictions placed on NEST with respect to transfers and the contributions cap will be lifted from 1 April 2017. Lifting our restrictions simplifies auto enrolment for employers, enabling them to use NEST as their only pension scheme if they wish. It also helps NEST members consolidate their pots.

NEST Corporation continued its research-led approach to ensuring we meet member and employer needs. In January we published the third edition of *NEST insight*, our annual review of the auto enrolment landscape. *NEST insight* was launched at an event which brought together consumers, employers, advisers, policy-makers and influencers to explore and debate key issues. We were delighted with the level of interest shown and the contributions made by a wide range of parties.

Other research published this year included findings on consumer attitudes to pension saving and risk, and research on employer and intermediary attitudes to auto enrolment and its implementation.

We were pleased to be able to share our findings and experiences with stakeholders both in the UK and internationally. We received six delegations during the year from Australia, Singapore, Sweden and Turkey and made presentations at eight international conferences. The lessons we learn from others are invaluable as we develop our thinking, in particular in generating responses to our consultation on retirement, to ensure we learn from international best practice.

We wouldn't have achieved all that we did last year without the dedication and support of NEST employees and the leadership team. In particular, I would like to thank our chief executive, Tim Jones, for all the work he has done over the last eight years to successfully take NEST from the early stages of development through to the early stages of delivery.

In February Tim announced his decision to leave NEST Corporation at the end of 2015 to pursue a longstanding ambition in the global digital money sector. Tim has played a key role in establishing NEST as an integral part of auto enrolment and I am grateful to him for all of his work, energy and commitment. I'll continue to work closely with him as we prepare for the arrival of a new chief executive and get ready for the exciting chapters still to come in the NEST story.

Finally, I'd like to thank my fellow Trustee Members for the wisdom and camaraderie they've shown in my first few months with NEST. We said a fond farewell to Enid Rowlands, Sue Slipman and Chris Hitchen this year and gave a warm welcome to Sally Bridgeland, Caroline Rookes and Jill Youds. I am extremely grateful for all of the contributions of our Trustee Members and looking forward to continuing to work with them. It's a privilege to lead NEST Corporation through the next stages of the auto enrolment story. I'm committed to ensuring NEST continues to play a pivotal and positive role for our members, not only in the successful implementation of auto enrolment but in the years to come.

Otto Thoresen
Chair
NEST Corporation

26 June 2015

1.2 Chief executive's report

This has been another year of significant growth and change for NEST.

Over the course of 2014/15 employer numbers have more than doubled, to over 14,000 at 31 March 2015, and the number of members has also doubled to over two million. Assets under management at the end of March 2015 were £420 million, compared to £104 million at 31 March 2014.

That NEST is already helping millions of people to save for retirement, and working successfully with such high volumes of employers, is encouraging. Even more encouraging is the fact that opt out rates at NEST remain very low, just 8 per cent on average and lower among younger workers. We're proud of what we've achieved so far, and the part we're playing in what are significant reforms, but we don't take the responsibility we've been given lightly. As NEST Corporation Chair, Otto Thoresen, has set out in his foreword, it's still early days with further significant growth expected during 2015/16 and beyond. Our ultimate focus remains the long term goal of helping millions of people save confidently for their retirement.

Five million people have already been enrolled into a workplace pension scheme as part of the government's workplace reforms, and there are up to five million more people to be enrolled in the next few years. NEST is one piece of a larger auto enrolment jigsaw which includes many organisations all working hard to ensure employers can comply with their statutory duties and that workers get access to a high quality pension scheme. To ensure we deliver an effective service we work closely with a wide range of bodies, including payroll and pension providers, fund managers and administrators, consumer and employer representatives, policymakers, regulators and influencers.

Although we're ready for those employers who want to auto enrol directly with us, a key focus this year has been on intermediaries who are increasingly being called upon to help employers comply with their duties. Looking forward we'll be reaching out to accountants, who will often be the first port of call for smaller employers, to make sure they know how NEST can be of help.

We've designed our systems and online tools specifically for auto enrolment and to meet our customers' needs. Whilst we've continued to develop our tools and services to meet the needs of a changing profile of employers, from large employers to micros, we've also developed tools to help intermediaries who are increasingly administering NEST on behalf of their clients.

One exciting development for us this year was the launch of NEST Connect, an online hub which makes it easy for intermediaries to administer NEST for multiple clients in one place. Hundreds of intermediaries are already using the tool, which is extremely encouraging.

Also this year we extended our web chat tool for employers and expanded our contact centre to help meet anticipated increases in demand. I echo Otto's thanks to our administrators, TCS, for their hard work and commitment to the success of NEST.

We continue to prepare for the next stages of auto enrolment and the increases in employer volumes in 2015 and 2016. NEST is the only provider with a public service obligation requiring us to be open to any employer that wants to use us to meet their employer duties, so we have to be ready for high volumes.

We're also working very closely with the payroll software industry on enhancements for further integration between NEST and payroll systems. We recently announced NEST Web Services, our new API functionality designed to save them time and prevent errors for the large volumes of SMEs due to stage.

NEST was designed for scale from day one. That means having the ability to develop our system capacity and processes cost effectively over time to meet changing demands. So far, that approach has served us well but we'll continue to refine our capacity planning as we go into the next stages.

This year we've updated our *Statement of investment principles* (SIP), and added ethically screened corporate bonds and single year gilt funds to the underlying funds. We published our ethical fund brochure to highlight this option to members and have again been recognised with awards for our investment approach. These are shown on the NEST website.*

Turning to policy developments, we've been working hard to prepare for changes to how people can access their retirement pots.

With the abolition of compulsory annuity purchase, the government has given the pension industry a once in a generation chance to start with a 'blank sheet of paper' and really think through, from the ground up, how to make defined contribution (DC) savings work in retirement. We presented the results of our consultation on this earlier in the year, setting out what we think good looks like in terms of retirement options for our members and potential members. The challenge ahead will be to ensure our members can access the solutions they need at the point they need them. As a young scheme NEST can take the time it needs to get this right.

In the meantime we've put in place arrangements from April 2015 to comply with new pension freedoms and we continue to develop our investment strategy.

2015 will no doubt be filled with developments, innovations, and challenges. NEST is focused on its mission and stands ready to continue helping employers meet their duties and members build the financial resources for a comfortable retirement.

This is my final report as NEST Corporation chief executive as I've decided to return to the payments sector. It's been a privilege to be able to contribute to both NEST and the implementation of auto enrolment over the past eight years.

I look forward to continuing that work this year with our team at NEST and delivery partners who have done such an excellent job to date. NEST continues to evolve, along with the auto enrolment landscape. I'd like to thank our team for the way they remained committed, professional and delivery-focused throughout what has been a sometimes challenging period of change. Together I know we'll continue to do the best job we can for our members, employers, intermediary partners and stakeholders for years to come.

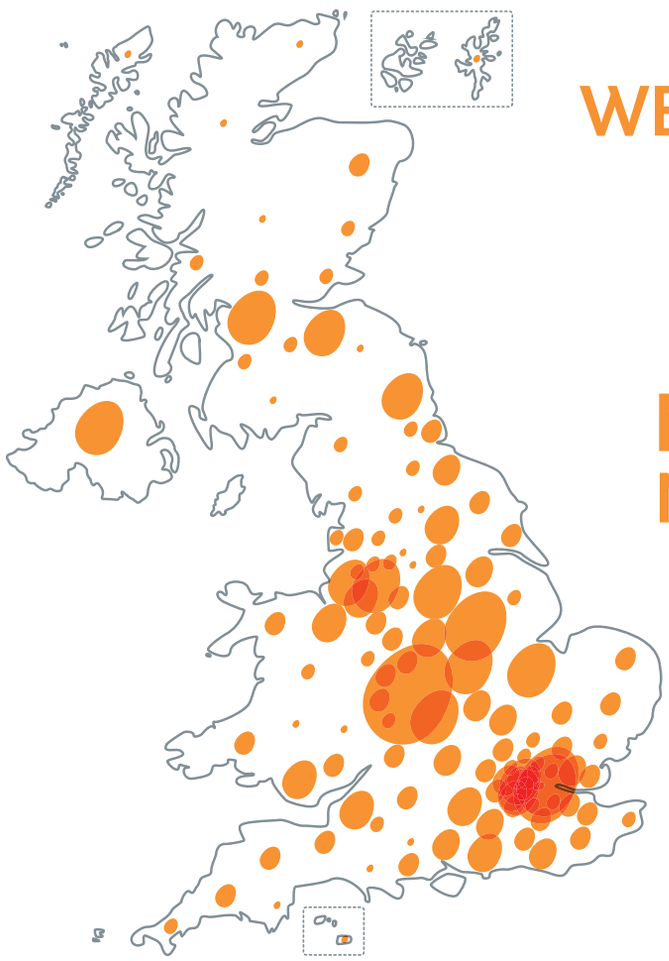
Tim Jones
Chief executive and accounting officer
NEST Corporation

26 June 2015

* www.nestpensions.org.uk/schemeweb/nestweb/public/whatisnest/contents/usingnest.html

1.3 Key facts

As at 31 March 2015

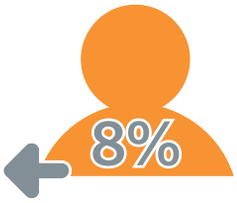


WE HAD OVER

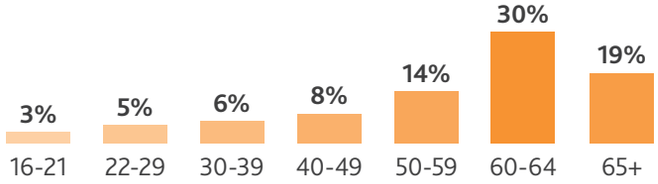
2

MILLION

MEMBERS



Our opt-out rate was 8 per cent on average and lower for younger members.



There were **over 14,000 employers using NEST**, plus over 1,000 self-employed members.

Looking after almost

£420 million

on behalf of our members.

Around **1,400** intermediaries signed up to NEST Connect, our online hub for professionals offering auto enrolment services to employers.[1]

1 With NEST Connect, third party professionals can provide a complete cost-effective service to any employer, from set up to ongoing management, and view and manage all their client accounts in one place.

1.4 Principal activities

2014/15 was a year of continued growth and development for NEST with delivery focused on each of our four strategic priorities, as set out in the business review below.

During the year our employer and member numbers doubled. At 31 March 2015 we had more than 2 million members, over 14,000 participating employers and £420m of members' money under management. Members are mainly invested in the default target date funds, which we've continued to evolve. Specifically, we've added two emerging markets equity mandates and a series of single year maturity gilt funds into which the default funds can diversify their investment.

Our focus on making sure that many thousands of small and medium-sized employers are able to meet their auto enrolment duties has led to our continued investment into developing our proposition to make sure that it offers an effective self-serve experience.

A summary of the changes introduced through this year's system updates is below.

Service release (SR) 7 – April 2014

In preparation for the unprecedented volume of new employers and members expected during the next 18 to 24 months, the self-service sections of the website were optimised.

- The third phase of the employer scheme set-up enhancements were released. Responding to research, the process requires an employer to tell us what they know about their workforce and payroll, which guides users through the set-up of their scheme with NEST.
- We optimised views for third parties using the website to transact on behalf of multiple employers.
- We increased the information given to employers to help reconcile opt out refunds.
- We made changes to enable the introduction of more dynamic help and support for all users of the website.

Service release (SR) 8 – September 2014

During SR 8 several improvements were made to the NEST online system.

- We enabled third party organisations to use NEST Connect to register themselves with NEST as a 'delegate organisation'. This means NEST can recognise them as a separate entity and gives them the ability to set up and manage their own users who work on multiple NEST employer accounts. Employers can choose to delegate access to either an individual or a delegate organisation.
- We modified the set up journey to support the introduction of NEST Connect.
- Usability changes were made to the employer transactional site.
- User specific headers were introduced to improve navigation.
- Modifications were made to the member welcome pack following a change to the scheme rules.

Service Release (SR) 9 – March 2015

Several changes were made to improve the experiences of our customers and ensure processes are as efficient as possible.

- We made usability enhancements to the contribution screens.
- A flexible confirmation screen at the end of the employer set up journey was introduced to provide employers with guidance on what they need to do next.
- We made improvements to error messages.
- Confirmation screens at the end of key journeys were introduced to give users reassurance that they've done all that they need to.
- Enhancements to the Interactive Voice Response (IVR) process were made to enable members to update their communication preference and provide more information to members about when they can opt out.

Our systems were also re-certified in accordance with the revised standard ISO 27001:2013 in November 2014. This demonstrates our continuous alignment to the internationally recognised best practice framework for information security management.

Response to the 2014 Budget

The government's March 2014 Budget brought some significant changes to the nature of pension saving. Consequently, alongside our continued focus on meeting the auto enrolment challenge we've been set up for, we've also been asking a wide range of questions about what new pension access freedoms mean for our members and potential members.

As part of this we consulted on what the right answers might look like for members. Our consultation, *The future of retirement: A consultation on investing for NEST's members in a new regulatory landscape*, was launched in November 2014 and closed in January 2015. We published an interim response to this consultation, *Guiding principles for the design of retirement pathways for the automatically enrolled generation*, in March 2015 and we issued a full response in the summer. This sets out the framework for a retirement income solution that we think would allow our members to get the most out of their pots and enable them to enjoy a better retirement. The challenge ahead will be to ensure our members can access the solutions they need at the point they need them.

1.5 Principal risks and uncertainties

The principal risks and uncertainties are included as part of NEST Corporation's risk statement, see page 32.

1.6 Business review

This section sets out the key highlights of our delivery over the year in relation to the business objectives detailed in our 2014 to 2017 *Corporate plan*.

Key Performance Indicators (KPIs)	Actions / Results
1. Develop scalable, efficient and secure operations, supported by a product which enables employers to get it right, enabling us to safely manage peaks of demand and to minimise the costs of business as usual (BAU) operations.	
Performance compared to our expectations of the service, including: • website availability • contact centre availability • speed with which we answer calls to the contact centre.	As set out above, NEST deployed further significant improvements to our online functionality through major service releases. These include improvements to prepare for the staging of small and micro employers from June 2015 onwards. Additionally NEST Connect was launched in November 2014 to enable third parties to manage several employer accounts from one login.
The availability of contact centre staff to handle the queries our members and employers call us with, and the amount of time it takes us to deal with the issue.	We've carefully managed the capacity of the contact centre and web chat teams. As a result the service levels associated with these services, both in terms of availability and response times, have been excellent throughout the year. The same is true of our website, which has consistently performed in line with our expectations.
The efficiency of staff in resolving complaints.	We've continued to comply with our target of acknowledging over 85 per cent of complaints within four days.
Indications of scheme efficiency.	Our experience suggests that the improvements we're making to the online service are making it easier for our customers to use the scheme without needing the help of agents in our contact centre and web chat teams.
2. Build an organisation, NEST Corporation, which is culturally fit for the challenge of delivering the NEST scheme.	
Evidence of how well our financial, information security and compliance policies and processes are working.	NEST Corporation is committed to supporting a secure electronic environment to conduct its business. It's established and maintained a comprehensive information security management system (ISMS) that's certified against the International Standards Organisation (ISO) 27001:2013. NEST Corporation has also maintained a data protection policy, which sets out our approach to the protection of personal data and associated training. Additionally NEST Corporation has ensured that key financial control audits have been conducted.
Our progress in line with our audit actions.	In the past year work continued with a comprehensive programme of internal audit focusing on internal controls across the Corporation. This year we've continued to deliver in line with the recommendations agreed within this programme and have embedded significant control improvements, including the implementation of an electronic purchase to pay system.
Indicators of staff engagement, including our annual staff survey and the reasons our people give for leaving.	Our staff engagement index, measured in the annual staff survey, was 43 per cent. This remains disappointing. However, the headline score masks some significant improvements in aspects of our culture that we prioritised to improve in July 2013. An increasing number of indicators are now meeting the UK average benchmark, and some are among the highest performing UK organisations. While the scores may not be as high as we'd like, it's reassuring that the targeted efforts we're making are paying off. The next tranche of culture improvements will focus on areas where results remain persistently low or have fallen.

Key Performance Indicators (KPIs)	Actions / Results
Our progress towards Investors in People accreditation.	We're making satisfactory progress in closing the gaps identified in our initial Investors in People assessment.
3. Maintain the ongoing functions of a leading pensions business	
Investment performance.	Our default funds have all performed as we'd expect. They've achieved above inflation returns whilst staying well within the risk budget we've set.
Making sure our funds are run in line with our investment principles, including the management of risk and compliance with our responsible investment policy.	We've continued to develop our investment strategy in line with our investment beliefs and *Statement of investment principles* (SIP). In particular we've increased and optimised our ability to invest in a diverse range of asset classes in order to better manage investment risk. Over the last 12 months we've added two emerging market equity mandates and a series of single year maturity gilt funds.
The results of our consultation, '*The future of retirement: A consultation on investing for NEST's members in a new regulatory landscape*', on how we should evolve the scheme in light of the 2014 Budget changes offering savers greater flexibility.	The pension reforms announced in the 2014 Budget are likely to change how NEST members in the future access their savings and how their savings are invested up to and through retirement. NEST Corporation recently conducted an extensive consultation and evidence gathering exercise to determine how best to invest members' money in the future and to understand their likely future needs. Our response to the consultation, '*The future of retirement: A consultation on investing for NEST's members in a new regulatory landscape*', was published earlier this year, setting out what we think good looks like in terms of retirement options for our members.
Compliance with relevant regulations, other legal requirements and codes of conduct.	The NEST scheme is run in accordance with its published governance statement and all relevant legislation and regulatory guidance. If we ever fall short of these requirements, robust procedures exist to identify, assess, rectify and, where necessary, report such failures to The Pensions Regulator (TPR). In November 2014 we published NEST's governance statement, covering the six areas in TPR's *Code of practice No. 13: Governance and administration of occupational defined contribution trust-based schemes.* These areas are governance, know your scheme, risk management, investment, administation and communications.
Our assessment of how employers, members, media organisations and other stakeholders view NEST.	Media coverage and stakeholder comments remain balanced, with very little negative coverage.
Strong, co-operative and constructive relationships with other stakeholders involved with pensions and auto enrolment.	NEST Corporation has continued to work constructively with government and regulators, and other providers including the Financial Crime Group. We've participated in key workshops on the retirement freedoms, automatic transfers, retirement solutions and other matters at the Financial Conduct Authority (FCA), HM Treasury (HMT) and the Department for Work and Pensions (DWP). NEST has additionally engaged with our trade body NAPF including participating on the MES Forum and DC Council as well as working groups on regulatory and disclosure issues. NEST has also hosted the Work and Pensions Select Committee and given evidence in their recent inquiry.
4. Prepare for the challenges and opportunities of 2017	
The volume of employers and members using the NEST scheme.	We've continued to build volume in the NEST scheme with over 14,000 employers and over 2m members using us at the end of this financial year. We're now developing our proposition for the small and micro market.
Our overall financial performance.	Revenue increased from £1.9m last financial year to £5.8m this year.
Our operational readiness for the lifting of restrictions.	Work is ongoing with our third party administrator to understand the design and operational implications in line with the government's timetable of 2017.

1.7 Our strategy for 2015/16

The strategic priorities established in 2013/14 and listed in the table above were intended to guide approximately three years' of decision making for NEST Corporation. To date we consider that they remain appropriate, so we've continued to plan in accordance with them.

Further information on these priorities, and the activities and indicators that sit below them, can be found in our *Corporate plan 2014-2017*, available on the NEST website.* We'll be publishing an updated corporate plan shortly.

External factors that may influence the performance of the business, and NEST Corporation's responses to those factors, are explained in the section 'Principal risks and uncertainties' on page 32.

1.8 Key business relationships

NEST Corporation operates a predominantly outsourced business model and as such has a number of key business relationships. These include TCS, who administer the scheme, and State Street, who provide fund administration services. We've worked in partnership with both suppliers throughout the year to ensure that the scheme operates effectively.

1.9 Pension liabilities

A description of the pension arrangements for NEST Corporation staff is given in the remuneration report in section 2.2.5 and the accounting treatment is described in the accounting policy notes 1.6 on page 51 and 2 b on page 56.

1.10 Register of interests

Members of NEST Corporation, who we call Trustee Members, have registered any interests they hold that may create an actual or potential conflict with their responsibilities to NEST Corporation. Trustee Members also declare conflicts in relation to any items of business in NEST Corporation and committee meetings. Members of the executive team also register any interests they hold that may create a potential conflict with their responsibilities to NEST Corporation.

The Trustee Member register of interests is published on the NEST website.**

* www.nestpensions.org.uk/library
** www.nestpensions.org.uk/registered-interests

1.11 Statutory background

The financial statements for 2014/15 for NEST Corporation are prepared in accordance with the requirements of schedule 1, part 3, paragraph 20 to the Pensions Act 2008, and in the form set out in the Accounts Direction issued by the Secretary of State for Work and Pensions. The Accounts Direction is presented in Appendix 1.

1.12 Statutory auditors

The Comptroller and Auditor General is the statutorily appointed auditor for NEST Corporation under the provisions of schedule 1, part 3, paragraph 20 to the Pensions Act 2008.

So far as the accounting officer is aware, there is no relevant audit information of which the entity's auditor is unaware. The accounting officer has taken all the steps that he ought to have taken to make himself aware of any relevant audit information and to establish that NEST Corporation's auditors are aware of that information.

During the year NEST Corporation didn't make any payments to their auditors for non-audit work.

1.13 Other

Published sickness data, workforce analysis data and reporting on *Greening Government* commitments are included in the sustainability report (Appendix 2).

Reporting of personal data related incidents is included in information security and data protection (section 2.1.11). The statement on going concern is included in the statement of accounting officer's responsibilities (section 3.1).

Tim Jones
Chief executive and accounting officer
NEST Corporation

26 June 2015

Otto Thoresen
Chair
NEST Corporation

26 June 2015

Chapter two

Governance report

2.1 Governance statement

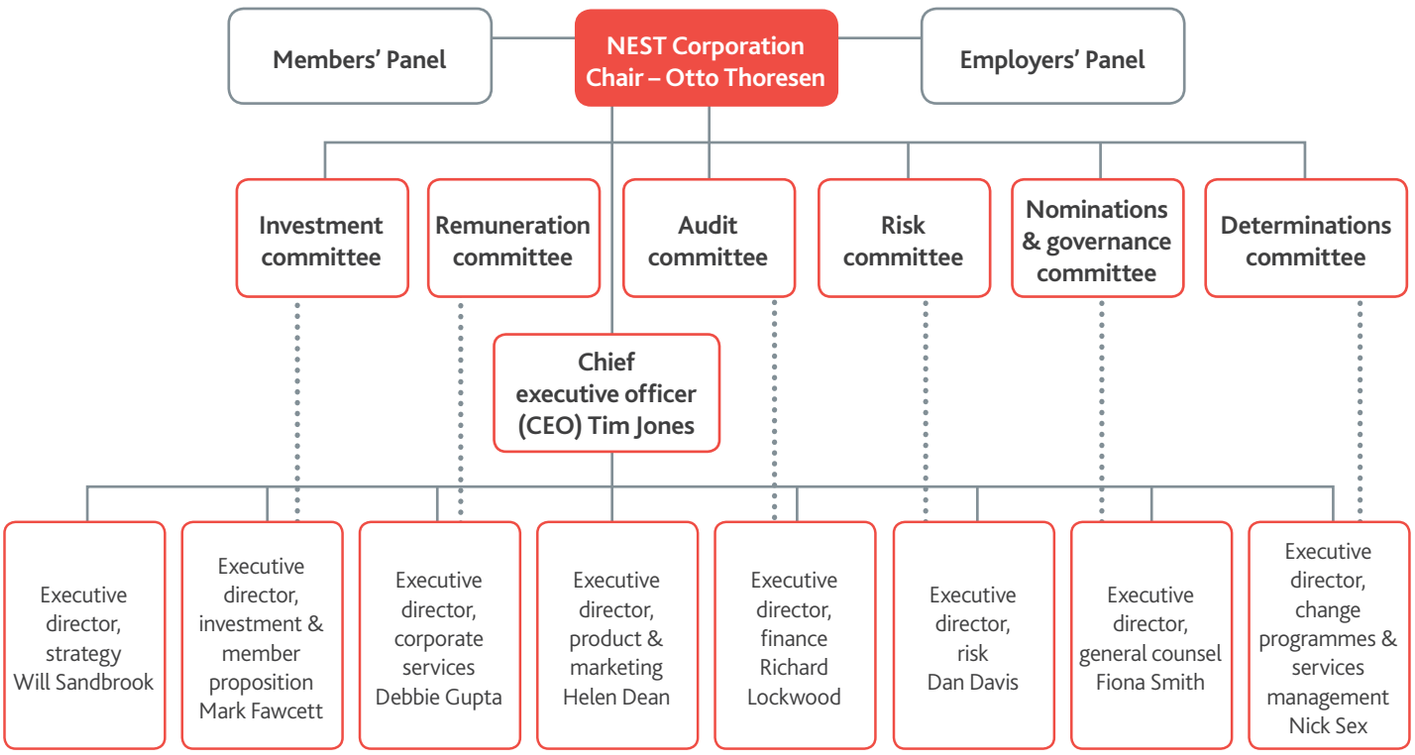
This governance statement has been prepared in accordance with the provisions of the FReM and Managing Public Money Annex 3.1.

2.1.1 About NEST Corporation

NEST Corporation was established on 5 July 2010 and appointed as the Trustee of the NEST scheme on the same day. Its role is to develop and operate the NEST scheme. NEST Corporation's core functions are set out in the Pensions Act 2008. The NEST scheme Order and Rules sets out how the scheme will operate.

NEST Corporation is a non-departmental public body (NDPB) sponsored by the Department for Work and Pensions (DWP) and is a key component of the Automatic Enrolment Programme (AEP). Its working relationship with the DWP is set out in a framework document. The function of NEST Corporation is to act as the Trustee of the NEST scheme, which includes ensuring that the scheme is run in the interest of its members. The NEST scheme accounts are produced separately from this document and may be found at nestpensions.org.uk.

2.1.2 Organisation structure



NEST Corporation

As at 31 March 2015, NEST Corporation had 11 members, consisting of a Chair, a Deputy Chair and 9 other Trustee Members, responsible for setting the strategic direction and objectives for NEST Corporation.

The appointments of the Chair and the Trustee Members are made by the Secretary of State for Work and Pensions who seeks the views of the Chair of NEST Corporation on the skills and experience needed. A broad range of skills, experience and knowledge are required collectively. Appointments are made in line with the Commissioner for Public Appointments' Code of Practice and Cabinet Office guidance.

All Trustee Members were independent at appointment having no current or previous material relationship with the organisation as an employee, officer or contractor.

NEST Corporation and its committees take decisions that affect the NEST scheme and ensure that the Corporation fulfils its obligations as an NDPB.

The terms of reference for NEST Corporation and its committees are published on the NEST website.*

A schedule of delegations gives authority and responsibility to the chief executive for the day-to-day operations and management of NEST Corporation and NEST scheme. In turn he delegates authority to and holds each member of the executive team accountable for the delivery of their areas of responsibility. Regular executive team meetings are chaired by the chief executive to oversee the operation of the scheme. In addition there are advisory committees to assist the running and development of the scheme and Corporation.

* www.nestpensions.org.uk/terms-of-reference

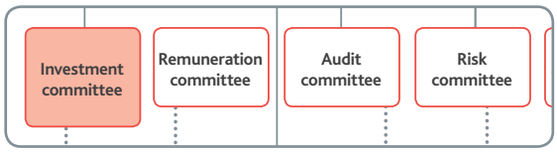
Under the NEST Order 2010, article 8, the role of the Employers' Panel and Members' Panel includes giving any assistance and advice requested by NEST Corporation about the operation, development or amendment of the scheme. For further information on the panels, see page 24.

Audit committee

The audit committee provides oversight, review and advisory guidance to NEST Corporation on all audit and control issues across NEST Corporation. During the year it:

- reviewed the annual report and accounts for both NEST Corporation and NEST scheme and recommended their approval to NEST Corporation
- reviewed the plans of the external auditors for their audits of the accounts and oversaw the delivery and effectiveness of external audits
- approved the internal audit plan for the NEST Corporation and scheme audits and oversaw its delivery
- approved the compliance plan and oversaw its delivery
- reviewed the assurance framework
- reviewed the system of internal controls within NEST Corporation and implemented changes as required
- maintained oversight of the continued comprehensive review of the internal controls within NEST Corporation.

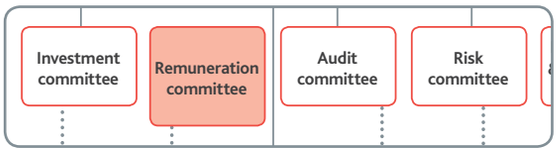
Investment committee



The investment committee, together with the chief investment officer, shares a set of responsibilities and delegations to consider and implement investment decisions on behalf of NEST Corporation. During the year it:

- maintained oversight of the investment and risk management of all NEST retirement funds, including the approval of changes in asset allocation as required
- reviewed the dynamic risk management framework
- continued the development and delivery of the responsible investment policies
- gave ongoing consideration to the development of the NEST investment approach
- reviewed the *Statement of investment principles (SIP)*, in consultation with the Employers' and Members' Panels.

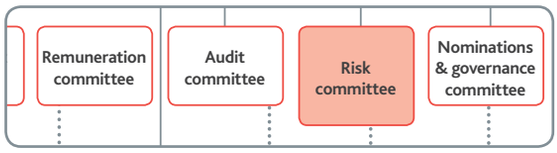
Remuneration committee



The remuneration committee provides oversight, review and advice to NEST Corporation on the approach to corporate responsibility, organisational culture and the remuneration of senior executives and staff. During the year it:

- agreed the pay and reward proposals for 2014/15, including the performance review for the chief executive, and considered proposals on non-pay benefits
- had oversight of the organisational design project involving re-structuring to equip NEST Corporation for the next phase of NEST's development as a large pension scheme
- had oversight of and input to the job architecture review
- considered the results of the 2014 staff survey, and an assessment report from Investors in People, and advised on the development of engagement initiatives for the staff and the cultural development of the organisation
- reviewed NEST Corporation policies on diversity and inclusion, gifts and hospitality policies and external appointments.

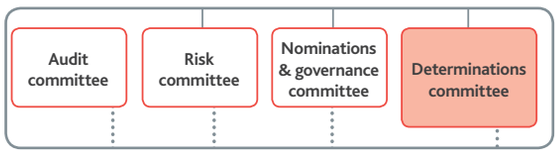
Risk committee



The risk committee is responsible for oversight of the risk management framework and for recommending the risk statement to NEST Corporation. During the year it:

- provided a review of all aspects of risk management
- provided challenge to the executive team through a series of deep dives into specific areas of operational and strategic risk including the risks of fraud and financial crime and operational incidents
- oversaw and drove continuous improvement of the risk management framework to improve the risk culture of the Corporation
- developed a risk statement
- reviewed the policy framework
- discussed with TCS their view of risk in relation to NEST and reviewed the associated risk management arrangements.

Determinations committee



The determinations committee considers cases received about the NEST scheme at stage 2 of the internal disputes resolution procedure (IDRP). The committee also oversees the procedures and processes for dealing with IDRP cases to test that they're fit for purpose and comply with the principles adopted for the NEST scheme complaints handling processes. During the year it:

- considered nine Stage 2 IDRP cases, two cases were held in favour of the complainant, two cases were partially upheld, and five cases were not upheld
- agreed the principles which underpin the overall complaints handling processes
- reviewed our complaints handling procedures and processes learning from the complaints received, instigating a number of changes to our procedures, how we respond to complaints and how we focus on resolving complaints at the earliest stage possible.

Nominations and governance committee

The nominations and governance committee is responsible for the development and oversight of the governance structure and for making recommendations for appointment to the members of the Employers' and Members' Panels to NEST Corporation. During the year it:

- appointed a search agency, agreed the job description and recruitment literature for the role of chief executive, convened a panel to interview candidates and will be making an appointment recommendation to NEST Corporation
- recommended a revised schedule of reserved powers and delegations to NEST Corporation

- had oversight of NEST's governance statement, which set out how NEST complies with the Pensions Regulator's requirements for defined contribution schemes, and recommended its publication to NEST Corporation
- approved the appointment of an external facilitator for the 2014 effectiveness review of NEST Corporation and its committees
- recommended to NEST Corporation a memorandum of understanding between NEST Corporation and the Members' and Employers' Panels
- approved changes to the NEST Rules on transfer arrangements for recommendation to NEST Corporation
- reviewed the register of interests and log of conflicts of interest for Trustee Members.

Employers' panel

The Employers' Panel was set up in accordance with the Pensions Act 2008 to represent participating employers. Its role includes providing advice on the operation, development and amendment of the scheme. During the year it:

- provided input to the NEST consultation paper: *The future of retirement: A consultation on investing for NEST's members in a new regulatory environment*
- provided their first piece of formal advice to NEST Corporation on the Budget changes announced in March 2014 and how NEST Corporation should respond to these to best serve the interests of members and employers
- reviewed the 2014 *Statement of investment principles* (SIP)
- contributed to the PR and media messages for 2014/15
- provided feedback on the *Voice of the customer* research on employers and intermediaries.

Members' panel

The Members' Panel was set up in accordance with the Pensions Act 2008 to represent scheme members. Its role includes providing advice on the operation, development and amendment of the NEST scheme. During the year it:

- provided input to the NEST consultation paper: *The future of retirement: A consultation on investing for NEST's members in a new regulatory environment*
- provided their first piece of formal advice to NEST Corporation on the Budget changes announced in March 2014 and how NEST should respond to these to best serve the interests of their members and employers
- reviewed the 2014 *Statement of investment principles* (SIP)
- briefed on various issues including charges, the opt-out process, member communications, complaints monitoring and customer services
- researched members' needs.

2.1.3 Trustee Members

Otto Thoresen,
Chair, NEST Corporation
(*from 1 February 2015*)
Chair, Nominations and Governance committee *(from 1 February 2015),*
Chair, Determinations committee *(from 1 February 2015)*

Tom Boardman,
Trustee Member
Deputy Chair *(from 1 June 2014)*

Iraj Amiri, Trustee Member
Chair, Audit committee
(from 1 April 2014)

Ian Armfield, Trustee Member
(from 1 April 2014)

Graham Berville,
Trustee Member
(from 1 June 2014)

Sally Bridgeland,
Trustee Member
(*from 1 April 2015*)

Lawrence Churchill,
Chair, NEST Corporation
(up to 31 January 2015)

Sharon Darcy, Trustee Member
Chair, Risk committee
(from 25 April 2013)

Carolan Dobson,
Trustee Member
(from 1 April 2014)
Chair, Investment committee
(from 26 April 2014)

Chris Hitchen, Trustee Member
(up to 31 March 2015)

Caroline Rookes, Trustee Member
(from 1 April 2015)

Sue Slipman, Trustee Member
Chair, Remuneration committee
(up to 31 March 2015)

Enid Rowlands, Trustee Member
(up to 31 December 2014)

Nigel Stanley, Trustee Member
Chair, Remuneration committee
(from 1 April 2015)

Karen Silcock, Trustee Member
(from 1 April 2014)

Jill Youds, Trustee Member
(from 1 April 2015)

For more information about our Trustee Members, visit the NEST website.*

Committee membership

Audit committee	Investment committee	Nominations & governance committee
Iraj Amiri – chair	Carolan Dobson – chair	Otto Thoresen – chair
Ian Armfield – member	Ian Armfield – member	Tom Boardman – member
Graham Berville - member	Nigel Stanley – member	Carolan Dobson – member
Sharon Darcy – member	Chris Hitchen – member (until 31 March 2015)	Lawrence Churchill – chair (until 31 January 2015)
	Sharon Darcy – member (until November 2014)	Chris Hitchen – member (until 31 March 2015)
		Enid Rowlands – member (until 31 December 2014)
		Sue Slipman – member (until 31 March 2015)

* www.nestpensions.org.uk/schemeweb/nestweb/public/aboutnestcorporation/contents/trustee-members.html

Determinations committee	Risk committee	Remuneration committee
Otto Thoresen – chair Iraj Amiri – member Nigel Stanley – member (from 13 January 2015) Lawrence Churchill – chair (until 31 January 2015) Enid Rowlands – member (until 31 December 2014) Sue Slipman – member (until 31 March 2015)	Sharon Darcy – chair Iraj Amiri – member Graham Berville – member Karen Silcock – member	Nigel Stanley – chair (from 1 April 2015 and previously a member) Karen Silcock – member (from 14 January 2015) Sue Slipman – chair (until 31 March 2015) Chris Hitchen – member (from 28 March 2014 to 31 March 2015) Enid Rowlands – member (until 31 December 2014)

Changes to NEST Corporation 2014/15

Chair

Otto Thoresen was announced as the Chair elect of NEST Corporation on 18 November 2014 and took up post on 1 February 2015. Lawrence Churchill stepped down as Chair of NEST Corporation on 31 January 2015.

Deputy Chair

Tom Boardman, who has been a Trustee Member since April 2010 was appointed as deputy chair of NEST Corporation on 1 June 2014.

Trustee Members who have stepped down

Chris Hitchen – 31 March 2015

Enid Rowlands – 31 December 2014

Sue Slipman – 31 March 2015

Trustee Members who have joined

Sally Bridgeland – 1 April 2015

Caroline Rookes – 1 April 2015

Jill Youds – 1 April 2015

2.1.4 Governance framework

NEST Corporation meetings

NEST Corporation met 11 times during the year, with two meetings focused exclusively on strategy. It has established audit, determinations, investment, nominations and governance, remuneration and risk committees. These committees meet as required and report back on their work to NEST Corporation meetings. Details of the meetings can be found below and attendance and committee membership is set out on page 29.

NEST Corporation's priority is to provide a strong and stable scheme which operates in the best interests of its members. It's focused on delivering a good service to employers and meeting its public service obligation to enable any employer to choose NEST to meet their auto enrolment duties. This drives NEST Corporation's agenda.

At each meeting NEST Corporation receives and scrutinises information on scheme administration, member and transaction volumes, investment performance, risk management, internal controls, operational activities and financial performance. The Chair and chief executive provide an update at each meeting on the key issues on their agenda. Committee chairs report back on decisions taken and issues discussed at committee meetings.

As part of the normal business cycle, NEST Corporation approved the budget and *Corporate plan 2015/16*; the *Annual report and accounts 2013/14* for the scheme and for the Corporation; and the annual health and safety report for NEST Corporation. Funding arrangements were reviewed. Revisions were approved to the *Statement of investment principles* (SIP) published in 2014. A revised risk statement was agreed and the strategic risks for NEST Corporation were approved. The chairs of the Members' Panel and Employers' Panel were re-appointed for a period of two years from April 2015. Five members of the Members' Panel were re-appointed.

Details of meetings attended by committee members during the 2014/2015 year:

	NEST Corporation meetings	audit committee	risk committee	investment committee	nominations and governance committee	remuneration committee	determinations committee
Lawrence Churchill	9 of 9				6 of 6		8 of 8 (left Jan 2015)
Otto Thoresen	3 of 3 (joined Feb 2015)						1 of 1 (joined Mar 2015)
Iraj Amiri	9 of 11	6 of 6	6 of 6				9 of 9
Tom Boardman	11 of 11				3 of 6		
Sharon Darcy	11 of 11	6 of 6	6 of 6	1 of 2 (left Nov 2014)			
Chris Hitchen	11 of 11			3		6 of 9	
Enid Rowlands	6 of 8				5 of 5 (left Dec 2014)	5 of 6 (left Dec 2014)	6 of 7 (left Dec 2014)
Sue Slipman	9 of 11				5 of 6	9 of 9	8 of 9
Nigel Stanley	10 of 11			3 of 4		9 of 9	2 of 2 (joined Jan 2015)
Karen Silcock	9 of 11		4 of 6			2 of 3 (joined Jan 2015)	
Ian Armfield	7 of 11	5 of 6		1 of 1 (joined Feb 2015)			
Carolan Dobson	7 of 11			4 of 4	1 of 2 (joined Dec 2014)		
Graham Berville	9 of 10 (joined Jun 2014)	3 of 3 (joined Sept 2015)	3 of 3				

2.1.5 Corporate governance

NEST Corporation subscribes to the highest standards of corporate governance in order to serve the best interests of scheme members and to fulfil its obligations as an NDPB.

It's required to report formally its compliance with the government Corporate Governance Code for central government departments on a 'comply or explain' basis. This governance statement sets out how NEST Corporation addresses the requirements of the Code.

Code requirements

Accountability

NEST Corporation is accountable to Parliament. The reporting lines of accountability are through the Chair to the Secretary of State, and through the accounting officer to the principal accounting officer in the DWP. The chief executive reports to the NEST Corporation Chair on all matters, except those directly related to his role as accounting officer.

NEST Corporation effectiveness

The nominations and governance committee approves the process for effectiveness reviews for NEST Corporation and its committees. An external facilitator is used to carry out the review every third year. NEST Corporation used Condign Board Consulting Ltd to carry out its 2014 effectiveness review from which a number of actions were agreed, including additional engagement with a number of key stakeholders and more informal discussion time between Trustee Members.

Lawrence Churchill, Chair until 31 January 2015, held a performance appraisal meeting with each Trustee Member.

Induction processes

New Trustee Members and the new Chair received tailored induction training and materials. For a number of Trustee Members and the new Chair, this included visiting the TCS offices in Peterborough, Bangalore and Mumbai to gain an in-depth understanding of the scheme's administration and to develop and maintain strong working relationships with a key supplier.

Risk management

NEST Corporation is responsible for ensuring that there's a continuous process for identifying, evaluating and managing any material risks faced by the organisation and for ensuring that risk is effectively managed. In order to assist it in carrying out its responsibilities, NEST Corporation has established a risk committee in line with best practice corporate governance. NEST Corporation's risk statement is on page 31.

2.1.6 Significant control issues

There are no significant internal control issues that merit inclusion in the annual report and accounts for the reporting period 1 April 2014 to 31 March 2015. To evidence this, the Trustee Members and NEST Corporation's executive team have been engaged and have made appropriate additional enquiries. Where control weaknesses are identified, appropriate actions are taken or planned to effect reasonable management of risks within acceptable periods of time.

2.1.7 NEST Corporation's risk statement

Our attitude towards risk is visible in how we conduct ourselves. The culture and processes we've established in NEST are designed to enable us to manage risk in line with the expectations of our Trustee Members, who have a legal responsibility to act in the best interests of our members.

We must take risks in order to deliver our objectives; but integral to this is to understand the risks we face and how best to control or mitigate them. We don't do this alone; we engage with key stakeholders to understand and manage risk.

Our close working relationship with our scheme administrator TCS helps us manage operational risk; not just at a day to day level, but looking forward to the risks and opportunities presented by the continued roll-out of auto enrolment duties to more employers.

The DWP and TPR involve us in discussions on risks to the successful implementation of the Automatic Enrolment Programme (AEP).

Culture and behaviour

NEST Corporation has a code of conduct that applies to all of our employees. The code forms a core element of the induction process and on an annual basis all employees re-confirm that they understand and abide by the code.

The code sets out behaviours we expect our employees to demonstrate in undertaking their role at NEST Corporation. These behaviours are aligned to NEST's purpose and ethical principles; including expecting our employees to comply with the letter and the spirit of our legal and regulatory obligations.

Delivery in line with the behaviours forms a core element of every member of staff's annual performance appraisal. On an ongoing basis we expect our staff and Trustee Members to be aware of and declare any potential conflicts of interest and record any gifts and hospitality that they've received.

Governance and decision making

NEST Corporation is formed of a Chair, Deputy Chair and Trustee Members. NEST Corporation has a number of legal duties, one of which is a duty to act in the interests of scheme members.

A schedule of reserved powers and delegations outlines who has authority to make decisions in NEST Corporation. A number of committees have been established by NEST Corporation to aid decision making processes. NEST Corporation also has a series of governance groups which operate at accountable executive level, helping executives make informed decisions. The consideration of risk is a core element in the decision making process of all committees and governance groups.

The risk committee and audit committee have a strong risk management focus and receive detailed reports on areas of risk throughout the year. The risk committee request deep-dive scenario analyses of specific areas of risk, enabling them to challenge mitigation strategies and hold to account those responsible for managing risk. The audit committee review internal audit reports and the implementation of recommendations arising from these reports.

Assurance activities

NEST Corporation uses a 'three lines of defence' model to obtain assurance that we're managing our key risks. This includes obtaining independent assurance reports from our third party providers.

Our first line of defence comprises our operational teams who own risks and provide direct assurance that they're managing their risks, including the accountable executive letter of assurance process.

The second line of defence is our oversight functions, such as compliance, risk, general counsel and finance. They provide validated assurance that the first line is managing their risks effectively. In practice this assurance is obtained either through routine controls monitoring work or by delivering a plan of specific assurance activities throughout the year.

The third line of defence is internal and external audit who provide independent assurance against the activities of both the first and second lines. Our internal auditor undertakes a planned series of audits throughout the year targeted at obtaining assurance that our key internal controls are operating effectively. External certifications such as the ISO27001:2013 certification of our information security arrangements are also a form of independent assurance.

Identification of risks

NEST Corporation has an enterprise risk function led by the executive director of risk. Across the organisation, each executive director nominates at least one risk coordinator who liaises with the enterprise risk function to ensure that risks are identified, assessed and a mitigation strategy developed. Details of each risk are inserted into a risk log and reviewed through a series of risk meetings.

Commitment to enterprise risk management processes at a senior level is high. NEST Corporation's executive team, which consists of the chief executive and his management team, are presented with a risk dashboard every month that highlights key risks from across NEST Corporation's risk logs and outlines any key changes and areas of particular interest. The dashboard is used to initiate conversations about risk, helping to raise awareness and drive out mitigation activities.

NEST Corporation's principal risks and uncertainties

NEST Corporation's Trustee Members and executive team identified key strategic risks affecting the Corporation and the delivery of our strategic priorities. These risks are owned by an accountable executive and are reviewed throughout the year, with an option to add or remove risks presented to the risk committee every year.

The risks in the table below are not necessarily the highest rated or most likely risks that NEST faces, rather the risks that are integral to the successful delivery of our strategic priorities.

Risk
NEST capacity (Post-July 2015) There's a risk that NEST is unable to deal with all employers requesting our services in adherence to staging dates in the period from July 2015 to the end of staging.
Significant legislative or policy change There's a risk that a significant change in legislation or government policy could adversely affect the NEST business model through: 1. impacting the pension market 2. impacting NEST directly.
Culture and ethical standards There's a risk that NEST fails to develop and maintain a culture that: a) encourages the business to deliver its objectives within acceptable risk tolerance levels b) supports staff engagement and retention.
Loss of trust in investment performance There's a risk that the public lose trust in NEST as an investment house due to poor investment performance.
Financial viability There's a risk that NEST Corporation's business model is not financially viable.
NEST Corporation's governance There's a risk that the interactions between NEST's statuses as a trust, public body and market participant interact in ways that diminish our ability to drive best overall outcomes for our members.
Member proposition There's a risk that our member proposition is perceived by employers and advisers as unsuitable for their higher earning workers, and by members as an unsuitable place to invest their pension from age 55.

2.1.8 Internal audit

Internal audit services are provided by Deloitte, which is responsible for the provision of independent control assurance to NEST Corporation and reports to the audit committee. Deloitte also provide an annual opinion on governance, risk management and internal control, required to fulfil NEST Corporation's obligations as an NDPB.

Deloitte agrees its annual internal audit programme with NEST Corporation's audit committee and reports on progress against the plan on a quarterly basis. The programme covers NEST Corporation as both an NDPB and the Trustee of an occupational pension scheme. Deloitte have provided the head of internal audit opinion for the period 2014-15.

Following a thorough procurement process, EY were appointed to provide internal audit services from June 2015.

2.1.9 Head of internal audit opinion

In the opinion of the head of internal audit at NEST, there's reasonable assurance NEST Corporation has adequate and effective systems of governance, risk management and, except for some matters identified relating to the ability to evidence the effective operation of certain controls embedded within technology used to support scheme administration, internal control.

2.1.10 Compliance and assurance

The compliance monitoring and assurance team (CMA) is responsible for monitoring compliance with internal, statutory and regulatory requirements for pension schemes. This includes coordinating and managing NEST Corporation's regulatory relationship with TPR. The team also operates a framework to address compliance with pensions law and regulation. This framework is complemented by the assurance processes completed by senior management and policy owners in relation to internal controls.

CMA has also developed arrangements with key suppliers, such as the scheme and fund administrators, to ensure that they're able to provide sufficient assurance to NEST Corporation that those providers have a compliance framework in place that allows NEST Corporation, through its outsourced partners, to comply with regulatory requirements for pension schemes.

CMA operates against an annual compliance plan that's agreed with the audit committee. Key activities include provision of compliance assurance statements to meet regulatory requirements, the performance of an annual compliance monitoring programme to evidence ongoing compliance and responsibility for all regulatory reporting to TPR.

Each year, members of the executive team provide a personal assurance statement to the chief executive in relation to risk, governance and controls within their area of responsibility.

In addition, key policy owners provide attestation with regard to regulatory requirements, compliance obligations, monitoring processes and the management of key risks addressed in their policies. The statements are designed to highlight any significant internal control issues. In 2014/15 there were none. See significant control issues in section 2.1.6.

During this scheme year, NEST Corporation published a governance statement detailing how the scheme complies with TPR's *Code of practice no.13: Governance and administration of occupational defined contribution trust-based schemes.* This document is publically available on the NEST website*.

In addition to this, work is currently underway to produce an independently audited statement providing assurance of our internal control framework to members, employers and third parties.

NEST Corporation is also following developments in this field following the publication of the command paper and draft regulation by the DWP, *Better Workplace Pensions*, in October 2014. We welcome the continued focus on occupational pension scheme governance and look forward to the publication of guidance on how these new requirements will fit into the existing framework of governance and assurance reporting.

* http://www.nestpensions.org.uk/schemeweb/NestWeb/includes/public/docs/Governance-statement-November-2014.pdf

2.1.11 Information security and data protection

NEST Corporation is committed to supporting a secure electronic environment to conduct its business and has established and maintained a comprehensive information security management system (ISMS) that is certified against the International Standards Organisation (ISO) 27001:2013. NEST Corporation has also maintained a data protection policy, which sets out our approach to the protection of personal data and associated training. The policy is designed to comply with the Data Protection Act 1998 and other regulations for the purpose of ensuring the security and use of personal data.

As an NDPB, NEST Corporation is required to provide information on our management of information risk, compliance to the DWP's Information Security and Assurance Report for the DWP senior information risk owner, and to the Security Risk Management Overview for Cabinet Office.

During 2014/15 there was no reportable loss or compromise of personal data.

2.1.12 Business continuity

NEST Corporation maintains a cost-effective business continuity capability that enables management to respond to and recover from major incidents that affect business operations. Our business continuity management programme is appropriate to the size and complexity of NEST Corporation and is aligned with industry standards. Business continuity arrangements are exercised, reviewed and renewed as appropriate. A training and awareness programme is being designed to ensure staff and key service providers are informed of procedures and their responsibilities within them while helping to embed business continuity into NEST Corporation's culture.

Tim Jones
Chief executive and accounting officer
NEST Corporation

26 June 2015

Otto Thoresen
Chair
NEST Corporation

26 June 2015

2.2 Remuneration report

2.2.1 Remuneration report

This report has been prepared in accordance with chapter 6 of the Companies Act 2006 and schedule 8 of SI 2008 No. 410 as interpreted for the public sector context.

These disclosures relate to NEST Corporation Trustee Members and the chief executive, these being the only individuals that make decisions spanning the entire organisation.

Lawrence Churchill was appointed Chair of NEST Corporation by the Secretary of State for Work and Pensions and his appointment ended on 31 January 2015. Under his Terms of Appointment he was required to commit to 2.5 days a week. Otto Thoresen's appointment as Chair of NEST Corporation began on 1 February 2015 following his appointment by the Secretary of State for Work and Pensions. Under his Terms of Appointment he is required to commit 2.5 days a week. Tom Boardman was appointed deputy chair of NEST Corporation on 1 June 2014. Under his Terms of Appointment he is required to commit to 40 days a year.

All other NEST Corporation Trustee Members are required to commit to 30 days a year. Trustee Members were appointed by the Secretary of State for a period of either four or five years. In accordance with paragraph 7 of schedule 1 to the Pensions Act 2008, the remuneration of Trustee Members is determined by the Secretary of State. The Terms of Appointment allow for extra days to be remunerated on a pro rata basis.

Up to 31 March 2015 NEST Corporation's remuneration committee was made up of four Trustee Members, Sue Slipman (chair), Enid Rowlands (whose appointment ended on 31 December 2014), Nigel Stanley, Chris Hitchen and Karen Silcock (from 14 January 2015). It provided oversight, review and advice to the Trustee Members on remuneration of senior executives and staff. A report on the activities of the committee can be found in section 2.1.2.

NEST Corporation's remuneration approach applies to all directly employed staff and consists of:

- eligibility to be considered for a non-consolidated annual performance-related pay award
- auto enrolment for eligible workers into the NEST Corporation defined contribution pension arrangements
- 25 days paid holiday per annum rising by length of service
- faster accrual of annual leave based on length of service
- an additional day's holiday on a member of staff's birthday, commencing 1 January 2015
- critical illness cover
- death in service life cover of three times salary.

2.2.2 Performance-related pay

NEST Corporation approved the performance-based approach to reward in which we recognise those who perform well and contribute more.

For consolidated pay awards, we used 1 per cent of our overall salary bill to provide consolidated pay awards to our staff on a performance-related basis.

For non-consolidated pay, we allocated 2.2 per cent of our overall salary bill to provide non-consolidated awards to our highest performers. The committee also applied additional caps in line with the DWP's approach to senior civil service pay bands or equivalents.

2.2.3 Compensation

There have been no compensation payments made in respect of early contract termination or loss of office to any former senior managers of NEST Corporation.

2.2.4 Internal comparisons

The ratio between the median remuneration of NEST Corporation's staff and that of the chief executive, being the highest paid director, is 4.9 to 1 for 2014/15 (2013/14: 4.2 to 1). For this comparison, total remuneration includes salary, benefits in kind as well as severance payments. It doesn't include employer pension contributions or the cash equivalent transfer value of pensions.

2.2.5 Pension

NEST Corporation's active DC pension arrangements comprise two schemes:

- NEST pension scheme
- top-up arrangements with Aviva for employees contributing above the NEST annual contribution limit.

NEST Corporation renewed the Pension Quality Mark (PQM) Plus standard accreditation in March 2015. This means that NEST Corporation offers increased employer contributions for increased employee contributions.

Employees can increase their contributions as follows:

- a 6 per cent gross employee contribution is matched by a 9 per cent employer contribution from NEST Corporation
- a 7 per cent gross employee contribution is matched by a 10 per cent employer contribution from NEST Corporation.

Our default contribution levels are 5 per cent gross employee contributions with NEST Corporation paying an 8 per cent employer contribution.

None of the individuals included in these remuneration disclosures are or have been members of any of NEST Corporation's pension schemes.

2.2.6 Remuneration

The information in the table below has been audited.

	Contract details			2014/15					2013/14				
Name and Position	Contract start date	Unexpired term as at 31 March 2015	Notice period	Full-year equivalent salary and allowances (£000)	Salary and allowances paid (£000)[1]	Performance related payments (£000)[3]	Taxable expenses (to nearest £100)[4]	Total (£000)	Full-year equivalent salary and allowances (£000)	Salary and allowances paid (£000)	Performance related payments (£000)[2]	Taxable expenses (to nearest £100)	Total (£000)
Lawrence Churchill Chair (up to 31 Jan 15)	01-Feb-10	0	3 months	95-100	80-85	–	17,000	95-100	95-100	95-100	–	21,900	115-120
Otto Thoresen Chair (From 01 Feb 15)	01-Feb-15	4 years 10 months	6 months	90-95	15-20	–	0	15-20	0	0	–	0	0
Tom Boardman Deputy chairman	01-Jun-14	2 years 2 months	3 months	25-30	35-40	–	2,400	40-45	20-25	25-30	–	600	25-30
Sharon Darcy Trustee Member	20-Jun-11	1 year 3 months	3 months	20-25	20-25	–	0	20-25	20-25	20-25	–	0	20-25
Nigel Stanley Trustee Member	20-Jun-11	1 year 3 months	3 months	20-25	20-25	–	0	20-25	20-25	20-25	–	0	20-25
Iraj Amiri Trustee Member	20-Jun-11	1 year 3 months	3 months	20-25	20-25	–	13,900	35-40	20-25	20-25	–	5,500	25-30
Ian Armfield Trustee Member	01-Apr-14	3 years 3 months	3 months	20-25	20-25	–	0	20-25	0	0	–	0	0
Carolan Dobson Trustee Member	01-Apr-14	3 years 3 months	3 months	20-25	20-25	–	8,200	25-30	0	0	–	0	0
Karen Silcock Trustee Member	01-Apr-14	3 years 3 months	3 months	20-25	20-25	–	3,300	20-25	0	0	–	0	0
Graham Berville Trustee Member	01-Jun-14	3 years 3 months	3 months	20-25	15-20	–	7,100	20-25	0	0	–	0	0
Chris Hitchen Trustee Member	01-Apr-10	0	3 months	20-25	20-25	–	0	20-25	20-25	20-25	–	0	20-25
Sue Slipman Trustee Member	01-Apr-10	0	3 months	20-25	20-25	–	0	20-25	20-25	20-25	–	0	20-25
Enid Rowlands Trustee Member	11-Jul-11	0	3 months	20-25	15-20	–	1,000	15-20	20-25	20-25	–	3,000	20-25
Tim Jones[2] Chief executive	07-Jan-14	Permanent contract	6 months	230-235	230-235	15-20	0	245-250	230-235	230-235	80-85	0	310-315
Midpoint of banding of highest paid director's total remuneration (£)						247,500					232,500		
Median total remuneration (£)						50,257					56,000		
Ratio						4.9					4.2		

Notes

1. Trustee Member's terms of engagement allow them to claim for time in excess of their contractual obligation.
2. In 2013/14 Tim Jones was paid a terminal bonus of £81k at the end of his fixed term contract which had been accrued between 2007 and 2014. Performance-related pay of £17.5k was awarded for 2013/14, paid in 2014/15 and is included in the 2014/15 table above. The performance related award for 2014/15 is yet to be decided, and has not been included in the table.
3. The Trustee Members do not receive any performance related payments.
4. Taxable expenses relate to travel and subsistence which are taxable.

Tim Jones
Chief executive and accounting officer
NEST Corporation

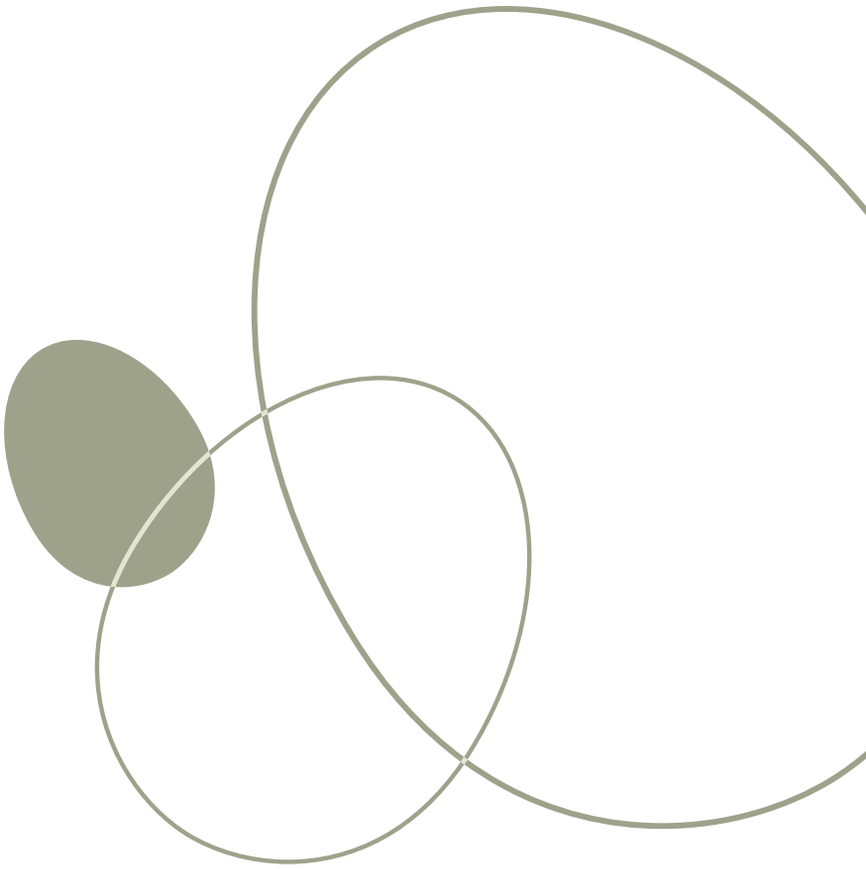
26 June 2015

Nigel Stanley
Chair, Remuneration Committee

26 June 2015

Chapter three

Financial statements



3.1 Statement of accounting officer's responsibilities

Under schedule 1, part 3, paragraph 20 to the Pensions Act 2008, the Secretary of State has directed NEST Corporation to prepare for each financial year a statement of accounts in the form and on the basis set out in the Accounts Direction. The Accounts Direction requires that the accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of NEST Corporation and of its income and expenditure, changes in taxpayers' equity and cash flows for the financial year.

In preparing the accounts, the accounting officer is required to comply with the requirements of the *Government Financial Reporting Manual* and in particular to:

- observe the Accounts Direction issued by the Secretary of State, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis
- make judgements and estimates on a reasonable basis
- state whether applicable accounting standards as set out in the *Government Financial Reporting Manual* have been followed, and disclose and explain any material departures in the financial statements
- prepare the financial statements on a going concern basis.

The principal accounting officer for the DWP has designated the chief executive as accounting officer of NEST Corporation. The responsibilities of an accounting officer, including responsibility for the propriety and regularity of the public finances for which the accounting officer is answerable, for keeping proper records and for safeguarding NEST Corporation's assets, are set out in *Managing Public Money*, published by HM Treasury.

Tim Jones
Chief executive and accounting officer
NEST Corporation

26 June 2015

3.2 The Certificate and Report of the Comptroller and Auditor General to the Houses of Parliament

I certify that I have audited the financial statements of the National Employment Savings Trust Corporation for the year ended 31 March 2015 under the Pensions Act 2008. The financial statements comprise: the Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Corporation, Accounting Officer and auditor

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Corporation and the Accounting Officer are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the Pensions Act 2008. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the National Employment Savings Trust Corporation's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the National Employment Savings Trust Corporation; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial

statements conform to the authorities which govern them.

Opinion on regularity

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

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the National Employment Savings Trust Corporation's affairs as at 31 March 2015 and of the net expenditure after interest for the year then ended; and
- the financial statements have been properly prepared in accordance with the Pensions Act 2008 and Secretary of State directions issued thereunder.

Opinion on other matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with Secretary of State directions made under the Pensions Act 2008; and
- the information given in the Strategic Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Sir Amyas C E Morse
Comptroller and Auditor General
2 July 2015

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

3.3 NEST Corporation financial statements

National Employment Savings Trust Corporation Statement of Comprehensive Net Expenditure

for the year ended 31 March 2015

	Note	Year ended 31 March 2015 £000	Year ended 31 March 2014 £000
Expenditure			
Staff costs	2a	20,399	22,645
Depreciation and amortisation	3	13,517	11,544
Other expenditure	3	43,028	33,418
		76,944	**67,607**
Income			
Grant income	4	(12,685)	(10,245)
Other income	5	(5,857)	(1,957)
Net expenditure		**58,402**	**55,405**
Interest payable	6	21,748	17,145
Net expenditure after interest deducted from general reserve		**80,150**	**72,550**
Other comprehensive net expenditure			
Net (gain)/loss on revaluation of non-current intangible assets	8	(167)	4,271
Total comprehensive expenditure for the period		**79,983**	**76,821**

All income and expenditure is derived from continuing operations.

The accounting policies and notes on pages 49 to 71 form part of these financial statements.

National Employment Savings Trust Corporation
Statement of Financial Position

as at 31 March 2015

		31 March 2015 £000	31 March 2014 £000
Non-current assets	Note		
Property, plant and equipment	7	9,188	10,222
Intangible assets	8	41,670	43,493
Prepayments amounts falling due over one year	9a	12,364	9,071
Total non-current assets		**63,222**	**62,786**
Current assets			
Trade and other receivables	9b	7,134	14,802
Other current assets	9c	69	77
Cash and cash equivalents	10	10,284	7,251
Total current assets		**17,487**	**22,130**
Total assets		**80,709**	**84,916**
Current liabilities			
Trade and other payables	11a	(15,651)	(18,436)
Other liabilities	11b	(2,317)	(12,990)
Provisions for liabilities and charges	13	–	(800)
Total current liabilities		**(17,968)**	**(32,226)**
Non-current assets plus net current assets		**62,741**	**52,690**
Non-current liabilities			
DWP loan	12	(387,147)	(299,317)
Other liabilities	12	(9,879)	(7,809)
Provisions for liabilities and charges	13	(283)	(77)
Total non-current liabilities		**(397,309)**	**(307,203)**
Assets less liabilities		**(334,568)**	**(254,513)**
Taxpayers' equity			
General reserve		(335,861)	(255,711)
Revaluation reserve		1,038	871
Lease incentive reserve		255	327
Total taxpayers' equity		**(334,568)**	**(254,513)**

The financial statements, including the accounting policies and notes, on pages 49 to 71 were approved by the Trustee on 26 June 2015 and were signed on its behalf by Tim Jones.

Tim Jones
Chief executive and accounting officer
26 June 2015

The accounting policies and notes on pages 49 to 71 form part of these financial statements.

National Employment Savings Trust Corporation Statement of Cash Flows

for the year ended 31 March 2015

	Note	Year ended 31 March 2015 £000	Year ended 31 March 2014 £000
Cash flows from operating activities			
Net expenditure after interest		(80,150)	(72,550)
Adjustment for non-cash items	21	8,901	7,775
(Increase) in trade and other receivables		(751)	(1,356)
(Decrease)/increase in trade and other payables		(2,876)	6,419
(Decrease)/increase in provisions	13	(594)	96
Net cash outflow from operating activities		**(75,470)**	**(59,616)**
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets	21	(73)	(1,799)
Advance payments	21	(9,254)	(9,097)
Net cash outflow from investing activities		**(9,327)**	**(10,896)**
Cash flows from financing activities			
Loan received from parent department	12	87,830	60,000
Net cash inflow from financing activities		**87,830**	**60,000**
Net increase/(decrease) in cash and cash equivalents in the period	10	3,033	(10,512)
Cash and cash equivalents at the beginning of the period	10	7,251	17,763
Cash and cash equivalents at the end of the period		**10,284**	**7,251**

The accounting policies and notes on pages 49 to 71 form part of these financial statements.

National Employment Savings Trust Corporation Statement of Changes in Taxpayers' Equity

for the year ended 31 March 2015

	Note	Lease Incentive reserve £000	Revaluation reserve £000	General reserve £000	Total reserves £000
Balance at 1 April 2013		13	5,142	(183,161)	(178,006)
Changes in taxpayers' equity 2013/14					
Recognition of lease incentive reserve		356	–	–	356
Release of reserves to the Statement of Comprehensive Net Expenditure	3	(42)	–	–	(42)
Net loss on revaluation of non-current intangible assets	8	–	(4,271)	–	(4,271)
Net expenditure after interest		–		(72,550)	(72,550)
Total changes for 2013/14		**314**	**(4,271)**	**(72,550)**	**(76,507)**
Balance as at 31 March 2014		**327**	**871**	**(255,711)**	**(254,513)**
Changes in taxpayers' equity 2014/15					
Release of reserves to the Statement of Comprehensive Net Expenditure	3	(72)	–	–	(72)
Net gain on revaluation of non-current intangible assets	8	–	167	–	167
Net expenditure after interest		–	–	(80,150)	(80,150)
Total changes for 2014/15		**(72)**	**167**	**(80,150)**	**(80,055)**
Balance as at 31 March 2015		**255**	**1,038**	**(335,861)**	**(334,568)**

The accounting policies and notes on pages 49 to 71 form part of these financial statements.

Notes to the financial statements

1 Statement of accounting policies

These financial statements have been prepared in accordance with the 2014/15 Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of NEST Corporation for the purpose of giving a true and fair view has been selected. The particular policies adopted by NEST Corporation are described below. They have been applied consistently in dealing with items that are considered material to the accounts. NEST Corporation is required, under the Pensions Act 2008, to prepare its accounts for the year ended 31 March 2015, in accordance with the directions made by the Secretary of State with the consent of HM Treasury. The Secretary of State has required NEST Corporation to comply with the requirements of the FReM.

These financial statements relate to NEST Corporation. NEST's scheme accounts are reflected separately.

1.1 Basis of preparation

These financial statements have been prepared on an accrual basis under the historical cost convention, modified to account for the revaluation of non-current assets where material. Figures are presented in pound sterling and are rounded to the nearest £1,000.

1.2 Going concern

NEST Corporation was established in 2010 to ensure the smooth running of the NEST scheme. The financing of the Corporation is met through a combination of loan and grant income funding supplied through the DWP, which is approved annually by Parliament. In November 2010, the Corporation signed a loan agreement with the DWP that provides assurance that future funding will be provided to NEST Corporation until income from scheme charges is sufficient to meet future costs and settle the loan liability. Therefore, in accordance with FReM 2.2.3, it has been concluded as appropriate to adopt a going concern basis of preparation for these accounts.

1.3 Changes in accounting policy and disclosures

a) Changes in accounting policies

There have been no changes to accounting policies.

b) New and amended standards adopted

There are no International Financial Reporting Standard (IFRS) or International Financial Reporting Interpretations Committee (IFRIC) interpretations that are effective for the first time for the financial year beginning on or after 1 April 2014 that have a material impact on the financial statements.

c) New standards, amendments and interpretations issued but not effective for the financial year beginning 1 April 2015 and not early adopted

The following new standards, interpretations and amendments, which are not yet effective, may have an effect on the Corporation's future financial statements.

IFRS 9 'Financial Instruments' (issued 24 July 2014 and effective for accounting periods beginning on or after 1 January 2018) addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 requires financial assets to be classified into two measurement categories; those measured at fair value and those measured at amortised cost. The determination is made at initial recognition and depends on the contractual cash flow characteristics of the instrument and the method by which an entity manages its financial instruments.

IFRS 13 'Fair Value Measurement', effective for accounting periods beginning on or after 1 January 2015, aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRS and UK GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or UK GAAP.

The above standards to be adopted are not expected to have a material impact on these financial statements.

1.4 Accounting estimates and judgements

The development, selection and disclosure of significant accounting estimates and judgements and the application of these judgements and estimates has been discussed and agreed with NEST Corporation's audit committee. Below are the significant accounting estimates and judgements.

1.4 a) Critical judgements in applying NEST Corporation's policies

Service Concession Arrangements

The accounting treatment of assets used by TCS to administer the scheme involves judgements about the degree to which the Corporation controls both the services and any significant residual interest. The contract assets are reflected in the Statement of Financial Position (SoFP) as the Corporation controls both elements.

1.4 b) Critical accounting estimates and assumptions

Revaluation of intangible assets

The FReM interpretation of IAS 38 requires NEST Corporation to revalue its intangible assets to depreciated replacement cost as a proxy for fair value. As suggested in the FReM, NEST Corporation applies an appropriate index to revalue software licence and software development assets at year end if the impact is over 1 per cent of the net book value of the relevant asset class. The most suitable proxy for NEST Corporation's software licences and software development is JV5 (a): Computers and peripheral equipment.

Software licences

Management believe there is no accurate currently available software licences index or trend information on the specific licences held by NEST Corporation. As the next best alternative, the index seen as most appropriate in achieving the requirement of IAS 38 and the FReM to establish a suitable proxy for fair value is JV5 (a): Computers and

peripheral equipment, as although it includes movements in IT hardware as well as licence prices, it adequately reflects the movements in the costs of licences during changing market conditions experienced over the reporting period.

Software development

Management's conclusion is that the most appropriate index to use for software development is also JV5 (a) as the best available proxy to establish fair value for IT-related assets.

1.5 Employee benefits

In accordance with IAS 19 Employee Benefits, all short-term staff costs are accounted for on an accrual basis over the period for which employees have provided services in the year. These short-term benefits largely relate to salaries, bonuses announced but not yet paid and accrued leave. Directors' bonuses are included in the remuneration report when payments to individuals have been determined by the remuneration committee.

1.6 Pension costs

All eligible employees are auto enrolled into the NEST scheme, a defined contribution (DC) scheme with employer contributions matched at various rates.

For employees wishing to contribute more than NEST's annual contribution limit, NEST operates a top-up DC scheme with Aviva.

NEST Corporation recognises the employer costs for each relevant scheme in the period in which they are incurred.

The pension cost of civil servants on secondment to NEST Corporation is reimbursed as part of the employment costs. There is no residual pension liability for NEST Corporation.

1.7 Value Added Tax (VAT)

NEST Corporation does not make taxable supplies and therefore is not registered for VAT. Consequently, where input VAT is incurred or payable, costs are shown inclusive of VAT.

1.8 Insurance

NEST Corporation has appropriate commercial insurance. Any uninsured losses are charged directly to the Statement of Comprehensive Net Expenditure as incurred.

1.9 Income

Income is reflected in the Statement of Comprehensive Net Expenditure and is recognised when it is probable that future economic benefits will flow to NEST Corporation and those benefits can be measured reliably.

Deductions made from NEST's member contributions go towards the general costs of the setting up, administration and management of the scheme. Charges are 1.8 per cent of contributions received and 0.3 per cent of assets under management. This income to NEST Corporation is accounted for on an accruals basis.

Following NEST Corporation's classification as a public corporation, the grant received from the DWP is treated as income, rather than financing.

Costs associated with the functions of government are not chargeable to NEST members and are met through grant funding. The amount of grant funding is determined by management estimates of the time spent and costs involved in non-chargeable activities. This estimate is subsequently agreed with the DWP.

Those costs not associated with functions of government and not met by deductions from contributions from members are funded by means of loans from the DWP, which will

subsequently be repayable from the deductions made from the contributions made by scheme members. The loans are recognised as a liability within the Statement of Financial Position.

NEST Corporation pays a commercial rate of interest on the loans to the DWP. It also receives from the DWP a grant sufficient, in effect, to reduce the interest payable on the loans from the commercial rate to the government rate of borrowing. This grant income is allowable under a ruling from the European Commission in July 2010. The grant is treated as income and accounted for when received and known as the Public Service Obligation Offset Payment.

1.10 Property, plant and equipment

Property, plant and equipment are stated at fair value. All assets under property, plant and equipment are deemed to be short-life or low value and, as permitted by the FReM, have been valued on the basis of depreciated historic cost as a proxy for fair value.

Assets are capitalised where they have an expected useful life of more than one year and where the original cost of the item exceeds NEST Corporation's capitalisation threshold of £1,000. Individual items costing less than the capitalisation limit, but forming an integral part of a package or pool of items whose total value is greater than £1,000, are also capitalised.

On initial recognition, assets are measured at cost, including costs directly attributable to bringing them into working condition. Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset only when it is probable that future economic benefits associated with the item will flow to NEST Corporation and the cost of the item can be measured reliably.

1.11 Intangible assets

Intangible assets are initially recognised at cost with subsequent measurement at fair value. Where an active market exists for the asset, it is carried at a revalued amount based on fair value at the end of the annual reporting period. Where no active market exists, assets are revalued using appropriate indices to indicate depreciated replacement cost as a proxy for fair value.

Purchased software licences and applications covering a period of more than one year and above the capitalisation threshold of £1,000 are capitalised at cost as intangible assets and subsequently revalued. Individual items costing less than the capitalisation limit, but forming an integral part of a package or pool of items whose total value is greater than £1,000 are also capitalised. Expenditure on annual software licences is recognised in the Statement of Comprehensive Net Expenditure.

Software development costs are capitalised when the criteria for recognition per IAS 38 are met. NEST Corporation capitalises 85 per cent of gross Software Development Costs incurred by the outsourced administration service provider TCS, the reduction of 15 per cent being a proxy for project management costs. VAT is added on the estimated on-shore elements of the development costs.

1.12 Depreciation

Depreciation is charged on property, plant and equipment using the straight-line method as this reflects the expected pattern of consumption of economic benefits. The rates used are calculated to write down each asset to its estimated residual value over its expected useful life, as follows:

- furniture and fittings: 2 to 5 years

- information technology and telecoms equipment: 3 to 5 years
- scheme administration IT hardware assets are expected to be replaced after 5 years.

Depreciation commences once an asset is available for use and continues until the asset is derecognised, categorised as held for sale or written down to nil value. Depreciation is calculated from the month following that of acquisition or, if later, from the month in which the asset is available for use. No depreciation is charged in the month of disposal.

Residual values and estimated useful economic lives of non-current assets are reviewed annually and adjusted if appropriate at the end of the reporting period. The financial impact is recognised in the Statement of Comprehensive Net Expenditure over the remaining life of the asset.

1.13 Amortisation

Amortisation is calculated on intangible assets using the straight-line method as this reflects the expected pattern of consumption of economic benefits. The rates used are calculated to write down each asset to its estimated residual value over its expected useful life, as follows:

- software licences: 3 years or period remaining on licence if less than 3 years
- scheme software licences used by TCS for the scheme administration contract: 5 years, on the grounds that hardware asset refresh is likely to be accompanied by upgrading of software licences
- scheme developed software: costs incurred by TCS in developing the software used to administer the scheme have been amortised over the life of the contract on the grounds that the coding involved will be required to support scheme administration throughout the duration of the contract.

Amortisation commences once an asset is available for use and continues until the asset is derecognised, categorised as held for sale or written down to nil value. Amortisation is calculated from the month following that of acquisition or, if later, from the month in which the asset is available for use. No amortisation is charged in the month of disposal.

Residual values and estimated useful economic lives of non-current intangible assets are reviewed annually and adjusted if appropriate at the end of the reporting period. The financial impact is recognised in the Statement of Comprehensive Net Expenditure over the remaining life of the asset.

1.14 Revaluation and impairment of non-current assets

NEST Corporation carries out an annual valuation review of its non-current intangible assets. Increases in value are credited to a revaluation reserve. Impairments of revalued assets that do not result from a clear consumption of economic benefits are debited to the revaluation reserve up to the level of depreciated historical cost. Any excess devaluation is charged to the Statement of Comprehensive Net Expenditure.

Impairment losses that result from a clear consumption of economic benefit are taken directly to the Statement of Comprehensive Net Expenditure. Where the impairment relates to a revalued asset, the balance on the revaluation reserve to which the impairment would have been charged is transferred to the general reserve to ensure consistency with IAS 36: Impairment of Assets.

On disposal of a revalued asset, the balance on the revaluation reserve in respect of that asset becomes fully realised and is transferred to the general reserve. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the Statement of Comprehensive Net Expenditure.

All non-current assets are tested annually for impairment. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

1.15 Financial instruments

Recognition

Financial assets and financial liabilities which arise from contracts for the purchase and sale of non-financial items, such as goods or services, which are entered into in accordance with NEST Corporation's normal purchase, sale or usage requirement, are recognised when, and to the extent to which, performance occurs. All other financial assets and liabilities are recognised when NEST Corporation becomes party to the contractual provisions to receive or make cash payments.

De-recognition

A financial asset is considered for de-recognition when the contractual rights to the cash flows from the financial asset expire, or NEST Corporation has either transferred the contractual right to receive the cash flows from the asset, or has assumed an obligation to pay those cash flows to one or more recipients, subject to certain criteria. NEST Corporation de-recognises a transferred financial asset if it transfers substantially all the risks and rewards of ownership.

Classification and measurement – financial assets

In addition to cash and cash equivalents, NEST Corporation has one category of financial assets: loans and receivables.

Loans and receivables comprise trade receivables, other receivables and loans that have fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially recognised at fair value and are subsequently measured at amortised cost.

Impairment of financial assets

At the end of each reporting period, NEST Corporation assesses whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred if there is:

- objective evidence of impairment as a result of a loss event that occurred after the initial recognition of the asset and up to the end of the reporting period
- the loss event had an impact on the estimated future cash flows of the financial asset or the group of financial assets, and
- a reliable estimate of the amount can be made.

Classification and measurement – financial liabilities

NEST Corporation has one category of financial liability: other financial liabilities.

Other financial liabilities comprise trade payables and loans. All financial liabilities are recognised initially at fair value, net of any transaction costs incurred, and then measured at amortised cost using the effective interest rate method. Interest on financial liabilities carried at amortised cost is calculated using the effective interest rate method and is charged to the Statement of Comprehensive Net Expenditure.

1.16 Provisions for liabilities and charges

In accordance with IAS 37, NEST Corporation provides for legal or constructive obligations, where the transfer of economic benefit is probable but which are of uncertain timing or amount at the end of the reporting period. The provision is calculated on the basis of the best estimate of the expenditure required to settle the obligation. Where the effect of the time value of money is significant, the estimated cash flows are discounted using NEST Corporation's weighted average cost of capital (see note 6).

1.17 Leases

Payments in relation to operating leases are charged to the Statement of Comprehensive Net Expenditure on the basis of rentals payable in the year.

NEST Corporation has one finance lease as set out under Service Concession Arrangements, note 1.20 below.

1.18 Lease incentives

Assets received from third parties which are regarded as falling within the SIC 15 Operating Lease Incentives definition are capitalised and credited to a lease incentive reserve where appropriate. The lease incentive reserve is amortised on a straight-line basis over the remaining term of the lease and credited to the Statement of Comprehensive Net Expenditure.

1.19 Operating segments

Although IFRS 8 Operating Segments applies in full to NEST Corporation, the organisation does not have separate operating segments as defined by the standard.

1.20 Service Concession Arrangements

Service Concession Arrangements are accounted for in accordance with IFRIC 12, as adapted for the public sector context by FReM. Where NEST Corporation controls the services provided and retains a significant residual interest in the asset, the asset is recognised on NEST Corporation's Statement of Financial Position.

The scheme administration contract with TCS meets these conditions and is recognised in the financial statements as Service Concession Arrangements. The assets comprise of hardware, software licences and developed software.

2 Staff numbers and related costs

a) Staff costs

NEST Corporation is staffed by a combination of direct employees, staff seconded from other bodies and interim staff employed through third party organisations.

	Year ended 31 March 2015 £000	Year ended 31 March 2014 £000
Directly employed staff		
Wages and salaries	15,389	15,620
Social security costs	1,734	1,807
Pension costs	1,087	1,056
Sub-total	**18,210**	**18,483**
Secondees	229	468
Interim staff	1,960	3,694
Total	**20,399**	**22,645**

b) Pension arrangements

NEST Corporation operates two active defined contribution pension schemes for its directly employed staff. There were 210 workers in these pension schemes as at 31 March 2015 (31 March 2014: 218).

NEST Corporation recognises the employer's costs in the period to which they relate. At 31 March 2015 there was one month's contributions outstanding amounting to £139k (31 March 2014: £138k).

The pension cost of civil servants on secondment to NEST Corporation is reimbursed as part of the employment costs above. There is no residual pension liability for NEST Corporation.

c) Average number of staff employed

	Year ended 31 March 2015 Average full time equivalents	Year ended 31 March 2014 Average full time equivalents
Directly employed staff	235	243
Secondees	2	3
Interim staff	13	22
Total average number of staff	**250**	**268**

3 Depreciation, amortisation and other expenditure

	Note	Year ended 31 March 2015 £000	Year ended 31 March 2014 £000
Depreciation and amortisation	7,8	13,517	11,544
Other expenditure			
Scheme administration fees		32,380	23,036
Information technology and telephony		2,036	2,102
Rentals under operating leases		2,049	1,193
Professional advice and support		1,402	1,591
Research, marketing and communications		1,285	1,252
Recruitment and other staff costs		1,277	1,133
Accommodation		1,191	1,249
Scheme investment costs		729	465
Legal fees and expenses		453	552
Business travel		157	412
Auditors' remuneration – scheme		72	65
Insurance		71	114
Auditors' remuneration – Corporation		95	82
Industry engagement		62	233
Loss on disposal of non-current assets	7, 8	14	29
Release of lease incentive reserve		(72)	(42)
(Decrease)/increase in property provisions	13	(319)	96
(Recovery) of cash loss	18	–	(302)
Other running costs		146	158
Sub total		43,028	33,418
Total		**56,545**	**44,962**

The cost for the work performed by the NAO external auditors for the year ended 31 March 2015 is £95k (2013/14: £82k).

4 Grant income

	Year ended 31 March 2015 £000	Year ended 31 March 2014 £000
Grant income for non-chargeable costs	442	602
Public service obligation offset payment	12,243	9,643
Total	**12,685**	**10,245**

Costs associated with the functions of government are not chargeable to NEST members and are met through grant income funding from the DWP.

Following the European Commission's ruling in July 2010 and NEST's taking on of members from July 2011, a public service obligation offset payment is due from the DWP which has the effect of reducing the cost of servicing the loan to the government cost of borrowing. This offset payment is received on the date of the first loan interest payment.

5 Other income

	Year ended 31 March 2015 £000	Year ended 31 March 2014 £000
Interest received and receivable	16	22
Members' contribution and annual management charges	5,841	1,935
Totals	**5,857**	**1,957**

Interest received and receivable on cash balances NEST Corporation held on deposit with the Government Banking Service relating to the period is treated as income. Contribution charges relate to the 1.8 per cent deduction on invested contributions from members of NEST scheme and the 0.3 per cent annual management charge on the value of NEST scheme investments under management.

6 Interest payable

	Note	Year ended 31 March 2015 £000	Year ended 31 March 2014 £000
Loan interest paid and payable	19	**21,748**	**17,145**

Interest payable relates to interest charged on balances outstanding on the loan from the DWP (see note 12). NEST's weighted average cost of capital (WACC) is the effective cumulative interest rate on the loan from the DWP. Under the terms of the loan agreement, NEST Corporation borrows at a fixed commercial rate of interest prevailing at the time of each drawdown. NEST Corporation receives a grant from the DWP which effectively reduces the commercial rate to the government borrowing rate. The cumulative WACC up to 31 March 2015, net of the grant, is 3 per cent (2013/14: 3.12 per cent).

7 Property, plant and equipment

2014/15	Note	Furniture & fittings £000	Information technology[a] £000	Scheme hardware £000	Total £000
Cost					
As at 1 April 2014		288	2,979	14,785	18,052
Additions		20	40	3,004	3,064
Disposals		(2)	(10)	–	(12)
As at 31 March 2015		**306**	**3,009**	**17,789**	**21,104**
Depreciation					
As at 1 April 2014		(50)	(1,119)	(6,661)	(7,830)
Charged in period		(57)	(592)	(3,448)	(4,097)
Disposals		2	9	–	11
As at 31 March 2015		**(105)**	**(1,702)**	**(10,109)**	**(11,916)**
Net book value at 31 March 2015		**201**	**1,307**	**7,680**	**9,188**
Net book value at 31 March 2014		**238**	**1,860**	**8,124**	**10,222**
Asset financing:					
Owned		201	1,307	7,680	9,188
Net book value at 31 Mar 2015		**201**	**1,307**	**7,680**	**9,188**

Non-current assets totalling £10.5m were added during the year (£3.1m property, plant and equipment, £7.4m intangible assets). £10.4m of the non-current assets additions were used by TCS for scheme administration.

2013/14	Note	Furniture & fittings £000	Information technology[a] £000	Scheme hardware £000	Total £000
Cost					
As at 1 April 2013		234	1,625	14,264	16,123
Additions		240	1,354	521	2,115
Disposals		(186)	–	–	(186)
As at 31 March 2014		**288**	**2,979**	**14,785**	**18,052**
Depreciation					
As at 1 April 2013		(161)	(703)	(3,762)	(4,626)
Charged in period		(45)	(416)	(2,901)	(3,362)
Disposals		157	–	–	157
Write offs		(1)	–	–	(1)
Reclassification	8	–	–	2	2
As at 31 March 2014		**(50)**	**(1,119)**	**(6,661)**	**(7,830)**
Net book value at 31 March 2014		**238**	**1,860**	**8,124**	**10,222**
Net book value at 31 March 2013		**73**	**922**	**10,502**	**11,497**
Asset financing:					
Owned		238	1,860	8,124	10,222
Net book value at 31 March 2014		**238**	**1,860**	**8,124**	**10,222**

a. Information technology includes telecoms equipment.

The annual review of all property, plant and equipment verified that the carrying value approximated to the fair value of the assets. Consequently there was no revaluation or impairments in the period.

8 Intangible assets

NEST Corporation's intangible assets comprise of purchased software licences used directly by NEST employees, purchased software licences used by TCS for scheme administration and software developed by TCS for scheme administration.

2014/15	Note	Software licences £000	Scheme software licences £000	Scheme developed software £000	Total £000
Cost or valuation					
As at 1 April 2014		1,259	24,998	37,539	63,796
Additions		13	1,330	6,100	7,443
Disposals		(91)	–	–	(91)
Revaluation	a	12	229	386	627
As at 31 March 2015		**1,193**	**26,557**	**44,025**	**71,775**
Amortisation					
As at 1 April 2014		(835)	(10,706)	(8,762)	(20,303)
Charged in period		(252)	(4,308)	(4,860)	(9,420)
Disposals		78	–	–	78
Revaluation	a	5	(263)	(202)	(460)
As at 31 March 2015		**(1,004)**	**(15,277)**	**(13,824)**	**(30,105)**
Net book value at 31 March 2015		**189**	**11,280**	**30,201**	**41,670**
Net book value at 31 March 2014		**424**	**14,292**	**28,777**	**43,493**

2013/14	Note	Software licences £000	Scheme software licences £000	Scheme developed software £000	Total £000
Cost or valuation					
As at 1 April 2013		1,126	26,232	35,887	63,245
Additions		205	945	4,585	5,735
Revaluation	a	(72)	(2,179)	(2,933)	(5,184)
As at 31 March 2014		**1,259**	**24,998**	**37,539**	**63,796**
Amortisation					
As at 1 April 2013		(589)	(7,150)	(5,293)	(13,032)
Charged in period		(288)	(4,061)	(3,833)	(8,182)
Revaluation	a	42	507	364	913
Reclassification	7	–	(2)	–	(2)
As at 31 March 2014		**(835)**	**(10,706)**	**(8,762)**	**(20,303)**
Net book value at 31 March 2014		**424**	**14,292**	**28,777**	**43,493**
Net book value at 31 March 2013		**537**	**19,082**	**30,594**	**50,213**

a. Intangible assets were revalued to fair value by applying an appropriate ONS index. The revaluation and devaluation gain/charge reflects movements in the index since the date the licences were purchased or the software development recognised as an intangible asset.

The largest intangible asset on the NEST Corporation Statement of Financial Position relates to internally developed software by TCS to support the launch of the NEST scheme. In 2014/15 three tranches of developed software were added £1.1m; £2.4m and £3.0m, giving a total value of this asset of £44.0m, with accumulated amortisation of £13.8m as at 31 March 2015. The remaining amortisation period of these assets is 63 months.

Within the software licences associated with NEST scheme are items of relatively high value. These include BaNCS (bespoke transactional management software) net book value £3.9m, Oracle software database (net book value £1.1m) and Oracle UAT environment software (net book value £0.5m) as at 31 March 2015. The remaining amortisation periods of these assets are 63, 34 and 15 months respectively.

The non-current intangible assets were revalued at 31 March 2015 which resulted in an increased revaluation of £0.6m of carrying value and an accumulated amortisation adjustment of £0.5m. The net revaluation of £0.2m was recognised as an increase to the revaluation reserve brought forward, leaving a closing balance at 31 March 2015 of £1.0m.

9 Prepayments, trade and other receivables, and other current assets

	31 March 2015 £000	31 March 2014 £000
a) Amounts falling due over one year		
Advance payments to TCS	2,202	2,202
Prepayments in respect of asset refresh	10,157	6,863
Prepayments > 1 year	5	6
	12,364	**9,071**
b) Amounts falling due within one year		
Advance payments to TCS	–	8,428
Accrued income public sector obligation offset payment	5,760	4,574
Accrued income for non-chargeable costs	195	281
Other prepayments and accrued income	1,179	1,519
	7,134	**14,802**
c) Other current assets		
Staff loans	69	69
Other receivables	–	8
	69	**77**
Total	**19,567**	**23,950**

A total of £12.4m of prepayments (2013/14: £17.5m) relate to assets expected to be used in scheme administration services. £0m (2013/14: £8.4m) of these prepayments relate to assets that are expected to be available for use within one year after 31 March 2015 and £12.4m (2013/14: £9.1m) relate to assets expected to be available for use beyond one year.

Of the £12.4m (2013/14: £17.5m) of scheme administration prepayments, £2.2m (2013/14: £10.6m) are advance payments related to the setting up of the scheme and £10.2m (2013/14: £6.9m) are amounts deducted from service charges to fund future asset replacement in 2016/17, which are being held within prepayments until asset replacement has taken place. The only intra government receivables at year-end were in respect of the public sector obligation offset payment of £5.8m (2013/14: £4.6m) and non-chargeable costs of £0.2m (2013/14: £0.3m).

10 Cash and cash equivalents

	31 March 2015 £000	31 March 2014 £000
Opening balance	7,251	17,763
Net change in cash balances	3,033	(10,512)
Balance at end of year	**10,284**	**7,251**
The following balances were held with the Government Banking Service	**10,284**	**7,251**

11 Current liabilities

	31 March 2015 £000	31 March 2014 £000
a) Trade and other payables		
Trade payables	875	2,536
Accruals	14,776	15,900
	15,651	**18,436**
b) Other liabilities		
Other taxation and social security	544	636
Pensions costs	139	138
Imputed finance lease element of TCS assets	1,634	12,216
	2,317	**12,990**
Total	**17,968**	**31,426**

12 Non-current liabilities

	31 March 2015 £000	31 March 2014 £000
DWP Loan	387,147	299,317
Imputed finance lease element of TCS assets	9,879	7,809
Total	**397,026**	**307,126**

Loan funding from the DWP is provided to meet the scheme implementation and running costs and will subsequently be repaid from charges levied on scheme members. The interest rate on each loan drawdown is determined by the interest rate prevailing at the time of taking out the loan. At 31 March 2015, the weighted average interest rate on loan funding was 3 per cent (31 March 2014: 3.12 per cent) (see note 6). Interest on loans is payable in April and October each year. The loan principals fall due for settlement on a series of repayment dates commencing 21 October 2020.

An imputed finance lease of £11.5m (2013/14: £20.0m) has been recognised, reflecting the difference between £84.1m (2013/14: £73.7m) in scheme administration assets initially

recognised (adjusted for User Acceptance Testing environment assets and revaluation) and £68.8m (2013/14: £51.2m) in payments made to TCS up to 31 March 2015 in relation to those assets, less £6.0m (2013/14: £4.4m) offset against monthly service charges plus £2.2m (2013/14: £1.9m) of finance credit charge on the lease liability since the assets were recognised.

a) Liabilities: analysis by amounts owing to central government

The following table identifies balances with other types of public sector organisations included within liabilities:

	31 March 2015 £000	31 March 2014 £000
Current Liabilities:		
Balances with other central government bodies:	11,033	9,019
Amounts owing to bodies external to government	6,935	22,407
Sub Total:	17,968	31,426
Non-Current Liabilities:		
Balances with other central government bodies:	387,147	299,317
Amounts owing to bodies external to government	9,879	7,809
Sub Total:	397,026	307,126
Total	**414,994**	**338,552**

Within the balance owing to other central government bodies is £387m loan funding (2013/14: £299m) owing to the DWP and £0.5m (2013/14: £0.6m) owing to HM Revenue and Customs for employment-related tax and social security costs.

13 Provisions for liabilities and charges

	Note	31 March 2015 £000	31 March 2014 £000
Balance at 1 April		877	781
Provided in the year	3	206	77
Utilised in the year (see note below)		(275)	–
Released in the year	3	(525)	–
Unwinding of discount	3	–	19
Balance as at 31 March		**283**	**877**
Classified as:			
Amounts falling due within one year		–	800
Amounts falling due over one year		283	77
		283	**877**

The provision of £283k relates to property repairing liabilities for Riverside House, the lease of which expires in 2022/23 with a right to break the lease in 2018/19.

NEST Corporation had provided for £800k for property repairing liabilities of one of its offices, St Dunstan's House, the lease of which terminated in December 2013. A settlement of £275k was reached in July 2014.

14 Capital and other financial commitments

a) Capital and other financial commitments

	31 March 2015 £000	31 March 2014 £000
Contracted capital commitments at 31 March not otherwise included in these financial statements	1,508	1,026
Balance as at 31 March 2015	**1,508**	**1,026**

In 2013/14 NEST Corporation signed a five year contract for banking services.

The contract with TCS for the provision of scheme administration services has been recognised as a service concession arrangement and the commitments involved are shown below.

b) Commitments under service concession arrangements reflected in the Statement of Financial Position

NEST Corporation has a contract with TCS for scheme administration which has been assessed under IFRIC 12 and recognised as a service concession. As a result, assets used for the contract have been recognised as non-current assets in the Statement of Financial Position (SOFP) and the liability to pay for these assets has been accounted for as a finance lease. The commitments analysed below reflect advance payments towards milestones, investment decision point's service charges and the imputed interest element.

Total obligations under service concession arrangements reflected in the SoFP for the following periods comprise:	31 March 2015 £000	31 March 2014 £000
Not later than one year	35,059	40,162
Later than one year and not later than five years	240,222	205,686
Later than five years	19,896	94,511
Total	**295,177**	**340,359**
Less interest element	(28,835)	(40,031)
Present value of obligations	**266,342**	**300,328**

Present value of obligations under service concession arrangements reflected in the SOFP for the following periods comprise:	31 March 2015 £000	31 March 2014 £000
Not later than one year	34,038	38,948
Later than one year and not later than five years	215,638	183,316
Later than five years	16,666	78,064
Total present value of obligations	**266,342**	**300,328**

c) Charge to the Statement of Comprehensive Net Expenditure and future commitments

The total amount charged to the Statement of Comprehensive Net Expenditure in 2014/15 in respect of the service element of this service concession was £32.4m (2013/14: £23.0m) and the payments to which NEST Corporation is committed (subject to the conditions of the contract, particularly volume levels) is as follows:

	31 March 2015 £000	31 March 2014 £000
Not later than one year	16,892	27,703
Later than one year and not later than five years	181,365	153,969
Later than five years	16,805	79,997
Total	**215,062**	**261,669**

15 Commitments under leases

Operating leases

	31 March 2015 £000	31 March 2014 £000
Future minimum lease payments comprise:		
Buildings:		
Within one year	2,857	2,803
Between one year and five years	7,188	9,842
	10,045	**12,645**

The future minimum lease payments represent a lease for NEST Corporation's offices at Riverside House. The building is occupied under a memorandum of terms of occupation with the DWP (the prime contract being between the Secretary of State for Work and Pensions and Telereal Trillium). Rent includes a property charge and facilities management charge which are fixed in the lease, based on normal market rates. The agreement imposes no restrictions on NEST Corporation on how it conducts its business. The prescribed term concludes in September 2022 and there is a break clause in September 2018; there is no renewal clause.

16 Financial instruments

	Note	31 March 2015 £000	31 March 2014 £000
Financial Assets			
Cash and cash equivalents	10	10,284	7,251
Staff loans	9	69	69
Total		**10,353**	**7,320**
The above figures exclude statutory receivables and prepayments and imputed finance lease elements.			
Financial liabilities			
Trade payables	11	875	2,536
Accruals	11	14,776	15,900
Total		**15,651**	**18,436**

The above figures exclude statutory payables and imputed finance lease elements.

It is, and has been, NEST Corporation's policy that no trading in financial instruments is undertaken, nor are they held to change risk.

NEST Corporation has no exposure to foreign currency risk at the period-end date (2013/14: nil).

The book value of NEST Corporation's financial assets and liabilities as at 31 March 2015 and 31 March 2014 are not materially different from their fair values.

17 Contingent liabilities disclosed under IAS 37

There are no contingent liabilities to disclose.

18 Losses and special payments

	Year ended 31 March 2015 £000	Cases	Year ended 31 March 2014 £000	Cases
Losses:				
(Recovery of) cash loss – mandate fraud	–	–	(302)	1
	-		**(302)**	

In 2012/13, we reported there had been an incident of mandate fraud resulting in a loss of £1.4m. NEST have made appropriate attempts to reduce the loss and received £0.3m in May 2014.

19 Related-party transactions

NEST Corporation is an NDPB accountable to the Secretary of State for Work and Pensions and is classified as a public corporation. The DWP is NEST Corporation's sponsoring department and the two bodies are regarded as related parties. During the year, NEST Corporation had a number of material transactions with the DWP. These are detailed in the table below:

	Note	£000	Year ended 31 March 2015 £000	£000	Year ended 31 March 2014 £000
		Income and financing	Expenditure	Income and financing	Expenditure
Loan funding and repayment	12	87,830	–	60,000	–
Loan interest	6	–	21,748	–	17,145
Other transactions	4	12,685	2,968	10,245	1,306
Total		**100,515**	**24,716**	**70,245**	**18,451**

At 31 March 2015, excluding the liability to repay the loan which does not come into effect for more than 12 months, NEST Corporation had £10.5m outstanding liability with the DWP (2013/14: £8.1m).

This relationship with the DWP includes provision to NEST Corporation of:

a) grant income and loan funding

b) secondees

c) public service obligation offset payments; and

d) property operating lease.

In addition, NEST Corporation has had a small number of relatively low-value transactions with other government departments and other central government bodies.

During the year NEST Corporation received income from the NEST Pension Scheme of £5.8m (2013/14: £1.9m), see note 5 for details.

NEST Corporation is a participating employer in the scheme. Contributions of £846k (2013/14: £817k) were payable by NEST Corporation to the scheme during the year.

No board members, senior managers or other related parties have undertaken any material transactions with NEST Corporation during the year.

20 Late payment of commercial debt

The Late Payment of Commercial Debts (Interest) Act 1998, which came into effect on 1 November 1998, and the Late Payment of Commercial Debts Regulations 2002, which came into effect on 7 August 2003, provides all businesses and public sector bodies with, amongst other entitlements, the right to claim interest for late payment.

During the period to 31 March 2015, NEST Corporation incurred £0 interest charges under the Late Payment of Commercial Debts (Interest) Act 1998 (2013/14: £1,841).

21 Cashflow analysis

	Note	Year ended 31 March 2015 £000	Year ended 31 March 2014 £000
Non-cash items			
Depreciation and amortisation	3	13,517	11,544
Creation of lease incentive reserve		–	356
Release of reserve	3	(72)	(42)
Loss on disposal of assets	3	14	29
Prepayments for asset refresh	9	(3,294)	(3,206)
Offset for finance lease liability		(1,603)	(1,489)
Finance credit charge		339	583
Total non-cash items		**8,901**	**7,775**
Purchase of property, plant and equipment and intangible assets			
Purchase of software licences	8	(13)	(205)
Purchase of fixtures and fittings	7	(20)	(240)
Purchase of IT	7	(40)	(1,354)
Total purchase of property, plant and equipment and of intangible assets		**(73)**	**(1,799)**
Advance payments			
Total advance payments made in the year		**(9,254)**	**(9,097)**

22 Political and charitable donations

NEST Corporation made no political or charitable donations in the year.

23 Events after the reporting period

IAS 10 Events After the Reporting Period requires NEST Corporation to disclose the date on which the financial statements are authorised for issue. This is the date of the certificate and report of the Comptroller and Auditor General.

The accounting officer authorised these financial statements for issue on 2 July 2015.

Appendices

Appendix one

Direction in relation to the Annual Report and Accounts of the National Employment Savings Trust Corporation

Given by the Secretary of State for Work and Pensions, Under Schedule 1 to the Pensions Act 2008.

1. In exercise of the powers conferred by paragraphs 17(2)(b) and 20(2) of Schedule 1 to the Pensions Act 2008 (c.30), the Secretary of State hereby directs the National Employment Savings Trust Corporation (NEST Corporation), as follows:

2. NEST Corporation shall prepare accounts for the 12 month Year ended 31 March 2012, and subsequent financial years, in compliance with the accounting principles and disclosure requirements of the edition of the *Government Financial Reporting Manual* issued by HM Treasury ("the *FReM*") which is in force for the financial year for which the accounts are being prepared.

3. These accounts shall be prepared so as to:

   a. give a true and fair view of the state of affairs of NEST Corporation at 31 March 2012 and subsequent financial year-ends, and of the income and expenditure, changes in taxpayers' equity and cash flows for the financial year then ended; and

   b. provide disclosure of any material expenditure or income that has not been applied to the purposes intended by Parliament or material transactions that have not conformed to the authorities which govern them.

4. Compliance with the requirements of the *FReM* will, in all but exceptional circumstances, be necessary for the accounts to give a true and fair view. If, in these exceptional circumstances, compliance with the requirements of the *FReM* is inconsistent with the requirement to give a true and fair view, the requirements of the *FReM* should be departed from only to the extent necessary to give a true and fair view. In such cases, informed and unbiased judgement should be used to devise an appropriate alternative treatment which should be consistent with both the economic characteristics of the circumstances concerned and the spirit of the *FReM*. Any material departure from the *FReM* should be agreed with the Department for Work and Pensions and HM Treasury.

5. NEST Corporation must disclose in its accounts:
   a. the loan from the DWP and any other loans for which NEST Corporation is responsible for and on behalf of NEST, together with interest charges related to those loans;
   b. contracts for scheme services (e.g. scheme administration) entered into for and on behalf of NEST; and
   c. receipt of deductions made from members' accounts to contribute to the general costs of the setting up, administration and management of NEST.
6. NEST Corporation's accounts will not consolidate the accounts of NEST (the Pension Scheme).
7. In its Annual Report, referred to in paragraph 17 of Schedule 1 to the Pensions Act 2008, NEST Corporation is to include the report on NEST Corporation's proceedings during the year.
8. In accordance with paragraph 20 of Schedule 1 to the Pensions Act 2008, NEST Corporation is to prepare an annual statement of accounts for NEST Corporation. The accounts will include the certificate and report of the Comptroller and Auditor General on the NEST Corporation Accounts.
9. NEST Corporation came into force on 5 July 2010, and simultaneously its predecessor body (The Personal Accounts Delivery Authority – PADA) was wound up. For the financial year 1 April 2010 to 31 March 2011 only, the Annual Report and Accounts, referred to in paragraphs 7 and 8 above, will cover the full financial year, incorporating the period relating to PADA. The financial statements will also clearly show a separate wind-up account for PADA for the period 1 April 2010 to 4 July 2010. However, there is no need to prepare a separate SIC or management commentary as these items can be included in the overall accounts and report for NEST Corporation.
10. This Direction revokes and supersedes the Accounts Direction issued to PADA on 29 April 2009.
11. This Direction is signed by the authority of the Secretary of State for Work and Pensions.

Jos Joures

3 March 2011

Appendix two
Delivering sustainable value for members – NEST Corporation's corporate responsibility

Appendix 2 is an appendix of the annual report. It does not form part of the financial statements and is not subject to audit.

NEST's Corporate Responsibility statement, can be found on our website at **nestpensions.org.uk/library**

In this appendix we outline the key achievements in 2014/15 against each area of our statement.

Investment

As the Trustee of NEST, NEST Corporation's corporate responsibility objectives go hand in hand with our investment beliefs.

NEST's prime purpose is to deliver a retirement income to our members by investing their savings in ways that both encourage and capture the benefits of sustainable economic growth. NEST members depend on a healthy economy to provide them with work and wages during their working lives and a pension income in retirement.

NEST Corporation invests responsibly in ways designed to achieve good returns and consistent outcomes that are in line with the needs and attitudes of our members. We seek to be among the best in the industry in our approach to investment practices.

NEST Corporation continues to think through its approach from first principles and by aligning the interests of our suppliers and stakeholders with our members. We only enter into arrangements based on fair commercial value for suppliers. We wish to build sustainable and equitable partnerships. We're not afraid of rejecting the conventional wisdom or the status quo. We may question or reject conventional wisdom or the status quo if an alternative better aligns with our objectives.

We're a universal and long–term asset owner. It's therefore in our members' interest for NEST Corporation to support sustainable corporate growth, efficient markets and long-term thinking.

NEST Corporation is committed to investing in a way that aims to enhance long-term value and reduces investment risk. We believe, and the evidence supports this belief, that responsible, well-run companies and projects offer better long-term value to investors. Environmental, social and governance (ESG) factors are therefore essential to building and managing our investment portfolios.

NEST Corporation's formal *Investment Beliefs* and *Statement of Investment Principles* commits us to manage the scheme's assets responsibly. It has been prepared in accordance with all relevant legislative and best-practice guidelines. It outlines the principles and policies governing investment

decisions made by or on behalf of NEST Corporation for the management of NEST's assets. It will be reviewed by NEST Corporation every year and without delay after any significant change in the investment approach.

Values and behaviours

NEST Corporation remains committed to continuing the development of NEST's culture. We've worked hard to understand staff engagement and how we can improve as an employer and to continue to make sure that NEST Corporation has the right culture and levels of staff engagement to achieve this. Our strategic priority remains building an organisation which is culturally fit for the challenge of delivering the NEST scheme.

Governance

NEST Corporation has continued to oversee the running of the NEST scheme and its capacity to develop the employer and member propositions while assisting growing volumes of employers and members to join the scheme. Two strategy days have been held to ensure alignment on strategic objectives for the development of the NEST scheme.

People

We conducted our last staff survey in January 2015, and with a response rate of 80 per cent we feel confident that we can make a fair comparison with the previous results from July 2014. The engagement index from this survey is 44 per cent, which is 3 per cent below the UK average (according to benchmarking data from Aon Hewitt).

We were pleased to see that there have been significant increases in almost a third (10 out of 34) measures. More colleagues felt that communication between teams was more effective than previously; that leadership team members were visible; that our benefits offering was good; and that they were respected and treated fairly at work. We're also happy to see that people still feel strongly about the purpose and values of NEST.

The results are being taken very seriously by all senior leaders in NEST Corporation and we're committed to building on these positives, and in addressing the areas that need work. We've identified further challenges where we need to invest more effort to make improvements:

- the extent to which policies and procedures facilitate peoples' work
- our approach to managing change
- enabling peoples' skills to be used to the full
- creating a culture where people feel it's safe to challenge the way things are done.

In June 2014 we were assessed against the Investors in People core standard and met 22 of the 37 indicators (60 per cent). We're currently implementing a series of recommendations and improvements.

This year NEST Corporation continued to meet the requirements for the London Living Wage accreditation. While those who work directly for NEST Corporation already receive wages in excess of the London Living Wage, our accreditation means that the people who service our building will be paid the London Living Wage. Our contractors Telereal Trillion and Cofely met their commitment to pay their staff the London Living Wage from April 2014 and are committed to paying the £9.15 per hour by May 2015 in order to maintain our accreditation.

NEST Corporation has also renewed its Pension Quality Mark (PQM) Plus status, in line with our commitment to ensuring our

staff are remunerated fairly and receive high quality pension provision. We've supported our staff's development with a deep commitment to learning and development. In line with CIPD practice we've made 2 per cent of pay bill available to support staff training in 2014/15.

The average amount of time lost to sickness per employee in 2014/15 was 3.76 days compared to 2.5 in 2013/14.

We continue to maintain an annual review cycle of our internal policies to ensure they remain 'fit for purpose' and support our people in 'doing the right thing'. NEST Corporation is an equal opportunity employer and is committed to a policy of treating all of its employees and job applicants equally. As part of this, NEST Corporation reviews data on the diversity of its workforce, as well as the effect of pay and other decisions on NEST staff. NEST Corporation also carried out a 'deep dive' paper on equality and diversity and will continue to carry out this analysis on an annual basis in order to continuously improve our approach.

The following table shows the total number and gender breakdown of the Trustee Members, executive team and all other staff at NEST.

This year we've continued and developed our programme of customer experience research, via our *Voice of the customer* programme. Our members remain generally satisfied with NEST. As we reported last year, this comes as much from them being positive about their enrolment in a workplace scheme in general as it does from their direct experience of NEST. We've also found that early engagement has a positive impact. Research with newly enrolled NEST members shows that those who have logged in to their online account feel more informed generally and are more positive on a number of different dimensions that those who have not.

Employers

Through the same research programme we've been measuring our employer's perception of their experience with NEST. Overall satisfaction levels are high, both from established employers and the newly enrolled. There are good levels of customer satisfaction with the various stages of the customer experience, from set up through to making first contributions and then ongoing administration.

NEST members

As at 31 March 2015	Male	Female	Total
Trustee Members	7	4	11
Executive Team	6	3	9
All other staff	118	110	228
Total	**131**	**117**	**248**

Environment

NEST Corporation's sustainability reporting aims to conform to the *Greening Government* commitments.

NEST Corporation is located at Riverside House, a modern multi-tenanted building in central London. The building management has control of energy usage for example through:

- an onsite technical manager with responsibility for energy management and reduction
- ensuring that the building management system is running efficiently and correctly with monthly meetings held to review energy management progress
- use of energy meters on the large pieces of equipment to monitor usage
- an energy policy designed to guide energy related decision making and to support an effective energy management strategy
- use of motion activated low energy LED lighting.

As part of the multi-tenant arrangement, each tenant is not provided with accurate energy usage data which means the level of detail we reported on scope 2 emissions for the end of the last financial year (2013/2014) was reduced. We've worked with our landlord, Ofcom to manage our environmental impact and improve the environmental reporting systems, and this is an ongoing process.

NEST Corporation occupies 21 per cent of the building so our data is taken as that percentage of the overall data to provide an indicative indicator of our environmental impact and costs. As tenants we'll continue to work with Ofcom to develop any future sustainability plans for the building.

NEST Corporation's travel data is accurate as the data is captured directly from expense claims and/or contract costs/reporting.

Overview of performance

Summary of 2014/15 year performance

Area	Actual performance	Nomalising data (per FTE)
Average annual full-time equivalent staffing figure: 256[1]		
Estate energy and emissions		
GHG emissions from offices	351.3 tonnes CO_2e	1.37 tonnes CO_2e
Total building energy consumption	843,932 kWh	3,297 kWh
Total energy expenditure	£92,253	£372
Travel emissions[2]		
CO_2e emissions from business travel	375.7 tonnes CO_2e	1.47 tonnes CO_2e
Total expenditure on business travel	£309,843	£1,210
Waste		
Total waste produced	22.6 tonnes	0.09 tonnes
Total recycled/reused	10.7 tonnes	0.04 tonnes
Total incinerated	11.9 tonnes	0.05 tonnes
Total to landfill	Nil	Nil
Total waste expenditure	Unknown	Unknown
Paper		
Total paper usage	6.8 tonnes CO_2e	0.03 tonnes CO_2e
Total paper expenditure	£3,157	£12.33
Water		
Total water consumption	2,763 m^3	10.8 m^3
Total water expenditure	£11,130	£43.48

1 This figure includes employees, interims, secondees and consultants.

2 Does not include bus/metro/tube/tram for official business travel as data collection and robust estimate not currently possible.

Greenhouse gas emissions

The data for the scope 1 and 2 emissions for 2014/15 are taken as a percentage of the overall data for the building as a whole, based on our 21 per cent occupancy to provide us with an indication of performance and costs.

The travel data for 2013/14 has been updated with the end of year reconciliation of late submission of expense claims. The scope 3 data is captured directly from expense claims and/or contract costs/reporting.

The quantity of paper purchased was a new reporting requirement introduced in the 2013-14 sustainability reporting guidance. We've only reported on paper purchased directly through our stationery suppliers.

Greenhouse gas emissions		2012/13[3]	2013/14[4]	2014/15
Non-financial indicators (tonnes CO_2e)	**Scope 1 – Gas**			
	Gas	16.1	50.8	39.3
	Total scope 1	**16.1**	**50.8**	**39.3**
	Scope 2 – Electricity			
	Electricity: brown	175.6	259.4	234
	Electricity: green	23.4	34.6	31.2
	Electricity: CHP	35.1	51.9	46.8
	Total scope 2	**234.1**	**345.9**	**312**
	Scope 3 – Business travel			
	Private vehicle	5.3	12.4	5.8
	Car hire	15.2	21.8	7.0
	Taxis[5]	1.0	2.4	0.9
	Air	33.3	114	246
	Rail	18.9	30.2	16.0
	Total scope 3	**73.7**	**180.8**	**275.7**
	Total emissions	**323.9**	**577.5**	**652.6**
	Scope 3 – Paper			
	Paper	7.4	5.5	6.8

3 Some 2011/12 figures have been restated due to year end reconciliation.

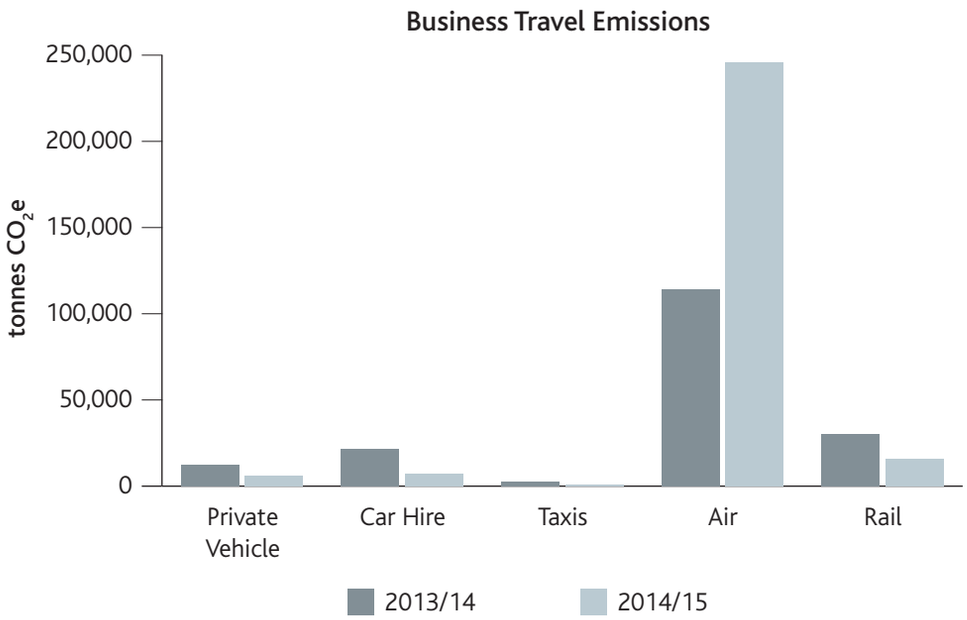
4 Some 2013/14 figures have been restated due to year end reconciliation.

5 Assumption that 50 per cent black cab, 50 per cent regular taxi.

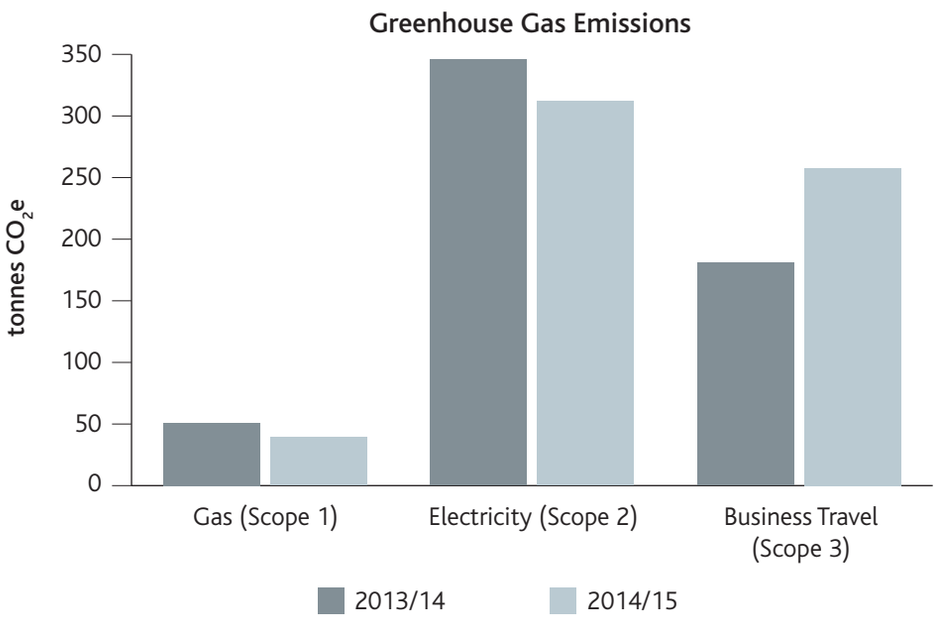
Greenhouse gas emissions		2012/13[3]	2013/14[4]	2014/15
Related energy consumption (kWh)	**Scope 1 – Gas**			
	Gas	87,019	274,369	212,690
	Scope 2 – Electricity			
	Electricity: brown	337,423	498,505	473,431
	Electricity: green	44,990	66,467	63,124
	Electricity: CHP	67,485	99,701	94,686
	Total electricity	**449,898**	**664,674**	**631,242**
Financial indicators (£)	**Scope 1 and 2 – Gas and electricity**			
	Gas	5,558	12,095	8,649
	Electricity: brown	39,916	62,874	64,953
	Electricity: green	5,322	8,383	8,660
	Electricity: CHP	7,983	12,575	12,991
	Scope 3 – Business travel			
	Private vehicle	7,627	20,756	8,077
	Car hire	33,996	11,004	4,400
	Taxis	8,902	8,851	6,136
	Air	36,711	151,057	185,615
	Rail	95,339	185,677	105,615
	Scope 3 – Paper			
	Paper	4,736	3,648	3,157
Volume of paper in reams	**Scope 3 – Paper**			
	A4	1,885	1,490	1,230
	A3	60	0	30

3 Some 2011/12 have been restated due to year end reconciliation.

4 Some 2013/14 figures have been restated due to year end reconciliation.



The largest emissions increase for 2014/15 has been with our business travel. TCS are our scheme administrator and, as one of our main service providers, travel between our premises and their premises in India is essential. Further development of the organisation has allowed us to cease all long term car hire, reducing our emissions.



GHG performance commentary including target

NEST Corporation relocated to Riverside House at the end of 2013 with a short period of dual running between two buildings. Preparation for the move and the move itself necessitated working at weekends which accounts for some of the higher scope 1 and 2 figures for 2013/14. NEST Corporation are now located in a well maintained energy efficient building which has shown a reduction in our gas and electricity CO2e use, and we'll continue to work with the landlord's on energy and waste initiatives. As we don't have any direct influence on building management we feel that a scope 1 and 2 emissions reduction target is currently unachievable.

NEST Corporation has seen a steady reduction in paper consumption each year (22 per cent and 13 per cent) and we'll continue to look at initiatives to reduce this further.

Use of finite resources

Water consumption (scope 2)		2012/13	2013/14	2014/15
Non-financial indicators (m^3)	Water consumption	2,121	2,608	3,187
Financial indicators (£)	Total water costs	4,840	5,676	6,468

Performance commentary

GGC states that typical usage for an organisation of our size and structure is 4-6m^3 per person. Our current usage is 10.8m^3 per person. This amount is an approximation as the building landlord has supplied us with the totals consumption and costs for the whole building, and we've used 21 per cent of those totals for the amount of space we occupy.

Waste management

Waste		2012/13	2013/14	2014/15
Non-financial indicators (tonnes)	Waste to landfill	0	0	0
	Waste recycled/ reused	5.7	13.9	10.7
	Waste incinerated[6]	7.1	15.0	11.9
	Total waste	12.8	28.9	22.6
Financial indicators (£)	Total waste costs[7]	4,373	6,980	0

6 Waste is incinerated by waste contractor with energy recovery.

7 Financial data for individual waste categories is not currently available.

Performance commentary

At NEST Corporation we've the ability to recycle all of our waste streams and we've a one waste bin system to aid the recycling rates. Non-recyclable waste is incinerated for energy recovery.

The amount for waste recycled/reused is an approximation based on our 21 per cent occupancy. Waste costs are not available as it is included within the overall building service charge.

There was a large increase in the amount of our total waste in 2013/14 due to the preparation for a move to new premises. The amount of total waste in 2014/15 is stable when compared to the more accurate comparison of the 2012/13 figures which provides a good indication that the one bin recycling system has improved recycling rates and that staff are showing commitment to improving our environmental footprint.

Role in the community

NEST Corporation supports its staff and enables them to take up to four volunteering days each year. This has seen our staff support a range of projects and organisations in the local community.

NEST Corporation also encourages employees to play a full part in our community. NEST Corporation has supported a number of charitable initiatives over the course of the year and raised money for selected charities through staff organised events, including Age International, Food Bank Collection, Save the Children, Wear it Pink and Breast Cancer Care.

NEST Corporation recently completed the Business in the Community's 'Responsible Business Check Up' which is a benchmarking and gap analysis exercise to identify where there may be gaps in the our corporate responsibility approach. NEST scored relatively well with an overall score for the assessment of 66 per cent placing us in the second quintile of all participants, compared with an average score of 51 per cent achieved by the other financial services organisations and 47 per cent for organisations with fewer than 250 employees, who we were benchmarked against.

The assessment identified that NEST Corporation provides value to its members and has designed a product and service which meets the needs of a large, diverse population of employers and savers, many of whom are completely new to pensions. NEST Corporation scored very highly in this area achieving 100 per cent compared to other financial organisations where the score was 62 per cent.

NEST Corporation also scored well for the community performance indicator with an overall score of 79 per cent compared to 57 per cent for other financial organisations which highlights how well we inspire and engage our employees to understand our social purpose as well as how we work with our customers to collect and evaluate their feedback to improve our product and service.