NATIONAL
EMPLOYMENT
SAVINGS TRUST

National Employment Savings Trust Annual report and accounts 2011/12

National Employment Savings Trust Corporation

Annual report and accounts 2011/12

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01 Chair's statement

This is the second annual report and accounts for NEST Corporation and the first year for the Trust Accounts for our members' savings. In this statement I would like to highlight the main achievements during the year and comment on some of the risks and challenges NEST has faced.

Far and away the most significant achievement was admitting our first members from a small number of volunteer employers. These employers were seeking a new pension scheme in advance of their new legal duties as part of the workplace pension reforms starting in 2012. Employers and their staff were able to use NEST to provide them with a low-cost pension scheme offering good governance, plain language communications, and an investment approach specifically designed for its members.

For NEST this has been a chance to further improve its new systems and business operations while volumes are still low. We have learned a great deal from our engagement with our customers in this period. We have progressively accepted more members into the scheme and by 31 March 2012, the end of our financial year, had around 100 employers registered, with over 800 members and net assets of around £500,000. We are working with over 200 employers in total, who vary in size from the very small to the very large.

Clearly we would not have been in a position to accept members if our business operations had not already been developed and tested. For this I would like to thank our partners Tata Consultancy Services (TCS) for their excellent work in building and operating the scheme administration services. At NEST's contact centre in Peterborough, the other Trustee Members and I have seen firsthand TCS's commitment to excellent customer service.

Our stakeholders and members expect NEST to demonstrate exemplary corporate governance and we have built in best practice for long-term governance from the start. During the year the Secretary of State appointed four new members of our corporate trustee board. We established NEST Corporation's advisory panels, appointing ten members to our Employer Panel, and six members to our Member Panel under the chairmanship of Paul Jagger MBE and Museji Takolia CBE respectively.

On diversity, the corporate trustee board already demonstrates the gender balance of at least 25 per cent female representation which Lord Davies proposed in his report *Women on Boards* as a goal for large corporations by 2015. We have formally reviewed the powers reserved for the corporate trustee board and each of its committees, and the schedule of delegations to the chief executive (CE). In addition we have, with help of an external consultant, reviewed the effectiveness of the board. In terms of investment governance, we have formally signed up to the Financial Reporting Council's (FRC) Stewardship Code and become a member of UK Sustainable Investment and Finance (UKSIF), and a signatory to the United Nations backed Principles for Responsible Investments (UNPRI).

I would like to pay tribute to the dedication and enthusiasm of all NEST staff, who have worked diligently on developing, supporting and operating our service to members. It has been a tough year, with staff turnover above both industry norms and the Trustee's risk appetite. We are looking at ways of tackling this, including consulting with DWP on how this can be addressed for the future. Turnover at these levels has added to the challenge faced by our CE, Tim Jones, and his executive team.

With regard to our current and prospective governing regulations, the government has decided in light of current economic circumstances to delay the enrolment dates of smaller employers to give them more time to prepare. This increases interest costs for members and will result in smaller pension pots for those future members impacted by the delay. The Work and Pensions Select Committee recommended in its recent report that the current restrictions placed on NEST should be lifted urgently if state aid rules allow; we do not regard the restrictions as being in our members' interests. We have submitted a response to DWP's consultation on small pension pots. In Europe, we also responded to the European Insurance and Occupations Pensions Authority (EIOPA's) consultation on the revision of the Institutions for Occupational Retirements Provision (IORP) directive. Here we support their direction on good governance and member communications but express caution on establishing reserves, which may direct our members' contributions away from providing their pensions.

We are pleased to have received notifications from a number of employers with their duty dates in the year 2012/13 of their intention to use NEST for some of their workers. Our policy is that it is for each employer to decide if and when they want to make public their use of NEST. It is in everyone's interest that automatic enrolment starts smoothly and we are working with the employers to that end. We expect to make some joint announcements later in 2012.

We are delighted to be working in partnership with many of the insurance companies involved in occupational pensions. Our joint aim is to ensure that each worker gets the pension scheme which is right for them – be it NEST or another workplace pension scheme.

The coming year promises to be a watershed year, with the start of automatic enrolment and the rapid build up of member numbers as the largest employers come on stream. Meanwhile the economy is struggling to pick up growth momentum, and investment markets remain challenged and volatile. What is beyond doubt however is that making and maintaining contributions to a pension plan is an excellent way of securing an income in retirement.

Lawrence Churchill

Lawrence Churchill CBE
Chair
NEST Corporation

5 July 2012

02 Trustee Members' report

About NEST Corporation

NEST Corporation is the trustee corporation that was established on 5 July 2010 as a successor organisation to the Personal Accounts Delivery Authority (PADA). Its role is to develop and operate the NEST pension scheme. NEST Corporation is also a non-departmental public body sponsored by the Department for Work and Pensions (DWP) as a key component of the Enabling Retirement Savings Programme (ERSP). Its working relationship with the Department is set out in a Framework Document and in a Memorandum of Understanding agreed between both parties on 11 November 2010 and 19 April 2011 respectively. The function of NEST Corporation is to act as the Trustee of NEST, ensuring that the scheme is run in the interests of its members.

Key priorities

2011/12 has been a very important year for the development of NEST, as it is the year we launched the scheme. This has been a year of firsts. We have accepted our first employers, enrolled our first members, and invested our first contributions.

We have taken the opportunity of launching the scheme substantially in advance of the start of employer duties to learn from the experience of our volunteer employers. This has provided an opportunity for us to further improve our systems and our operations in advance of the onset of employer duties. We have made changes to the design of the scheme to reflect the changes made by Parliament through the Pensions Act 2011. This will help ensure the scheme is ready for the largest employers to meet their duties in October 2012.

Beyond the launch and testing of the scheme, we have delivered a number of other important projects such as signing up to the United Nations-backed Principles for Responsible Investment (UNPRI) and updating our guide to simplifying the language of pensions, *The NEST Phrasebook*.

Looking ahead

The next year will be very important for NEST, as from the start of employer duties in October 2012 the largest employers in the country will start to enrol their workers into qualifying schemes. NEST will be ready to be used by large employers, who employ forty percent of NEST's target population of low to moderate income workers, and will build on the experience of the last year by continuing to offer a high-quality operational service to our members.

To ensure that we have a clear line-of-sight to a self-funding business model we will need to see sufficient volumes of members enrolled in NEST in 2012/13. We must also ensure that there are high levels of awareness and positive perceptions of NEST among employers whose duties fall in 2013/14.

The programme of work to address these challenges is set out in the Corporate Plan, see pages 37 to 39.

Organisation structure

NEST Corporation comprises eleven Trustee Members (consisting of a Chair and 10 other Trustee Members) whose responsibility it is to set the strategic direction and objectives for NEST Corporation.

The appointments of the Chair and the initial seven Trustee Members were made by the Secretary of State for Work and Pensions. Although those appointments did not come within the remit of the Commissioner for Public Appointments, they were made using a process which took into account the Commissioner's Code of Practice.

During the year, four Trustee Members were appointed by the Secretary of State bringing the number to eleven. The recruitment activity ensured that the appropriate breadth of knowledge and skills is maintained.

All our Trustee Members have completed or are working towards the Pensions Regulator's (TPR) Trustee Toolkit certification. They are responsible for their own continuous professional development (CPD) and are assisted in this by a series of briefings on trustee knowledge and understanding including aspects specific to NEST Corporation, such as NEST's order and rules.

The corporate trustee completed an effectiveness review during the year with the help of an external facilitator.

There are a number of sub-committees of the corporate trustee, each chaired by a Trustee Member, which focus on key aspects of monitoring and control. These are audit, risk, investment, nominations and governance, and remuneration committees. Their remits include, respectively:

- seeking assurance of the accuracy of the accounting records and processes
- overseeing the management of risk
- preparing our investment strategy and principles
- ensuring our compliance with regulatory obligations
- developing the appropriate culture and remuneration practices.

The terms of reference for the Trustee Member meetings and each of their committees are published on our website at **www.nestpensions.org.uk/terms-of-reference**

A schedule of delegations, which is reviewed annually, gives power and responsibility to the CE for the day-to-day operations and management of NEST Corporation.

Under the NEST Order 2010, Article 8, Trustee Members are required to consult members of the scheme and participating employers about the operation, development or amendment of the scheme through an Employer Panel and a Member Panel. Both panels were established in summer 2011. The panels commented on the proposed changes to the Statement of Investment Principles, provided advice on the operation of the scheme and were consulted on proposed changes to NEST's order and rules. For further information on the panels, see page 26.

Trustee Member profiles

Lawrence Churchill CBE, Chair

Chair, nominations and governance committee

Lawrence is chair of the Financial Services Compensation Scheme and a member of the board of BUPA. He is also a trustee of the International Longevity Centre, UK and a governor of the Pensions Policy Institute.

Previous appointments have been as chairman of the Pension Protection Fund, a member of the Board for Actuarial Standards, chief executive of Zurich Financial Services UK and International Life, executive chairman of UNUM and CEO of NatWest Life and Investments.

Lawrence has also served in a non-executive capacity on the boards of the Association of British Insurers, the Employers' Forum on Disability and the Financial Ombudsman Service, and has been a trustee of the Royal Society of Arts.

Iraj Amiri, Trustee Member

Iraj was a partner with Deloitte LLP for over 20 years. He led the National Internal Audit Group of Deloitte and was one of the firm's recognised experts in Internal Audit and Risk Management.

In the public sector, his clients included numerous organisations in central government, health, education and local government, and many public bodies, such as the Financial Services Compensation Scheme, The Pensions Regulator, National Savings and Investments, and the European Investment Bank. He also has extensive private sector experience at a senior level, serving such organisations as Schroders plc and The Wellcome Trust.

As well as being an FCA, Iraj is a fellow of the Royal Statistical Society and was a member of the Internal Audit Task Force of the Institute of Chartered Accountants in England and Wales for a number of years.

Tom Boardman, Trustee Member

Tom has been involved in the pensions and insurance industry with Prudential and Nationwide for more than 35 years in a wide variety of roles. Before taking up his appointment at NEST Corporation, he was director of retirement strategy and innovation at Prudential UK.

He is a fellow of the Institute of Actuaries, honorary visiting professor at the Cass Business School, a trustee of the International Longevity Centre, UK and a governor of the Pensions Policy Institute. Tom is also a life insurance senior advisor at the Financial Services Authority.

Sharon Darcy, Trustee Member

Sharon is a qualified accountant with a very strong background in the consumer movement.

She is a non-executive director of Consumer Focus and was previously on the board of energywatch, an organisation which both helped consumers deal with problems with their energy suppliers and campaigned on fuel poverty. She is also a non-executive director of the Hyde Group, a large housing association.

In the past Sharon was a consumer director of TrustMark, an organisation which promotes reputable traders in the home maintenance and repair sector, a non-executive director of Sutton and Merton Primary Care Trust and the chair of Sutton Borough Citizens Advice Bureau.

Laurie Edmans CBE, Trustee Member

Laurie is deputy chairman of MGM Assurance. This is a long-established mutual that has become a specialist annuity provider.

He is on the council of the Pensions Policy Institute and is a director of Bdifferent, a specialist financial services branding and research agency. He is chairman of the trustees of the Trinity Mirror Pension Plan and a trustee of two charities, the Quest School for Autistic Children and the Family and Parenting Institute where he is treasurer. Laurie is a non-executive director at the MAS and was until recently the chairman of SHIP, the trade association for equity release products. Before joining NEST Corporation, Laurie was a non-executive director of The Pensions Regulator, following three years on the board of its predecessor, OPRA.

Paul Hewitt, Trustee Member

Chair, audit committee

Paul is currently non-executive chairman of a number of companies including RJ Kiln, The Good Care Group and Four Times Enterprises. Paul is also non-executive director of Collins Stewart, The Co-operative Banking Group and Shop Direct Financial Services.

Paul was previously a non-executive director of NEST Corporation's predecessor the Personal Accounts Delivery Authority (PADA).

He joined the Co-operative Group in 2003 where initially he was chief financial officer before becoming acting chief executive of Co-operative Bank, CIS and Smile and later, deputy group chief executive.

In his earlier career, after qualifying as a chartered accountant, Paul worked as finance director in a number of private equity-backed and quoted companies.

Chris Hitchen, Trustee Member

Chair, investment committee

Chris is the chief executive of the Railways Pension Trustee Company and its operating company RPMI Ltd, which runs the industry-wide pension arrangement for the UK's railways. This covers 350,000 people and around 100 employer groups.

The scheme has assets of £17 billion and Chris also chairs the group's FSA-authorised investment subsidiary Railpen Investments. Before joining the rail scheme as chief investment officer in 1998, he worked for 12 years as an investment consultant and actuary to a number of UK pension plans.

Chris is the immediate past chairman of the National Association of Pension Funds (NAPF) and chairman of the Pensions Quality Mark, an initiative to give recognition to good defined contribution pension provision. Chris is a past chairman of both the NAPF Investment Council and the Institutional Shareholders Committee.

Julius Pursaill, Trustee Member

Chair, risk committee

Julius retired from full-time employment in 2001 and has since acted as a non-executive director and consultant for a number of technology-based companies. These have predominantly been in the financial services sector including Barrie & Hibbert and Capita. Julius also sits as an independent member on both the Heineken pension scheme advisory board and the Scottish Life investment advisory committee. Julius is vice chair of governors at Mid Kent College.

Julius spent his early career in the retail financial services industry in sales management and designing financial services products.

In 1994 Julius joined the investment management company Mercury Asset Management and was appointed to head its defined contribution pensions business.

In 1998 he was appointed head of e-Business for the Europe, Middle East and Africa global region at Merrill Lynch Investment Management.

Enid Rowlands, Trustee Member

Enid Rowlands has a background in change management, organisational transition and development. A psychologist by qualification, she has chaired public sector bodies with budgets in excess of £1.2 billion and is a companion of the Chartered Management Institute.

In recent years Enid has specialised in governance in public and not-for-profit sectors. She is currently a board member and chair of HR/Remuneration of the General Medical Council, Consumer Focus and the Information Commissioner's Office.

She has served with a range of organisations and Ministerial Advisory Groups concerned with marginalised and disadvantaged groups in the workforce, including women returning to work and people with sensory impairment. She is also chair for Victim Support.

Sue Slipman, Trustee Member

Chair, remuneration committee

Sue has been the chief executive of the Foundation Trust Network since October 2004. She was previously chair of the Financial Ombudsman Service and was also executive director with Camelot Group where she was responsible for social responsibility and external affairs.

Sue's previous roles include chief executive of the Gas Consumers Council, the London Councils Transport and Environment Committee and the National Council for One Parent Families.

She has also held a number of public appointments. These include chair of the Department for Trade and Industry's working group on corporate social responsibility, and chair of the National Consumer Council's policy commission on public services.

She has also chaired the Financial Services Authority's schools working group on financial capability and was a non-executive director of Thames Water until 2008.

Nigel Stanley, Trustee Member

Nigel has been head of campaigns and communications at the TUC since May 1997, where he has led much of the TUC's work on pensions reform following the report of the Pensions Commission.

He joined the TUC as its first ever parliamentary officer in 1994. From 1992 to 1994 he freelanced in public affairs, research and journalism where his client list included the Shopping Hours Reform Council, the European Commission, the Labour Party and a number of MPs.

Nigel also worked at the House of Commons from 1983 to 1992, first for Robin Cook and then for Bryan Gould on research, press relations and campaign management.

The table below sets out the membership of NEST Corporation committees and provides details of meetings attended by Trustee Members during the year:

	Trustee Member meetings	Audit committee	Investment committee	Nominations and governance committee	Remuneration committee	Risk committee
Number of meetings	**10**	**5**	**8**	**5**	**7**	**9**
Lawrence Churchill (LC)	10	–	–	5	4*	–
Iraj Amiri (IA)	6*	2*	4*	–	–	–
Tom Boardman (TB)	10	4	7	–	–	–
Sharon Darcy (SD)	7*	–	5*	–	–	5*
Laurie Edmans (LE)	10	–	–	–	4	8
Paul Hewitt (PH)	9	5	–	–	–	8
Chris Hitchen (CH)	9	–	8	4	–	–
Julius Pursaill (JP)	9	5	8	–	–	9
Enid Rowlands (ER)	5*	–	–	3*	2*	–
Sue Slipman (SS)	9	–	3*	5	7	–
Nigel Stanley (NS)	7*	–	4*	–	3*	–

**Notes*
Trustee Members
IA appointed as Trustee Member 20 June 2011 – eligible to attend 8 meetings
SD appointed as Trustee Member 20 June 2011 – eligible to attend 8 meetings
ER appointed as Trustee Member 11 July 2011 – eligible to attend 7 meetings
NS appointed as Trustee Member 20 June 2011 – eligible to attend 8 meetings

Audit committee
IA only eligible to attend 2 meetings

Investment committee
IA only eligible to attend 5 meetings
SD only eligible to attend 5 meetings
SS only eligible to attend 3 meetings
NS only eligible to attend 5 meetings

Risk committee
SD only eligible to attend 5 meetings

Nominations and governance committee
ER only eligible to attend 3 meetings

Remuneration committee
LC only eligible to attend 4 meetings
NS only eligible to attend 3 meetings
ER only eligible to attend 3 meetings

The Pensions Regulator's six principles for good workplace defined contribution schemes

In December 2011, The Pensions Regulator (TPR) published six high-level principles as part of its ongoing engagement with the pensions sector to improve standards of defined contributions (DC) provision and ensure that the pensions sector is ready to support automatic enrolment.

The six principles span the lifecycle of a DC scheme from the design and set-up phases through to the ongoing management. TPR will invite the pensions sector to take part in a dialogue on the six principles for good design and governance of workplace DC pension provision. This will form the basis of its regulatory approach going forward.

In support of TPR's approach NEST agreed to disclose how it was complying with each of the principles. The table below provides an overview of NEST's compliance with the principles.

Principle	TPR: 6 Principles for DC	NEST's summary response
1	Schemes are designed to be durable, fair and deliver good outcomes for members. This principle covers the features necessary in a scheme to deliver good outcomes for members, including features such as the provision of a suitable default fund, transparent costs and charges, protected assets and sufficient protection for members against loss of their savings.	NEST has been designed for its target market, specifically with the approach and design of the investment offering, including the design of the default option that manages a range of risks throughout each member's time saving with NEST in a sophisticated and tailored way. Details of our charges are explained in a clear and straightforward way to our members and their employers. Examples can be seen online. NEST is transparent about the way it operates and what it does with members' money. We also make available on our public website the research that has led to the design of the investment approach, including the Member Research Brief.
2	A comprehensive scheme governance framework is established at set-up, with clear accountabilities and responsibilities agreed and made transparent. This includes identifying key activities which need to be carried out, and ensuring each of the activities has an 'owner' who has the necessary resources to carry out the activity.	NEST's dual status as Trustee and NDPB, combines best practice and guidance from pensions and the corporate governance world. Please see the governance statement.

Principle	TPR: 6 Principles for DC	NEST's summary response
3	Those who are accountable for scheme decisions and activity understand their duties and are fit and proper to carry them out. This principle ensures that those who are given accountability or responsibility for a key governance task are able to carry this out. The principle will cover definitions of fitness and propriety for accountable parties and also conflicts of interest that may arise.	NEST's governance structure ensures that there are clear lines of accountability and decision making. Scheme of reserved powers and delegated authorities. All Trustee Members are appointed on merit for their knowledge and expertise. They undertake and report continuous professional development (CPD) activity. NEST's Corporate Governance Statement is available online at **www.nestpensions.org.uk/corporate-governance-statement**
4	Schemes benefit from effective governance and monitoring through their full lifecycle. This principle looks at the ongoing governance and running of the scheme, including the internal controls and monitoring needed to ensure that the scheme continues to meet its objectives, and continues to be run with the best interests of its membership in mind.	Although the scheme is immature at this stage, the Trustee Members have given consideration to longer term strategy, the identification of critical success factors and the investment risks over the lifecycle including at the point of converting their pension pot into a retirement income. Trustee Members and committee effectiveness reviews, forward planning, regular reporting, risk management.
5	Schemes are well-administered with timely, accurate and comprehensive processes and records. This principle is informed by our previous work on record keeping, looking specifically at the administration processes required in a DC scheme.	NEST's scheme administration is delivered by Tata Consultancy Services (TCS), part of the Tata Group and a top ten global IT services, business solutions and outsourcing company. Operational performance is monitored by the executive team and reported to the Trustee Members.

Principle	TPR: 6 Principles for DC	NEST's summary response
6	Communication to members is designed and delivered to ensure members are able to make informed decisions about their retirement savings.	A clear member journey online from joining NEST to taking their retirement pot. See the *NEST for savers* section of our website. NEST also has a UK contact centre where all staff receive thorough training on supporting scheme members and employers.
	This includes all communications to members during their time with the scheme – from joining through to making decisions about converting their pension pot into a retirement income, including promotion of the open market option.	Our commitment to communicating with members in a way they understand is at the centre of our communications development. NEST has developed a phrasebook which is about how NEST will talk to employers, members and future members about pensions, using words and phrases that have been designed with them in mind.

TPR believes that if schemes follow these principles in their design, set-up and ongoing operations it will help them to deliver the six elements necessary for members to receive good outcomes, which we have previously identified:

- appropriate decisions with regards to pension contributions
- appropriate investment decisions
- efficient and effective administration of DC schemes
- protection of scheme assets
- value for money
- appropriate decisions on converting pension savings into a retirement income.

Risk management approach, structure and accountability

Trustee Members are responsible for ensuring that there is a continuous process for identifying, evaluating and managing any material risks faced by the organisation and for ensuring that risk is effectively managed. As such, Trustee Members are responsible for overseeing risks including:

- the extent and categories of risk the Trustees Members regard as acceptable for the organisation to bear
- the likelihood of those risks materialising
- the organisation's ability to reduce the incidence or impact of any risks that do materialise
- the costs of operating particular controls relative to the benefit from managing the related risk
- reviewing and approving the risk management framework
- reviewing and approving the organisation's risk appetite
- monitoring the organisation's risk profile and recommending actions as they see appropriate.

In common with best practice in financial services, NEST Corporation operates the 'three lines of defence' model. Business management provides the first line of defence and is responsible for the identification and assessment of risks and controls. The second line is provided by the risk and compliance function together with risk policy owners who provide support and challenge the completeness and accuracy of risk assessment and the adequacy of mitigation plans. Internal audit constitutes the third line, as overseen by the risk committee and audit committee, by providing independent and objective assurance on the robustness of the risk management framework and the appropriateness and effectiveness of internal controls.

More details about the risk committee and NEST Corporation's risk management process are on page 25 and pages 27 to 33 respectively.

03 Chief executive's report

The year 2011/12 was very significant in NEST's journey, and we passed several landmarks. The most important of these was the successful launch of the scheme significantly in advance of the start of employer duties.

During the year we have:

- successfully built and launched the scheme
- launched an investment strategy and invested member contributions
- used extensive testing and live running to ensure that our systems work as they need to
- engaged in a range of communications and activities with employers, intermediaries and stakeholders.

This has put us in a strong position to meet the challenge posed by the onset of employer duties.

Throughout the year, together with TCS, we have been planning and delivering improvements and additional functionality for our service releases. We are on track for the introduction of the workplace pension reforms, with the support of our delivery partners including TCS, State Street, our fund managers and other service providers.

We have been working with employers affected by these duties within the first year of staging to understand the business challenges they face as a result of their new legal duties, and how we can support them in their preparations. The new duties pose very different challenges for different employers. NEST has been contributing to the successful introduction of automatic enrolment by working alongside advisers and other providers to help employers to respond to these challenges. The success of automatic enrolment is dependent on everyone within this community fulfilling their role.

In terms of investing members' money, the sophisticated approach to managing risk and diversification we've put in place has helped us to protect members from excessive volatility in uncertain conditions. We've also looked to refine our ability to manage investment risk as we prepare members' pots for retirement by adding a corporate bond fund mandate to our existing building blocks. We have procured a responsible ownership partner, The Co-operative Asset Management, to support NEST in meeting our responsibilities as an active and prudent owner of assets on behalf of our members.

We welcomed the government's commitments on short service refunds and the single-tier pension, along with the completion of the regulations. We have also welcomed The Pension Regulator's six principles for good design of workplace defined contribution (DC) pension provision, automatic enrolment guidance and staging date identifier. Clarity and certainty are key elements of securing an enduring environment of workplace saving and the government and regulators have a pivotal role in achieving this.

I would like to thank our stakeholders for their support and engagement throughout the year. We survey our stakeholders on an annual basis in order to understand their perceptions of NEST Corporation and were pleased that 73 per cent of those surveyed agreed that NEST is delivering its remit effectively, with the remainder largely reporting that it is too early to give a definitive answer on this. We understand our obligations and responsibilities for the next period and place great importance on meeting these.

As we have progressed throughout the year, NEST Corporation as an organisation has continued to mature and develop. We have focused on creating a sustainable, high-performing organisation which is prepared for the start of employers' duties, through our people strategy, developing our corporate culture and understanding our corporate responsibilities. As a public body, we have been through a two-year pay freeze which has impacted our ability to retain some people, but despite the challenges we are finishing the year on time and on budget, due to the determination and commitment of our people. I have great confidence in the team we have built at NEST.

The next year will be a groundbreaking year for UK pension provision with the commencement of automatic enrolment into workplace pension saving. Delivering reforms on this scale will not be without incident or issue in the early stages of introduction. They will change the landscape for workers in the UK, providing access for all to workplace pension saving and we must be resolute in working through the challenges to achieve this.

Tim Jones
Chief executive and accounting officer
NEST Corporation

5 July 2012

04 Governance statement

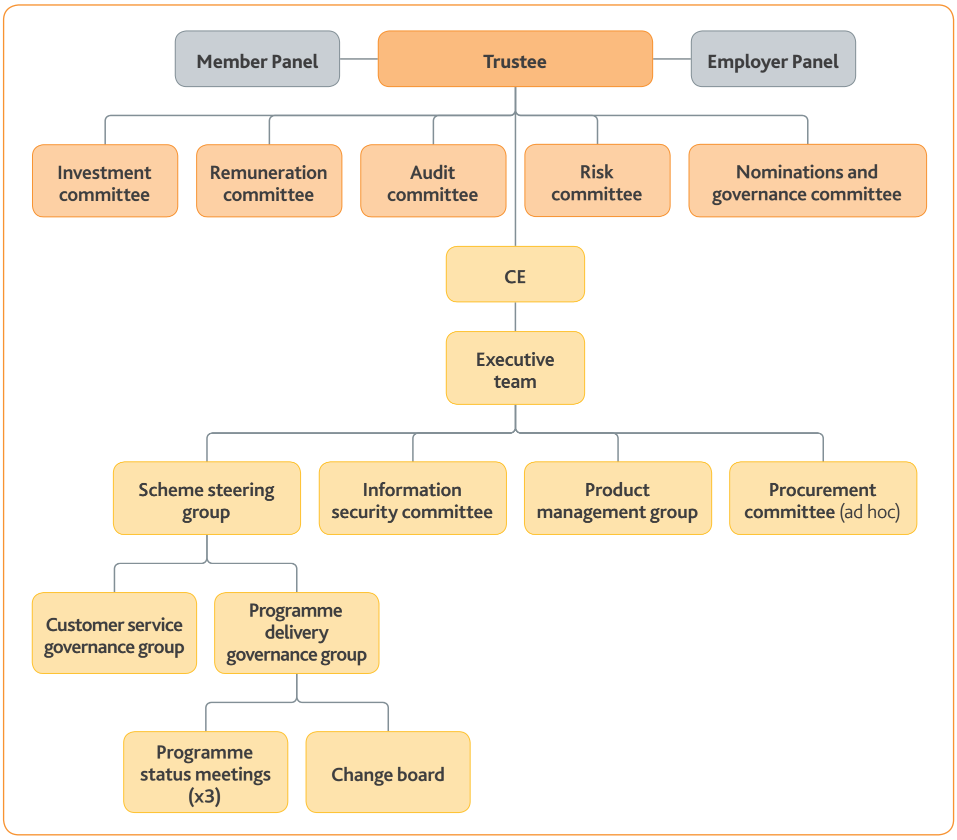
The governance statement is a new requirement in public sector financial reporting, replacing the statement on internal control. Instead of the specific requirement placed on the statement on internal control, there is little prescribed in terms of the format or content of the governance statement. In view of NEST's unique status as a trust-based occupational pension scheme, set up as a non-departmental public body and a public corporation, we have summarised here the key features of NEST's governance, the principal risks and uncertainties we face and the controls and mitigations we have put in place to address those risks.

The requirement of the FReM is that this statement is approved by the accounting officer. Due to the unique nature of NEST's structure the Trustee Members are responsible for the overall governance of the scheme. Therefore the whole of the following governance statement is a combination of the:

- Trustee Members' accountabilities
- powers delegated to the CE through the scheme of reserved powers and delegated authority
- duties of the accounting officer (see page 50 for further details).

4.1 The governance structure

The table below shows the governance structure within NEST.



The Trustee's governance framework underpins good governance. For efficiency the Trustee has established five committees whose decisions and actions are reported to the Trustee's meetings. The work of each of these committees is shown below.

The CE receives his powers through a schedule of delegations from the Trustee Members. In turn the CE delegates authority to and holds each member of the executive team accountable for delivery of their specific objectives. In addition there are advisory committees which are used to explore issues and consult with colleagues. The scheme steering group, which includes TCS, is the senior forum for discussing programme and operational issues. Lower level scheme-related issues are discussed either in the customer services governance group, if they relate to operating the scheme or in the programme delivery governance group, if they relate to the setting up of the scheme. Both these groups include TCS representatives.

Alongside the scheme steering group are the information security committee, the product management group and (when necessary) the procurement committee. These forums focus, respectively, on information security issues, the nature of the NEST service offering and procurement exercises.

The weekly executive team meetings are used by the CE to communicate key issues and provide an escalation route for matters that benefit from discussion between all executives.

4.2 Trustee Meetings

Trustee members held ten meetings during 2011/12. These meetings have focused on:

- the strategic direction of NEST and its programme of work
- key investment strategies
- the financial arrangements for NEST Corporation
- ensuring appropriate governance
- providing support, challenge and guidance to the executive team
- actively reviewing scheme operations
- overseeing the management of risk.

As Trustee of the scheme, NEST Corporation has a legal duty to act in the interests of its scheme members and other beneficiaries and to comply with all legal and regulatory requirements relating to pension schemes. The Trustee Members of NEST Corporation are responsible for the strategic direction of NEST Corporation and the scheme. Trustee Members also ensure that NEST Corporation complies with its duties as a non-departmental public body. For further information on the governance framework and Trustee Members' attendance at meetings see the Trustee Members' report on page 14.

4.3 Strategy and plan

Over the course of the year Trustee Members have considered strategic issues at each of their regular Trustee meetings and have also held three specific workshops to initiate discussions on the long-term strategic challenges.

The Trustee Members approved the Corporate Plan for 2012-2015 incorporating the business plan for 2012/13. This is published on our website **www.nestpensions.org.uk.** In the spring of 2012, Trustee Members agreed the budget for 2012/13 and this is set out in the business plan for 2012/13.

4.4 Audit committee

The audit committee has provided an independent oversight, review and advisory role to the Trustee Members on all audit and control issues across NEST Corporation. The committee has also advised on the structure of internal audit and compliance and has been actively involved in assuring Trustee Members on these issues. Key areas of focus for the committee included:

- the appointment of KPMG as statutory auditors of the scheme and review of their audit strategy for 2011/12
- review of the 2010/11 NEST Corporation's annual report and accounts
- review of the assurance framework prior to scheme launch
- approval of the internal audit methodology and framework
- approval of the internal audit plans for 2011/12 and 2012/13 and oversight of their delivery
- approval of the compliance framework and the 2011/12 and 2012/13 compliance plans
- review of NEST Corporation's finance and treasury policy and procedures
- review of the committee's effectiveness
- review of the National Audit Office (NAO) audit plan for 2011/12. NAO representatives attend the audit committee meetings as statutory auditors for NEST Corporation.

Paul Hewitt
Chair, audit committee

4.5 Report of the investment committee

The Trustee approves the NEST Statement of Investment Principles (SIP). The role, responsibilities and delegations of the investment committee and the chief investment officer are detailed within the governance structure detailed in Appendix A of the SIP.

The investment committee chaired by Chris Hitchen, together with the NEST chief investment officer, share a set of responsibilities and delegations to consider and implement investment decisions on behalf of the Trustee Members and the committee reports to the Trustee.

The key decisions and activities of the investment committee in the last year include:

- approval of the initial asset allocations for all NEST retirement date funds
- approval of a dynamic risk management framework
- oversight of developing the responsible investment approach including becoming signatories to the United Nations-backed Principles for Responsible Investment and FRC Stewardship Code
- approval of the selection of a sterling corporate bond fund manager.

The day-to-day management of NEST's assets is performed by professional fund managers, each of whom is authorised and regulated by the Financial Services Authority.

The investment committee has overall responsibility for approving fund manager selection, ongoing monitoring and removal and has appointed the fund managers listed within the NEST pension scheme annual report and accounts.

The investment committee is the recipient of regular reporting to enable it to review and monitor NEST's assets, fund managers and other third party providers and investment costs.

More on the management of NEST's assets is included in the separate NEST pension scheme annual report and accounts.

Chris Hitchin
Chair, investment committee

4.6 Nominations and governance committee

This committee has responsibility for the development and oversight of the governance structure which delivers a well run and controlled organisation, ensuring that it is adequate, appropriate and operating effectively. In the past year, the nominations and governance committee:

- oversaw the effectiveness review of the Trustee and its committees
- monitored the progress of the Trustee Members' knowledge and understanding
- responded to the European Insurance and Occupational Pensions Authority (EIOPA) committee on the revision of Institutions for Occupational Retirement Provisions (IORPs)
- further developed the approach to Continuous Professional Development (CPD)
- undertook the recruitment of the members for both of the Employer Panel and the Member Panel and recommended candidates to the Trustee.

Lawrence Churchill
Chair, nominations and governance committee

4.7 Remuneration committee

The remuneration committee has provided oversight, review and advice to the Trustee Members on the approach to corporate responsibility, organisational culture and remuneration of senior executives and staff. The committee is not responsible for reviewing the remuneration of the Trustee Members, which is determined by the Secretary of State in accordance with schedule 1 to the Pensions Act 2008.

During the year the committee:

- agreed pay policy principles
- reviewed the performance of the executive team
- agreed the plan for the programme on corporate responsibility
- oversaw the programme of cultural change.

A report on the work sponsored by the committee on corporate responsibility is in Annex 2, and the remuneration report is on pages 45 to 49.

Sue Slipman
Chair, remuneration committee

4.8 Risk committee

The risk committee is responsible for oversight of the risk management framework. The committee has:

- provided an independent review of all aspects of risk management and in particular has been active in developing a statement of risk appetite
- overseen the further development of strategic risks
- developed a risk taxonomy which has an integrated view of risk
- provided challenge to the executive through a series of deep dives into specific areas of risk.

Further information on risk is provided on pages 18 and 27 to 33.

Julius Pursaill
Chair, risk committee

4.9 Employer Panel and Member Panel

The Employer Panel and Member Panel were established in summer 2011 in line with requirements under the Pensions Act 2008 and NEST's order and rules.

Employer Panel

Paul Jagger MBE was appointed as chair of the Employer Panel which was established in the summer of 2011 with nine panel members.

The Employer Panel provides an advisory role to NEST Corporation on the operation, development or amendment of the scheme from a participating employer perspective (section 69, Pensions Act 2008). The panel is consulted whenever the Statement of Investment Principles is revised by the Trustee. In addition, the panel is consulted on proposed changes to NEST's order and rules. The Employer Panel reports to the Trustee through the chair of the panel.

Since the Employer Panel was established it has met three times and it has agreed its terms of reference and objectives with the Trustee. In addition, the panel has been consulted on revisions to the Statement of Investment Principles and provided further feedback and input on a number of areas in relation to the development of the scheme from an employer's perspective.

Further information on the Employer Panel, including details of the members can be found at: **www.nestpensions.org.uk/employer-panel**

Member Panel

Museji Ahmed Takolia CBE was appointed as chair of the Member Panel when it was established in summer 2011 with five panel members. Details of these members can be found on our website. Two further members are being appointed and recruitment is underway to find a further member.

The Member Panel provides advice to NEST Corporation on the operation, development or amendment of the scheme from a scheme member's perspective (section 69, Pensions Act 2008). Since the panel was established it has met four times. The panel is consulted whenever the Statement of Investment Principles is revised by the Trustee. In addition, the panel is consulted on proposed changes to NEST's order and rules and issues such as charges, opt-out process, communications, complaints monitoring and customer services and researching members' needs. The Member Panel reports to the Trustee through the chair of the panel.

The Member Panel submits a separate report to the Secretary of State. A copy of the report will also be available on NEST's website, along with further details on the panel: **www.nestpensions.org.uk/library**

Executive reporting

Trustee Members have delegated to the CE responsibility for ensuring that the main day to day functions of NEST Corporation are carried out effectively and efficiently.

The CE reported regularly to the Trustee Members on key matters, risks, the financial status and performance of NEST, together with plans and progress towards scheme readiness. The Trustee Members used this information which, together with details of scheme operations, helped to ensure they were satisfied that the executive was carrying out the strategy and plans as anticipated. The CE also reported informally to Trustee Members to keep them informed of any upcoming business in between meetings.

4.11 NEST Corporation policy

Policies that set out how we operate are a core element of our governance and internal control system. These policies provide transparency in how we respond to legal and regulatory requirements and how we operate on matters of importance in support of a culture of accountability. These policies cover a wide range of risks including human resource matters, workforce strategy, finance, procurement, information technology, governance and risk management.

During the course of the year, further work has been conducted to ensure that NEST Corporation has in place a robust framework for setting and applying policies. The risk committee is responsible for reviewing the effectiveness of this framework and that NEST Corporation has a suite of policies that remain appropriate for NEST as an operational pension scheme. The audit committee reviews the adequacy of compliance with policies in place supported by the compliance function and internal audit.

4.12 Risk management approach, structure and accountability

The risk management approach and structure is noted in section 2 of the annual report and accounts on page 18 and below.

In addition, the CE has in place a management structure which consists of the scheme steering group (SSG) and an executive team (ET), who meet to oversee and discuss key risks at least monthly. The CE is supported by NEST Corporation's risk function and the programme management office (PMO), which ensure that the risk management framework and risk processes are operating effectively.

Risk and risk management on a day to day level forms a key part of the executive team members' responsibilities. As such, they have continued to oversee the management of all risks and the application of NEST Corporation's risk management framework. Each business area is responsible for identifying, assessing and managing risks within its own area of responsibility, as well as implementing the requirements of the risk management framework and providing assurance that it has done so.

4.13 Principal risks and uncertainties

The risk and control framework

Assessment of risk plays a fundamental part in all of NEST's activities as an organisation. The process for identifying and assessing risk is an integral and inseparable part of the management skills, performance culture and processes which are the core of our business. Our approach to risk management is delivered in practice through the application of NEST Corporation's risk management framework, the core components of which are explained in the following sections.

Risk appetite

Risk appetite is defined as the level of risk that NEST Corporation is prepared to accept in the course of pursuing its business strategy. Risk appetite encompasses qualitative and quantitative factors as each may affect NEST's strategic business plan. It recognises that a range of possible outcomes may result as business plans are implemented. At NEST we have integrated our risk appetite with the processes that we use to manage and monitor the business on an on going basis.

NEST considers the potential for a loss of trust to be the most significant risk. It has minimal tolerance for any behaviours or activities that represent a significant threat to its reputation. It also has an appetite to support activities likely to result in greater levels of trust from its members and stakeholders.

Risk appetite is dynamic, which means all of the strategic risks are important, but at any given point in time some will be more crucial than others as a function of where NEST stands in its evolution. Where risk appetite is quantifiable, NEST defines a target for the specified parameter and a range of tolerable outcomes (risk tolerance) around that parameter when appropriate. The parameters and the risk tolerance are approved by the risk committee. The metrics are monitored by the risk function and procedures are in place to report to the risk committee.

NEST Corporation classifies its risks in line with good practice across the financial services and public sectors and other occupational pension schemes. Over the course of 2011/12, the principal risk has been the challenge of delivering a major programme in time for the start of employer duties in October 2012 coupled with the management of a live pension scheme, albeit operating at low volume.

Key areas of risk

In total, at any one time we will be managing a significant volume of risks across different areas. The major high-level risks that NEST faces are outlined below.

a) Failure to complete all required planning for the onset of employer duties and beyond

The start of employer duties in October 2012 requires NEST to deliver a fully operational and resilient scheme capable of supporting pension reforms that affect millions of potential members and their employers. There will also be continuing service releases to enhance functionality and capacity as the scheme grows during the staging process (the process specified in legislation which determines when each tranche of employers will be impacted by the employer duties). Failure to deliver a scheme with the appropriate functionality could result in an inability to manage the volume of business and meet the public service obligation to take any employer that wishes to use NEST.

The successful launch of the scheme in July 2011 has enabled NEST Corporation and its suppliers to test the product and customer services at low volumes. This has helped us to understand the behaviour of employers and scheme members, which in turn has helped to mitigate this risk.

In addition, there is a detailed delivery plan in place in order to implement the required functionality, which is rigorously monitored by the executive team and the Trustee Members. There is an extensive governance framework in place that ensures appropriate oversight of the plan.

b) Operational disruption and service unavailability

This sub-category covers those risks which, if they materialised, could result in disruption to our operations or unavailability of the service we provide to members and employers. While the consequences of each of these risks materialising could be similar, their causes, and therefore the appropriate mitigation activities, are different.

b1) Degradation in the condition of a key supplier

The NEST pension scheme is delivered through an outsourced business model, with the key elements of the scheme delivered by third party suppliers. In the event of deterioration in the performance of a critical supplier or, at worst, supplier failure, NEST may be unable to continue to deliver a service to employers and scheme members.

NEST has put in place a number of mitigations. We launched the scheme to volunteer employers and members over a year before the onset of employer duties in order that we could further improve the service based on member and employer feedback before volumes began to increase. Before launching the scheme (and before each significant service release) our scheme administrator thoroughly tested the solution to ensure it worked as expected, and NEST then followed up with its own user acceptance testing.

Non-functional testing is also carried out as a matter of course for each release. Amongst other things this tests that the solution will work when the volume of users accessing it has increased. The service provided by our scheme administrator is designed to be scalable to the demand placed upon it. There are contractual mechanisms in place to ensure that NEST and the scheme administrator take decisions to increase infrastructure capacity at the right points in time.

In addition, NEST and TCS worked together to develop assumptions regarding the volume of interactions members and employers would have with the scheme. These assumptions are designed to ensure that the contact centre is staffed appropriately. In the event that these assumptions are inaccurate, there is provision for additional contact centre capacity, though this has an upper limit. One possible cause of deteriorating performance is our joint assumptions being sufficiently inaccurate that this upper limit in contact centre capacity is breached.

NEST maintains an effective governance framework that oversees the performance of its key suppliers. Appropriate management information is in place to provide an early warning of potential issues with suppliers, which is reviewed and overseen by formal governance meetings that are in place and operational with each key supplier. Suppliers are also incentivised through contracts to deliver a service in accordance with agreed service levels and are subject to financial penalties in the event of poor performance.

b2) Capacity constraints

The process of automatic enrolment is likely to present a considerable capacity challenge to the pensions industry as a whole, particularly during the course of 2013 and beyond. As NEST has a public service obligation to take any employer that wishes to use NEST, there is a significant likelihood that a number of employers may leave the decision to choose to use NEST until relatively close to their staging date, especially if the rest of the industry is unable to cope with the demand.

NEST is in the process of developing a number of tools and services to help cope with this demand and to make the process of accepting employers as efficient as possible. This includes increasing the number of staff available to support joining employers and introducing an intuitive self-service platform. NEST is also working closely with the industry, TPR and DWP to help manage the anticipated flow of business.

c) Unfavourable volume results

The number of employers that choose to use NEST, the manner in which they use NEST in conjunction with other arrangements and the likelihood of their workers opting out are all uncertain. These decisions will be affected by the quality of our proposition, by the attitudes of pension providers, other employers, the media and advisers. These attitudes are unlikely to settle until after the employer duties have begun. All of this may influence the numbers who will participate throughout staging, which in turn may impact our ability to meet the conditions of our funding arrangements with the government.

This risk is difficult to fully mitigate, given that many of the factors are substantially outside NEST's control, such as the behaviour of other pensions providers and the attitude of advisers. However, NEST has placed a strong emphasis on ensuring that the design of the scheme is in line with the requirements of its target market and is working hard to ensure that it is delivered and run successfully.

d) Key staff retention

The skills and expertise of key NEST staff remains critical to the delivery of the project and the establishment and maintenance of an effective and enduring control environment appropriate to a regulated pension scheme. As NEST's profile increases, its staff become more attractive to other organisations, raising the risk of greater staff attrition.

In response, NEST is establishing a people, infrastructure and engagement programme. This is designed to retain and motivate staff within a framework that is appropriate to a public sector organisation and subject to clear oversight from the remuneration committee.

e) Failure to deliver declared investment return

NEST has performed extensive research in its target market and has designed an investment strategy that is in line with the anticipated behaviour of members, many of whom will be saving for a pension for the first time. If actual fund performance is not in line with members' expectations then there is a risk of contributions stopping and an increase in member opt-out. This could lead to a loss of confidence in NEST as a safe place to invest.

NEST has established its investment choices for scheme members in line with its investment strategy. Fund manager performance is monitored by the investment team on a continuing basis and overseen by the investment committee.

Risk identification and assessment

Key and emerging risks are identified on a continuous basis across all parts of NEST Corporation and our key service providers. This takes place through an ongoing review of the business, economic, regulatory and operational environment and NEST Corporation's evolving risk landscape. Each identified risk is assigned a risk owner.

The severity of each risk is assessed taking into account a set of pre-defined criteria for determining the likelihood of the risk occurring and the potential impact of the risk on our business. The severity of the risk determines the appropriate level of oversight and ongoing monitoring.

The strength and effectiveness of NEST Corporation's control environment is considered for all identified risks to determine the most effective mitigation strategy and to ensure that residual risks are brought within tolerance of our overall appetite for risk.

In addition to ongoing risk identification and assessment, NEST Corporation management conducts regular bottom-up and top-down assessments to ensure the completeness and transparency of programme, operational and strategic risks.

Risk monitoring and reporting

Responsibility for monitoring identified key risks, the effectiveness of current controls and the progress of mitigating actions is down to the risk owner. The risk owner is supported by other monitoring/assurance processes and oversight exercised by the NEST Corporation risk function, PMO, internal audit, the compliance function, other support functions, the executive team, the risk committee and the audit committee. Monitoring and assurance processes and activities undertaken by the risk owner are subject to review by the risk function, PMO and internal audit.

Continuous monitoring is conducted for more significant risks. Key programme risks, including those of our key suppliers, particularly TCS and State Street, are monitored regularly by the scheme steering group with corrective action taken when appropriate.

The emphasis of NEST Corporation's risk management framework is on continuous, proactive engagement on key risk issues as part of everyday business management. One output of this ongoing process is risk and control reporting, which promotes oversight, challenge and business engagement that seeks to improve risk management and performance. Regular reporting of key risks and the effectiveness of our approach to risk management is provided in order to help decision-making at all levels.

This includes:

- regular reporting of risks and mitigation status to the SSG and the executive team
- standing formal reporting to the risk committee on the status of identified key risks
- periodic reporting of specific risks to the risk committee for more in-depth review, challenge and assessment.

In addition, NEST Corporation's PMO feeds into the Enabling Retirement Savings Programme (ERSP) risk process to ensure key NEST risks are fully considered within DWP and wider government.

Embedding risk management across NEST Corporation

Embedding risk management into our day-to-day activities is a key objective of Trustee Members. This is put into practice through the application of the risk management framework. During the course of the year and to further support the practical application of risk management we have:

- operated against a defined risk management framework that encompasses NEST Corporation's approach to the management of risks, development and maintenance of policies, the process for risk management and staff responsibilities. These are published on NEST Corporation's intranet where they are available to all staff
- maintained designated project planners and risk co-ordinators in each part of the business to assist with the application of risk management. Training and ongoing awareness is provided to Trustee Members and NEST staff
- provided regular communication from the CE to all staff on specific risk issues, progress against our business plan and the importance of managing risk
- required that all papers prepared by the business for Trustee Member consideration have been extended to include explicit commentary on risks associated with key decisions
- monitored readiness criteria for the start of employer duties and plan progress through a review of linked key risks.

4.14 Information security

NEST Corporation is committed to supporting a secure electronic environment to conduct its business and has established a comprehensive information security management system (ISMS) that is certified against ISO 27001:2005. NEST Corporation has also established a data protection policy, which sets out its approach to the protection of personal data. It complies with the Data Protection Act 1998 and other regulations for the purpose of ensuring the security and use of personal data.

As a non-departmental public body (NDPB), NEST Corporation is required to provide detailed information on our management of information risk and compliance with the relevant aspects of the security policy framework for DWP, which is incorporated within the DWP submission to the department's senior information risk officer.

During 2011/12, there was no loss or compromise of personal data.

4.15 Business continuity

NEST Corporation maintains a cost-effective business continuity capability that enables management to respond to, and recover from, major incidents that impact business operations. A business continuity management programme appropriate to the size and complexity of NEST Corporation is in place, aligned to industry standards and integrated with the risk management framework. Appropriate continuity strategies that support scheme members' interests have been approved by the CE. Business continuity arrangements are exercised, reviewed and renewed as appropriate. A training and awareness programme ensures 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.

4.16 Compliance

The compliance function is responsible for monitoring our compliance with internal, statutory and regulatory requirements. This includes managing NEST Corporation's relationship with its key regulatory stakeholders, including DWP and TPR. Compliance has also developed arrangements with key suppliers, such as the scheme and fund administrators, to ensure that they have a compliance framework in place that ensures that NEST Corporation, through its outsourced partners, complies with regulatory requirements.

The compliance function operates against an annual compliance plan that is agreed with the audit committee. Key activities include ensuring that all customer-facing material, such as employer and scheme member documentation and the external NEST website, is compliant with regulatory requirements. It also performs an annual compliance monitoring programme to evidence ongoing compliance.

NEST Corporation registered as an occupational pension scheme with TPR in July 2011, when the scheme was launched. It is working closely with TPR to ensure that, as TPR further develops its regulatory regime for defined contribution schemes, NEST Corporation remains compliant. Similarly, NEST Corporation is monitoring TPR's emerging approach to the management and enforcement of the employer compliance regime.

The compliance function also manages the relationship with DWP's sponsorship team and is responsible for ensuring that NEST Corporation complies with its duties as an NDPB.

4.17 Internal audit

Internal audit services are provided by Deloitte, who are responsible for the provision of independent control assurance to NEST Corporation. Deloitte also provides 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. During 2011/12, Deloitte also performed some specific assurance work before scheme launch in order to confirm to Trustee Members that NEST was ready for launch.

The following opinion has been received from Deloitte for the financial year 2011/12.

Head of internal audit opinion

In summary based on the internal audit plan for the year ended 31 March 2012, with the exception of the control weaknesses identified in the detailed reports, none of which we considered to be major, in our opinion NEST has adequate and effective systems over governance, risk management and internal control.

Management assurance statement from senior management

Each year, the executive team members provide a personal assurance statement on corporate governance in relation to adequacy and effectiveness of the internal control system in operation within their area of responsibility. These assurance statements support the achievement of NEST Corporation's business objectives and policies, while safeguarding public funds and assets. The statements also highlight any significant internal control issues.

4.18 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 2011 to 31 March 2012. To provide this assurance, the Trustee Members and NEST management team have been engaged and appropriate additional enquiries made.

Where remedial action has been recommended to address control weaknesses, appropriate action has been taken or planned to effect reasonable management of risks within an acceptable period of time.

Tim Jones
Chief executive and accounting officer
NEST Corporation

5 July 2012

Lawrence Churchill CBE
Chair
NEST Corporation

5 July 2012

05 Management commentary

The management commentary discloses matters required to be disclosed in the business review under section 417 of the Companies Act 2006. It presents a business review which is intended to provide:

- a balanced and comprehensive analysis of the development and performance of the organisation's business during the financial year
- the position of the organisation's business at the end of that year
- the main trends and factors likely to affect the future development, performance and position of the organisation's business.

The management commentary also discloses information about:

- the business review and delivery against the business plan
- corporate responsibility.

Executive team

The day-to-day management of NEST Corporation is the responsibility of the CE who is supported by the executive team. Tim Jones is also the accounting officer for NEST Corporation.

Executive team	Position
Tim Jones	Chief executive
Nick Carter	General counsel
Helen Dean	Managing director of scheme development
Mark Fawcett	Chief investment officer
Paul Greening	Finance director
Sam Hainsworth	Chief of staff
Simon Richards	Business delivery director
Will Sandbrook	Director of strategy, research and analysis
Clare Smithson	People, property and corporate social responsibility director

5.1 Statutory background

NEST Corporation presents its accounts for the year ended 31 March 2012. The financial statements 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 at Annex 1 of this annual report and accounts.

5.2 Principal activities

Details of NEST Corporation's statutory background and its primary activities can be found in the 'About NEST Corporation' section of this Annual report and accounts on page 8.

5.3 Business review

Delivery against 2011/12 business plan

This section sets out the key highlights of our delivery over this period in terms of the business objectives set out in our last corporate plan.

Business objectives	Key performance indicators (KPIs)	Results
Effectively roll the scheme out to employers and deliver appropriate service updates	• Operational readiness for accepting business during 2011 • Service release two – year-end processing – delivered by end March 2012 • At year end on track for further service releases incorporating Making automatic enrolment work (MAEW) review changes and readiness for start of employer duties by June 2012	• Successfully launched the scheme and accepted our first employers and members in 2011 • A second service release was successfully implemented to deliver scheme year-end processing in March 2012 • NEST remains on track to deliver a further service release that incorporates MAEW review changes and additional service improvements in advance of the start of employer duties
Successfully accept volunteer employers	• Around 100 volunteer employers, including a small number of very large employers, brought in during the period before the start of employer duties	• NEST had 91 volunteer employers of various sizes using NEST as at the end of March 2012. There are also plans in place for further volunteer employers to start using NEST ahead of their employer duties
Bring in sufficient members to set the scheme on the path to financial self-sufficiency	• 95 per cent of employers of 5,000 or more workers are aware of NEST • 50 per cent of employers of 5,000 or more workers report positive overall perception of NEST	• We have made good progress in raising awareness of NEST with 97 per cent of 5,000+ employers aware of NEST and 37 per cent of 5,000+ employers reporting a positive overall perception of NEST. Although the overall positive perception is lower than the 50 per cent we had hoped for when setting the performance indicator, we've seen the level of positive perception increase during the course of the year and we continue to work with large employers to ensure they understand the features and advantages of NEST
Deliver and develop a positive relationship with our customers	• Written acknowledgement of complaints provided within five days • Written responses to complaints received within eight weeks	• We have received positive and constructive feedback from both our employers and members. Of the few complaints we have received, all have received written acknowledgement within five days and all have been resolved within eight weeks.
Provide an effective service to customers in line with our targeted service level agreements	• Website and interactive voice response (IVR) available 24 hours a day, 365 days a year except for during planned maintenance • Contact centre available as per advertised hours • Calls answered within service levels • 5 seconds for IVR • 60 seconds for contact centre	• Since the launch of the website the site has been available 99.95 per cent of the time, with minimal unplanned interruptions • The contact centre has been available 99.89 per cent of the time, within advertised hours • All calls to the contact centre have been answered within their service level of 60 seconds
Deliver investment performance consistent with the long-term investment objectives	• Portfolios remain within their allocated risk budget • Pricing errors are eliminated	• During 2011/12 all of NEST's funds have remained within their allocated risk budgets with only small exceptions which have been kept under close review • We have tested in pre-production and in live running and there have been no pricing errors which have impacted the members
Successfully implement our people strategy, ensuring we have the right people and culture in place	• Total turnover of staff in permanent roles is consistent with or below industry standards* • Overall staff satisfaction measures compare to leading UK companies	• We measure NEST's annualised turnover of staff in permanent roles over the course of the entire reporting year. The levels of turnover were above industry standards, although NEST has taken measures to reduce this trend. • NEST undertook a comprehensive exercise of employee research as part of a project into the organisation's culture that assessed staff satisfaction, motivations and values.

Business objectives	Key performance indicators (KPIs)	Results
Continue to develop our corporate governance structure and performance	• Support provided to DWP to ensure additional Trustee Members recruited by summer 2011 • Initial panels complete by summer 2011 • Effectiveness reviews conducted for each committee and for the Trustee Member meetings	• Provided support to DWP to enable four additional Trustee Members to be appointed in June and July 2011 • We appointed the chairs for both the Member Panel and Employer Panel in May 2011, and completed the appointment of both panels' members in September 2011 • Trustee Member effectiveness reviews were undertaken by an external consultant in January and February 2012 • The Trustee committees' effectiveness reviews were undertaken in September and October 2011
Effectively manage risk	• Statement of risk appetite agreed by end March 2012 • Total portfolio average residual risk severity reducing over time • All individual risks mitigated within residual risk tolerance	• We've developed our statement of risk appetite • There was an ambition to manage all risks within an acceptable tolerance, although it has not been possible to manage all risks within this tolerance. Where a risk is considered to be outside tolerance, a series of actions are agreed in order to bring the risk within tolerance over a period of time. All risks currently outside tolerance have action plans in place that are monitored on a monthly basis
Meet our compliance obligations	• Trend in number of priority one findings and audits rated limited assurance is falling over time, taking into account their scope and scale • Trend in total number of regulatory and security breaches is falling over time, relative to the total number of scheme members	• Internal audit have delivered a full programme of reviews, although given the frequency and number of audits there is not sufficient data to identify trends on recommendations. All audit actions are monitored by the audit committee on a quarterly basis • Given the current scheme volumes there is not sufficient data to identify trends relating to regulatory and security breaches. It should be noted that there have been no breaches which have led to a loss of customer data. Any breaches that do occur are subject to monthly oversight by the customer service governance group
Implement effective financial controls	• Total borrowing remains within agreed limits set out within the loan agreement • In-month run-rate at year end consistent with loan agreement for following year • Annual accounts for the scheme and NEST Corporation meet best practice reporting requirements	• Borrowing up to and including 31 March 2012 remained within the limits of the loan agreement. • NEST Corporation expenditure varies by month reflecting the start-up nature of the organisation. Spending at March 2012 was at a level consistent with the level of borrowing agreed with DWP for 2012/13 • Annual accounts for the scheme and NEST Corporation meet best practice reporting requirements. We published the 2010/11 annual report and accounts for NEST Corporation before the 2011 summer Parliamentary recess, meeting audit requirements and demonstrating our commitment to transparency

*At the time of publication NEST is in the process of making its first permanent appointments and as such this indicator will only be measured from July 2012 onwards.

Strategy for the future

In May 2012 we published our corporate plan for 2012-2015. Our strategic objectives set out what we need to deliver in order to achieve our long-term vision and mission. They are:

- Deliver a compliant scheme that meets the needs of major corporate employers.
- Maintain a high quality operational scheme for our members as volumes increase.
- Deliver sufficient scale into the scheme.
- Invest our members' savings in line with our investment strategy.
- Continue to build our reputation for fulfilling our remit and for demonstrating improvements in the way pensions are run.
- Deliver a comprehensive people policy and corporate responsibility strategy.

Further information on each of these, and the activities and indicators that sit below them can be found in our *NEST Corporation Corporate Plan 2012-2015*, available online at **www.nestpensions.org.uk**

External factors that may influence the performance of the business, and NEST Corporation's responses to those factors, are explained in the *Principal risks and uncertainties* section 4.13.

Going concern

NEST Corporation is funded by:

- income from deductions from members accounts, which is a 1.8 per cent contribution charge and a 0.3 per cent annual management charge of assets invested
- loan funding from DWP
- grant income from DWP which effectively reduces the interest paid on the loan from a commercial to a government rate (see note 4 of the financial statements, page 71)
- grant income from DWP to meet those costs that are non-chargeable to members, such as the costs of being a non-departmental public body.

For the early years of the scheme, income from members is expected to be relatively small in relation to other sources of funding. Based on the terms of the loan agreement with DWP and discussions with them we have no reason to doubt the ability of NEST Corporation to continue as a going concern. We believe NEST Corporation will be able to continue in operation for the foreseeable future and have continued to adopt the going concern basis of accounting in preparing these financial statements.

Financial performance

With the launch of the scheme and confirmation of NEST Corporation status as a public corporation, there have been significant changes in our financial performance. In line with the requirements of International Financial Reporting Standards, we have recognised on our statement of financial position certain assets used by TCS for scheme administration. Our non-current assets have grown from under £2m to over £55m.

The classification of the grant we receive from DWP has also changed from financing to income and we have received for the first time in 2011/12 grant income to reduce the cost of borrowing from a commercial to a government rate. Offsetting these changes has been an increase in costs as we have begun to operate the live scheme. The net effect has been an increase in our total comprehensive expenditure (expenditure less income) from just under £30m to just over £48m. These movements were forecast and have been accommodated within the framework of the loan agreement with DWP.

5.4 Key business relationships

NEST Corporation has worked closely with its suppliers, particularly with TCS which is responsible for scheme administration services, to ensure that the scheme will work effectively. TCS plays an integral role in the governance arrangements for the delivery of the scheme so that planning and monitoring is carried out in a spirit of partnership, while ensuring that accountabilities remain clear and distinct. We have also found that working physically alongside our TCS partners is the most effective way of identifying and resolving implementation issues.

5.5 Corporate responsibility

NEST Corporation has been undertaking a programme of work to understand the full reach of its corporate responsibilities this year. Within the first year for NEST we have established a baseline across the wide remit of corporate responsibility, and focused on two key priorities:

- embedding corporate responsibility into our investment strategies and practices as the bedrock of delivering members' interests
- working on the vision, values and culture of NEST as an organisation through our culture programme, and developing NEST as a mature, sustainable organisation, with extensive involvement from our people and key partners.

As such, this year's reporting represents a wider set of considerations than have been considered in previous years, however there is more to do. Within 2012/13 we will publish our Corporate Responsibility Strategy, along with our delivery plan for these activities and begin implementing against this.

We have defined our corporate responsibility policy principle:

'NEST Corporation will seek to understand the full reach of our corporate footprint on both our members and the wider environment. We will look to understand our customers' and stakeholders' expectations of us as a corporate citizen and we will look to create a considered and consistent approach to our corporate behaviours, being transparent as an organisation and explaining our approach where it does not conform with others' expectations. The members' interests will be at the centre of all we do in these activities.'

The corporate responsibility strategy will set out a clear set of reporting standards and measures in line with best practice, to demonstrate how we are performing against this principle. These will be reported against in future years' annual reports and accounts.

Key features of our corporate responsibility work have been:

- responsible investments
- we have appointed The Co-operative Asset Management as a responsible ownership partner and worked with them and Manifest (the proxy voting agency) to develop an in-house capability to matrix and consolidate our fund managers' voting activity.
- signing up to the United Nations-backed Principles for responsible investment and the UK Stewardship Code, and become an affiliated member of UK Sustainable Investment and Finance Association (UKSIF).
- continuing to promote key requirements to retain and motivate our people such as health and safety at work, equality and diversity, succession planning and employer benefits including using NEST's scheme for our own people.
- extensive stakeholder engagement
- support for social and community issues
- promoting sustainability by:
  - increasing the proportion of recyclable waste while aiming to reduce total waste volume
  - maximising the use of public transport in preference to other forms of transport, while minimising travel overall
  - ensuring electricity usage is kept to a minimum
  - working towards increasing environmentally friendly office suppliers
  - seeking to improve the sustainability of our supply chain.

More on our corporate responsibility work can be found in Annex 2.

Whilst NEST falls outside of the requirement of the government FReM section 5.2.9 to produce a sustainability report, a sustainability report has been included in Annex 2 as an indication of our commitment.

5.6 Sickness absence

Details of staff sickness can be found on page 93 of Annex 2.

5.7 Pension Liabilities

A description of the pension arrangement for NEST staff is given in the remuneration report and the accounting treatment is described in accounting policy 1.9 and note 2b to the financial statements.

5.8 Register of interests

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

The Trustee Member register of interests is published on our website at **www.nestpensions.org.uk**

5.9 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. The cost for the work performed by the auditors for the year ended 31 March 2012 is £68k (2010-11: £85k).

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 did not make any payments to their auditors for non-audit work.

5.10 Political and charitable donations

NEST Corporation did not make any political or charitable donations in the year.

5.11 Information and data management

NEST Corporation is committed to supporting a secure electronic environment to conduct its business and has established a comprehensive information security management system (ISMS) that is certified against International Organization for Standardization (ISO) 27001:2005. NEST Corporation has also established a data protection policy, which articulates its approach to the protection of personal data. It complies 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 detailed information on our management of information risk and compliance with the relevant aspects of the security policy framework to the Department for Work and Pensions (DWP). This is incorporated within the DWP submission to the department's senior information risk officer. During 2011/12, there was no loss or compromise of personal data that required reporting to the DWP's senior information risk officer. In addition there were no instances of other protected personal data related incidents that required recording internally by the NEST information security team.

5.12 Payments to suppliers

In accordance with HM Treasury's publication Managing Public Money, NEST Corporation complies with the British Standard for achieving good payment performance in commercial transactions and with the Late Payment of Commercial Debts (Interest) Act 1998, as amended. We aim to pay all undisputed invoices within 30 days of receipt (or other terms as may be applicable).

It is NEST Corporation practice to:

- settle the terms of the payments with suppliers when agreeing the terms of each transaction and pay bills in accordance with the contract
- ensure that suppliers are made aware of the terms of payment,
- during 2011/12 the average time taken to pay suppliers was 18 days, compared to 18 days in 2010/11.

The value of debt owing to suppliers at 31 March 2012 amounted to 6 days' invoices (31 March 2011: 5 days).

5.13 Events after the reporting date

There were no significant post year-end events.

Tim Jones
Chief executive and accounting officer
NEST Corporation

5 July 2012

06 Remuneration report

The remuneration disclosures relate to NEST Corporation Trustee Members and the CE, 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. He is contracted to work 2.5 days per week. All other NEST Corporation Trustee Members are contracted to work 30 days per annum. Trustee Members were appointed by the Secretary of State for an initial period of either four or five years. In accordance with section 7 of schedule 1 of the Pensions Act 2008, the remuneration of Trustee Members is determined by the Secretary of State. Contracts allow for extra work to be remunerated on a pro rata basis.

NEST Corporation's remuneration committee comprises four Trustee Members: Sue Slipman (chair), Laurie Edmans, Enid Rowlands and Nigel Stanley. It has 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 on page 25.

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

- eligibility to be considered for a non-consolidated annual performance-related pay scheme of up to 20 per cent of basic salary
- an invitation (upon appointment) to join the NEST Corporation defined contribution pension scheme, to which employer contributions were 8 per cent for those who participate
- 25 days paid holiday per annum initially rising by length of service
- critical illness cover
- death in service life cover of three times salary.

Pension

NEST Corporation's defined contribution pension scheme compromises three schemes:

- NEST pension scheme
- top-up arrangements with Aviva for employees contributing above NEST's contribution cap
- a Zurich scheme (the 'NEST Corporation Group Personal Pension Plan') for employees who have not transferred to the NEST/Aviva arrangements.

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

Performance-related pay

The remuneration committee reviewed the options available to them to make a decision on performance-related pay. In doing so, the committee decided levels of reward consistent with employment contracts. The CE decided not to take the full award in the current year after taking into account the additional caps that Ministers had imposed on DWP and their sponsored NDPBs for people in Senior Civil Service (SCS) pay bands or equivalents.

The chief executive has the opportunity of securing a non-consolidated terminal performance related payment of up to 50 per cent of basic salary, based upon meeting a set of performance targets set initially by the acting chair and other non-executive members of the board of PADA, in consultation with DWP, and subsequently by the chair of NEST.

Compensation

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

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 4.3 for 2011/12 (£232,500 compared with £54,050). For this comparison, total remuneration includes salary, benefits in kind as well as severance payments. It does not include employer pension contributions or the cash equivalent transfer value of pensions. For 2011/12, as decisions on performance-related pay have not yet been made, no amount for this has been included in the remuneration figures for either the median or the highest paid director. The figures for 2010/11 include performance related pay in respect of 2010/11. The small increase in the ratio from 2010/11 to 2011/12 reflects a reduction in median remuneration as NEST has moved to a higher proportion of permanent staff and a lower proportion of interim staff who are typically more highly paid.

Remuneration

The information in the table below has been audited.

	Contract details			2011/12				2010/11			
Name and position	Contract start date	Unexpired term as at 31 March 2012	Notice period	Full-year equivalent salary and allowances (£000)	Salary and allowances paid (£000)	Performance related payments (£000)	Taxable expenses (to nearest £100)	Full-year equivalent salary and allowances (£000)	Salary and allowances paid (£000)	Performance related payments (£000)	Taxable expenses (to nearest £100)
Lawrence Churchill Chair	01/02/2010	2 years 10 months	3 months	95-100	95-100	N/A	26,700	95-100	70-75	N/A	13,600
Paul Hewitt Trustee Member	01/04/2010	2 years	3 months	20-25	20-25	N/A	1,500	20-25	20-25	N/A	3,800
Sue Slipman Trustee Member	01/04/2010	3 years	3 months	20-25	20-25	N/A	300	20-25	15-20	N/A	–
Laurie Edmans Trustee Member	01/04/2010	2 years	3 months	20-25	20-25	N/A	700	20-25	10-15	N/A	–
Julius Pursaill[1] Trustee Member	01/04/2010	2 years	3 months	20-25	35-40	N/A	2,200	20-25	15-20	N/A	800
Tom Boardman[1] Trustee Member	01/04/2010	3 years	3 months	20-25	25-30	N/A	2,300	20-25	20-25	N/A	500
Chris Hitchen Trustee Member	01/04/2010	3 years	3 months	20-25	20-25	N/A	0	20-25	10-15	N/A	–
Enid Rowlands Trustee Member	11/07/2011	4 years	3 months	20-25	10-15	N/A	1,700	–	–	N/A	–
Sharon Darcy Trustee Member	20/06/2011	4 years	3 months	20-25	15-20	N/A	0	–	–	N/A	–
Nigel Stanley Trustee Member	20/06/2011	4 years	3 months	20-25	15-20	N/A	0	–	–	N/A	–
Iraj Amiri Trustee Member	20/06/2011	4 years	3 months	20-25	15-20	N/A	1,900	–	–	N/A	–
Tim Jones[2] Chief executive	08/10/2007	1 year 9 months	3 or 6 months	230-235	230-235	See note 2	0	235-240	235-240	15-20	–

	Contract details			2011/12				2010/11			
Name and Position	**Contract start date**	**Unexpired term as at 31 March 2012**	**Notice period**	**Full-year equivalent salary and allowances (£000)**	**Salary and allowances paid (£000)**	**Performance related payments (£000)**	**Taxable expenses (to nearest £100)**	**Full-year equivalent salary and allowances (£000)**	**Salary and allowances paid (£000)**	**Performance related payments (£000)**	**Taxable expenses (to nearest £100)**
Midpoint of banding of highest paid director's total remuneration[3] (£)				232,500				252,500			
Median total remuneration[3] (£)				54,050				60,500			
Ratio				4.3				4.2			
Diane Hayter Trustee Member	01/04/2010	N/A	N/A	N/A	N/A	N/A	N/A	20-25	5-10	N/A	-
Jeannie Drake Acting Chair, PADA	17/09/2007	N/A	N/A	N/A	N/A	N/A	N/A	85-90	20-25	N/A	-
Chris Wilford Non-executive member, PADA	15/05/2008	N/A	N/A	N/A	N/A	N/A	N/A	20-25	5-10	N/A	100
Alison Wright Non-executive member, PADA	15/05/2008	N/A	N/A	N/A	N/A	N/A	N/A	20-25	5-10	N/A	-
Simon Richards[3] Director, PADA	10/09/2008	N/A	N/A	N/A	N/A	N/A	N/A	200-205	50-55	10-15	-
Helen Dean[3] Director, PADA	01/02/2009	N/A	N/A	N/A	N/A	N/A	N/A	105-110	25-30	10-15	16,700

Notes

1 All the Trustee Members except the Chair are contracted for 30 days a year. The remuneration for Julius Pursaill and Tom Boardman reflects the fact that they put in additional days beyond those contracted for.

2 The performance-related payment for Tim Jones in 2010/11 column was paid in 2011/12 but related to the 2010/11 performance year. Performance-related pay for 2011/12 may become payable once it has been determined and agreed by the remuneration committee and approved by Trustee Members. Such payments will be reported in the first financial statements approved by the Trustee after payment has been agreed by the remuneration committee. He decided not to take the full award in the current year after taking into account the additional caps that Ministers had imposed on DWP and their sponsored NDPBs for people in Senior Civil Service (SCS) pay bands or equivalents.

3 The figures for 2010/11 include performance-related pay in respect of 2010/11. Those for 2011/12 do not include performance-related pay, as this has yet to be decided.

4 The performance-related payments for Simon Richards and Helen Dean in 2010/11 column were paid in 2011/12 but related to the 2010/11 performance year for part of which they were Directors of PADA.

5 Simon Richards and Helen Dean were Directors of PADA. Helen Dean, who is seconded from DWP, ceased her secondment with PADA on 2 July 2010. DWP agreed a new secondment to NEST Corporation from 5 July 2010 to 31 December 2011. The salary and allowances reported as paid to Helen Dean in 2010/11 include a secondment allowance. In addition to the amounts disclosed in the table for the period 1 April to 4 July 2010 in respect of Helen Dean, PADA also paid DWP for employer National Insurance costs of £3k and employer pension contributions of £5k. The amounts shown for Helen Dean and Simon Richards for 2010/11 relate solely to the period 1 April 2010 to 4 July 2010 – the period during which they were members of the PADA board.

Tim Jones
Chief executive and accounting officer
NEST Corporation

5 July 2012

Sue Slipman
Trustee Member
Chair, remuneration committee

5 July 2012

07 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 Department for Work and Pensions 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

5 July 2012

08 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 year ended 31 March 2012 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. 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 2012 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 Trustee Members' Report and the Management Commentary 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.

Amyas C E Morse
Comptroller and Auditor General

10 July 2012

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

National Employment Savings Trust Corporation Statement of Comprehensive Net Expenditure

for the year ended 31 March 2012

	Note	Year ended 31 March 2012 £000	Restated year ended 31 March 2011 £000
Expenditure			
Staff costs	2a	(18,793)	(15,230)
Depreciation and amortisation	3	(5,677)	(299)
Other expenditure	3	(25,308)	(10,369)
		(49,778)	**(25,898)**
Income			
Grant income	4,22	10,832	*1,214
Other income	5	28	11
Net expenditure	22	**(38,918)**	***(24,673)**
Interest payable	6	(9,597)	(4,952)
Net expenditure after interest	22	**(48,515)**	***(29,625)**
Net expenditure after interest deducted from general reserve		**(48,515)**	***(29,625)**
Other comprehensive expenditure		–	–
Total comprehensive expenditure for the year	22	**(48,515)**	***(29,625)**

*See note 22 for restatement

The accounting policies and notes on pages 57 to 87 form part of these financial statements

National Employment Savings Trust Corporation Statement of Financial Position

as at 31 March 2012

	Note	31 March 2012 £000	31 March 2011 £000
Non-current assets			
Property, plant and equipment	7	9,681	1,159
Intangible assets	8	39,820	378
Prepayments amounts falling due over one year	9a	6,373	–
Total non-current assets		**55,874**	**1,537**
Current assets			
Trade and other receivables	9b	12,833	28,148
Other current assets	9b	50	34
Cash and cash equivalents	10	14,591	22,912
Total current assets		**27,474**	**51,094**
Total assets		**83,348**	**52,631**
Current liabilities			
Trade and other payables	11a	(8,566)	(5,076)
Other liabilities	11b	(7,620)	(481)
Total current liabilities		**(16,186)**	**(5,557)**
Non-current assets plus net current assets		**67,162**	**47,074**
Non-current liabilities			
DWP Loan	12	(171,128)	(119,957)
Other liabilities	12	(17,315)	–
Provisions for liabilities and charges	12,13	(797)	(660)
Total non-current liabilities		**(189,240)**	**(120,617)**
Assets less liabilities		**(122,078)**	**(73,543)**
Taxpayers' equity			
General reserve		(122,111)	(73,596)
Lease incentive reserve	3d	33	53
		(122,078)	**(73,543)**

The financial statements on pages 53 to 87 were approved by the Trustee on 5 July 2012 and were signed on its behalf by Tim Jones.

Tim Jones
Chief executive and accounting officer

The accounting policies and notes on pages 57 to 87 form part of these financial statements.

National Employment Savings Trust Corporation Statement of Cash Flows

for the year ended 31 March 2012

	Note	Year ended 31 March 2012 £000	Restated year ended 31 March 2011 £000
Cash flows from operating activities			
Total comprehensive expenditure for the year		(48,515)	*(29,625)
Adjustment for non-cash items	21	4,292	337
(Increase) in trade and other receivables	9	(2,269)	*(264)
Increase in trade and other payables	11	3,659	1,607
Increase/(decrease) in provisions	13	137	(22)
Net cash outflow from operating activities	22	**(42,696)**	***(27,967)**
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets	21	(8,042)	(813)
Advance payments	21, 22	(8,754)	*(27,645)
Net cash outflow from investing activities		**(16,796)**	**(28,458)**
Cash flows from financing activities			
Loan received from parent department	12	51,171	148,757
Loan repaid to parent department		–	(69,859)
Net cash inflow from financing activities	22	**51,171**	***78,898**
Net (decrease)/increase in cash and cash equivalents in the period	10	**(8,321)**	**22,473**
Cash and cash equivalents at the beginning of the period		22,912	439
Cash and cash equivalents at the end of the period	10	**14,591**	**22,912**

*See note 22 for restatement

The accounting policies and notes on pages 57 to 87 form part of these financial statements.

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

for the year ended 31 March 2012

	Note	Lease incentive reserve £000	Restated general fund £000	Restated total reserves £000
Balance at 1 April 2010		**73**	**(43,971)**	**(43,898)**
Changes in taxpayers' equity 2010/11				
Release of reserves to the statement of comprehensive net expenditure	3d	(20)	–	(20)
Net expenditure after interest	22	–	*(29,625)	*(29,625)
Total recognised income and expenditure for 2010/11	22	**(20)**	**(29,625)**	**(29,645)**
Total taxpayers' equity as at 31 March 2011	22	**53**	***(73,596)**	***(73,543)**
Changes in taxpayers' equity 2011/12				
Release of reserves to the statement of comprehensive net expenditure	3d	(20)	–	(20)
Total comprehensive expenditure for the year		–	(48,515)	(48,515)
Total recognised income and expenditure for 2011/12		**(20)**	**(48,515)**	**(48,535)**
Total taxpayers' equity as at 31 March 2012		**33**	**(122,111)**	**(122,078)**

*See note 22 for restatement

The accounting policies and notes on pages 57 to 87 form part of these financial statements.

Notes to the accounts

1 Statement of accounting policies

1.1 Basis of preparation and statement of compliance

These financial statements have been prepared in accordance with the 2011/12 *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.

All amounts included in these financial statements have been rounded to the nearest £1k unless stated otherwise.

NEST Corporation is required, under the Pensions Act 2008, to prepare its accounts for the period from 1 April 2011 to 31 March 2012, 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, the Trustee of NEST, and do not present the accounts of NEST's pension scheme, which launched in July 2011.

1.2 Going concern

The financing of NEST Corporation is met through a combination of loan and grant income funding supplied through the Department for Work and Pensions (DWP), which is approved annually by Parliament. In November 2010 we signed a loan agreement with 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. Consequently, the going concern basis has been adopted for the preparation of these accounts.

1.3 Accounting standards, interpretations and amendments

Adopted in these financial statements

All International Financial Reporting Standards, interpretations and amendments to published standards, effective at 31 March 2012, have been adopted in these financial statements, taking into account the specific interpretations and adaptations included within the FReM.

NEST Corporation has adopted the following new and amended IFRSs as of 1 April 2011:

IFRS 7 *Financial Instruments: Disclosures* (effective for periods beginning on or after 1 January 2011). The amendment clarifies requirements in respect of quantitative disclosures and exposure to credit risk. There has been no impact on NEST Corporation's financial statements as a result of this amendment.

IAS 24 *Related Party Transactions* (effective for periods beginning on or after 1 January 2011). This amendment provides exemption for full disclosure of transactions with state-controlled entities and clarifies the definition of a related party. The amendment does not impact the exemption previously allowed within the FReM.

Effective for future financial years

The following IFRSs, International Financial Reporting Interpretations Committee (IFRIC) interpretations and amendments applicable to NEST Corporation, have been issued but are not yet effective and have not been early adopted by NEST Corporation.

IFRS 7 *Financial Instruments: Disclosures* (effective for periods beginning on or after 1 July 2011). Detailed disclosures are required for financial assets transferred to another entity but not derecognised in their entirety and financial assets derecognised in their entirety but in which the reporting entity has an involvement. NEST Corporation does not expect there to be any transactions requiring disclosure but will assess further as appropriate for the 2012/13 financial statements.

IFRS 9 *Financial Instruments: Classification and Measurement* (effective for periods beginning on or after 1 January 2015). IFRS 9 is a replacement for IAS 39 *Financial Instrument: Recognition and Measurement* and introduced new requirements for the classification and measurement of financial assets. NEST Corporation will undertake an assessment of the impact of IFRS 9 nearer to the date of adoption.

1.4 Accounting convention

These accounts have been prepared under the historical cost convention, modified for the revaluation of certain assets and liabilities at fair value, as determined by the relevant IFRS and IFRIC interpretations.

1.5 Areas of judgement

The preparation of accounts in accordance with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenditure. These are based on historic and other factors that are believed to be reasonable, the results of which form the basis for making judgements. The estimates and underlying assumptions are reviewed on an ongoing basis. Specific areas of judgement include aspects of the treatment of assets used by

Tata Consultancy Services to administer the scheme, our estimate of the percentage of costs that are not chargeable to scheme members, depreciation and amortisation periods and provisions.

1.6 Estimation techniques

Revaluation of intangible assets

The FReM interpretation of IAS 38 *Intangible Assets* 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, but only at year end and only if the impact is over 1 per cent of the net book value of the relevant asset class. The rationale to support the selection of the index is detailed below:

Software licences

In management's view there is no index currently available that provides a flawless result and, due to organisational and pricing structure changes among software suppliers, no trend information is available on the specific licences held by NEST Corporation. As the next best alternative, the index viewed by management 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*. The main assumption being that although this index 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 this is the best available proxy to establish fair value for IT-related assets.

1.7 Expenditure

All expenditure is recognised on an accruals basis.

1.8 Staff benefits

Short-term staff benefits, such as salaries and paid absences, are accounted for on an accruals basis over the period for which employees have provided services in the year. To the extent that NEST Corporation has benefited from service thought likely to merit recognition through a bonus payment, a general accrual for staff bonuses, including directors, is included within staff costs. However, as directors' bonuses are not agreed at the financial year-end, they are not included in the remuneration report until payments to individuals have been determined by the remuneration committee. They will be included in the first financial statements approved by the Trustee after payment has been agreed by the remuneration committee.

1.9 Pension costs

NEST Corporation operates a number of pension schemes to meet the diverse needs of our workforce. These are:

- the NEST Corporation Group Personal Pension Plan (formerly the PADA Group Personal Pension Plan), a defined contribution pension scheme for the Corporation's directly employed staff who are employed on fixed-term contracts
- the NEST pension scheme, a retirement date fund scheme for all permanent employees
- an Aviva top-up scheme, a defined contribution pension scheme for the Corporation's directly employed staff who are employed on permanent contracts and who are eligible to access these top-up arrangements.

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

The pension costs of civil servants on secondment to NEST Corporation are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS) which are described in DWP's annual report and accounts. PCSPS costs for civil servants on secondment to NEST Corporation are included in the payment made by NEST Corporation to the government departments from where the staff were sourced as part of the reimbursement of their employment costs. There is no residual liability for NEST Corporation in respect of PCSPS.

1.10 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.

1.11 Insurance

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

1.12 Income and funding

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's classification as a public corporation after scheme launch, grant received from DWP is treated as income, rather than financing. This has retrospective effect on the accounting treatment of grant received in 2010-11, requiring a number of restatements, as explained in note 22.

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 DWP. It is treated as income.

Those costs not associated with functions of government and not met by deductions from contributions from members are funded by means of loans from 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 loan to DWP. It also receives from DWP a grant sufficient, in effect, to reduce the interest payable on the loan 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.

1.13 Property, plant and equipment

Property, plant and equipment are stated at fair value. However, as permitted by the FReM, NEST Corporation has elected to adopt a depreciated historical cost basis as a proxy for fair value where assets have a short useful life or are of relatively low value. This applies to all assets NEST Corporation discloses as property, plant and equipment.

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 £1k. Where an item costs less than the capitalisation limit, but forms an integral part of a package or pool of items whose total value is greater than the capitalisation level, the item is treated as a capital asset.

On initial recognition, assets are measured at cost, including any costs such as installation which are directly attributable to bringing them into working condition and any associated decommissioning costs. 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.

Unless otherwise provided for in an earlier period, all expenditure on repairs and maintenance is charged to the statement of comprehensive net expenditure during the financial period in which it is incurred.

Scheme administration contract assets

NEST Corporation has concluded that IFRIC 12, as adopted by the FReM, applies to the scheme administration contract with TATA Consultancy Services (TCS). Consequently the financial statements should recognise such dedicated non-current assets used by TCS in delivering the service that NEST Corporation effectively controls through the provisions of the scheme administration contract. These assets comprise hardware, software licences and developed software.

Hardware, such as servers in the UK and India used for scheme administration, have been classified as tangible scheme assets and are included in property, plant and equipment. Software licences used by TCS for scheme administration have been classified as intangible assets in the financial statements. Staffing costs incurred by TCS in configuring software to meet NEST Corporation's requirements have been classified as scheme-developed software with intangible assets. Details of how accounting policies are applied to these different classes of assets are set out in the appropriate sections of these notes.

The non-current assets are recognised when they became available for use, on the satisfaction by TCS of the associated milestone criteria. NEST Corporation's own costs are expensed as they are incurred unless they can be clearly attributed to specific scheme administration assets.

Advance payments under the contract which are made in respect of assets that have not yet come into use are recognised as prepayments. On initial recognition of the assets, the extent to which asset value exceeds the associated milestone payments is recognised as a finance lease liability.

Initial asset values are based on cost information provided by TCS under the terms of the contract. NEST Corporation has performed tests of reasonableness of this information and, in accordance with IAS 16 *Property Plant and Equipment* and IAS 38 *Intangible Assets*, has initially recognised the assets at cost.

Hardware costs have been taken from the non-current asset register supplied under the contract by TCS. This documents the hardware used by TCS exclusively for scheme administration under the contract. As the contract specifies that these assets are to be used exclusively for the scheme administration and gives NEST Corporation certain rights and controls over these assets, NEST Corporation has concluded that it is appropriate to include the assets on its statement of financial position.

NEST finance department has reviewed the items on the non-current register. On the basis that the bundles of assets are recorded at the cost incurred by TCS for each bundle and the assumption that the cost paid by TCS reflected the economic value placed by TCS on the purchase, NEST has concluded that the valuation provided by TCS is appropriate for NEST Corporation to use for the initial value of the assets in its accounts.

The FReM permits entities to adopt a depreciated historical cost basis as a proxy for fair value where the assets have a short useful life or low value. NEST

Corporation has judged that the five year asset life of hardware assets is relatively short and consequently has decided to use depreciated historical cost as a proxy for fair value.

Asset refresh has been assumed after five years, following discussion with TCS over their asset replacement strategy. They have said that this is the likely average useful economic life of the assets, though clearly some individual items may need replacement sooner than this and others later. NEST Corporation do not believe it is useful or necessary to vary this assumption by type of asset.

An element of the annual service charge paid to TCS is attributed to asset replacement, accounted for as a prepayment up until the actual date of asset replacement. If, at replacement the prepayment is less than the cost of the replacement asset, the balance is recognised as an additional finance lease liability.

1.14 Land and buildings

In the period, NEST Corporation occupied three properties, under a combination of operating leases and rental contracts. These costs are expensed as they are incurred.

1.15 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 £1k are capitalised at cost as intangible assets and subsequently revalued. Where an item costs less than the capitalisation limit, but forms an integral part of a package or pool of items whose total value is greater than the capitalisation level, the item is treated as a capital asset. Expenditure on annual software licences is recognised in the statement of comprehensive net expenditure.

NEST Corporation capitalises website development costs in accordance with SIC 32 *Web Site Costs* where the recognition criteria determined by IAS 38 *Intangible Assets* are met. During the reporting period no such costs have satisfied the criteria.

Scheme software licence costs for the TCS contract have been taken from the non-current asset register supplied by TCS under the contract. For the same reasons as those applying to hardware used for the contract, NEST Corporation has concluded that TCS's valuation of the licences is appropriate for NEST's financial statements.

The costs of software development incurred by TCS for scheme administration are capitalised in accordance with IAS 38, based on TCS's own records of those costs, excluding an estimate from TCS for expenditure which is appropriate to be expensed, such as training and project management.

Software development costs have been taken from TCS's quarterly financial reports supplied to NEST Corporation. According to the original bid model, some 12 per cent of TCS's projected staff set-up costs were expected to relate to overhead activities such as training and project management which would not be appropriate to capitalise while the balance of the costs were for the business analysis, design, build and testing of software which NEST Corporation believes is appropriate to capitalise. TCS have confirmed that the actual percentage of staff effort on activities not appropriate to capitalise has been broadly in line with the assumption in the bid model. In view of this, NEST Corporation judges that the percentage of overhead lies between 10 per cent and 20 per cent and has decided to capitalise 85 per cent of TCS's incurred staff set up costs.

NEST management have judged that it is not appropriate to capitalise the effort of NEST's own staff in the joint work with TCS on design, as this has effectively been part of the process of defining NEST's own requirements.

NEST believes that software development costs incurred up to, but not including, the month of a milestone should be capitalised once TCS have satisfied milestone payment conditions. TCS satisfied the conditions of Service Implementation Milestone 2.1 on 28 March 2012. While some of TCS' set-up activity in 2011/12 related to subsequent service implementation milestones, this is not separately identified in the quarterly financial reports. NEST Corporation has judged that it is not necessary to make an adjustment to the capitalised software to reflect this, on grounds of materiality and the fact that TCS have satisfied the criteria for certain advance payments relating to subsequent milestones.

NEST has concluded that the useful economic life of the capitalised software development assets should be regarded as the currently expected duration of the contract (eight years to 2020).

1.16 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.

1.17 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, or if shorter 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 the hardware asset refresh is likely to be accompanied by upgrading of software licences.
- scheme developed software; as described in accounting policy 1.15, 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.

1.18 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. Each year, the realised element of the reserve (that is, an amount equal to the excess revaluation of the actual depreciation over depreciation based on historical cost) is transferred from the reserve to the general fund.

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 fund 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 fund. 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.

1.19 Financial assets and financial liabilities

Financial assets and financial liabilities are recognised in NEST Corporation's statement of financial position when it becomes party to contracts that give rise to them. NEST Corporation determines the classification of financial assets and liabilities at initial recognition in line with the categories designated by IAS 39: *Financial Instruments: Recognition and Measurement* as appropriate. Financial assets are derecognised when the right to receive cash flows has expired or NEST Corporation has transferred substantially all the risks and rewards of ownership or control of the asset. Financial liabilities are derecognised when the obligations under the liability are discharged, cancelled or expire. It is, and has been, NEST Corporation policy that no trading in financial instruments is undertaken.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and which are not classified as available for sale. Loans and receivables are initially recognised at fair value and subsequently held at amortised cost. The fair value of trade and other receivables is usually the original invoiced amount.

Cash and cash equivalents comprise current balances with banks and similar institutions, which are readily convertible to known amounts of cash and which are subject to insignificant changes in value.

Fair value

The fair value of a financial instrument is the amount for which an asset could be exchanged, or a liability settled, in an arm's-length transaction between knowledgeable willing parties. Where the classification of a financial instrument requires it to be stated at fair value, that fair value is determined using expected cash flows discounted back to a present value.

Impairment of financial assets

NEST Corporation assesses, at the end of the reporting period, whether there is objective evidence that financial assets are impaired as a result of events that occurred after the initial recognition of the asset and prior to the end of the reporting period. If such events had an adverse impact on the estimated future cash flows of the financial instrument they are impaired and the value within the statement of financial position is reduced by the amount of any impairment.

The amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows and is recognised in the statement of comprehensive net expenditure.

Interest, impairment losses and translation differences on monetary items are recognised in the statement of comprehensive net expenditure.

1.20 Inventories

NEST Corporation holds no inventories other than consumable items, the costs for which are expensed as they are incurred.

1.21 Provisions

Provisions are recognised when NEST Corporation has a present legal or constructive obligation arising as a consequence of past events and where it is probable that a transfer of economic benefit will be necessary to settle that obligation. These obligations, which are of uncertain timing or amount at the end of the reporting period, are included 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 3).

The increase in the provision due to unwinding of the discount is recognised as an expense in the statement of comprehensive net expenditure.

1.22 Leases

Leases are classified as finance leases if the terms of the lease involve the transfer of substantially all the risks and rewards of ownership to the lessee. All the other leases are classified as operating leases and the rentals paid are charged to the statement of comprehensive net expenditure as incurred.

As set out above at 1.13, NEST Corporation has concluded that the scheme administration contract with TCS involves a service concession arrangement and a finance lease in respect of the assets used by TCS for the service.

Leased assets classified as a finance lease are capitalised at the lower of the present value of the minimum lease payments discounted by the interest rate implicit in the lease or the fair value of the leased asset. Obligations relating to finance leases are recognised as liabilities. Lease payments are apportioned between reductions in the capital obligation included in liabilities and the interest element of the finance lease payment, which is charged to the statement of comprehensive net expenditure over the period of the lease.

The contract with TCS does not stipulate an interest expense element in relation to the provision of assets used for scheme administration. Therefore, as permitted by the FReM, NEST Corporation has concluded that the best proxy for the interest rate implicit in the contract is NEST's weighted average cost of capital.

1.23 Lease incentives

Assets received from third parties which are regarded as falling within the SIC 15 *Operating Lease Incentives* definition of lease incentives 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.

1.24 Contingent liabilities

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is uncertain or cannot be reliably measured. Contingent liabilities are not recognised but are disclosed, unless they are remote.

In addition to contingent liabilities disclosed in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, NEST Corporation discloses certain statutory and non-statutory contingent liabilities where the likelihood of a transfer of economic benefit is remote. These must be reported to Parliament in accordance with the requirements of *Managing Public Money*.

These liabilities comprise:

- items over £250k (or lower, where required by specific statute) that do not arise in the normal course of business and which are reported to Parliament by departmental minute before NEST Corporation enters into the agreement, and
- all items (whether or not they arise in the normal course of business) over £250k (or lower, where required by specific statute) which are required by the FReM to be noted in the accounts.

Where the time value of money is material, contingent liabilities that are required to be disclosed under IAS 37 are stated at discounted amounts and the amount reported to Parliament separately noted. Contingent liabilities that are not required to be disclosed by IAS 37 are stated at the amounts reported to Parliament.

1.25 Operating segments

IFRS 8 *Operating Segments* applies in full to NEST Corporation. In preparing the financial statements, NEST Corporation has considered the IFRS 8 requirement to report results by operating segment. NEST Corporation has concluded that it does not have separate operating segments as defined by the standard.

2 Staff numbers and related costs

2a Staff costs

NEST Corporation is staffed by a combination of direct employees, staff seconded from other organisations (the majority from DWP), and a number of interim staff.

	Year ended 31 March 2012 £000	Year ended 31 March 2011 £000
Directly employed staff		
Wages and salaries	12,044	9,389
Social security costs	1,461	1,128
Pension costs	685	593
Sub-total	**14,190**	**11,110**
Secondees	1,100	1,913
Interim staff	3,503	2,207
Total	**18,793**	**15,230**

2b Pension arrangements

NEST Corporation operates three defined contribution pension schemes for its directly employed staff. There were 144 workers in these pension schemes as at 31 March 2012 (31 March 2011: 120). NEST Corporation recognises the employer costs in the period in which they are incurred. At 31 March 2012 there was one month's contributions outstanding amounting to £100k (31 March 2011: £113k).

The pension costs of civil servants on secondment to NEST Corporation are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS) which are described in the parent department's annual report and accounts. PCSPS costs for civil servants on secondment to NEST Corporation are included in the payment made by NEST Corporation to the government departments from where the staff were sourced as part of the reimbursement of their employment costs and reflected in secondee costs in the table above. There is no residual liability for NEST Corporation in respect of PCSPS.

2c Average number of staff employed

	Year to 31 March 2012 Average full- time equivalents	Year to 31 March 2011 Average full- time equivalents
Directly employed staff	182	141
Secondees	15	25
Interim staff	28	18
Total average number of staff	**225**	**184**

3 Depreciation, amortisation and other expenditure

	Note	Year ended 31 March 2012 £000	Year ended 31 March 2011 £000
Depreciation and amortisation	7,8	5,677	299
Professional advice and support		4,602	2,472
Legal fees and expenses		1,894	2,262
Scheme administration expenses	3e	10,237	–
Scheme investment costs	3f	592	–
Recruitment and other staff costs		1,769	1,570
Information technology and telephony	3a	1,741	1,095
Research costs		1,400	855
Accommodation	3b	950	841
Rentals under operating leases		648	650
Other running costs		1,002	325
Internal audit		189	116
Auditor's remuneration – inc statutory audit			
–Corporation (National Audit Office)		68	85
–Scheme (KPMG)		30	–
Unwinding of discount on provisions	3c, 13	55	60
Devaluation of intangibles	8	(17)	54
Loss on disposal of non-current assets		68	4
Release of reserve	3d	(20)	(20)
Increase in provision	13	100	–
Sub total – *Other expenditure*		**25,308**	**10,369**
Total		**30,985**	**10,668**

NEST's weighted average cost of capital is the effective cumulative interest rate on the loan from DWP. Under the terms of the loan agreement NEST borrows at a fixed commercial rate of interest prevailing at the time of each drawdown, but it also receives a grant from DWP which is calculated so as to bring the effective rate of interest NEST pays from the commercial rate to the government rate. The weighted cumulative interest rate of borrowing up to 31 March 2012, taking into account that subsidy, is 3.6 per cent. The 2010/11 accounts reflected the fact that at that date NEST had not yet become eligible for the DWP loan interest subsidy so, depending on the context, they used the weighted average of the commercial interest rate on loan funding (7.3 per cent at 31 March 2011) or the real equivalent of this rate, excluding inflation (3.2 per cent at 31 March 2011).

a. Monthly service costs relating to the contract with Northgate Managed Services are expensed as they are incurred.

b. In addition to its primary location, NEST Corporation rented space from DWP in a fully serviced building. NEST Corporation has no lease commitment with the DWP, the costs of occupancy of the building being invoiced on a monthly basis and expensed as they are incurred. NEST Corporation also pays for office space occupied at the scheme administrator's UK premises. These costs are expensed as they are incurred.

c. During 2008/09, PADA created a provision for property repairing liabilities. The provision is discounted at NEST Corporation's weighted average cost of capital. The discount is unwound each year, resulting in an unwinding charge in the statement of comprehensive net expenditure.

d. PADA created a lease incentive reserve in 2008/09 to recognise the value of assets received as consideration to facilitate the transfer of the lease for one of the properties now occupied by NEST Corporation. This reserve, together with all assets and liabilities, transferred to NEST Corporation on 5 July 2010. The lease incentive reserve is being amortised over the period of the lease (5.75 years) on a straight-line basis.

e. Scheme administration expenses reflect volume related service charges paid monthly to TCS for scheme administration services adjusted to reflect the implications of the existence of a finance lease in respect of the assets used by TCS for the services.

f. Scheme investment costs comprise the costs of fund administration services provided by State Street and fund management costs.

4 Grant income

	Year ended 31 March 2012 £000	Year ended 31 March 2011 £000
Grant income for non chargeable costs	1,002	1,214
Public service obligation offset payment	9,830	–
Total	**10,832**	**1,214**

Costs associated with the functions of government are not chargeable to NEST members and are met through grant income funding from 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 has been receivable from DWP which has the effect of reducing the cost of servicing the loan to the government cost of borrowing. This offset payment was received on the first loan interest payment date following the practical commencement of the public service duty when NEST took in its first members. This offset payment is included in the accounts as the public service obligation offset payment received of £9.8m.

In the 2010/11 financial statements, the grant income for non-chargeable activities was treated as financing, rather than income, on a cash, rather than accruals, basis in line with the FReM. With the practical commencement of the public service duty, NEST became classified as a public corporation. In the light of this and the application of the *Alignment (Clear Line of Sight)* changes to central government accounting, HM Treasury has confirmed that both the grant income for non-chargeable activities and the public service obligation offset payment are to be treated as income, rather than financing, and on an accruals basis. The 2011/12 financial statements reflect this and the relevant figures in the 2010/11 financial statements have been restated.

5 Other income

	Year ended 31 March 2012 £000	Year ended 31 March 2011 £000
Interest received and receivable	21	11
Contribution charges received and receivable	7	–
	28	**11**

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 of contributions from members of NEST pension scheme and the 0.3 per cent per annum charge on the value of NEST pension scheme investments under management. These amounts are collected by the scheme and paid to NEST Corporation.

6 Interest payable

	Note	Year ended 31 March 2012 £000	Year ended 31 March 2011 £000
Loan interest paid and payable	19	**9,597**	**4,952**

Interest payable relates to interest charged on balances outstanding on the loan from DWP (see note 12).

7 Property, plant and equipment

2011/12	Furniture & fittings £000	Information technology[a] £000	Scheme hardware £000	Total £000
Cost				
As at 1 April 2011	216	1207	–	1,423
Additions	42	147	10,050	10,239
Disposals	(4)	(5)	–	(9)
As at 31 March 2012	**254**	**1,349**	**10,050**	**11,653**
Depreciation				
As at 1 April 2011	(93)	(171)	–	(264)
Charged in period	(43)	(253)	(1,416)	(1,712)
Disposals	1	3	–	4
Accumulated depreciation as at 31 March 2012	**(135)**	**(421)**	**(1,416)**	**(1,972)**
Net book value at 31 March 2012	**119**	**928**	**8,634**	**9,681**
Net book value at 31 March 2011	**123**	**1,036**	**–**	**1,159**
Asset financing:				
Owned	119	928	8,634	9,681
Net book value at 31 March 2012	**119**	**928**	**8,634**	**9,681**

Non current assets totalling £53.7m were added during the period (£10.2m property, plant and equipment, £43.5m intangible assets). These were financed by prepayments from 2010/11 (£21.2m), payments during the period (£7.6m for scheme assets and £0.4m for other assets) and the imputed finance lease liability of £24.5m.

Of the £53.7m non-current assets added, £51.1m have been used by TCS for scheme administration, £2.2m relate to environments used by NEST Corporation for user acceptance testing in relation to scheme administration and £0.4m relates to other assets used by NEST Corporation.

2010/11	Note	Furniture & fittings £000	Information technology[a,b] £000	Assets under construction[b] £000	Total £000
Cost					
As at 1 April 2010		208	60	881	1,149
Additions		15	14	789	818
Disposals		(7)	(23)	–	(30)
Reclassified as tangible IT assets[b]		–	1,156	(1,156)	–
Transferred to intangible assets[b]	8	–	–	(514)	(514)
As at 31 March 2011		**216**	**1,207**	**–**	**1,423**
Depreciation					
As at 1 April 2010		(57)	(14)	–	(71)
Charged in period		(40)	(158)	–	(198)
Disposals		4	1	–	5
Accumulated depreciation as at 31 March 2011		**(93)**	**(171)**	**–**	**(264)**
Net book value at 31 March 2011		**123**	**1,036**	**–**	**1,159**
Net book value at 31 March 2010		**151**	**46**	**881**	**1,078**
Asset financing:					
Owned		123	1,036	–	1,159
Net book value at 31 March 2011		**123**	**1,036**	**–**	**1,159**

a. Information technology includes telecoms equipment.

b. PADA entered into a contract for the provision of domestic IT equipment for the NEST Corporation. The assets were re-classified as information technology (within property, plant and equipment) and software licences (within intangible assets) when they became available for use by NEST Corporation on 5 July 2010.

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 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.

2011/12	Note	Software licences £000	Scheme software licences £000	Scheme developed software £000	Total £000
Cost or valuation					
As at 1 April 2011		480	–	–	480
Additions		242	18,844	24,367	43,453
Disposals		(114)	–	–	(114)
Devaluation	a	(2)	–	–	(2)
As at 31 March 2012		**606**	**18,844**	**24,367**	**43,817**
Amortisation					
As at 1 April 2011		(102)	–	–	(102)
Charged in period		(165)	(2,354)	(1,446)	(3,965)
Disposals		51	–	–	51
Devaluation		19	–	–	19
As at 31 March 2012		(197)	(2,354)	(1,446)	(3,997)
Net book value at 31 March 2012		**409**	**16,490**	**22,921**	**39,820**
Net book value at 31 March 2011		**378**	**–**	**–**	**378**

2010/11	Note	Software licences £000	Scheme software licences £000	Scheme developed software £000	Total £000
Cost or valuation					
As at 1 April 2010		4	–	–	4
Additions		16	–	–	16
Transferred from property, plant and equipment	7	514	–	–	514
Devaluation	a	(54)	–	–	(54)
As at 31 March 2011		**480**	**–**	**–**	**480**
Amortisation					
As at 1 April 2010		(1)	–	–	(1)
Charged in period		(113)	–	–	(113)
Disposals		–	–	–	–
Devaluation		12	–	–	12
As at 31 March 2011		(102)	–	–	(102)
Net book value at 31 March 2011		**378**	**–**	**–**	**378**
Net book value at 31 March 2010		**3**	**–**	**–**	**3**

a. Software licences used by NEST Corporation itself were fair valued by applying an appropriate ONS index. The devaluation charge reflects movements in the index since the date the licences were purchased.

The largest intangible asset on the NEST Corporation statement of financial position relates to internally developed software by TCS to support the launch of NEST pension scheme. The asset is borne in 2 tranches, £17.4m and £7m giving a total value of this asset of £24.4m, with accumulated amortisation of £1.4m as at 31 March 2012. The remaining amortisation period of these assets are 99 and 91 months respectively.

Within the software licences associated with NEST pension scheme are items of relatively high value; these include BaNCS (bespoke transactional management software), net book value £6.2m, Oracle software, net book value £1.7m and EMC (a document management programme), net book value £1.2m as at 31 March 2012. The remaining amortisation periods of these assets are 98, 51 and 51 months respectively.

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

9a Amounts falling due over one year

	31 March 2012 £000	31 March 2011 £000
Advance payments to TCS	5,200	–
Prepayments in respect of asset refresh	1,173	–
	6,373	–

9b Amounts falling due within one year

	31 March 2012 £000	31 March 2011 £000
Advance payments to TCS	10,077	27,645
Accrued income public sector obligation offset payment	2,391	–
Other prepayments	365	503
	12,833	28,148

Other current assets

	31 March 2012 £000	31 March 2011 £000
Staff loans	50	34
	19,256	**28,182**

A total of £16.5m of prepayments (31 March 2011: £27.6m) relate to assets expected to be used in scheme administration services. £10.1m of these prepayments relate to assets which are expected to be available for use within one year after 31 March 2012 and £6.4m relate to assets expected to be available for use beyond one year.

£6.5m of the £16.5m of prepayments were made in 2010/11 and £10.0m during the period ending 31 March 2012.

Of the £16.5m of prepayments, £15.3m are advance payments related to the setting up of the scheme and £1.2m are amounts deducted from service charges to fund future asset replacement, which are being held within prepayments until asset replacement has taken place. The only intra government receivable at year end was in respect of the public sector obligation offset payment of £2.4m (2010/11 : nil).

10 Cash and cash equivalents

	31 March 2012 £000	31 March 2011 £000
Opening balance	22,912	439
Net change in cash balances	(8,321)	22,473
Balance at end of year	**14,591**	**22,912**
The following balances were held with the Government Banking Service	**14,591**	**22,912**

11 Current liabilities

11a Trade and other payables

	31 March 2012 £000	31 March 2011 £000
Trade payables	847	583
Accruals	7,719	4,493
	8,566	**5,076**

11b Other liabilities

	31 March 2012 £000	31 March 2011 £000
Other taxation and social security	550	368
Pensions costs	100	113
Imputed finance lease element of TCS assets	6,970	-
	7,620	**481**
Total	**16,186**	**5,557**

12 Non-current liabilities

	Note	31 March 2012 £000	31 March 2011 £000
DWP loan		171,128	119,957
Imputed finance lease element of TCS assets		17,315	–
Provisions	13	797	660
Total		**189,240**	**120,617**

Loan funding from DWP is provided to meet the scheme implementation and initial running costs and will subsequently be repaid from charges levied on scheme members. The interest rate on each loan is determined by the interest rate prevailing at the time of taking out the loan. At 31 March 2012, the weighted average interest rate on loan funding was 3.6 per cent (31 March 2011: 7.3 per cent) (see note 3). Interest on loans is payable on 21 April and 21 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 £24.3m has been recognised, reflecting the difference between £51.1m scheme administration assets initially recognised and £26.6m payments made to TCS up to 31 March 2012 in relation to those assets, less £0.7m offset against monthly service charges plus £0.5m of finance credit charge on the lease liability since the assets were recognised. This finance lease has been broken down between the amount expected to be extinguished within one year (£7.0m) and the balance of the lease (£17.3m).

12a Liabilities: analysis by amounts owing to central government

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

	31 March 2012 £000	31 March 2011 £000
Balances with other central Government bodies	176,599	122,874
Amounts owing to bodies external to Government	28,030	2,640
Total	**204,629**	**125,514**

Within the balance owing to other central government bodies is £171,128k loan funding (2010/11 – £119,957k) owing to DWP and £550k (2010/11 – £368k) owing to HM Revenue and Customs for employment-related tax and social security costs.

13 Provisions for liabilities and charges

13a Administration provisions

	31 March 2012 Provision for property repairs £000	31 March 2011 Provision for property repairs £000
Balance at 1 April	660	682
Provided in the period	–	–
Change in provision	100	–
Provisions not required written back	(3)	(18)
Provisions utilised in the period	(15)	(64)
Unwinding of discount (note 3c)	55	60
Balance as at 31 March 2012	**797**	**660**

The provisions relate to two items:

- PADA received a contribution towards building repairs from a previous tenant upon taking over a lease in 2008. The previous tenant was another government body. PADA provided for these repairs during 2008/09. The liability transferred to NEST corporation on 5 July 2010.
- The other provision relates to building surveyors' estimates of amounts required to settle property repairing liabilities which may arise.

The provisions included in the statement of financial position has been calculated based upon the latest estimated liability contained in the surveyor's reports.

- The provision represents estimate future cash flows discounted at NEST Corporation's weighted average cost of capital of 3.6 per cent nominal or 0.2 per cent real (2010/11: 3.2 per cent real).

13b Analysis of expected timing of discounted flows

	2012 Discount included in provision £000	2011 Discount included in provision £000
In the remainder of the spending review period to 31 March 2012	–	30
Between 1 April 2012 and 31 March 2014	3	37
Balance as at 31 March 2012	**3**	**67**

The remaining discount on the provision relates to the settlement of property repairing liabilities £3k (2010/11: £57k) and is expected to unwind as shown below over the remaining period of the lease up to 2013/14 – the same period over which the expenditure is expected to be incurred.

14a Capital and other financial commitments

	Note	31 March 2012 £000	31 March 2011 £000
Contracted capital commitments at 31 March not otherwise included in these financial statements		41	–
Scheme administration contract	a	–	45,708
		41	**45,708**

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

14b 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 arrangement. As a result, assets used for the contract have been recognised as noncurrent assets in the statement of financial position 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 2012 £000
Not later than one year	26,849
Later than one year and not later than five years	125,912
Later than five years	197,569
Total	**350,330**
Less interest element	(61,129)
Present value of obligations	**289,201**

Present value of obligations under service concession arrangements reflected in the SOFP for the following periods comprise:	31 March 2012 £000
Not later than one year	25,906
Later than one year and not later than five years	110,980
Later than five years	152,315
Total present value of obligations	**289,201**

14c Charge to the Statement of Comprehensive net expenditure and future commitments.

The total amount charged in the Statement of Comprehensive net expenditure in respect of the service element of this service concession was £10.2m and the payments to which NEST Corporation is committed (subject to the conditions of the contract, particularly volume levels) is as follows:

	31 March 2012 £000
Not later than one year	13,942
Later than one year and not later than five years	100,778
Later than five years	164,640
Total	**279,360**

15 Commitments under leases

Operating leases

The future minimum lease payments under non-cancellable operating leases extant at the year-end date, in the following periods are:

	31 March 2012 £000	31 March 2011 £000
Future minimum lease payments comprise:		
Buildings:		
Within one year	648	648
Between one year and five years	470	1,118
	1,118	**1,766**

The future minimum lease payments represent a lease for offices occupied by NEST Corporation. Rent is fixed in the lease, based on normal market rates, and is payable quarterly in advance. The agreement imposes no restrictions on NEST Corporation on how it conducts its business. There is no break clause remaining and the prescribed term concludes in December 2013. There is no renewal clause.

16 Financial instruments

Financial assets

	31 March 2012 £000	31 March 2011 £000
Cash and cash equivalents	14,591	22,912
Staff loans	50	34
Total	**14,641**	**22,946**

The above figures exclude statutory receivables and prepayments.

Financial liabilities

	31 March 2012 £000	31 March 2011 £000
Trade payables	847	583
Accruals	7,719	4,493
Total	**8,566**	**5,076**

The above figures exclude statutory payables.

It is, and has been, NEST Corporation's policy that no trading in financial instruments is undertaken.

Financial assets and liabilities generated by day to day operational activities are not held in order to change the risks facing NEST Corporation in undertaking its activities.

NEST Corporation borrows money from DWP to fund activities which will subsequently be repaid from revenue raised from charges to scheme members.

The weighted average interest rate applicable to the loans is 3.6 per cent (2010/11: 7.3 per cent) (see notes 6 and 12).

NEST Corporation's financial assets and liabilities which are outside the scope of activities to be charged to scheme members have either a nil or a fixed rate of interest related to the cost of capital.

NEST Corporation has no exposure to foreign currency risk at the year-end date (31 March 2011: nil).

The book value of NEST Corporation's financial assets and liabilities as at 31 March 2012 and 31 March 2011 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 2012		Year ended 31 March 2011	
	£000	Cases	£000	Cases
Losses:				
Constructive loss – software licences	70	200	–	–
Lost and stolen IT equipment	2	4	–	–
	72	–	–	–

19 Related party transactions

NEST Corporation is a non-departmental public body accountable to the Secretary of State for Work and Pensions and is classified as a public corporation. 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 DWP. These are detailed in the table below:

		Year ended 31 March 2012 £000		Year ended 31 March 2011 £000	
	Note	Income and financing	Expend-iture	Restated income and financing	Expend-iture
Loan funding and repayment	12	51,171	–	148,757	69,859
Loan interest	6	–	9,597	–	4,952
Other transactions	4	10,832	1,404	1,214	2,719
Total		**62,003**	**11,001**	**149,971**	**77,530**

At 31 March 2012 excluding the liability to repay the loan which does not fall due for more than 12 months, NEST Corporation had £113k outstanding liability with DWP (2010/11 – £nil).

This relationship with DWP includes provision to NEST Corporation of:

a) grant income and loan funding

b) office accommodation and some IT services

c) secondees

d) public service obligation offset payments.

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 £7k, see note 5 for details.

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

Chris Hitchen is a board member of the National Association of Pensions Funds (NAPF), with which NEST Corporation purchased services in the period totalling £5.9k (2010/11: £3.2k).

A close relative of Paul Hewitt is a member of the board of NCC Group. During 2011/12, NEST Corporation purchased services from NCC Services, a trading arm of NCC Group, totalling £23.9k (2010/11: £1.2k).

Tim Jones is a board member of the International Centre for Pension Management (ICPM). During 2011/12, NEST Corporation paid nothing to be a research partner of ICPM in (2010/11: £16k).

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 year to 31 March, NEST Corporation incurred £2 interest charges under the Late Payment of Commercial Debts (Interest) Act 1998 (2010/11: £18).

21 Cashflow analysis

	Note	Year ended 31 March 2012 £000	Year ended 31 March 2011 £000
Non cash items			
Depreciation and amortisation	3	5,677	299
Release of reserve	3	(20)	(20)
Disposal of assets		68	4
Public Service Obligation Offset Payment		(2,391)	–
Prepayments for asset refresh	9	1,173	–
Offset for finance lease liability		(731)	–
Finance credit charge		533	–
Devaluation of assets	3	(17)	54
Total non cash items		**4,292**	**337**
Purchase of property, plant and equipment and of intangible assets			
Purchase of Intangibles	8	(242)	(15)
Purchase of UAT Environment	7	(2,156)	(789)
Purchase of Fixtures and Fittings	7	(42)	(15)
Purchase of IT	7	(147)	(14)
Payments towards TCS milestones met in 2011/12		(5,455)	–
Adjustment to assets under construction		–	20
Total purchase of property, plant and equipment and of intangible assets		**(8,042)**	**(813)**
Advance payments			
Total advance prepayments made in the year	9	(14,209)	(27,645)
Less prepayments made in the year that converted into milestone payments	9	5,455	–
Net advance payments		**(8,754)**	**(27,645)**

22 Restatement of grant income and analysis of prepayments to TCS

In 2010/11 the guidance for the disclosure of grant income from DWP was to include this as a financing item in the statement of cash flows. As explained in note 4 above, as NEST Corporation was classified as a public corporation during 2011/12, grant income of £1,214k has been reclassified as income rather than financing.

In 2010/11 the advance payments of £27,645k to TCS were classified as prepayments and trade receivables. In 2011/12 with the launch of the scheme it was decided that the movements in prepayments and trade receivables should be separately disclosed between cash flows from operating activities and cash flow from investing activities.

These reclassifications have resulted in the restatements to the financial statements for the prior year, which are shown below.

Statement of comprehensive net expenditure

	Note	Published per 2010/11 ARA Year ended 31 March 2011 £000	Reclass-ification of grant income and advance payments £000	Restated per 2011/12 ARA Year ended 31 March 2011 £000
Expenditure				
Staff costs	2a	(15,230)	–	(15,230)
Depreciation and amortisation	3	(299)	–	(299)
Other expenditure	3	(10,369)	–	(10,369)
		(25,898)	**–**	**(25,898)**
Income				
Grant income	4	–	1,214	1,214
Other income	5	11	–	11
Net expenditure		**(25,887)**	**1,214**	**(24,673)**
Interest payable	6	(4,952)	–	(4,952)
Net expenditure after interest		**(30,839)**	**1,214**	**(29,625)**
Net expenditure after interest deducted from general reserve		**(30,839)**	**1,214**	**(29,625)**
Other comprehensive expenditure		–	–	–
Total comprehensive expenditure for the year		**(30,839)**	**1,214**	**(29,625)**

Statement of financial position

There is no change to the statement of financial position as reserves are not affected as at 31 March 2011 or 1 April 2010.

Statement of cash flow

	Note	Published per 2010/11 ARA Year ended 31 March 2011 £000	Reclassification of grant income and advance payments £000	Restated per 2011/12 ARA Year ended 31 March 2011 £000
Cash flows from operating activities				
Net deficit after cost of capital and interest		(30,839)	1,214	(29,625)
Adjustment for non-cash items	3	337	–	337
(Increase)/decrease in trade and other receivables	9	(27,909)	27,645	(264)
Increase/(decrease) in trade and other payables	11	1,607	–	1,607
Increase/(decrease) in provisions	13	(22)	–	(22)
Net cash flow operating activities		**(56,826)**	**28,859**	**(27,967)**
Cash flows from investing activities				
Purchase of property, plant and equipment and of intangible assets	7, 8	(813)	–	(813)
Advance payments	9b	–	(27,645)	(27,645)
Net cash outflow from investing activities		**(813)**	**(27,645)**	**(28,458)**
Cash flows from financing activities				
Grant income from parent department	4	1,214	(1,214)	–
Loan received from parent department	12	148,757	–	148,757
Loan repaid to parent department		(69,859)	–	(69,859)
Net cash inflow from financing activities		**80,112**	**(1,214)**	**78,898**
Net increase/(decrease) in cash and cash equivalents in the period		**22,473**	**–**	**22,473**
Cash and cash equivalents at the beginning of the period	10	439	–	439
Cash and cash equivalents at the end of the period	10	**22,912**	**–**	**22,912**

Statement of changes in taxpayers' equity

	Note	Published per 2010/11 ARA Year ended 31 March 2011 £000	Reclass-ification of grant income and advance payments £000	Restated per 2011/12 ARA Year ended 31 March 2011 £000
Balance at 1 April 2010		(43,898)	–	(43,898)
Changes in taxpayers' equity 2010/11				
Release of reserves to the statement of net comprehensive expenditure		(20)	–	(20)
Net expenditure after interest		(30,839)	1,214	(29,625)
Total recognised income and expenditure for 2010/11		**(30,859)**	**1,214**	**(29,645)**
Grant income from parent department		1,214	(1,214)	–
Total taxpayers' equity as at 31 March 2011		**73,543**	**–**	**(73,543)**

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 authorised date for issue is XX July 2012.

Annex I

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)[1], 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 period 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:

[1] Paragraphs 17 and 20 were amended by the Personal Accounts Delivery Authority Winding Up Order 2010 (2010/911), article 9.

a. The loan from 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[2].

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.

[2] The National Employment Savings Trust Order 2010; article 27.

Annex 2

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

Annex 2 is an annex of the annual report and does not form part of the financial statements and is not subject to audit.

NEST has been established to deliver good financial outcomes for a market segment previously excluded from pension saving, as part of the workplace pension reforms. As a pension scheme we have a long-term outlook and will develop lifetime relationships with our members. NEST then, by its strategic objectives, has the central aim of delivering sustainable value for members at the core of all it does.

Automatic enrolment provides a significant opportunity which will see millions of people enrolled into pension saving, many for the first time. This opportunity brings with it new responsibilities for the industry, government and regulators to ensure that pension savers can save with confidence, without risk of detriment, and that their pension is administrated efficiently.

This year we have focused on meeting our obligations and responsibilities both in live operation and in preparation for the new duties:

- responding to feedback from our customers about the service they receive from NEST
- working with those employers who have chosen NEST to help them prepare, often in partnership with EBC's and advisors
- testing and refining items like our communications to make sure that they are clear and simple for members and employers. We have created *The NEST phrasebook*, to help make pensions language more accessible both for NEST members and beyond.

We have also developed a code of practice for member research, in recognition that behavioural economics and decision-framing through our processes and communications impacts the choices taken by members, which can affect their financial outcomes. We have been working with world-leading behavioural economists in order to ensure that we understand how the framing of our processes and communications will influence member decisions and our code of practice will ensure ethical practices are used in live research involving members.

We have worked as part of the industry in helping inform employers about the new workplace pension reforms and their new duties. We have worked with government and The Pensions Regulator to contribute to building an effective legislative and regulatory framework surrounding the workplace reforms, and we have highlighted areas where savers could lose out.

We are one part of the DWP "enabling retirement savings" programme and are reliant on TPR and DWP in successful delivery of policy outcomes for automatic enrolment. We also recognise our responsibilities across our supply chain and understand that accountabilities reside with our organisation, regardless of whether services are outsourced. This requires us to take a whole supply chain view to corporate responsibility and ensure end-to-end coherence in our activities.

Responsible investment

Building value through responsible investment

NEST is committed to investing in a way that aims to enhance long-term value and reduces investment risk. We believe that responsible, well-run companies and projects offer superior long-term value to investors.

For this reason environmental, social and governance (ESG) considerations are essential to building and managing our investment portfolios.

This year we've appointed The Co-operative Asset Management (TCAM) as our responsible ownership partner. They help us keep track of the ESG performance of companies we invest in on our members' behalf and help us develop and put in place our responsible investment approach.

Voting rights

The voting rights that come with ordinary shares are an important tool for our responsible ownership objectives. Through voting, we can protect our members' retirement pots and make sure their views are considered. Over the last year we have worked with TCAM and Manifest (the proxy voting agency) to develop our in-house capability to monitor and consolidate our fund managers' voting activity. This approach has also enabled us to flag issues where we have a strong view as to how voting rights should be used in the best interests of NEST members.

Our voting rights are currently exercised on our behalf by our fund managers. We've asked them to make their voting records available to our members. We'll let them know if we have particular concerns about a company or if we believe they're voting in a way that's not in our members' interests.

Engagement

The Co-operative Asset Management will engage with companies with us and on our behalf and make sure our ESG goals are understood by them. They'll help us draw out themes and set priorities for the issues we want to address.

We also work with other investors to engage with companies on issues where we have a shared interest. Coordinating our efforts in this way makes it more likely that we can positively influence the companies we invest in.

For example this year we have worked with a group of large UK pension funds to improve listing rules at FTSE and UKLA and have responded or fed into a number of public consultations on corporate governance and efficient market operation.

We have worked closely with our fund managers to ensure we are kept informed about any contact they have with the companies they invest in on our behalf, and their efforts to promote high ESG standards.

Risk management

We've appointed EIRIS, a leading provider into ESG matters, to provide environmental, social and governance (ESG) data to allow us to monitor and act on the long-term ESG risks and opportunities our portfolios will be exposed to.

Codes and initiatives

NEST is one of a handful of pension funds who are a signatory of the UK Stewardship Code. The code was adopted by the Financial Reporting Council in July 2010. It aims to improve the quality of engagement between investors and companies to help enhance long-term returns to shareholders and improve and strengthen corporate governance.

In accordance with the Stewardship Code this year we've published our statement of compliance with the UK Stewardship Code on our website.

NEST has also this year become a signatory to the United Nations-backed Principles for Responsible Investment (PRI). The PRI are a set of principles that aim to build a framework for global best practice in responsible investment.

NEST is an affiliate member of UK Sustainable Investment Finance (UKSIF). This is a network of investment companies that promotes responsible investment and other forms of finance that support sustainable economic development, enhance quality of life and safeguard the environment. Affiliate membership is designed for companies that do not sell products or services, or manage their own funds.

Research and consultation

Our responsible ownership policies are based on extensive research and consultation. An example of this is *Benchmarking Responsible Investment,* a report produced by our investment advisor Aon Hewitt which can be found on our website at **www.nestpensions.org.uk/responsible-investment**

Fund manager responsible investment reports

Our fund managers provide us with regular reports on their ESG engagement and voting records which we place on our website.

Organisation

Health and safety

NEST Corporation has aimed to promote a healthy and harm-free environment. We have established a health and safety policy which sets out to promote high standards of health, safety and welfare at work at all times. NEST Corporation believes that the workforce deserves the highest standards of health and safety and that we will exceed the standards required by regulations and legislation wherever possible. To this end, NEST Corporation has established a health and safety framework which details the arrangements for health and safety.

There were no reportable accidents in our offices under the *Reporting of Injuries, Diseases and Dangerous Occurrences Regulations* (RIDDOR). In 2011/12 three accidents of a minor nature were recorded in the accident books in St Dunstan's House and none in Newcastle.

Equality and diversity

NEST Corporation is committed to promoting equal opportunities and diversity thereby ensuring that the human resources, talent and skills of all our people are maximised. We do this by applying policies and procedures that are consistent and fair and recognise the expertise of each individual.

NEST Corporation is covered by three public duties to promote equality: the *Race Equality Duty*, the *Gender Equality Duty* and the *Disability Equality Duty*. We carry out our duties with due regard to the need to eliminate unlawful discrimination, promote equality of opportunity and promote good relationships between people of different racial groups. As part of the staff induction process, new workers are introduced to NEST Corporation's single equality scheme and are made aware of the harassment and bullying policy.

Whilst this has set a baseline for encouraging workplace activity, we have more to do in setting a strategic approach to valuing and engendering diversity across all parameters in NEST. Within the next year we'll consider how we further develop our approach and report against this.

Succession planning

In 2011/12 we transitioned from a fixed term to a permanent workforce, our new employment contracts have a three-month notice period for all managers at head of department level and above. In addition, executive managers are going through an annual process with the people, property and corporate social responsibility director to identify our key / critical skills and to put appropriate succession plans in place.

Sickness absence

NEST Corporation has created a supportive environment where individuals are encouraged to perform to their full potential. The high levels of motivation that exist within NEST Corporation contribute to a relatively low rate of sickness absence, though in 2011/12 this trend was skewed because some members of staff were on long-term sickness absence. In 2011/12, the average amount of time per employee which was lost to sickness was 5.9 days (2010/11: 3.3 days) compared with the national average of 4.5 days.

Employee benefits

Pension arrangements for NEST Corporation employees are provided in the remuneration report, accounting policy note 1.9 and note 2b to the financial statements. We support the Better Bankside Wellbeing at Work initiative. Staff are invited to attend free Wellbeing at Work sessions which included a free health check and a package of treatments covering nutrition, mental well-being and physical exercise. We have also introduced our own employee counselling service, childcare vouchers for NEST Corporation and a bike loan initiative.

Stakeholder engagement

We value the input of our all stakeholders into the development of NEST. During the year NEST Corporation has engaged regularly with its stakeholders in order to keep them informed on the progress of NEST and seek their views on a range of issues.

We have held research groups with our target members to understand their views and opinions on key items under development and listened to the feedback of our current members through their engagement with us. We have held workshops with employers and worked closely with them in their preparations for auto-enrolment, to understand how we can best support them.

We have engaged from stakeholders from across the pensions industry, including:

- the ABI and NAPF, as well as individual providers and EBCs
- the IMA representing the investment industry and individual investment organisations
- consumer organisations, including Which? TUC, AgeUK, the FSA Consumer Panel, Consumer Focus and Equality and Human Rights Commission (EHRC)
- business organisations, including The Federation of Small Businesses (FSB), The Confederation of British Industry (CBI) and Institute of Directors (IOD).

We have met a number of international stakeholder groups in order to share best practice on pensions globally, and we are a member of the Rotman International Centre for Pensions Management (ICPM). We are also a member of The National Association of Pension Funds (NAPF).

We have also met with key political groups including the All Party Group on Occupational Pensions and the Work and Pensions Select Committee (WPSC). NEST has given background briefings to a range of think tanks examining related issues and some individual members of the House of Lords and House of Commons as well as the Department of Business Innovation and Skills and HM Treasury.

This is the first year of establishment for our Member Panel and Employer Panel and we have been able to consult them on a number of aspects of the development of NEST. This is covered further in the panels' reports.

We have sought to be transparent about our product and to dispel myths about NEST by demonstrating the functionality of NEST systems and processes with a wide range of stakeholders. We have also shared thinking and research NEST has developed for the new generation of savers who are affected by automatic enrolment including The NEST phrasebook, thinking on behavioural economics and barriers to saving, and research on the reactions of our target market to issues of volatility and loss. These issues have been shared through thought leadership events which have been generously hosted by stakeholders.

NEST has consulted stakeholders on key policy issues affecting our members, including small pots, investment and the effects of our restrictions on employers. We have been particularly keen to understand stakeholders' views on issues where there has been a risk of consumer detriment. We have submitted formal responses to the government consultation on small pension pots, the EIOPA consultation and the WPSC enquiry on automatic enrolment into workplace pensions and NEST.

Support for social and community issues

We strive to be a responsible partner within the local community by supporting community initiatives and local charities. Through our employee volunteering policy we encourage our people to find new ways to have a positive impact on the communities in which we live and work. We will be reviewing our volunteering policy over the next year to ensure it is aligned with our strategic aims as an organisation.

Many staff members were involved in the *Bring a Better Christmas* initiative, donating and then wrapping presents to be distributed to charities around St Dunstan's House.

We ran a Christmas card competition for the children of NEST staff, where the winning entry in both paper and electronic formats was chosen and sent out on behalf of NEST Corporation.

We continue with our community investment policy and we have held a number of charitable events in 2011/12 which have raised almost £1,500 in donations from staff.

We now have dedicated community pages on our intranet and a *Give As You Earn* scheme.

Environmental matters

Our environmental policy sets out how we manage NEST Corporation's environmental impact and our approach to sourcing sustainable products. We are committed to reducing the use of energy, minimising the use of consumables, increasing recycling and re-use and making the best use of technology to limit our carbon footprint.

We are also committed to promoting and developing our environmental policy. We formally review our office procedures every six months to ensure we are actively reducing our environmental impact. The policy also ensures that we are focused on environmental issues by:

- increasing the proportion of recyclable waste while aiming to reduce our total waste volume

- maximising the use of public transport in preference to other forms of transport
- ensuring electricity usage is kept to a minimum
- working towards increasing environmentally friendly office supplies
- seeking to continually improve the sustainability of our supply chain.

HM Treasury introduced a requirement for most public sector bodies covered by the government Financial Reporting Manual (FReM) to prepare a sustainability report. Although NEST Corporation falls outside of this requirement, in keeping with its commitment towards a sustainable environment, we have produced a full sustainability report.

The data presented below represents NEST Corporation functions located at its head office, St Dunstan's House. NEST Corporation also has one small operation located within other government estate. The data for this site is covered within the relevant HM Revenue and Custom's report.

Energy consumption and emissions

Introduction

NEST Corporation takes the reporting of its sustainability performance seriously. It is considered an important tool in raising awareness and influencing behaviours. During 2011/12 NEST has used the data gathered in this report to set itself the performance targets which are also detailed here.

Summary of performance		
Area	**Actual performance**	**Normalising data (per FTE)**
Average annual full-time equivalent staffing figure: 240[3]		
Energy and emissions		
CO_2e emissions from offices	474.5 tonnes CO_2e	2.0 tonnes CO_2e
Total building energy consumption	1,058,878 kWh	4,412 kWh
Total energy expenditure	£108,303	£451
Travel and related emissions		
CO_2e emissions from official business travel[4]	188.5 tonnes CO_2e	0.8 tonnes CO_2e
Total expenditure on official business travel	£341,980	£1,424
Waste		
Total waste produced[5]	38.1 tonnes	0.2 tonnes
Total recycled	20.2 tonnes	0.08 tonnes
Total incinerated	17.9 tonnes	0.07 tonnes
Total to landfill	Nil	Nil
Total waste expenditure	£12,025	£50.1
Water		
Water consumption	4,243 m^3	18 m^3
Water expenditure	£9,258	£38.6

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

4 Does not include bus / tube / metro for official business travel. Data collection and robust estimate not currently possible.

5 Waste figures for March have been estimated.

Greenhouse gas emissions		2010/11	2011/12
Non-financial indicators (tonnes CO_2e)	**Scope 1 – Gas emissions**		
	Gas	See footnote 8	43.7
	Total scope 1	**–**	**43.7**
	Scope 2 – Electricity emissions		
	Electricity: brown	381	323.1
	Electricity: green	51	43.1
	Electricity: CHP	76	64.6
	Total scope 2	**508**	**430.8**
	Scope 3 – Business travel emissions		
	Private vehicle	–	17.0
	Car hire	–	28.6
	Taxis[6]	–	1.4
	Air	154[7]	102.6
	Rail	31	38.9
	Total scope 3	**185**	**188.5**
	Total emissions	**693**	**663**
Related energy consumption (kWh)	**Scope 1**		
	Gas	See footnote 8	237,757
	Scope 2		
	Electricity: Brown	698,768	615,841
	Electricity: Green	93,169	82,112
	Electricity: CHP	139,753	123,168
	Total electricity	**931,690**	**821,121**
Financial indicators (£)	**Scope 1 and 2**		
	Gas	See footnote 8	12,772
	Electricity: brown	66,176	71,648
	Electricity: green	8,823	9,553
	Electricity: CHP	13,235	14,330
	Scope 3		
	Private vehicle	–	18,513
	Car hire	–	42,846
	Taxis	–	[9]10,026
	Air	130,005	81,575
	Rail	138,685[10]	189,020

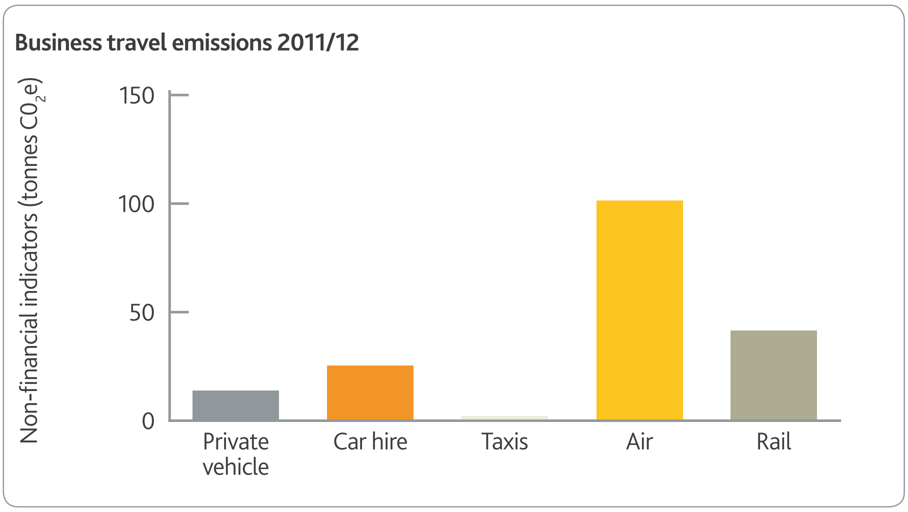
[6] Assumption that 50 per cent black cab, 50 per cent regular taxi.

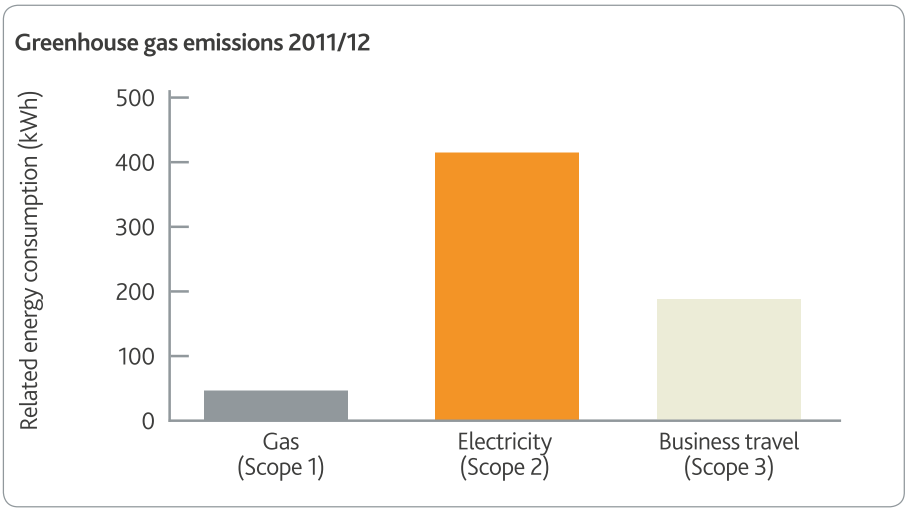
[7] Total differs from 2010/11 report due to different conversion factors applied and change in reporting from CO2 to CO2e.

[8] Gas total for 2010/11 is unreliable due to monitoring process.

[9] Only taxis claimed through expenses have been captured. Work is underway to capture all taxi use in future reports.

[10] 2010/11 figure only includes travel booked through corporate travel supplier.





GHG performance commentary including targets

Over the 2011/12 year we have seen an 11.6 per cent reduction in electricity usage from offices from 2010/11 data. This has been achieved mainly through low-cost plant and machinery optimisation measures.

We have tried to work along the same principles as the Greening Government Commitments (GGC) when setting our targets. However as NEST Corporation is a newly established low-cost scheme it is generally not possible to conform to the ambitious targets within these commitments. In addition NEST Corporation does not have baseline data from 2009/10 available.

The GGC target is to cut greenhouse gas emissions from estate and transport by 25 per cent by 2014/15 from 2009/10 baseline.

NEST Corporation's target will be an annual year-on-year reduction from estates only of 5 per cent baselined from 2011/12 through to 2012/13.

We have recently carried out a piece of work to identify which of our electric meters supply which part of the building. We are aiming to use this information to help us identify which parts of the building are the most inefficient and where we have the potential to make reductions. We have established that the main area for savings will be within the major plant and we will be working with our maintenance provider and in-house team over the next 12 months to achieve the reductions that we have committed to.

NEST Corporation is currently the sole occupant of a pre-1980s building which is of inefficient design. The lease on the property is due to expire in December 2013 so any capital expenditure to improve efficiency will not see a return on investment and becomes unviable. We also have a small amount of office space that sits within the government estate, although we are due to release this by autumn 2012. Once we are located in our new property we will review and set new NEST Corporation estate targets.

NEST Corporation is currently in the search phase for their new property and the search is solely focused within the government estate. The likely outcome of this search will see us in an already established government building as a minor occupier. The government department responsible for this building will already have an action plan for reducing its properties carbon footprint in line with the GGC which NEST Corporation as a tenant will help to achieve.

Tata Consultancy Services are our scheme administrator and as one of our main service providers travel between our premises and their UK and Indian premises is essential. We also have many other commitments and relationships that require business travel. All of this along with the fact that as a business we will be growing and gaining many more members over the next 12 months means a scope 3 emissions reduction target is unachievable and will not be set.

We use a broker to provide air and travel bookings. This offers a number of advantages but the most notable is the cost reduction we achieve through this route. Also important is the travel/journey data that they collate for us enables us to track and report on our usage.

Use of finite resources

Water consumption(scope 2)		2010/11	2011/12
Non-financial indicators (m^3)	Water consumption	4,462	4,243
Financial indicators (£)	Water supply	6,200	6,377
	Sewerage	2,500	2,881
	Total water costs	8,700	9,258

GGC states that typical usage for an organisation of our size and structure is 4-6m^2 per person. Our current usage is 18m^2 per person.

Our water consumption is high due to the design of the water cooling tower that is used in the heating, ventilation and air conditioning (HVAC) system. In order to reduce our water consumption to bring us in line with best practice we would again need considerable capital investment. In the next 12 months we aim to install a single point water meter on our cooling tower so we can monitor the water usage just from this. We can this use this data against our overall water usage to gain a clearer picture of our actual water usage from our day to day business.

Waste

Waste		2010/11	2011/12
Non-financial indicators (tonnes)	Total waste	36	38.1
	Waste to landfill	0	0
	Waste incinerated	14	17.9
	Waste recycled/reused	22	20.2
Financial indicators (£)	Total waste	12,511	10,846

At NEST we now have the ability to recycle all of our waste streams and we have implemented a one waste bin system to aid the recycling rates. We are currently working with our waste and recycling contractor to look at ways that we can improve the reporting they provide. They are currently trialling waste-weighing equipment on their trucks. If this is implemented across their fleet we will be able to report more accurately.

Currently we are unable to calculate the financial data of individual waste streams.

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