

**National Employment
Savings Trust Corporation
annual report and accounts
2015-16**

National Employment Savings Trust Corporation annual report and accounts 2015-16

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

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Cautionary statement

This document contains statements that are, or may be deemed to be, 'forward-looking statements' with respect to NEST Corporation's financial condition.

Forward-looking statements are sometimes, but not always, identified by their use of a date in the future or such words as 'anticipates', 'aims', 'due', 'could', 'may', 'will', 'would', 'should', 'expects', 'intends', 'plans' and comparable terminology.

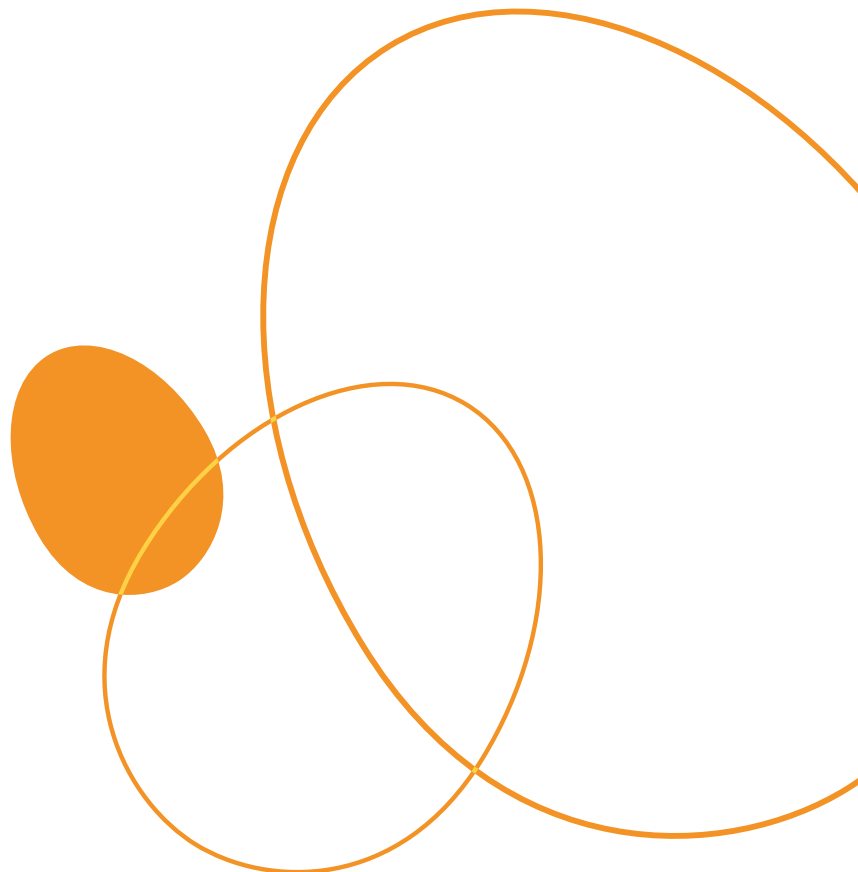
Forward-looking statements are not guarantees of future performance and no assurances can be given with regards to their accuracy. Forward-looking statements may not be realised due to factors including, but not limited to, changes in the economies and markets in which NEST Corporation operates; changes in the regulatory and competition frameworks in which it operates; or the impact of legal or other proceedings against NEST Corporation.

All forward-looking statements, made in this document or made subsequently, which are attributable to NEST Corporation are expressly qualified in their entirety by the factors referred to above.

Nothing in this document should be regarded as a forecast of future financial performance.

Chapter one

Performance
report



I.1 Chair's statement

It is an exciting time to be a pension trustee, particularly if you are involved with auto enrolment. We are helping to ensure that our longer living population can put money aside to help meet their aspirations for later life. There is a fundamental shift in how the UK tackles this challenge, and I feel privileged to be part of it.

NEST has a key role to play, both in supporting the successful roll out of auto enrolment to all employers and in looking after the interests of a new generation of pension savers. The shared sense of vision and commitment held by the executive board and the Trustee Members is a key element of our progress to date.

We are committed to helping employers comply with auto enrolment efficiently and keeping member interests at the heart of everything we do.

So we need to ensure NEST is well governed and effectively run.

Our internal assessments assure us that we have appropriate controls and governance mechanisms in place, that are working as they should, and this year NEST obtained independent confirmation of this. The master trust assurance framework is intended to help employers identify a high quality pension scheme. The Institute of Chartered Accountants in England and Wales (ICAEW) has developed this framework in partnership with The Pensions Regulator (TPR). Employers that sign up with NEST and the members who are saving with us can have confidence that NEST is doing everything it should to provide a high quality scheme. You can find our master trust assurance report on our website.

It is also critical that we continue to deliver high quality services while managing significant increases in the numbers of employers using the scheme. As an example of an innovation designed to support this, NEST has introduced technologies that enable seamless integration of our online systems with payroll software making auto enrolment compliance much simpler for small and micro employers.

Our key facts section, pages 12 to 13, sets out the progress of NEST during the year in more detail, but it is sobering to consider that the number of employers using our scheme has increased from just over 14,000 to over 86,000 in only 12 months.

Many employers sign up with NEST many months before their staging date. Others use NEST alongside other providers. So there is an encouraging picture of employers planning ahead, as well as NEST being used to complement other savings provision.

Of course NEST doesn't focus only on how we can help employers to meet their auto enrolment duties. The introduction of new pension freedoms led us to reconsider what we are here to do for members and how we manage their pension savings throughout their time with us. We have a responsibility to deliver a process which supports our members achieving good outcomes when they come to access their pension savings.

As a first step, this year we adjusted our investment approach to reflect how members may wish to take their money in later years. Our aim is to match more closely what members are likely to want to do at retirement.

For funds maturing up to 2020 the objective for the consolidation phase is now to manage the risks associated with converting these pension pots into cash lump sums. This is because members' pots will still be small at this stage and our research indicates that most members will take these pots as cash.

For funds maturing after 2020 the aim of the consolidation phase will be to outperform inflation after all charges, as measured by the consumer price index (CPI). We will aim to do this while gradually reducing investment volatility as the fund gets closer to maturity.

In June 2015 we published *The future of retirement, a retirement income blueprint for NEST's members*. This sets out our vision for helping members make the most of their savings when they come to start taking their money out of NEST, as the size of retirement pots increases. The blueprint has been well received. Commentators welcomed NEST's blue-sky thinking and our proactive approach to finding solutions to the issue of increasing longevity and adequacy of pensions in later life.

We also consulted on changes to the NEST rules to allow members to make partial withdrawals. We have made some technical changes to get ready for the restrictions on transfers and the limit on contributions being lifted from 1 April 2017.

We have also contributed to government reports and consultations including:

- the government consultation on occupational and personal pension schemes
- HM Treasury (HMT) and Financial Conduct Authority (FCA)'s Financial Advice Market Review
- the government's consultation on tax relief
- the FCA and Department of Work and Pensions (DWP)'s consultation on transaction costs disclosure.

NEST was called to give evidence at the Public Accounts Committee's (PAC) hearing and review of the progress of the auto enrolment programme to date following a report by the National Audit Office (NAO). It was good to see that both the Committee and the NAO considered auto enrolment to be on track so far although they had questions about the challenges to come, such as how we are managing significant volumes and when we might be able to provide more information on our funding position.

More employers than ever are set to choose a provider this year and as the only scheme with a legal duty to be open to any employer for auto enrolment we have to be ready to accept significant volumes. Our business review sets out how we have been preparing. As we told the Committee, uncertainties about external factors such as employer volumes, opt out rates, contribution rates and many other variables mean we cannot yet be definitive on our total funding requirements or the likely timescale for the repayment of the government loan. However with auto enrolment continuing to progress well we remain confident that NEST will become self-financing over time. DWP is due to provide an update to the PAC in January 2017.

I would like to put on record my thanks to the executive board and NEST's staff for their hard work, good humour and fortitude in the face of a challenging period in the organisation's growth and development.

In particular I would like to acknowledge the great contributions of our first chief executive, Tim Jones, who stepped down this year after leading our operations for eight years, and the Chair of our Member Panel, Museji Takolia, who moved on to become Chair of the Pensions Advisory Service this year.

I would also like to recognise the continued support and efforts of our delivery partners, in particular Tata Consultancy Services (TCS) who have helped us continue to enhance our systems and processes to administer the scheme even more efficiently this year.

We are only about half way through the staging period, so there is a lot more to do, but I remain confident that NEST, working with our partners and others around the industry, will deliver what is needed to make auto enrolment a success and to deliver good outcomes for our employer customers and our members.

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



Otto Thoresen
Chair
NEST Corporation

29 June 2016

1.2 Chief executive's report

In the auto enrolment world there is rarely a dull moment. It is certainly true to say that my first months as chief executive of NEST have been both exciting and challenging.

Whilst the savings landscape is changing, NEST have focused on getting on with our key role of ensuring that tens of thousands of employers who want to use NEST can do so quickly and efficiently. I endorse and echo Otto's sentiments about a shared sense of mission and a commitment to delivering what our members and their employers need. This drives everything that the executive board strives to deliver.

First and foremost this year we have focused on scaling up to manage significant increases in volumes. To put that in perspective, employer numbers have increased from 14,000 at 31 March 2015 to over 86,000 just 12 months later. At the end of March assets under management were now in the region of £827 million, compared to £420 million in March 2015 and the number of member accounts in the scheme had grown from 2 million to almost 3 million.

NEST is the only auto enrolment provider with a public service obligation requiring us to be open to any employer that wants to use us. We have to be able to manage a workload that is difficult to predict. We believe that innovation and the adoption of new technologies are critical to ensure NEST continues to deliver what our customers need; this year we have introduced some exciting changes to our service.

In 2015 we launched NEST Connect, our free online hub for business intermediaries, such as accountants, payroll bureaux and financial advisers, that is designed to make it easy to administer auto enrolment for multiple clients. By the end of March we had over 8,900 NEST Connectors. These are organisations that have signed up to administer multiple client accounts through our hub. The feedback from our users so far has been positive.

According to Bernard Rust, an IFA and one of our NEST Connectors:

'The beauty of NEST Connect lies in its simplicity. The online process is slick. This adds up to a more streamlined, efficient, cost effective package, which suits both my firm and my clients. It is perfect for offering a workable solution for auto enrolment.'

We introduced some changes this year to simplify the user journey for small employers, those coming to us direct and those requiring full integration with their payroll systems. After working closely with the payroll sector we launched our integrated web services in November 2015, enabling employers and payroll bureaux to manage NEST accounts through their payroll software.

For employers logging in via our website, we have simplified our user journey. Initial analysis suggests that small employers are rising to the auto enrolment challenge and are finding NEST easy to use. On the whole they are setting up their NEST scheme without needing to call us and do not use their waiting period to the same extent as larger employers.

Planning ahead is critical to our ongoing ability to meet the upcoming challenges. This means continuously estimating, month by month, the numbers of employers that are likely to come to NEST and ensuring our teams and systems are ready. We also have to ensure that our arrangements and relationship with the partners who support NEST cater for this and are mature and mutually supportive.

Our initial 10-year scheme administration contract with Tata Consultancy Services (TCS) was due to finish in 2020, although the original contract allows us to renew for up to five years. To ensure NEST is well placed to go on providing a great service over periods of significant volume challenges, this year we put in place a three year contract extension with TCS based on our existing contract provision.

I am pleased to say that we now have a contract in place until June 2023. This means that the re-procurement of our main scheme administration contract will now take place after the end of the staging period in 2018. This allows us to concentrate in the next couple of years on bringing in ever increasing numbers of small employers.

The existence of NEST is fundamental to ensuring the success of auto enrolment and I am confident that we are well placed to continue to deliver what employers and our members need. It is also essential that over time we meet our challenge from government, in the longer term to make NEST self-financing.

As Otto sets out in his statement, with auto enrolment continuing to progress we remain confident that NEST will be self-financing. We are keen to develop greater transparency on our position, and provide more data about the scheme in general, as information becomes clearer.

We couldn't deliver all that we need to without the dedication and hard work of the people here at NEST. We believe strongly that our people are our greatest asset and I want to build on the legacy that Tim Jones left and continue to strengthen our corporate capability so we can face the challenges to come as a strong, productive and effective team.

To this end I have:

- reorganised our management structures so each part of the organisation is clearly focused on new strategic priorities
- initiated a corporation-wide challenge to identify and improve processes to drive efficiencies
- refreshed our internal communications approach to make sure the entire team have the information they need to fulfil their roles effectively.

We have also enhanced our approach to our risks, control and assurance framework.

Our staff survey results continue to move in a positive direction. The sense of purpose that people have at NEST remains a real strength and staff engagement is good.

I would like to thank my team at NEST, who really are dedicated to serving our customers and looking after members' interests. Without them we would not be playing a vital role in securing the financial futures of millions of people.

Of course, NEST operates in a complex landscape and we continue to engage with our industry colleagues and stakeholders, DWP ministers and government. We have regular contact with other pension providers and take part in relevant events and meetings. During this year I gave evidence to the Public Accounts Committee about the progress of auto enrolment and NEST's role. We also welcomed the Work and Pensions Select Committee to NEST for a demonstration of how small employers can use our systems to comply with their auto enrolment duties.

We continue to engage with other players in the wider industry as well. We have worked closely with payroll systems providers and with the advisers and intermediaries who help employers to meet their duties. Without this collaboration and dialogue we wouldn't have been able to successfully develop and implement important innovations like NEST web services and NEST Connect. These are crucial to ensuring that thousands of small and micro employers can complete staging easily.

I look forward to continuing that work, and continuing to work collaboratively with others in the sector.

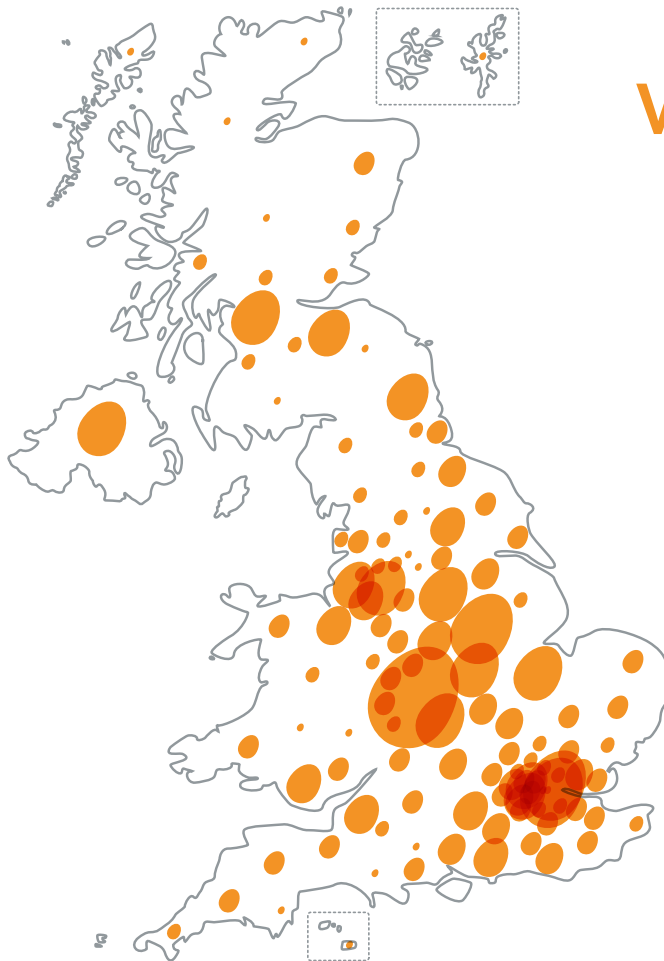


Helen Dean
Chief executive and accounting officer
NEST Corporation

29 June 2016

1.3 Key facts

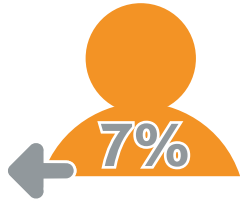
As at 31 March 2016



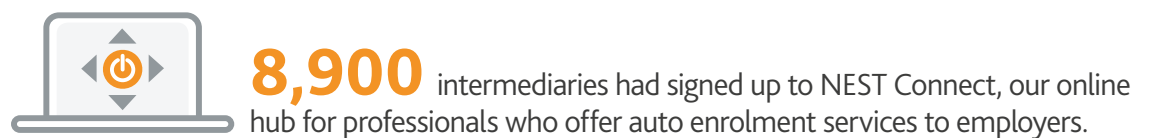
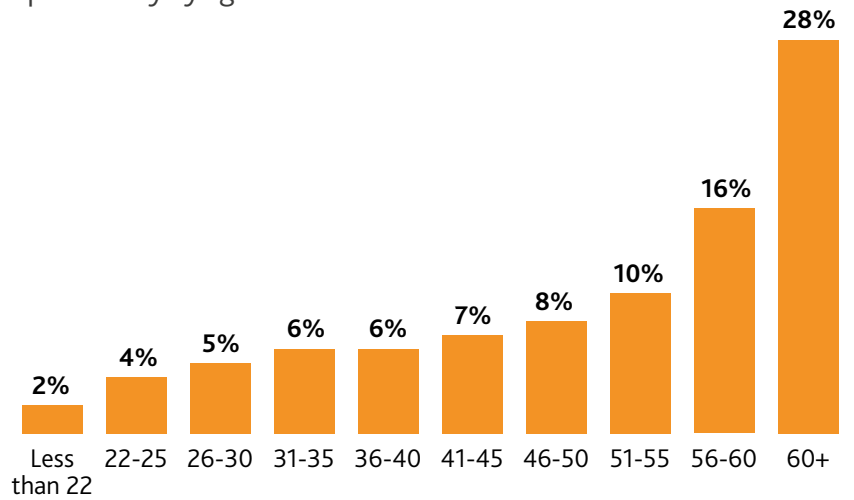
We had almost

3

million
members



Our average opt-out rate was 7 per cent, and even lower for younger members. The graph below shows in more detail how levels of opt-out vary by age.



1.4 Principal activities

NEST Corporation provides a multi-employer workplace pension scheme to enable millions of workers in the UK to build a better income for their later years. NEST Corporation operates an outsourced business model.

2015/16 was again, as expected, a year of continued growth and development for NEST with delivery and resources focused on each of our four strategic priorities, as set out in the business review, see page 16.

During the year our employer and member numbers increased significantly. At 31 March 2016 we had almost 3 million members, over 86,000 participating employers and £827m of members' money under management. In line with this growth over the year we saw a substantial increase in the volume of transactions coming through our system, including the handling of employer and member contacts through secure email services, letters, web chat and call centre operations. The volume of new employers coming on-board each month increased dramatically towards the end of the year.

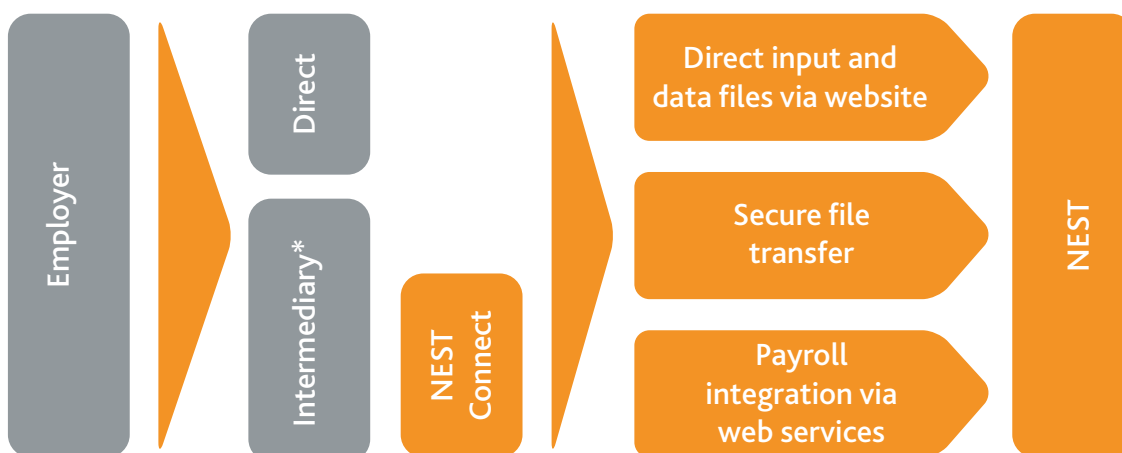
Our members are almost all invested in the default target date funds, which we have

continued to develop. For example we added an emerging market bond fund manager this year. That has enabled us to further broaden the diversity of investment within the default funds.

Enhancements and innovations to our service enables us to provide multiple ways in which employers can use NEST effectively. These alternative methods are designed to meet the varying needs of our employer customers from the very largest to the smallest.

As shown in the diagram below, depending on their requirements, employers can connect to NEST in a variety of ways. They can set up and run NEST themselves, provide permission for someone else to do that for them or do both.

Whoever is running the NEST scheme for the employer also has choices around how to provide the data we need. It has always been possible to input the data directly into our secure website, to send us data files either through our website or via a secure data transfer; and it is now also possible to set up and operate NEST directly via payroll software following the implementation of NEST web services.



*Intermediaries include payroll bureaux, accountancy firms, employee benefit consultants and independent financial advisers (IFAs).

In keeping member interests at the heart of everything we do, NEST responds proactively and openly to changes in the market we operate in.

Changes to the consolidation phase of NEST Retirement Date Funds

The Freedom and Choice pension reforms mean that members are unlikely to want an annuity at retirement, so we have changed our investment strategy.

In 2015 we made changes to the way funds in the consolidation phase of NEST Retirement Date Funds are invested.

NEST Retirement Date Funds that mature up to and including 2020 will target 100 per cent cash at maturity. These members' pots at retirement will tend to be small, so most members accessing their pots at this point will take cash lump sums.

We expect the pot sizes for people retiring after 2021 to be bigger. The at-retirement portfolio for NEST Retirement Date Funds from 2021 will now target an inflation-plus return.

We will keep our approach under review and work to make sure we are meeting the needs of our members. More detail can be found in our *Statement of investment principles* (SIP) available on the NEST website.

NEST blueprint for a core retirement income strategy

We also continued to work on understanding what our members will need in the long term in the light of the Freedom and Choice reforms.

In June 2015 we published a further response to *The future of retirement consultation*. This sets out NEST's blueprint for the core retirement income strategy that we believe would best meet the needs of a significant proportion of NEST members*.

We received a broad spectrum of formal and informal responses to the consultation. These included contributions from asset managers, insurance companies, consumer groups, trade bodies, think tanks, advisers and consultants, as well as overseas pension schemes. Overall the responses to our proposals were very positive. Commentators welcomed NEST's 'blue-sky thinking' and our proactive approach to finding solutions to the issue of increasing longevity and adequacy in later life.

You can find more details and all documents related to the consultation on the NEST website†.

We actively engage within the UK and internationally to seek the best possible outcomes for our members. We also share insight with the wider industry so that members of all similar pension schemes may benefit over time.

1.5 Principal risks and uncertainties

The principal risks and uncertainties are included as parts of NEST Corporation's risk statement. See pages 36 to 39.

* <https://www.nestpensions.org.uk/schemeweb/NestWeb/includes/public/docs/statement-of-investment-principles.PDF.pdf>

† <http://www.nestpensions.org.uk/schemeweb/NestWeb/public/aboutnestcorporation/contents/consultations.html>

1.6 Business review

NEST has had a successful year delivering key objectives whilst keeping within the operational and financial targets we agreed with the Department for Work and Pensions (DWP) at the end of 2014/15. Revenues have increased in line with the growth of members from £5.9m last financial year to £9.0m this year.

Scheme administration costs are in line with our expectations and growth in scheme size whereas NEST Corporation costs are lower than expected due to our continued focus on targeted efficiencies.

Our business is made up of four key areas of focus:

1. scheme administration operations
2. organisational capability of NEST Corporation
3. investment operations
4. successful completion of the staging of employers throughout the remainder of the auto enrolment programme.

Our scheme operations have successfully responded to the higher volume of activity this year. Although it is still quite early to be certain, indications are that small and micro employers are responding well to auto enrolment and most are finding NEST easy to use.

NEST passed a major milestone by completing its 02/07 AAF controls report. This report provides independent assurance that our controls are effective and that NEST is well governed.

In summary 2015/16 has seen a number of developments that not only support the achievement of our near term objectives, but also serve to underpin more efficient service delivery in the longer term.

Performance summary

When spending, we must always hold the interests of our members at the front of mind. We must be prudent when spending money in pursuit of our objectives. Every cost ultimately falls at the feet of the scheme members, this must always be recognised.

The following table provides information on past performance, the resources required to deliver business activities for 2016/17, as well as information on resource planning for the period 2017/18.

	Actual 2011/12 £000	Actual 2012/13 £000	Actual 2013/14 £000	Actual 2014/15 £000	Actual 2015/16 £000	Forecast 2016/17 £000	Forecast 2017/18 £000
Expenditure							
Staff costs	18,793	20,956	22,645	20,399	18,877	19,527	18,967
Depreciation and amortisation	5,677	10,146	11,544	13,517	14,192	11,746	12,828
Other expenditure	25,308	24,888	33,418	43,028	45,124	63,046	82,550
Interest payable	9,597	13,080	17,145	21,748	25,556	29,751	35,599
Total expenditure	59,375	69,070	84,752	98,692	103,749	124,070	149,944
Income							
Grant income	(10,832)	(7,944)	(10,245)	(12,685)	(15,066)	(18,024)	(22,142)
Other income	(28)	(76)	(1,957)	(5,857)	(9,021)	(12,676)	(19,258)
Total income	(10,860)	(8,020)	(12,202)	(18,542)	(24,087)	(30,700)	(41,400)
Net expenditure after interest	48,515	61,050	72,550	80,150	79,662	93,370	108,544

Total comprehensive expenditure for 2015/16 was lower than anticipated at £79.7m compared to £80.2m in 2015/16. This was due to savings on NEST Corporation staff costs offset in part by an increase in scheme administration costs as our membership increased. Income from the scheme is up £3.2m reflecting the 0.9m increase in member numbers and the doubling of our assets under management (AUM) to £827m.

Net expenditure after interest for 2016/17 and 2017/18 is expected to increase to £93m and £109m respectively. The increase in expenditure is due to the expected rise in the cost of running the scheme administration because of our growth in membership as the staging of small and micro employers continues. This will therefore increase the amount of interest we need to pay on the monies we need to borrow in the short term. Scheme income continues to grow as our membership base and assets under management (AUM) grows rapidly. Annual amortisation and depreciation costs are expected to decrease due to the extension of the economic lives of a number of assets following the TCS contract extension, and also revised estimates of the rate at which existing assets will be replaced.

Key performance indicators (KPIs)	Actions and results
1. Develop scalable, efficient and secure operations, supported by a product which enables employers to get it right, enabling us to safely manage peaks of demand and to minimise the costs of business as usual (BAU) operations.	
Product development	<p>A wide range of product enhancements have been delivered, including via two major product developments. These enhancements range from continuous improvements to the customer experience of using NEST, based on operational experience and customer feedback, to larger changes such as the introduction of web services and the related integration with payroll software providers. These changes have supported business growth through the year from approximately 14,000 to 86,000 employers and from approximately 2 million to 3 million members.</p>
Contact centre and back office capacity	<p>We have continued to monitor and refine our contact centre and back office operations to both improve the quality of our user experience and develop NEST as a secure but highly efficient scheme. We have significantly increased the capacity of all our contact channels, including calls, web chat, email and secure mail, in line with increasing employer and member numbers. We have added secure member web chat to our existing employer web chat. Service level performance has been strong throughout the year.</p>
Systems capacity	<p>Alongside daily active monitoring of systems performance, we have delivered specific programmes of work to upscale our technical capacity ahead of demand from new employers and members. Service level performance has been strong throughout the year.</p>
Customer satisfaction	<p>Overall customer satisfaction for employers and members has increased. NEST's Net Promoter Score* for employers has improved from +10 in 2014 to +25 in 2015, while members' customer satisfaction scores increased from 26 per cent to 33 per cent. Indeed our latest research suggests that small and micro employers are likely to have higher levels of customer satisfaction than previously staged employers, which bodes well for the expected volume of small and micro employers over the remainder of the staging period.</p>
Assurance and controls	<p>We have carried out a range of internal and external assurance reviews including NEST completing an AAF 02/07 master trust assurance report, as well as our key supplier completing the AAF 01/06. In addition, we have completed a risk-based compliance monitoring programme on a set of operational activities to provide assurance to the Trustee and senior management on the ongoing suitability of key processes, and on the outcomes of those processes.</p>
2. Build an organisation, NEST Corporation, which is culturally fit for the challenge of delivering the NEST scheme.	
CEO transition and Trustee committee development	<p>Under the stewardship of our new chief executive, NEST Corporation has streamlined some of the areas of decision making within the business. This was achieved by decreasing the number of executive governing groups, and adding additional input from Trustee Members to increase efficiency and give added perspective to decision making within NEST.</p>
Information security policies and processes	<p>We are committed to supporting a secure electronic environment to conduct business. We have established and maintained a comprehensive information security management system (ISMS) that is certified against the International Standards Organisation (ISO) 27001:2013.</p> <p>Additionally we maintain a data protection policy that sets out our approach to the protection of personal data and associated training for our employees to help support this.</p>
Operational and financial control audit actions	<p>This year we continued to implement audit recommendations across the organisation, with quarterly status reviews discussed by the executive board and Trustee. This includes a formalised process for addressing any overdue items. Our new internal auditors also review the status of high priority recommendations quarterly, and have built in testing of compliance with closed recommendations into the relevant internal audits.</p>

* NEST's Net Promoter Score is from customer survey data and gives the net balance between promoters scoring 9 or 10 less detractors scoring 0 to 6, on a 0 to 10 scale.

Key performance indicators (KPIs)	Actions and results
Staff engagement, including our annual staff survey and the reasons our people give for leaving	<p>Our staff engagement index, measured in the annual staff survey, was 50 per cent, in line with the national average. The results have improved from the previous survey due to significant efforts to enhance aspects of our culture. While the scores may not be as high as we would like, it is reassuring that the targeted efforts we are making are producing positive results.</p> <p>The next focus for cultural improvements will be on areas where results remain persistently low or have fallen.</p>
3. Maintain the ongoing functions of a leading pensions business	
Compliance with relevant regulations, other legal requirements and codes of conduct	<p>The NEST scheme is run in accordance with its order and rules and all relevant legislation and regulatory guidance. If we ever fall short of these requirements, there are robust procedures designed to identify, assess, and rectify such issues and, where necessary, report to The Pensions Regulator (TPR).</p>
Investment performance	<p>NEST Corporation published its first Type 1 assurance report in line with the AAF 02/07 master trust assurance framework in October 2015 and we have just completed our first Type 2 report. This framework, established by The Pensions Regulator (TPR) and the Institute of Chartered Accountants of England and Wales (ICAEW), sets out a series of control objectives relating to governance and administration of master trust schemes.</p> <p>There are currently nearly 50 separate Retirement Date funds that make up our default strategy with a further five additional fund options. The year under review was a challenging time for markets with considerable volatility, particularly in the summer of 2015 and at the start of 2016. Many of the world's stock markets posted negative returns over the year, particularly those with heavy commodity exposure such as the FTSE100 and some emerging markets. Credit markets were also challenging. Against that backdrop NEST Retirement Date fund returns were understandably lower than in previous years.</p> <p>NEST is focused on the long term rather than short periods, and the long term performance of the funds continues to be broadly positive. Over the last 12 months all of the NEST Retirement Date funds delivered positive returns after all charges, and the vast majority also beat inflation. For this reporting year NEST Retirement Date funds in the growth phase have delivered returns below the long term target of consumer price index (CPI) plus 3 per cent. The annualised performance of these funds since inception in 2011 remains comfortably ahead of target. The Higher Risk fund, which has a higher weighting in equities, and the Pre-Retirement Fund posted small negative returns over the year.</p>
Making sure our funds are run in line with our investment principles, including the management of risk and compliance with our responsible investment policy	<p>We have continued to develop our investment strategy in line with our investment beliefs and <i>Statement of investment principles</i> (SIP). In particular we have increased our ability to invest in a diverse range of asset classes in order to better manage investment risk.</p> <p>In line with our belief that diversification is the key tool for managing risk, we have acquired an emerging market debt mandate from Amundi.</p>
<i>The future of retirement: A consultation on investing for NEST's members in a new regulatory landscape, on how we should evolve the scheme in light of the 2014 Budget changes offering savers greater flexibility</i>	<p>The pension reforms announced in the 2014 Budget are likely to change how NEST members access their savings in future and how their savings are invested up to and through retirement. In addition to the evidence gathered through our consultation, <i>The future of retirement</i>, we have considered findings from consumer research to get a better understanding of members' likely needs.</p> <p>We are continuing to analyse the growing evidence on what our members need in the longer term.</p>

Key performance indicators (KPIs)	Actions and results
<p>Strong, cooperative and constructive relationships with other stakeholders involved with pensions and auto enrolment</p>	<p>We have continued to work constructively with government, regulators, trade bodies, consumer associations, policy stakeholders and the industry. We have participated in key workshops on retirement freedoms, automatic transfers, retirement solutions, pensions tax relief, the planned introduction of Lifetime ISAs and other matters at the Financial Conduct Authority (FCA), HM Treasury (HMT) and the Department for Work and Pension (DWP). We regularly engaged with our trade body the Pensions and Lifetime Savings Association (PLSA), participating in the Multi-Employer Schemes (MES) Forum and Defined Contribution (DC) Council as well as working groups on regulatory and disclosure issues. We also hosted the Work and Pensions Select Committee and gave evidence in their recent inquiry.</p>
<p>4. Prepare for the challenges and opportunities of 2017</p>	
<p>The volume of employers and members using the NEST scheme</p>	<p>Our focus on making sure that many thousands of small and medium-sized employers are able to meet their auto enrolment duties has continued in earnest. We have ensured further investment in developing NEST to make sure that we offer a high quality self-serve experience.</p> <p>To enhance our offering we normally make significant changes twice a year in upgrades to our system, called service releases. The upgrades in the year under review were in October 2015 and March 2016.</p> <p>October 2015</p> <p>The most significant change was the introduction of a new way to share data with NEST through payroll software, called NEST web services. This reduces the time it takes for employers or intermediaries to complete processes such as enrolment of members and processing of contributions.</p> <p>We also made other improvements.</p> <ul style="list-style-type: none"> • By having the option of making bulk updates we made it easier for employers and intermediaries to tell us when there are no contributions due for more than one member. • We introduced two new payment frequencies for paying contributions to NEST, tax weekly and tax monthly, allowing broader compatibility with some payroll systems. • We made it possible for employers and intermediaries to view some communications within their mailbox, rather than having to open PDFs. • We improved some file specifications to make it easier for employers or intermediaries to upload data if they are not entering details online directly, or using web services. <p>March 2016</p> <p>We made changes to make it easier for members to sign up online. We also made some further enhancements to the scheme to prepare for the very large volumes of small employers we are expecting. We have simplified and streamlined the procedure for setting up a scheme with NEST online. Default settings are now designed to suit smaller employers. These improvements should reduce the amount of time it takes an employer to set up a scheme.</p> <p>We also continued to make changes to make sure we are communicating the right things to our members in the most cost effective way.</p> <ul style="list-style-type: none"> • We have added more signposting to members about Pension Wise. This is a free and impartial service that the public can use to assess their options on retirement.

Key performance indicators (KPIs)	Actions and results
Our operational readiness for the lifting of restrictions	<ul style="list-style-type: none">• We have made some changes to the format in which members receive information when they join NEST. The initial information pack they receive will be shorter with details of where to find the full <i>Welcome to NEST</i> booklet online.• In September 2015 our systems were re-certified in accordance with the revised standard ISO 27001:2013. This demonstrates our continuing alignment to the internationally recognised best practice framework for information security management. <p>Work is underway with our administrator, Tata Consultancy Services (TCS), to make the necessary design and operational changes. We are confident these will be implemented in line with the government's timetable of 2017.</p>

1.7 Our strategy for 2016/17

The strategic priorities established in 2013/14 and detailed in the previous section of the report were intended to guide approximately three years of decision making for NEST Corporation. We clarified and updated our strategic priorities in 2015 and will in the future be reporting against these.

Further information on these priorities and the activities and indicators that sit below them can be found in our updated *Corporate plan 2016–2019*, available on the NEST website*.

1.8 Other

Key business relationships

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

Pension liabilities

A description of the pension arrangements for NEST Corporation staff is given in the remuneration report in section 2.2 and the accounting treatment is described in the accounting policy notes 1.6 on page 58 and 2 on page 63.

Trustee Members' register of interests

Trustee Members have registered any interests they hold that may create an actual or potential conflict with their responsibilities to the scheme.

NEST Corporation Trustee Members also declare conflicts in relation to any items of business at NEST Corporation and committee meetings. The executive board also register any interests they hold that may create a potential conflict with their responsibilities to NEST Corporation.

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

* www.nestpensions.org.uk/library

† <https://www.nestpensions.org.uk/schemeweb/NestWeb/public/aboutnestcorporation/contents/trustee-members.html>

1.9 Financial statements

Statutory background

The financial statements for 2015/16 for NEST Corporation are prepared in accordance with the requirements of schedule 1, part 3, paragraph 20 to the Pensions Act 2008, and in the form set out in the *Accounts direction* issued by the Secretary of State for Work and Pensions. The *Accounts direction* is presented in *Appendix one*.

Statutory auditors

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

So far as the accounting officer is aware, there is no relevant audit information of which the entity's auditor is unaware. The accounting officer has taken all the steps that she ought to have taken to make herself 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.

Going concern

The statement on going concern is included in the *Statement of accounting officer's responsibilities* (section 2.1.15) and in the notes to the financial statements (section 3.1.1.2).

Helen Dean
Chief executive and accounting officer
NEST Corporation

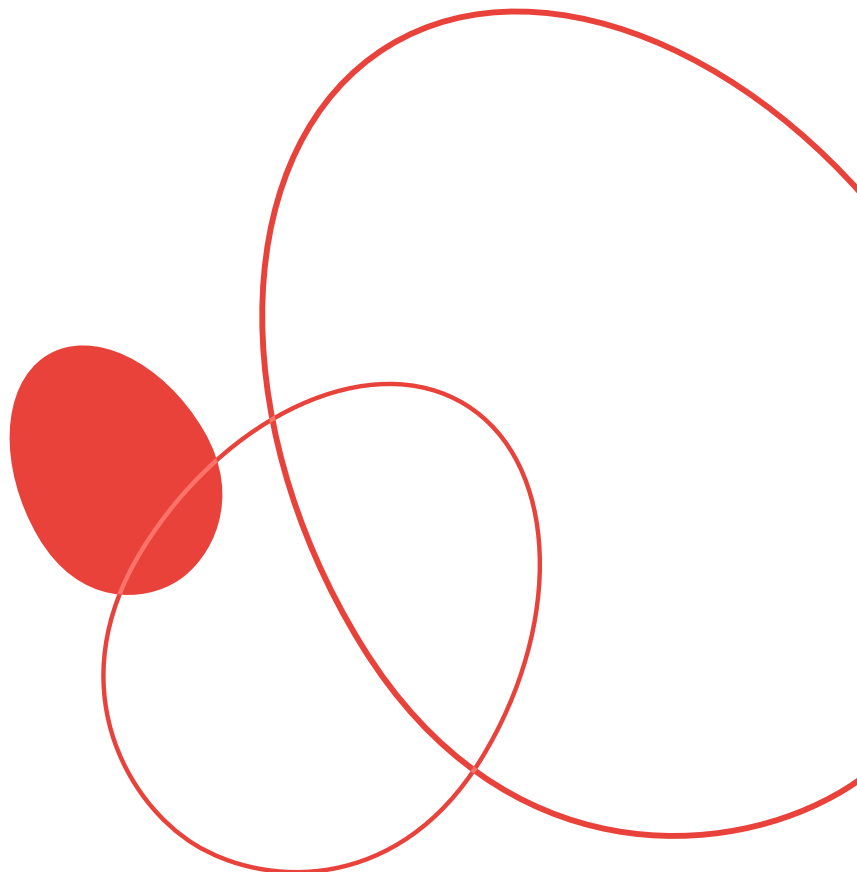
29 June 2016

Otto Thoresen
Chair
NEST Corporation

29 June 2016

Chapter two

Accountability report



2.1 Directors' statement

Governance statement

This accountability report, including the *Directors' statement*, the *Governance statement* and the *Remuneration report* has been prepared in accordance with the provisions of the government *Financial Reporting Manual* (FReM) and HM Treasury's *Managing Public Money, Annex 3.1*. See also *Appendix one – Accounts direction*.

2.1.1 About Nest Corporation

NEST is a trust-based occupational pension scheme set up in 2010 to support the government's pension reforms. Designed to make auto enrolment easier for employers and their workers, NEST offers easy online access, clear communications, high quality governance and an award-winning investment strategy.

NEST Corporation is the Trustee of the NEST pension scheme. As Trustee, NEST Corporation has a duty to run the scheme in the best interests of its members. Under the *Pensions Act 2008*, the Trustee receives guidance from a Members' Panel that represents the member's perspective of the scheme, and an Employers' Panel that represents participating employers. The Trustee consults the panels on matters to do with the operation and development of the scheme. It also consults the panels when specifically required to do so by legislation, for example when making changes to the NEST rules.

Unlike any other occupational pension scheme trustee, NEST's Trustee has a public service obligation (PSO) to accept any employer who wishes to use NEST to meet its employer duties. An employer just needs to agree to the terms and conditions of the scheme and use the scheme in line with these terms and conditions. Employer terms and conditions are reviewed at least once a year and as necessary following a change to relevant legislation.

Members enrolled into the scheme have access to their own individual, secure online member account. Once logged in, they can review their personal details, make additional contributions, change their investment fund and cease contributions. A member can continue using NEST throughout their working life, regardless of a change of employment or personal circumstances.

Restrictions

The *Pensions Act 2008* placed certain restrictions on the NEST scheme. One of these is an annual contribution limit. This is reviewed each year and updated in line with the average earnings index following a formula set out in the NEST rules. This limit will be removed completely from 1 April 2017. There are currently restrictions on transfers into and out of the scheme which will also be removed in April 2017.

Charges

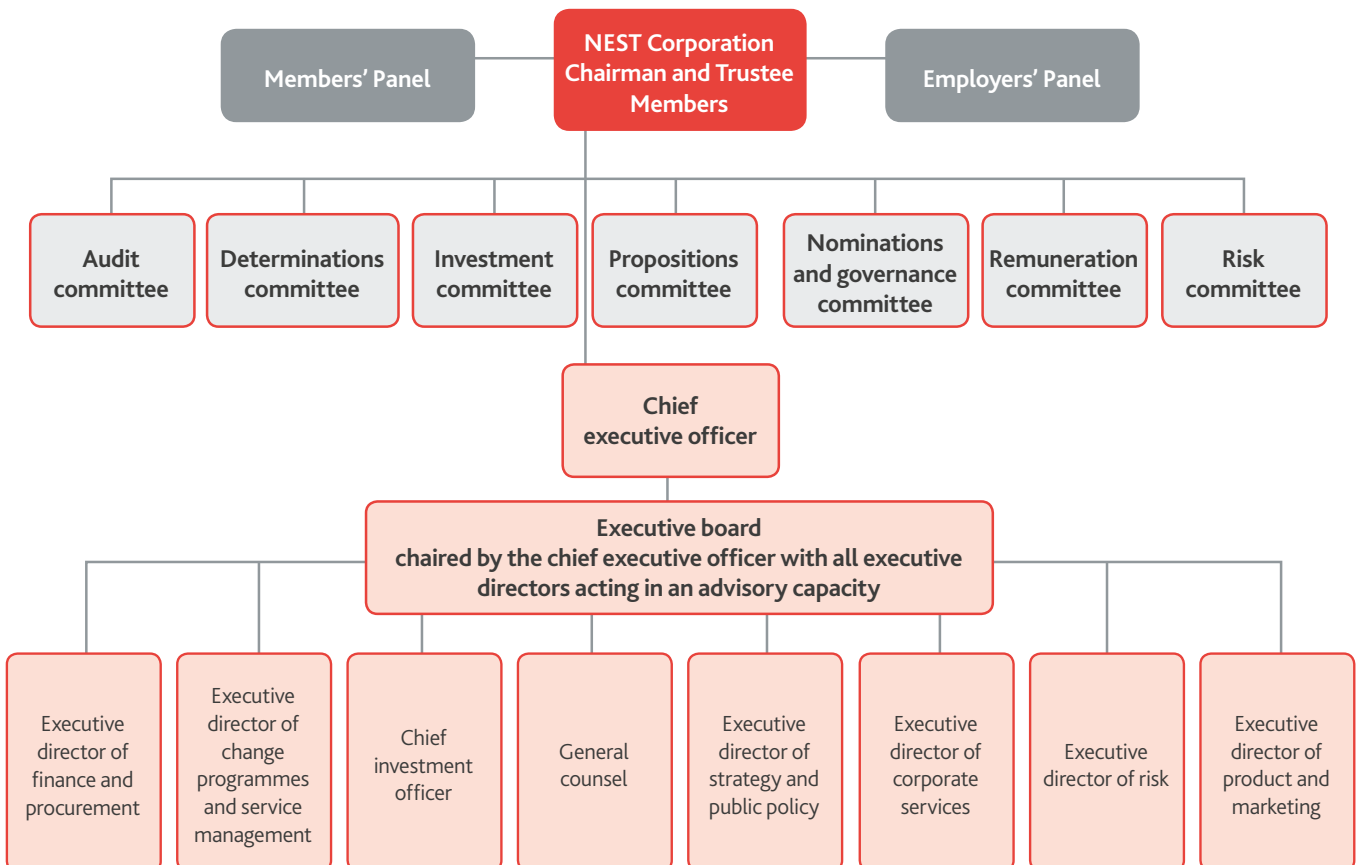
There is no charge for employers to set up or use NEST. There is also no charge for delegates who are acting on behalf of an employer, for example a third party that the employer has asked to administer the scheme for them. NEST has the same charge for all members, no matter who their employer is, what their level of contributions is or which retirement fund they invest in. This charge is made up of two parts:

- contribution charge of 1.8 per cent on each new contribution into a member's retirement pension pot

- annual management charge (AMC) of 0.3 per cent on the total value of a member's pension pot each year, which is reflected in the unit price.

Every three years, the Trustee also produces a 'value for money' report. This brings together information from investment reports and market data to assess the quality of service provided against the costs and charges applied to the membership. This report was first published in 2015 and is available on the NEST website*.

2.1.2 Organisation structure



* <https://www.nestpensions.org.uk/schemeweb/NestWeb/includes/public/docs/value-for-money.pdf>

NEST Trustee

Members and committees

As at 31 March 2016, NEST Corporation had 12 members, consisting of a Chair, a Deputy Chair and 10 other Trustee Members. They are responsible for setting the strategic direction and objectives for NEST Corporation.

Trustee Members are appointed by the Secretary of State for Work and Pensions in line with public appointments guidance that promotes selection on the basis of merit, fairness and openness. A broad range of skills, experience and knowledge are required collectively on the Trustee board.

Appointments are made in line with the Commissioner for Public Appointments' Code of Practice and Cabinet Office guidance.

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

All Trustee Members have completed The Pensions Regulator's Trustee toolkit, an online learning programme, and their continuing requirement for knowledge and understanding are met through briefing sessions on relevant topics and an individual commitment to ongoing education and training.

The combined knowledge and understanding of the Trustee Members, together with the advice which is available to them, enables them collectively to exercise their responsibilities as Trustee by providing experience of investment, pension fund management, member representation, finance, audit, governance, and business management.

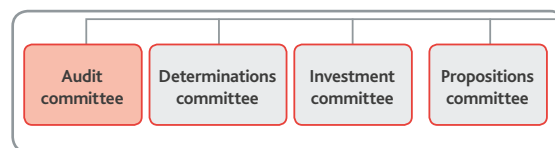
The Trustee and its committees take decisions that affect the NEST scheme and ensure that the Corporation fulfils its obligations as a non-departmental public body. The terms of

reference for the Trustee and its committees are published on the NEST website*.

In addition, the *NEST Order 2010*, article 8 created an Employers' Panel and a Members' Panel. As requested by the Trustee these panels must give assistance and advice about the operation, development or amendment of the scheme. For further information on the panels, see page 31.

A schedule of delegations gives authority and responsibility to the chief executive for the day-to-day operations and management of NEST Corporation and the NEST scheme as well as setting out the delegations to its committees. The chief executive in turn delegates authority to each member of the executive team and holds them accountable for delivery in their areas of responsibility. Regular meetings of the executive board are chaired by the chief executive to oversee the operation of the scheme.

Audit committee



The audit committee oversees the integrity of the financial statements for NEST Corporation and the scheme, approving and monitoring the internal control framework and the effectiveness of audit and compliance functions. During the year it:

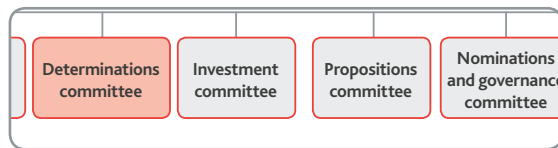
- reviewed the annual report and accounts for both NEST Corporation and the NEST scheme and recommended their approval to the Trustee
- reviewed the plans of the external auditors for their audit of the annual accounts and oversaw the delivery and effectiveness of external audits

* www.nestpensions.org.uk

- appointed Ernst & Young LLP as NEST Corporation’s internal auditors following an open tender process
- approved the internal audit plan and oversaw its delivery
- approved the compliance plan and oversaw its delivery
- reviewed the system of internal controls within NEST Corporation and implemented changes as required
- reviewed the master trust assurance report and resolved to recommend its approval to the Trustee.

The committee also reviewed the delegations around IDRPs and employer dispute resolution procedure (EDRP) determinations and approved a clear framework for making any ex-gratia payments at stage two of the IDRPs process. This included defining the characteristics of low, medium and high severity cases.

Determinations committee

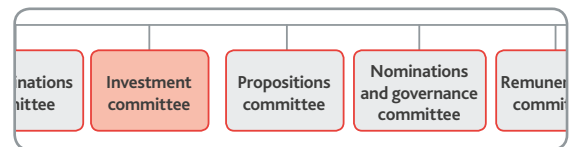


The determinations committee is responsible for decision-making on the second stage of complaints made through the scheme’s internal dispute resolution procedure (IDRP)*. The committee ensures that the processes for dealing with disputes are fit for purpose; and determines stage two IDRPs cases. During the year 2015/16 it considered 22 of these cases.

- 3 cases were held in favour of the complainant
- 3 cases were partially upheld
- 16 cases were not upheld.

In 2015/16 the determinations committee reviewed the NEST Corporation complaints procedure by comparing it to the policies of other organisations. The committee recommended changes which strengthened and clarified NEST’s processes.

Investment committee



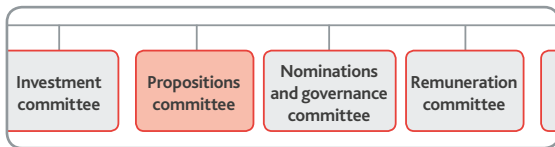
The investment committee is responsible for recommending the Trustee’s overall investment strategy and any changes to the investment approach or the funds made available to members. The committee also monitors investment performance and operational investment risks. During the year it:

- reviewed NEST’s investment approach and confirmed that it is correctly represented in the *Statement of investment principles* (SIP)†
- maintained oversight of the investment and risk management of all NEST retirement funds, including the approval of changes in asset allocation as required
- continued the development and delivery of the responsible investment policies
- gave ongoing consideration to the development of the NEST investment approach including appointment and termination of investment managers as appropriate.

* <https://www.nestpensions.org.uk/schemeweb/NestWeb/includes/public/docs/NEST-how-we-handle-complaints,PDF.pdf>

† <https://www.nestpensions.org.uk/schemeweb/NestWeb/includes/public/docs/statement-of-investment-principles,PDF.pdf>

Propositions committee

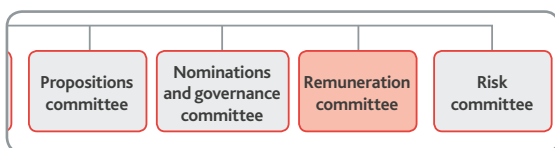


The propositions committee is responsible for overseeing the strategic development of the scheme, ensuring that the product offered by NEST meets the needs of our members, employers and target market.

During the year it:

- held a briefing session followed by the first formal meetings of the committee in September and November 2015
- considered the development of NEST Corporation's approach to raising awareness of the NEST scheme amongst larger employers
- considered the development of proposals to meet our members' retirement needs in a changed environment for pension saving.

Remuneration committee

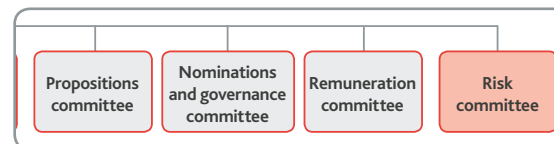


The remuneration committee is responsible for setting the remuneration of the chief executive. It also provides advice on setting the remuneration of other employees of NEST Corporation and oversees its organisational culture and values. During the year the remuneration committee:

- agreed the pay and reward proposals for 2015/16, including the performance review for the chief executive
- considered senior salary remuneration and succession planning issues at executive level

- considered the results of the 2015 staff survey and advised on the development of the NEST people strategy
- reviewed NEST Corporation's policies on diversity and inclusion, gifts and hospitality policies, and external appointments.

Risk committee



The risk committee is responsible for advising on overall risk strategy and considering all aspects of risk, and the management of those risks, that could affect NEST Corporation and the scheme. During the year it:

- provided a review of all aspects of risk management, including those associated with Tata Consultancy Services (TCS)
- provided challenge to the executive team through a series of detailed investigations into specific areas of operational and strategic risk including the risks of fraud and financial crime and operational incidents
- oversaw and drove continuous improvement of the risk management framework to improve the risk culture of NEST Corporation
- developed the *Principal risks and uncertainties* statement
- considered the executive board's recommendations on the policy framework.

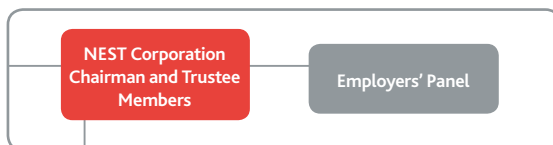
Nominations and governance committee



The nominations and governance committee is responsible for leading recruitment for the appointment of the chief executive of NEST Corporation, supporting and assisting with recruitment of Trustee Members by the Secretary of State, and ensuring sound corporate governance within NEST Corporation. During the year it:

- long-listed, short-listed and interviewed candidates for the role of chief executive of NEST Corporation
- recommended the appointment of Helen Dean as chief executive of NEST Corporation to the Trustee, which took effect on 21 September 2015
- considered the General Counsel’s review of the fit and proper questionnaires completed by Trustee Members
- considered the General Counsel’s review of the Trustee Members’ register of interests and log of conflicts of interest
- recommended the appointment of eight Panel Members to the Trustee.

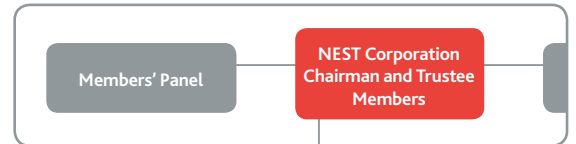
Employers’ Panel



The Employers’ Panel was set up in accordance with the Pensions Act 2008 to represent participating employers by providing advice on the operation, development and amendment of the scheme. The panel now has 12 members. During the year it:

- held a breakfast event to engage with small and medium-sized employers
- engaged with NEST on a number of issues, including the employer benchmarking survey
- responded to NEST Corporation on NEST’s proposed rule changes to align it with the NEST order, following changes made by Parliament to the NEST order to lift the restrictions on NEST from 1 April 2017
- participated in the recruitment of four additional members to enhance the size and diversity of the panel
- was consulted on the review of the *Statement of investment principles (SIP)*.

Members’ Panel



The Members’ Panel was set up in accordance with the Pensions Act 2008 to represent scheme members by providing advice on the operation, development and amendment of the scheme. The panel now has 11 members. During the year, it:

- prepared and published the *Members’ Panel annual report* for the period 2014/2015
- engaged with NEST on a number of issues including assets under management, risks to members and member complaints
- responded to NEST Corporation on NEST’s proposed rule changes to align it with the NEST order, following changes made by Parliament to the NEST order to lift the restrictions on NEST from 1 April 2017
- participated in the recruitment of four additional members to enhance the size and diversity of the panel
- was consulted on the review of the *Statement of investment principles (SIP)*.

2.1.4 Trustee Members



Otto Thoresen,
Chair, NEST Corporation
(from 1 February 2015)
 Chair, nominations and
 governance committee
(from 1 February 2015),
 Chair, determinations committee
(from 1 February 2015 to
24 March 2016)



Sharon Darcy,
Trustee Member
(from 20 June 2011 to 19 June 2016)
 Chair, risk committee
(from 25 April 2013 to 15 April 2016)



Tom Boardman,
Trustee Member
(from 1 April 2010)
 Deputy Chair
(from 1 June 2014)



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



Iraj Amiri,
Trustee Member
(from 20 June 2011)
 Chair, audit committee
(from 1 April 2014)



Caroline Rookes,
Trustee Member
(from 1 April 2015)
 Chair, remuneration committee
(from 19 June 2016)



Ian Armfield,
Trustee Member
(from 1 April 2014)



Karen Silcock,
Trustee Member
(from 1 April 2014)
 Chair, risk committee
(from 15 April 2016)



Graham Berville,
Trustee Member
(from 1 June 2014)
 Chair, propositions committee
(from 2 July 2015)



Nigel Stanley,
Trustee Member
(from 20 June 2011 to 19 June 2016)
 Chair, remuneration committee
(from 1 April 2015 to 19 June 2016)



Sally Bridgeland,
Trustee Member
(from 1 April 2015)



Jill Youds,
Trustee Member
(from 1 April 2015)
 Chair, determinations committee
(from 24 March 2016)

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

Committee membership as at 31 March 2016

Audit committee	Investment committee	Nominations and governance committee
Iraj Amiri <i>chair</i>	Carolan Dobson <i>chair</i>	Otto Thoresen <i>chair</i>
Ian Armfield	Ian Armfield	Tom Boardman
Graham Berville	Sally Bridgeland	Carolan Dobson
Sharon Darcy	Nigel Stanley	

Determinations committee	Risk committee	Remuneration committee	Propositions committee
Jill Youds <i>chair</i>	Sharon Darcy <i>chair</i>	Nigel Stanley <i>chair</i>	Graham Berville <i>chair</i>
Iraj Amiri	Iraj Amiri	Caroline Rookes	Sally Bridgeland
Nigel Stanley	Graham Berville	Karen Silcock	Karen Silcock
Otto Thoresen	Karen Silcock		Jill Youds

Details of meetings attended by the Trustee Members appointed to each committee during the year

	Trustee meetings	Audit committee	Determinations committee	Investment committee	Nominations and governance committee	Propositions committee	Remuneration committee	Risk committee
Number of meetings	10	6	11	4	5	2	4	5
Otto Thoresen	10		9		5			
Tom Boardman	10				4			
Iraj Amiri	8	6	10					5
Ian Armfield	10	5		4				
Graham Berville	8	5				2		4
Sally Bridgeland	8			4		1		
Sharon Darcy	9	5						5
Carolan Dobson	9			4	5			
Caroline Rookes	10						2/2*	
Karen Silcock	9					1	2	4
Nigel Stanley	9		10	4			4	
Jill Youds	10		8/10**			1		

* Caroline Rookes did not join the remuneration committee until the third meeting of the year.

** Jill Youds did not join the determinations committee until the second meeting of the year.

2.1.4 Governance framework

Trustee meetings

The Trustee met 10 times during the year, with two meetings focused exclusively on strategy. It has established audit, determinations, investment, nominations and governance, propositions, remuneration and risk committees. These committees meet on a regular basis and report back on their work during Trustee meetings. Details of the meetings and attendance can be found on page 34 and committee membership is set out on page 33.

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

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

As part of the normal business cycle, the Trustee:

- approved the budget and *Corporate plan 2015-2018*
- approved the *Annual report and accounts 2014/15* for the scheme and for NEST Corporation
- approved the annual health and safety report for NEST Corporation

- reviewed loan funding arrangements
- appointed four members to the Members' Panel and four to the Employers' Panel.

In addition the Trustee:

- approved the extension of the scheme administration contract with TCS
- established a propositions committee
- approved NEST Corporation's master trust assurance report and its publication
- approved NEST Corporation's *Value for money* statement and its publication
- approved NEST Corporation's consultation on changes to its rules.

2.1.5 Corporate governance

NEST Corporation subscribes to high standards of corporate governance in order to serve the best interests of scheme members and to fulfil its obligations as a non-departmental public body.

NEST Corporation is required to report formally on its compliance with the government *Corporate Governance Code* for central government departments on a 'comply or explain' basis. This governance statement sets out how NEST Corporation addresses the requirements of the code on accountability, effectiveness, induction and risk management.

Accountability

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

Trustee effectiveness

Effectiveness reviews for the Trustee and its committees take place annually. An external facilitator is used to carry out the review every third year.

Induction processes

New Trustee Members received tailored induction training and materials. Within six months of being in office all new Trustee Members completed the Trustee toolkit training for Trustees of defined contribution schemes produced by The Pensions Regulator.

Risk management

The Trustee is responsible for ensuring that any material risks faced by the organisation are continuously identified and evaluated. The Trustee is also responsible for ensuring that risk is effectively managed. In order to assist it in carrying out its responsibilities, the Trustee has established a risk committee in line with best practice corporate governance. The report from the risk committee is in Section 2.1.7 below.

2.1.6 Significant control issues

There are no significant internal control issues that merit inclusion in the annual report and accounts for the reporting period 1 April 2015 to 31 March 2016. To evidence this, the Trustee Members and NEST Corporation's executive team have been engaged and have made appropriate additional enquiries. Where control weaknesses are identified, appropriate actions are taken or planned to effect reasonable management of risks within acceptable periods of time.

2.1.7 NEST Corporate risk statement

Overview

Our attitude towards risk can be seen in how we conduct ourselves. The culture and processes we have established in NEST are designed to enable us to manage risk in line with the expectations of our Trustee Members, who have the legal responsibility to act in accordance with their powers and duties and in the interests of our members.

This statement addresses NEST Corporation as a public corporation and as the Trustee of the scheme. It is appropriate to address the risks and uncertainties in this combined manner since the sole function of NEST Corporation is to be the Trustee.

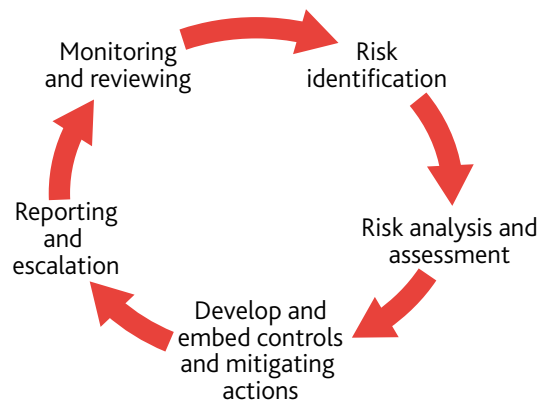
We must take risks in order to deliver our strategic priorities. Integral to this is understanding the risks we face and how best to control or mitigate them. We don't do this alone. We engage with key outsourced providers and government departments to understand and manage risk.

Our close working relationships with our scheme and fund administrators help us manage operational risk, not just at a day-to-day level, but looking forward to the risks and opportunities presented by the continued rollout of auto enrolment requirements to more employers.

We operate in a maturing policy and legislative environment. Through our strong relationships with the Department for Work and Pensions and The Pensions Regulator we collectively manage risks to the successful implementation of the Automatic Enrolment Programme (AEP).

Risk management framework

NEST's risk management framework is reviewed each year to ensure it remains fit for purpose and to take into account developments in industry practice. At the core of our framework is the risk management process.



Each business area across NEST maintains a log of their key risks which they review regularly. Our risk dashboard is used to report key risks to the executive board, risk committee and the Trustee.

Principal risks

NEST has six principal risks which have been identified in relation to the delivery of our strategic priorities. We define a principal risk as 'a risk that is considered material to the development, performance, position or future prospects of NEST'.

Scheme administration operational capacity risk

Scheme administration operational capacity risk is the risk that NEST doesn't have sufficient levels of operational capacity. This would mean that we could not meet the demands of our day to day operations, or enrol all employers who wish to use us to meet their auto enrolment duties in line with our public service obligation. If we don't have sufficient levels of resource and system

performance the continued roll-out of the auto enrolment policy could fail. We would be delivering a poor service to our employers and members.

We have designed our processes and systems to be as straightforward to use as possible. Our aim is for employers and intermediaries to be able to use NEST without needing to contact us for advice or help. We continually look for ways to make our systems easier to use and consequently reduce the need for administrative support. We also estimate the likely number of employers who may wish to use NEST and the ways in which they will do so. This allows us to plan and build capacity into our systems and administrative functions to deal with this potential demand and manage the risk.

Scheme administrator relationship risk

Scheme administrator relationship risk is the risk that NEST could be adversely affected by the actions and decisions of our pension scheme administrator TCS. The administrator of the NEST pension scheme provides most of the resources required to operate the scheme. This reliance on the administrator could potentially leave NEST in a position where it could be adversely affected by their actions and decisions.

Having a strong relationship with the scheme administrator is important for our mutual success. We have a contract which sets out NEST's requirements and service level standards. Procedures are in place to gather intelligence and obtain assurance. We also work hard to maintain our relationship through regular interaction between key senior staff in both organisations.

Investment beliefs and performance risk

There is a risk that key stakeholders and commentators lose trust in NEST's investment performance. This could be because investment performance has not met expectations, whether due to poor market performance, because our investment beliefs were incorrect or because our investment approach was not successfully implemented. This risk could also be realised if we fail to communicate our investment approach clearly and therefore set unrealistic expectations.

NEST's approach to investment is underpinned by our investment beliefs which provide our Trustee Members with a transparent framework for consistent decision making. Our investment beliefs and *Statement of investment principles* (SIP) are reviewed every three years by our investment committee to make sure they are still appropriate. Our funds have been diversified across a number of different asset classes and fund managers. We continually monitor our investment performance and risk and make appropriate changes to our investment portfolio. NEST also publishes on a regular basis updates to the funds' asset allocations, investment performance and risk profile and any changes to the investment approach.

Corporate capability to deliver the strategy: people risk

People risk is the risk that NEST fails to recruit and retain appropriately skilled, motivated and engaged staff needed to deliver its strategy. NEST operates within the financial constraint of being a non-departmental public body. Nevertheless it must attract talented individuals who want to work for and with NEST to help our members enjoy a better retirement. If we don't recruit the right people, nurture the right organisational culture, and design and implement effective processes and

systems we could face higher operating costs, increases in errors and losses and the reputational consequences of these events.

Our *Code of conduct* sets out the behaviours and standards we expect from all of our employees; we have an induction process to ensure these expectations and our culture are understood at the outset of employment and they are reinforced through the performance management and appraisal process. We undertake an annual staff survey to gauge feeling across our workforce and take steps to address low scores and improve staff engagement.

We have a learning and development strategy which includes encouraging our staff to build their careers through supporting their professional development and personal effectiveness skills. We also offer a number of internal training courses, and run series of NEST focussed events so staff can find out more about how NEST works directly from subject matter experts.

Safeguarding member assets and information risk

Safeguarding member assets and information risk is the risk that NEST fails to protect members' money and data. We are responsible for ensuring our members' money and personal data remain safe. Cybercriminals and fraudsters are now developing ever more advanced means to commit their crimes. The challenge to NEST to keep ahead of them has never been greater. We are committed to safeguarding our members' assets and information from this very real threat.

Both the NEST scheme and NEST Corporation information security management systems are both independently certified to the ISO 27001 standard. This provides assurance that our systems and processes are robust enough to protect members' assets. Our scheme administrator

has strict operational procedures in place to safeguard our members' money and data.

Significant legislative, regulatory or policy change risk

Significant legislative, regulatory or policy change risk is the risk that NEST is unable to effectively respond to change. Legislative, regulatory or policy changes have the potential to impact on NEST's business model. They may require us to make changes to our processes and systems. The impact may be greater because NEST is a non-departmental public body with a public service obligation. We need to be able to manage change and respond effectively to it. This will prevent change from adversely affecting our members and minimise the associated costs.

NEST continually scans the legislative, regulatory or policy landscape for potential change. This allows us to identify change early and plan ahead as far as we possibly can to manage and incorporate these changes into our systems and processes.

Risk oversight and scrutiny

NEST's Trustee Members provide oversight and scrutiny of each of NEST's principal risks. This oversight and scrutiny takes place at Trustee meetings, risk committee and the various other Trustee committees.

The principal risks help drive the agenda of the risk committee. Committee members request detailed investigations into the principal risks which are presented by the executive owner of the risk. These investigations provide an opportunity for Trustee Members to oversee the controls and mitigating actions both in place and pending implementation, and to challenge the assessment and management response to the risk.

Where oversight and scrutiny of a risk is best provided by a committee other than the risk committee, the committee chairs agree for it to be included on the relevant agenda with feedback to the risk committee.

2.1.8 Whistleblowing policy

NEST has a whistleblowing policy, published on our intranet. The audit committee has recently reviewed the policy and procedures and was satisfied with the plan and approach taken.

A new external whistleblowing hotline service has been procured to enable employees to have the option of remaining anonymous should they wish to raise a concern. Whistleblowing concerns will be reported to the Trustee. No whistleblowing concerns have been raised during 2015/16.

2.1.9 Internal audit

Ernst & Young LLP (EY) were appointed by competitive tender in June 2015 to provide internal audit services, in succession to Deloitte. They are responsible for providing independent assurance on internal control to NEST Corporation and report to the audit committee. EY also provide an annual opinion on governance, risk management and internal controls required to fulfil NEST Corporation's obligations as a non-departmental public body.

EY agrees its annual internal audit programme with NEST Corporation's audit committee and reports on progress against the plan on a quarterly basis. The programme covers NEST Corporation as both a non-departmental public body and the Trustee of an occupational pension scheme. EY have provided the head of internal audit opinion for the period 2015/16.

2.1.10 Head of internal audit opinion

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

2.1.11 Compliance and assurance

The compliance monitoring and assurance team (CMA) is responsible for monitoring compliance, and for providing ongoing assurance to the chief executive and Trustee that NEST Corporation is compliant with internal controls, and with statutory and regulatory requirements for pension schemes.

CMA activity follows a compliance plan that is agreed annually with the audit committee. In developing the compliance plan, CMA collaborates with other assurance functions, such as the information security team and the financial crime prevention team, and with the internal audit function to ensure that key activities are identified and sufficient monitoring is undertaken by the most appropriate team. In addition, the service management teams ensure that we receive adequate assurance from external providers for tasks that are outsourced.

NEST Corporation published its first assurance report, called a Type 1 report, against the AAF 02/07 master trust assurance framework in October 2015 and we've recently published our Type 2 report. This framework, established by The Pensions Regulator and the Institute of Chartered Accountants of England and Wales,

sets out a series of control objectives relating to governance and administration of master trust schemes. Trustees should be able to demonstrate that their schemes meet these objectives.

The first report as at 31 July 2015 was published with no exceptions or qualifications. A version of this report is available on the NEST website* along with our Type 2 report. Details of key controls have been removed from the published version to minimise any potential risk of financial crime or data breach.

In addition to external assurance reporting, members of the executive team provide an annual personal assurance statement to the chief executive in relation to risk, governance and internal controls within their area of responsibility.

Owners of key policies also report on regulatory requirements, compliance obligations, monitoring processes and the management of key risks addressed in their policies. These statements are designed to highlight any significant internal control issues. In 2015/16 there were none. See *Significant control issues* in section 2.1.6.

We are also following TPR's consultation on the revised *Code of practice no.13: Governance and administration of occupational defined contribution trust-based pension schemes*. The revised version comes into force in summer 2016. It is expected to be shorter and more direct than the current version which was introduced in 2013. We anticipate that the revised code will set out the standards of conduct and practice that TPR expects trustees to meet in complying with their legal duties. Work is under way to ensure that NEST's internal control framework meets this new challenge and complies with these reforms.

* <https://www.nestpensions.org.uk/schemeweb/NestWeb/public/whatisnest/contents/Independent-quality-assurance.html>

2.1.12 Information security and data protection

NEST Corporation is committed to supporting a secure electronic environment to conduct its business. We have a comprehensive information security management system (ISMS) that is certified against the International Standards Organisation (ISO) 27001:2013.

NEST Corporation also has a data protection policy, which sets out our approach to the protection of personal data and associated training. The policy complies with the Data Protection Act 1998 and other regulations designed to ensure the security and use of personal data.

As a non-departmental public body, NEST Corporation is required to provide information on our management of information risk and compliance to the DWP's *Information Security and Assurance Report* for the DWP senior information risk owner.

During 2015/16 there was no reportable loss or compromise of personal data.

2.1.13 Business continuity

NEST Corporation maintains a cost-effective business continuity capability. This allows management to respond to and recover from any major incidents that affect business operations. Our business continuity management programme is appropriate to the size and complexity of NEST Corporation and is aligned with industry standards. Business continuity arrangements are exercised, reviewed and renewed as appropriate. In 2015 additional training, scenario testing and awareness raising activity was delivered to help embed business continuity into NEST Corporation's culture.

2.1.14 Long-term expenditure trends

Section 1.6 *Business review* on page 16 contains information on NEST Corporation's 5 years actual and 2 years forecast expenditure trends.

2.1.15 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*, see *Appendix one*. 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 financial statements, the accounting officer is required to comply with the requirements of the *Government Financial Reporting Manual* and in particular to:

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

The principal accounting officer for the DWP has designated the chief executive as accounting officer of NEST Corporation.

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

Helen Dean
Chief executive and accounting officer
NEST Corporation

29 June 2016

2.2 Remuneration report

2.2.1 Remuneration and staff report

This report has been prepared in accordance with *Employer Pensions Notice* (EPN); Treasury guidance and chapter 6 of the Companies Act 2006 and schedule 8 of SI 2008 No. 410 as interpreted for the public sector.

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

Otto Thoresen was appointed Chair of NEST Corporation by the Secretary of State for Work and Pensions and his appointment began on 1 February 2015. Under his Terms of Appointment he is required to commit to work 2.5 days a week for NEST. Tom Boardman was appointed Deputy Chair of NEST Corporation on 1 June 2014. Under his Terms of Appointment he is required to commit to 40 days a year.

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

Up to 31 March 2016 NEST Corporation's remuneration committee was made up of three Trustee Members; Nigel Stanley (Chair from 1 April 2015), Karen Silcock, and Caroline Rookes (from 14 May 2015 and Chair from 19 June 2016). It provided oversight, review and advice to the Trustee

Members on remuneration of senior executives and staff. A report on the activities of the committee can be found in section 2.1.2.

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

- a job architecture and pay policy
- pension arrangements
- other benefits.

The average amount of time lost to sickness per employee in 2015/16 was 5.9 days compared to 3.8 days in 2014/15. This increase in days is attributed to improved reporting of sickness data.

2.2.2 Performance-related pay

The chief executive approves the performance-based approach to reward. This recognises staff who perform well and contribute more.

For 2015/16 consolidated pay awards, we used 1.0 per cent of our overall salary bill to provide consolidated pay awards to our staff on a performance-related basis.

For 2015/16 non-consolidated pay, we allocated 2.2 per cent of our overall salary bill to provide non-consolidated awards to our highest performers. Additional caps in line with the DWP's approach to senior civil service pay bands or equivalents were applied.

2.2.3 Compensation

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

2.2.4 Internal comparisons

The ratio between the median remuneration of NEST Corporation's staff and that of the chief executive, being the highest paid director, is 3.9 to 1 for 2015/16 (2014/15: 4.9 to 1). For this comparison, total remuneration includes salary and benefits in kind as well as severance payments. It doesn't include employer pension contributions or the cash equivalent transfer value of pensions.

2.2.5 Pensions

NEST Corporation's active defined contribution (DC) pension arrangements comprise two schemes:

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

During the course of 2016 NEST will review its pension arrangements in preparation for the lifting of the annual contributions limit in 2017.

NEST Corporation renewed the Pension Quality Mark (PQM) Plus standard accreditation in March 2016. This means that NEST Corporation offers increased employer contributions for increased employee contributions.

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

Employees can increase their contributions as follows:

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

The chief executive is the only individual included in the remuneration disclosures to be a member of NEST Corporation's pension schemes.

2.2.6 Exit packages

There were no exit packages paid out in 2015/16.

2.2.7 Off payroll engagements

For all off-payroll engagements as of 31 March 2016, for more than £220 per day and that last for more than six months:

Number of existing engagements as at 31 March 2016	7
<i>of which</i>	
less than one year at time of reporting	4
between 1 and 2 years at time of reporting	0
between 2 and 3 years at time of reporting	3

One individual was seconded from DWP, from whom we receive assurance information.

For all off-payroll engagements as of 31 March 2016, for more than £220 per day and that last for more than six months:

Number of new engagements, or those that reached six months in duration, between 1 April 2015 and 31 March 2016	3
<i>of which</i>	
number of contractual clauses giving NEST the right to request assurance	0
number for whom assurance has been requested	3

2 individuals were engaged as contractors from TCS during the year. In these cases, the agreement with their employer confirmed the employer will be responsible for paying tax/NI but did not specify the right to request assurance. This is now sought for all new appointments.

2.2.8 Remuneration tables

The information in the tables below has been audited.

Summary of staff costs for 2015/16:*

Staff costs	£000	Average FTE [†]
Directly employed staff		
Wages and salaries	14,657	
Social security costs	1,755	
Pension costs	1,098	
Subtotal	17,510	238
Secondees	183	2
Interim Staff	1,184	9
Total	18,877	249

* see note 2 staff numbers and related costs in the financial statements.

† average full time equivalent for 2015/16

The following table shows the total number and gender breakdown of the Trustees, executive team and all other staff at NEST as at end of March 2016.

	Male	Female	Total
Trustees	6	6	12
Executive team	6	3	9
All other staff	118	109	227
Total	130	118	248

Contract details			2015/16					2014/15							
Name and Position	Contract start date	Unexpired term as at 31 March 2016	Notice period	Full-year equivalent salary and allowances (£000)	Salary and allowances paid (£000) ¹	Performance related payments (£) ^{2/3}	Pension benefits nearest (£1000) ⁷	Taxable expenses nearest (£100) ⁴	Total (£000)	Full-year equivalent salary and allowances (£000)	Salary and allowances paid (£000)	Performance related payments (£)	Pension benefits nearest (£1000)	Taxable expenses nearest (£100)	Total (£000)
Otto Thoresen Chair	01-Feb-15	3 years 10 months	6 months	90-95	90-95			16,200	105-110	90-95	15-20		0	15-20	
Tom Boardman Deputy Chairman	01-Jun-14	1 year 2 months	3 months	25-30	25-30			1,500	25-30	25-30	35-40		2,400	40-45	
Sharon Darcy Trustee Member	20-Jun-11	3 months	3 months	20-25	20-25			0	20-25	20-25	20-25		0	20-25	
Nigel Stanley Trustee Member	20-Jun-11	3 months	3 months	20-25	20-25			0	20-25	20-25	20-25		0	20-25	
Iraj Amiri Trustee Member	20-Jun-11	3 months	3 months	20-25	20-25			11,900	30-35	20-25	20-25		13,900	35-40	
Ian Armfield Trustee Member	01-Apr-14	2 years 3 months	3 months	20-25	20-25			0	20-25	20-25	20-25		0	20-25	
Carolan Dobson Trustee Member	01-Apr-14	2 years 3 months	3 months	20-25	20-25			12,400	30-35	20-25	20-25		8,200	25-30	
Karen Silcock Trustee Member	01-Apr-14	2 years 3 months	3 months	20-25	20-25			1,600	20-25	20-25	20-25		3,300	20-25	
Graham Berville Trustee Member	01-Jun-14	2 years 3 months	3 months	20-25	20-25			10,000	30-35	20-25	15-20		7,100	20-25	
Sally Bridgeland Trustee Member	01-Apr-15	3 years 3 months	3 months	15-20	15-20			0	15-20	n/a	n/a		n/a	n/a	
Caroline Rookes Trustee Member	01-Apr-15	3 years 3 months	3 months	15-20	15-20			0	15-20	n/a	n/a		n/a	n/a	
Jill Youds Trustee Member	01-Apr-15	3 years 3 months	3 months	15-20	15-20			4,200	20-25	n/a	n/a		n/a	n/a	
Helen Dean Chief executive (from 21 September 15)	21-Sep-15	Permanent contract	6 months	210-215 ⁶	110-115		11,000	300	120-125	n/a	n/a		n/a	n/a	
Tim Jones Chief executive (to 20 September 15)	07-Jan-14	0	6 months	230-235	180-185	15-20		1,900	200-205	230-235	230-235	15-20	0	245-250	
Midpoint of banding of highest paid director's total remuneration (£)								212,500						247,500	
Median total remuneration (£)								54,000						50,257	
Ratio ⁵								3.9						4.9	

Notes

1. Trustee Members terms of engagement allow them to claim for time in excess of their contractual obligation.
2. The performance related pay for 2015/16 for Helen Dean is not included as this has yet to be confirmed. The £18k performance related pay for Tim Jones was awarded for 2014/15 but only confirmed and paid in 2015/16. The £18k in the 2014/15 table relates to the 2013/14 performance period.
3. The Trustee Members do not receive any performance related payments.
4. Taxable expenses relate to travel and subsistence.
5. The ratio has reduced from 4.9 in 2014/15 to 3.9 in 2015/16 mainly due to the appointment of the new chief executive at a lower salary than the previous incumbent.
6. In 2015/16, 2 (2014/15, 0) employees received remuneration in excess of the highest paid director. Employee remuneration ranged from £23,000 to £249,000 (2014/15, £23,000-£207,000).
7. Pension benefits comprise employer contributions into two defined contributions schemes.

Helen Dean
Chief executive and accounting officer
29 June 2016

Caroline Rookes
Chair, remuneration committee
29 June 2016

2.3 Audit Report

The Certificate and Report of the Comptroller and Auditor General

I certify that I have audited the financial statements of the National Employment Savings Trust Corporation for the year ended 31 March 2016 under the Pensions Act 2008. The financial statements comprise: the Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Corporation, Accounting Officer and auditor

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

Scope of the audit of the financial statements

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

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

Opinion on regularity

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

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the National Employment Savings Trust Corporation's affairs as at 31 March 2016 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 Performance Report and Accountability Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

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

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

Report

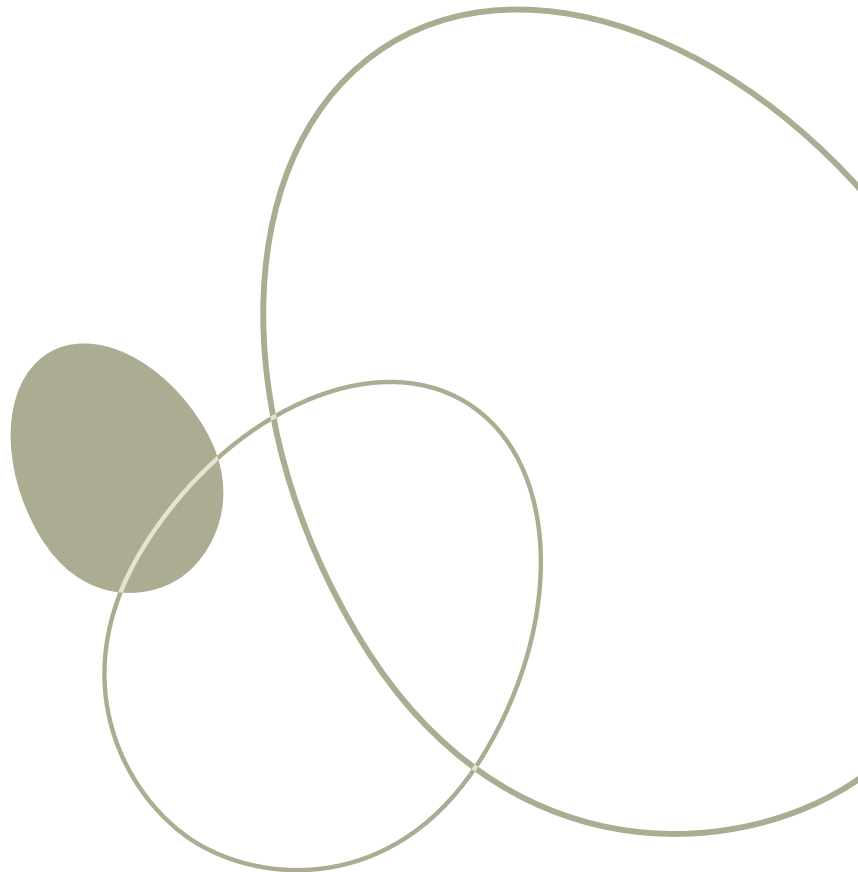
I have no observations to make on these financial statements.

Sir Amyas C E Morse
Comptroller and Auditor General
30 June 2016

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

Chapter three

Financial statements



3.1 NEST Corporation financial statements

National Employment Savings Trust Corporation Statement of comprehensive net expenditure

for the year ended 31 March 2016

		Year ended 31 March 2016 £000	Year ended 31 March 2015 £000
Expenditure	Note		
Staff costs	2a	18,877	20,399
Depreciation and amortisation	3	14,192	13,517
Other expenditure	3	45,124	43,028
		<u>78,193</u>	<u>76,944</u>
Income			
Grant income	4	(15,066)	(12,685)
Other income	5	(9,021)	(5,857)
Net expenditure		54,106	58,402
Interest payable	6	25,556	21,748
Net expenditure after interest deducted from general reserve		79,662	80,150
Other comprehensive net expenditure			
Net gain on revaluation of non-current intangible assets	8	(297)	(167)
Total comprehensive expenditure for the period		79,365	79,983

All income and expenditure is derived from continuing operations.

The accounting policies and notes on pages 56 to 77 form part of these financial statements.

National Employment Savings Trust Corporation Statement of financial position

as at 31 March 2016

		31 March 2016 £000	31 March 2015 £000
Non-current assets	Note		
Property, plant and equipment	7	8,550	9,188
Intangible assets	8	39,995	41,670
Prepayments: amounts falling due over one year	9a	6,395	12,364
Total non-current assets		54,940	63,222
Current assets			
Trade and other receivables	9b	14,597	7,134
Other current assets	9c	75	69
Cash and cash equivalents	10	7,636	10,284
Total current assets		22,308	17,487
Total assets		77,248	80,709
Current liabilities			
Interest payable	11a	(11,856)	(10,203)
Trade and other payables	11b	(6,465)	(5,448)
Other liabilities	11c	(2,173)	(2,317)
Total current liabilities		(20,494)	(17,968)
Non-current assets plus net current assets		56,754	62,741
Non-current liabilities			
DWP loan	12	(459,647)	(387,147)
Other liabilities	12	(10,530)	(9,879)
Provisions for liabilities and charges	13	(583)	(283)
Total non-current liabilities		(470,760)	(397,309)
Assets less liabilities		(414,006)	(334,568)
Taxpayers' equity			
General reserve		(415,523)	(335,861)
Revaluation reserve		1,335	1,038
Lease incentive reserve		182	255
Total taxpayers' equity		(414,006)	(334,568)

The financial statements, including the accounting policies and notes, on pages 56 to 77 were approved by the Trustee on 29 June 2016.

Helen Dean
Chief executive and accounting officer
29 June 2016

The accounting policies and notes on pages 56 to 77 form part of these financial statements.

National Employment Savings Trust Corporation Statement of cash flows

for the year ended 31 March 2016

		Year ended 31 March 2016 £000	Year ended 31 March 2015 £000
Cash flows from operating activities	Note		
Net expenditure after interest		(79,662)	(80,150)
Adjustment for non-cash items	21	11,557	8,901
(Increase) in trade and other receivables	9	(1,050)	(751)
Increase/(decrease) in trade and other payables	11	2,643	(2,876)
Increase/(decrease) in provisions	13	300	(594)
Net cash outflow from operating activities		(66,212)	(75,470)
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets	21	(10)	(73)
Advance payments	21	(8,926)	(9,254)
Net cash outflow from investing activities		(8,936)	(9,327)
Cash flows from financing activities			
Loan received from parent department	12	72,500	87,830
Net cash inflow from financing activities		72,500	87,830
Net (Decrease)/increase in cash and cash equivalents in the period	10	(2,648)	3,033
Cash and cash equivalents at the beginning of the period	10	10,284	7,251
Cash and cash equivalents at the end of the period		7,636	10,284

The accounting policies and notes on pages 56 to 77 form part of these financial statements.

National Employment Savings Trust Corporation
Statement of changes in taxpayers' equity
for the year ended 31 March 2016

	Lease Incentive reserve £000	Revaluation reserve £000	General reserve £000	Total reserves £000
Total taxpayers' equity as at 01 April 2014	<u>327</u>	<u>871</u>	<u>(255,711)</u>	<u>(254,513)</u>
Changes in taxpayers' equity 2014/15				
Release of reserves to the statement of comprehensive net expenditure	(72)	–	–	(72)
Net gain on revaluation of non-current assets	–	167	–	167
Net expenditure after interest	–	–	(80,150)	(80,150)
Total changes for 2014/15	<u>(72)</u>	<u>167</u>	<u>(80,150)</u>	<u>(80,055)</u>
Total taxpayers' equity as at 31 March 2015	<u>255</u>	<u>1,038</u>	<u>(335,861)</u>	<u>(334,568)</u>
Changes in taxpayers' equity 2015/16				
Release of reserves to the statement of comprehensive net expenditure	(73)	–	–	(73)
Net gain on revaluation of non-current assets	–	297	–	297
Net expenditure after interest	–	–	(79,662)	(79,662)
Total changes for 2015/16	<u>(73)</u>	<u>297</u>	<u>(79,662)</u>	<u>(79,438)</u>
Total taxpayers' equity as at 31 March 2016	<u>182</u>	<u>1,335</u>	<u>(415,523)</u>	<u>(414,006)</u>

The accounting policies and notes on pages 56 to 77 form part of these financial statements.

Notes to the financial statements

1 Statement of accounting policies

These financial statements have been prepared in accordance with the 2015/16 *Government Financial Reporting Manual* (FReM) issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of NEST Corporation for the purpose of giving a true and fair view has been selected. The particular policies adopted by NEST Corporation are described below. They have been applied consistently in dealing with items that are considered material to the accounts. NEST Corporation is required, under the Pensions Act 2008, to prepare its accounts for the year ended 31 March 2016, 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 and the Trustee of NEST; NEST's pension scheme accounts are prepared separately.

1.1 Basis of preparation

These financial statements have been prepared on an accrual basis under the historical cost convention, modified to account for the revaluation of non-current assets where material. Figures are presented

in pounds sterling and are rounded to the nearest £1,000.

1.2 Going concern

NEST Corporation was established in 2010 to ensure the smooth running of the NEST Pension Scheme. The financing of the 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, the corporation 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. Therefore, in accordance with FReM 2.2.3, it has been concluded as appropriate to adopt a going concern basis of preparation for these accounts.

1.3 Changes in accounting policy and disclosures

a) Changes in accounting policies

There have been no changes to accounting policies.

b) New and amended standards adopted

The International Financial Reporting Standard number 13 (IFRS 13) 'Fair Value Measurement', effective for accounting periods beginning on or after 1 January 2015, has been adopted in the preparation of these 2015/16 financial statements. The standard aims to improve consistency and reduce complexity by providing a precise definition

of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and UK GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or UK GAAP. Adoption of the standard has not had a material impact on the financial statements.

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

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

Clarification of acceptable methods of depreciation and amortisation (Amendments to IAS 16 and IAS 38). The amendments are effective from accounting periods commencing on or after 1 January 2016.

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

1.4 Accounting estimates and judgements

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

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

Service Concession Arrangement

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

1.4 b) Critical accounting estimates and assumptions

Revaluation of intangible assets

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

Software licences

Management believe there is no accurate currently available software licences index or trend information on the specific licences held by NEST Corporation. As the next best alternative, the index seen as most appropriate in achieving the requirement of IAS 38 and the FReM to establish a suitable proxy for fair value is JV5(a): Computers and peripheral equipment, as although it includes movements in IT hardware as well as licence prices, it adequately reflects the movements in the costs of licences during changing market conditions experienced over the reporting period.

Software development

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

1.5 Employee benefits

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

1.6 Pension costs

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

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

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

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

1.7 Value Added Tax (VAT)

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

1.8 Insurance

NEST Corporation has appropriate commercial insurance. Any uninsured losses are charged directly to the *Statement of comprehensive net expenditure* as incurred.

1.9 Income

Income is reflected in the *Statement of comprehensive net expenditure* and is recognised when it is probable that future economic benefits will flow to NEST Corporation and those benefits can be measured reliably.

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

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.

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

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 loans to DWP. It also receives from DWP a grant sufficient, in effect, to reduce the interest payable on the loans from the commercial rate to the government rate of borrowing. This grant income is allowable under a ruling from the European Commission in July 2010. The grant is treated as income and accounted for when received and known as the public service obligation offset payment.

1.10 Property, plant and equipment

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

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

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

1.11 Intangible assets

Intangible assets are initially recognised at cost with subsequent measurement at fair value. Where an active market exists for the asset, it is carried at a revalued amount based on fair value at the end of the annual

reporting period. Where no active market exists, assets are revalued using appropriate indices to indicate depreciated replacement cost as a proxy for fair value.

Purchased software licences and applications covering a period of more than one year and above the capitalisation threshold of £1,000 are capitalised at cost as intangible assets and subsequently revalued. Individual items costing less than the capitalisation limit, but forming an integral part of a package or pool of items whose total value is greater than £1,000 are also capitalised. If software licences don't meet either criteria, then expenditure is recognised in the *Statement of comprehensive net expenditure*.

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

1.12 Depreciation

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

- furniture and fittings: 2 to 5 years
- information technology and telecoms equipment: 3 to 5 years
- scheme administration IT hardware assets are expected to be replaced after 5 years.

Depreciation commences once an asset is available for use and continues until the asset is derecognised, categorised as held for sale or written down to nil value. Depreciation is

calculated from the month following that of acquisition or, if later, from the month in which the asset is available for use. No depreciation is charged in the month of disposal.

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

1.13 Amortisation

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

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

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

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

1.14 Revaluation and impairment of non-current assets

NEST Corporation carries out an annual valuation review of its non-current intangible assets. Increases in value are credited to a revaluation reserve. Downwards revaluations 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 downwards revaluation is charged to the *Statement of comprehensive net expenditure*.

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

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

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

1.15 Financial instruments

› Recognition

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

› De-recognition

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

› Classification and measurement – financial assets

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

Loans and receivables

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

Impairment of financial assets

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

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

› Classification and measurement – financial liabilities

NEST Corporation has one category of financial liability:

Other financial liabilities

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

1.16 Provisions for liabilities and charges

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

1.17 Leases

Payments in relation to operating leases are charged to the *Statement of comprehensive net expenditure* on the basis of rentals payable in the year.

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

1.18 Lease incentives

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

1.19 Operating segments

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

1.20 Service Concession Arrangements

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

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

2 Staff numbers and related costs

a) Staff costs

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

	Year ended 31 March 2016 £000	Year ended 31 March 2015 £000
Directly employed staff		
Wages and salaries	14,657	15,389
Social security costs	1,755	1,734
Pension costs	1,098	1,087
Subtotal	17,510	18,210
Secondees	183	229
Interim staff	1,184	1,960
Total	18,877	20,399

b) Pension arrangements

NEST Corporation operates two active defined contribution pension schemes for its directly employed staff. There were 215 workers in these pension schemes as at 31 March 2016 (31 March 2015: 210).

NEST Corporation recognises the employer's costs in the period to which they relate. At 31 March 2016 there was one month's contributions outstanding amounting to £138k (31 March 2015: £139k).

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

c) Average number of staff employed

	Year ended 31 March 2016 Average full time equivalents	Year ended 31 March 2015 Average full time equivalents
Directly employed staff	238	235
Secondees	2	2
Interim staff	9	13
Total average number of staff	249	250

3 Depreciation, amortisation and other expenditure

		Year ended 31 March 2016 £000	Year ended 31 March 2015 £000
	Note		
Depreciation and amortisation	7,8	14,192	13,517
Other Expenditure			
Scheme administration expenses		31,449	32,380
Research, marketing and communications		2,862	1,285
Information technology and telecoms equipment		2,710	2,036
Rentals under operating leases		1,956	2,049
Professional fees and advice		1,485	1,402
Accommodation		1,465	1,191
Scheme investment costs		913	729
Recruitment and other staff costs		795	1,277
Legal fees and expenses		520	453
Movements in property repair provisions in the year	13	300	(319)
Business Travel		248	157
Auditor's remuneration – statutory audit – corporation*		93	95
Industry Engagement		77	62
Auditor's remuneration – statutory audit – scheme		72	72
Insurance		67	71
Loss on disposal of non-current assets	7,8	48	14
Release of lease incentive reserve		(73)	(72)
Other running costs		137	146
Sub total		45,124	43,028
Total		59,316	56,545

*Of the £93k corporation auditor's remuneration, the cost for the work performed by the National Audit Office (NAO) external auditors for the period ended 31 March 2016 is £90k (2014/15: £95k).

4 Grant income

	Year ended 31 March 2016 £000	Year ended 31 March 2015 £000
Grant income for non-chargeable costs	409	442
Public service obligation offset payment	14,657	12,243
Total	15,066	12,685

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 is due from DWP which has the effect of reducing the cost of servicing the loan to the government cost of borrowing. This offset payment is received on the date of the first loan interest payment.

5 Other income

	Year ended 31 March 2016 £000	Year ended 31 March 2015 £000
Interest received and receivable	11	16
Members' contribution charge and annual management charge	9,010	5,841
Total	9,021	5,857

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

6 Interest payable

	Year ended 31 March 2016 £000	Year ended 31 March 2015 £000
Loan interest paid and payable	25,556	21,748
Total	25,556	21,748

Interest payable relates to interest charged on balances outstanding on the loan from DWP (see note 12). NEST's weighted average cost of capital (WACC) 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. NEST receives a grant from DWP, a public service obligation offset payment, which effectively reduces the rate to the government borrowing rate. The cumulative WACC up to 31 March 2016, net of the grant, is 2.85 per cent (2014/15: 3.00 per cent).

7 Property, plant and equipment

NEST Corporation's property, plant and equipment assets comprises furniture and fittings and information technology used directly by NEST employees. Purchased scheme hardware is used by TCS for scheme administration.

2015/16	Note	Furniture and fittings £000	Information technology ^a £000	Scheme hardware £000	Total £000
Cost					
As at 1 April 2015		306	3,009	17,789	21,104
Additions		2	3	3,848	3,853
Disposals		(28)	(50)	(93)	(171)
As at 31 March 2016		280	2,962	21,544	24,786
Depreciation					
As at 1 April 2015		(105)	(1,702)	(10,109)	(11,916)
Charged in period		(56)	(454)	(3,958)	(4,468)
Disposals		13	48	87	148
As at 31 March 2016		(148)	(2,108)	(13,980)	(16,236)
Net book value at 31 March 2016		132	854	7,564	8,550
Net book value at 31 March 2015		201	1,307	7,680	9,188
Asset financing:					
Owned		132	854	7,564	8,550
Net book value at 31 March 2016		132	854	7,564	8,550

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

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

a. Information technology includes telecoms equipment.

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.

2015/16		Software licences £000	Scheme software licences £000	Scheme developed software £000	Total £000
	Note				
Cost					
As at 1 April 2015		1,193	26,557	44,025	71,775
Additions		5	2,330	5,441	7,776
Disposals		–	(480)	–	(480)
Revaluation	a	18	410	726	1,154
As at 31 March 2016		1,216	28,817	50,192	80,225
Amortisation					
As at 1 April 2015		(1,004)	(15,277)	(13,824)	(30,105)
Charged in period		(128)	(4,525)	(5,071)	(9,724)
Disposals		–	456	–	456
Revaluation	a	(24)	(435)	(398)	(857)
As at 31 March 2016		(1,156)	(19,781)	(19,293)	(40,230)
Net book value at 31 March 2016		60	9,036	30,899	39,995
Net book value at 31 March 2015		189	11,280	30,201	41,670

During the year the useful lives of all the scheme developed software, and one software licence, were extended by 36 months to 86 months remaining, as at 31 March 2016, to reflect the extension of the TCS contract by a further three years to 2023.

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

- a. Intangible assets were revalued to fair value by applying an appropriate Office for National Statistics (ONS) index. The revaluation or devaluation gain or charge reflects movements in the index since the date the licences were purchased or the software development recognised as an intangible asset.

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

	31 March 2016 £000	31 March 2015 £000
a) Amounts falling due over one year		
Advance payments to TCS	2,202	2,202
Prepayments in respect of asset refresh	4,146	10,157
Prepayments	47	5
	6,395	12,364
b) Amounts falling due within one year		
Accrued income public sector obligation offset payment	6,850	5,760
Accrued income for non-chargeable costs	409	195
Prepayments in respect of asset refresh	6,461	–
Other prepayments and accrued income	877	1,179
	14,597	7,134
c) Other current assets		
Staff loans	75	69
Total	21,067	19,567

A total of £12.8m of prepayments (2014/15: £12.4m) relate to assets expected to be used in scheme administration services. £6.5m of these relate to assets that are expected to be available for use within one year after 31 March 2016. £6.3m (2014/15: £12.4m) relate to assets expected to be available for use beyond one year.

Of the £12.8m (2014/15: £12.4m) of scheme administration prepayments, £2.2m (2014/15: £2.2m) are advance payments to TCS relating to the scheme build and £10.6m (2014/15: £10.2m) are amounts deducted from service charges to fund future asset replacement from 2016/17, which are being held within prepayments until asset replacement takes place. The only intra government receivables at year-end were in respect of the public sector obligation offset payment of £6.9m (2014/15: £5.8m) and non-chargeable costs of £0.4m (2014/15: £0.2m).

10 Cash and cash equivalents

	31 March 2016 £000	31 March 2015 £000
Balance as at 1 April 2015	10,284	7,251
Net change in cash balances	(2,648)	3,033
Balance as at 31 March 2016	7,636	10,284
The following balances were held with the Government Banking Service	7,636	10,284

11 Current liabilities

	31 March 2016 £000	31 March 2015 £000
a) Interest payable		
Accrued Interest payable to DWP	11,856	10,203
	11,856	10,203
b) Trade and other payables		
Trade payables	843	875
Accruals	5,622	4,573
	6,465	5,448
c) Other Liabilities		
Other taxation and social security	518	544
Pension costs liability	138	139
Imputed finance lease element of TCS assets	1,517	1,634
	2,173	2,317
Total	20,494	17,968

12 Non-current liabilities

	31 March 2016 £000	31 March 2015 £000
DWP Loan	459,647	387,147
Imputed finance lease element of TCS assets	10,530	9,879
Total	470,177	397,026

Loan funding from DWP is provided to meet the scheme implementation and running costs and will subsequently be repaid from charges levied on scheme members. The interest rate on each loan drawdown is determined by the interest rate prevailing at the time of taking out the loan. At 31 March 2016, the weighted average interest rate on loan funding was 2.85 per cent (31 March 2015: 3.00 per cent) (see note 6). Interest on loans is payable in April and October each year. The loan principals fall due for settlement on a series of repayment dates commencing 21 October 2020.

In total, an imputed finance lease of £12.0m (2014/15: £11.5m) has been recognised, mainly reflecting the shortfall between the scheme administration assets recognised and cash payments made to TCS.

a) 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 2016 £000	31 March 2015 £000
Current Liabilities:		
Balances with other central government bodies:	12,716	11,033
Amounts owing to bodies external to government	7,778	6,935
Subtotal	20,494	17,968
Non-Current Liabilities:		
Balances with other central government bodies:	459,647	387,147
Amounts owing to bodies external to government	10,530	9,879
	470,177	397,026
Total	490,671	414,994

13 Provisions for liabilities and charges

	Note	31 March 2016 £000	31 March 2015 £000
Balance as at 1 April 2015		283	877
Provided in the year	3	300	206
Utilised in the year		–	(275)
Released in the year	3	–	(525)
Balance as at 31 March 2016		583	283
Classified as:			
Amounts falling due within one year		–	–
Amounts falling due over one year		583	283
		583	283

The provision of £583k relates to property repairing liabilities for Riverside House, the lease of which expires in 2022/23 with a right to break the lease in 2018/19.

14 Capital and other financial commitments

a) Capital and other financial commitments

	31 March 2016 £000	31 March 2015 £000
Contracted financial commitments at 31 March not otherwise included in these financial statements	1,148	1,508
Balance as at 31 March 2016	1,148	1,508

The contracted commitment relates to a 5 year contract for banking services ending in January 2017.

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

b) Commitments under service concession arrangements reflected in the Statement of financial position

NEST Corporation has a contract with TCS for scheme administration which has been assessed under IFRIC 12 and recognised as a service concession arrangement. As a result, assets used for the contract have been recognised as non-current 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 points, service charges and the imputed interest element.

In December 2015 NEST Corporation signed a three year contract extension with TCS for scheme administration, extending the commitment from 2020 to 2023. The result is an increase in the present value of obligations as at 31 March 2016 to £515m (2014/15: £266m).

Total obligations under service concession arrangements reflected in the SoFP for the following periods comprise:	31 March 2016 £000	31 March 2015 £000
Not later than one year	42,686	35,059
Later than one year and not later than five years	296,105	240,222
Later than five years	232,660	19,896
Total gross obligation	571,451	295,177
Less interest element discount	(55,999)	(28,835)
Total present value of obligations	515,452	266,342

Present value of obligations under service concession arrangements reflected in the SOFP for the following periods comprise:	31 March 2016 £000	31 March 2015 £000
Not later than one year	42,686	34,038
Later than one year and not later than five years	274,825	215,638
Later than five years	197,941	16,666
Total present value of obligations	515,452	266,342

c) Charge to the Statement of comprehensive net expenditure and future commitments

The total amount charged to the *Statement of comprehensive net expenditure* in 2015/16 in respect of the service element of this service concession was £31.4m (2014/15: £32.4m) and the payments to which NEST Corporation is committed, subject to the conditions of the contract, particularly volume levels, are as follows:

	31 March 2016 £000	31 March 2015 £000
Not later than one year	36,484	16,892
Later than one year and not later than five years	273,613	181,365
Later than five years	228,364	16,805
Total	538,461	215,062

15 Commitments under leases

Operating leases

	31 March 2016 £000	31 March 2015 £000
Future minimum lease payments comprise:		
Buildings:		
Within one year	2,419	2,857
Between one year and five years	3,767	7,188
	6,186	10,045

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

In February 2016 NEST Corporation signed a new MOTO with DWP reducing its floor space.

16 Financial instruments

	Note	31 March 2016 £000	31 March 2015 £000
Financial Assets			
Cash and cash equivalents	10	7,636	10,284
Staff loans	9	75	69
Total		7,711	10,353
The above figures exclude statutory receivables and prepayments and imputed finance lease elements.			
Financial Liabilities			
Trade payables	11	843	875
Accruals	11	17,478	14,776
Total		18,321	15,651

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

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

NEST Corporation has no exposure to foreign currency risk at the period-end date (2014/15: nil).

NEST Corporation has no exposure to interest rate risk for current loans as the rates are fixed.

The book value of NEST Corporation's financial assets and liabilities as at 31 March 2016 and 31 March 2015 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

There are neither losses nor special payments to disclose for 2015/16 nor 2014/15.

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:

	Note	Year ended 31 March 2016		Year ended 31 March 2015	
		£000	£000	£000	£000
		Income and financing	Expenditure	Income and financing	Expenditure
Loan funding and repayment	12	72,500	–	87,830	–
Loan interest	6	–	25,556	–	21,748
Other transactions	4	15,066	3,050	12,685	2,968
Total		87,566	28,606	100,515	24,716

At 31 March 2016 excluding the liability to repay the loan which does not come into effect for more than 12 months, NEST Corporation had a £12.2m outstanding liability with DWP (2014/15: £10.5m).

This relationship with DWP includes provision to NEST Corporation of:

- loan funding
- public service obligation offset payments and grant income
- property operating lease and secondees.

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 £9.0m (2014/15: £5.8m), see note 5 for details.

20 Late payment of commercial debt

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

During the period to 31 March 2016, NEST Corporation incurred £0 interest charges under the Late Payment of Commercial Debts (Interest) Act 1998 (2014/15: £0).

21 Cashflow analysis

	Note	Year ended 31 March 2016 £000	Year ended 31 March 2015 £000
Non cash items			
Depreciation and amortisation incl. non-TCS	3	14,192	13,517
(Release) of lease incentive reserve	3	(73)	(72)
Loss on disposal of assets	3	48	14
Prepayment for asset refresh		(1,208)	(3,294)
Offset for lease liability		(1,711)	(1,603)
Finance credit charge		309	339
Total non-cash items		11,557	8,901
Purchase of property, plant and equipment and Intangible Assets			
Purchase of software licences	8	(5)	(13)
Purchase of furniture and fittings	7	(2)	(20)
Purchase of IT equipment	7	(3)	(40)
Total property, plant and equipment and Intangible Assets		(10)	(73)
Advance payments			
Total advance payments made in the year		(8,926)	(9,254)

22 Political and charitable donations

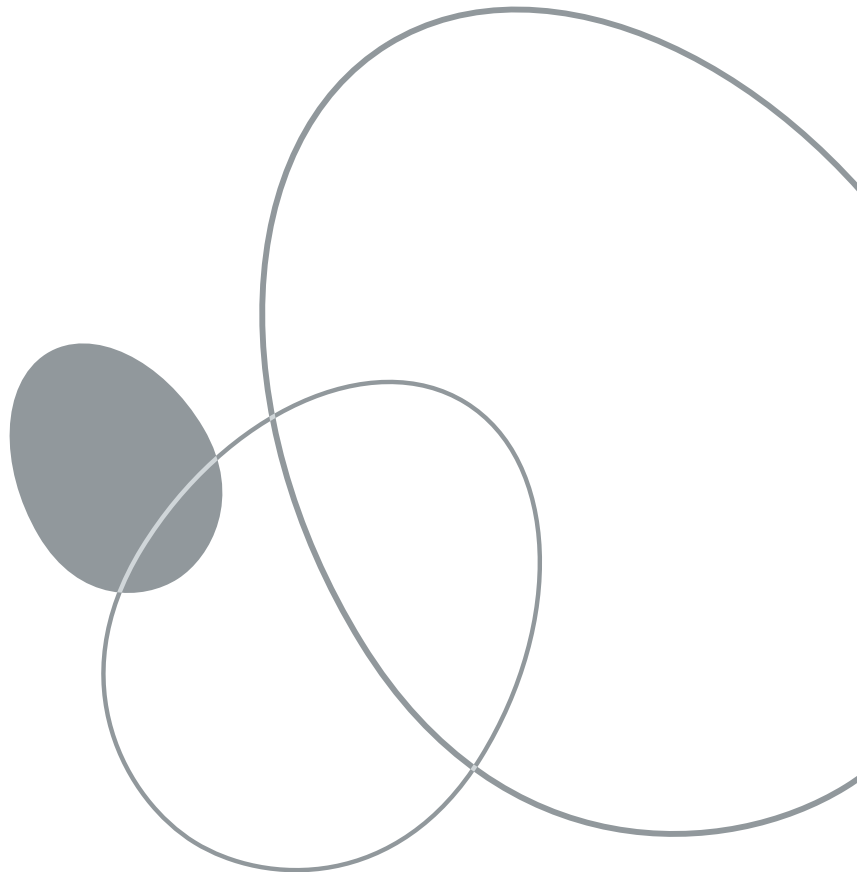
NEST Corporation made no political or charitable donations in the year.

23 Events after the reporting period

Per IAS 10 Events After the Reporting Period, the financial statements are authorised for issue on the date of the certificate and report of the Comptroller and Auditor General.

The result of the referendum held on 23 June was in favour of the UK leaving the European Union. This is a non-adjusting event. A reasonable estimate of the financial effect of this event cannot be made.

Appendices



Appendix one

Direction in relation to the annual report and accounts of the National Employment Savings Trust Corporation

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

1. In exercise of the powers conferred by paragraphs 17(2)(b) and 20(2) of Schedule 1 to the Pensions Act 2008 (c.30), the Secretary of State hereby directs the National Employment Savings Trust Corporation (NEST Corporation), as follows:
 - 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.
2. NEST Corporation shall prepare accounts for the 12 month Year ended 31 March 2012, and subsequent financial years, in compliance with the accounting principles and disclosure requirements of the edition of the *Government Financial Reporting Manual* issued by HM Treasury (FReM) which is in force for the financial year for which the accounts are being prepared.
3. These accounts shall be prepared so as to:
 - a. give a true and fair view of the state of affairs of NEST Corporation at 31 March 2012 and subsequent financial year-ends, and of the income and expenditure, changes in taxpayers' equity and cash flows for the financial year then ended, and
 - b. provide disclosure of any material expenditure or income that has not been applied to the purposes intended by Parliament or material transactions that have not conformed to the authorities which govern them.
4. Compliance with the requirements of the *FReM* will, in all but exceptional circumstances, be necessary for the accounts to give a true and fair view. If, in these exceptional circumstances, compliance with the requirements of the *FReM* is inconsistent with the requirement to give a true and fair view, the requirements of the *FReM* should be departed from only to the extent necessary to give a true and fair view. In such cases, informed and unbiased judgement should be used to devise an appropriate alternative treatment which should be consistent with both the economic characteristics of the circumstances concerned and the spirit of the *FReM*. Any material departure from the *FReM* should be agreed with the Department for Work and Pensions and HM Treasury.

5. NEST Corporation must disclose in its accounts:
 - a. the loan from the DWP and any other loans for which NEST Corporation is responsible for and on behalf of NEST, together with interest charges related to those loans
 - b. contracts for scheme services, for example scheme administration, entered into for and on behalf of NEST
 - c. receipt of deductions made from members' accounts to contribute to the general costs of the setting up, administration and management of NEST.
6. NEST Corporation's accounts will not consolidate the accounts of NEST the pension scheme.
7. In its annual report, referred to in paragraph 17 of Schedule 1 to the Pensions Act 2008, NEST Corporation is to include the report on NEST Corporation's proceedings during the year.
8. In accordance with paragraph 20 of Schedule 1 to the Pensions Act 2008, NEST Corporation is to prepare an annual statement of accounts for NEST Corporation. The accounts will include the certificate and report of the Comptroller and Auditor General on the NEST Corporation Accounts. 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.
9. This Direction revokes and supersedes the *Accounts direction* issued to PADA on 29 April 2009.

This Direction is signed by the authority of the Secretary of State for Work and Pensions.

Jos Joures

3 March 2011

*Report and Accounts of the National
Employment Savings Trust Corporation*

Appendix two

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

Appendix two is an appendix of the annual report. It doesn't form part of the financial statements and is not subject to audit.

NEST Corporation's *Corporate responsibility statement* can be found on our website*.

In this appendix we outline the key achievements in 2015/16 against each area in our statement.

Investment

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

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

NEST's Investment report in chapter two of the *NEST pension scheme annual report* and accounts sets out the key investment activities and developments for this year.

Values and behaviours

NEST Corporation remains committed to continuing the development of NEST's culture. We have worked hard to understand staff engagement and how we can improve as an employer and to continue to make sure that NEST has the right culture and levels of staff engagement to achieve this. We reinforce the observance of NEST's values and behaviours through our performance management framework, and continue to use the NEST *Code of conduct* to set out standards which considers ethical principles that all our employees are required to uphold. Our refocused strategic priority is to build a corporation which has the capability to deliver our vision and we have run communication sessions to bring the strategy to life for staff.

Governance

The NEST Trustee has continued to oversee the running of the NEST scheme and its capacity to develop the employer and member propositions while assisting growing volumes of employers and members to join the scheme.

* <https://www.nestpensions.org.uk/schemeweb/NestWeb/includes/public/docs/nest-corporate-responsibility-statement,PDF.pdf>

Partners and suppliers

The administration of NEST is a largely outsourced business. This makes our suppliers key partners in the successful delivery of all aspects of the pension scheme. Our initial 10-year scheme administration contract with Tata Consultancy Services (TCS) was due to finish in 2020, although the original contract allows us to renew for up to 5 years.

To ensure NEST is well placed to go on providing a great service over periods of significant volume challenges, this year we negotiated a three year contract extension with TCS based on our existing contract provision.

People

We conducted our last staff survey in January 2016. Our engagement index from this survey has increased from 44 per cent to 50 per cent, which is equal to the UK average, according to benchmarking data from Aon Hewitt.

Our staff's sense of purpose at NEST remains a real strength. We've also seen positive progress in the majority of measures, particularly around better internal communication and that our people feel their managers are good leaders. We are committed to building on these positives, and in addressing the areas that we need to do more work on.

NEST Corporation continues to be a London Living Wage (LLW) employer, ensuring that its staff, and those that service our building also receive this level of pay.

NEST Corporation has also renewed its Pension Quality Mark (PQM) Plus status, in line with our commitment to ensuring our staff are remunerated fairly and receive high quality pension provision.

We continue to maintain an annual review cycle of our internal policies to ensure they

remain 'fit for purpose' and support our people in 'doing the right thing'. NEST is an equal opportunity employer and is committed to a policy of treating all of its employees and job applicants equally. As part of this, NEST reviews data on the diversity of its workforce, as well as the effect of pay and other decisions on NEST staff.

Role in the community

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

NEST members

NEST has continued to see significant increases in membership over 2015/16. NEST is helping millions of people save for their retirement, many of whom did not previously have access to a workplace pension.

We continue to research our membership to understand their interests as well as we can. From our latest 2015 customer experience research, via our 'voice of the customer' programme, we have found that members remain generally satisfied with NEST, with a slight increase in satisfaction levels compared to 2014.

While members who have logged in to their online account are still more satisfied and positive on a number of different factors compared to those who have not, we have found that the increase in levels of satisfaction has been driven in particular by those who have not logged in to their account.

We think this is due to a number of factors. In particular now more members are coming from smaller employers, they tend to feel more engaged because the communication that they receive from their employer is a little more personal. We also see a large

increase in members seeing NEST as a 'safe place' to save, which may reflect an increased awareness of NEST links to government. Currently we see from our research that this link is seen as positive by both members and small employers.

Employers

Through the same research programme we continue to measure our employers' perception of their experience with NEST. Overall satisfaction levels are still high, and slightly increased on 2014. The increase has been driven both by improvements to our help centre and website, and also by the change in staging profile towards small and micro employers. These employers are particularly positive about their experience of set-up with NEST and are increasingly confident that they can 'self-serve' with little need to call NEST in the future.

Environment

NEST Corporation reports on its sustainability performance. Our sustainability reporting aims to conform to the *Greening Government Commitments*.

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

- an onsite technical manager with responsibility for energy management and reduction
- ensuring that the building management system is running efficiently and correctly with monthly meetings held to review energy management progress
- use of energy meters on the large pieces of equipment to monitor usage

- an energy policy designed to guide energy related decision making and to support an effective energy management strategy
- use of motion activated low energy LED lighting.

As part of the multi-tenant arrangement, each tenant is not provided with accurate energy usage data. NEST is also charged a single building management service charge that includes the building's utilities. It is therefore not possible to disaggregate the individual costs for specific categories relating to energy, waste or water. This means the level of detail we are able to report is limited for some categories. At the time of writing, actual data for gas, electricity and water usage was only available until the end of February 2016. We have therefore pro rated these figures to produce full year estimates and enable year on year comparisons.

For the majority of the year, NEST has occupied 21 per cent of the building so our data is taken as that percentage of the overall data for the building to provide an indicative indicator of our environmental impact and costs. In March 2016 we released a small amount of floor space back to DWP. This will be reflected in next year's reporting.

As tenants we'll continue to work with Ofcom to develop any future sustainability plans for the building and to improve the environmental reporting systems.

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

Overview of performance

Summary of 2015/16 year performance

Area	Actual performance	Normalising data (per FTE)
Average annual full-time equivalent staffing figure: 249 ¹		
Estate energy and emissions		
GHG emissions from offices	373 tonnes CO ₂ e	1.50 tonnes CO ₂ e
Total building energy consumption	957,868kWh	3,847 kWh
Total energy expenditure	Unknown*	Unknown*
Travel emissions ²		
CO ₂ e emissions from business travel	219 tonnes CO ₂ e	0.88 tonnes CO ₂ e
Total expenditure on business travel	£193,868	£778.57
Waste		
Total waste produced	39.1 tonnes	0.16 tonnes
Total recycled/reused	26.2 tonnes	0.11 tonnes
Total incinerated	12.9 tonnes	0.05 tonnes
Total to landfill	Nil	Nil
Total waste expenditure	Unknown ³	Unknown ³
Paper		
Total paper usage	4.7 tonnes CO ₂ e	0.02 tonnes CO ₂ e
Total paper expenditure	£3,298	£13.25
Water		
Total water consumption	2,055m ³	8.3m ³
Total water expenditure	Unknown ³	Unknown ³

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

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

³ NEST is charged a single building service charge that includes the building's utilities. It is not possible to disaggregate the individual costs for specific categories relating to energy, waste or water.

Greenhouse gas emissions

The data for the scope 1 and 2 emissions for 2015/16 are taken as a percentage of the overall data for the building as a whole, based on our 21 per cent occupancy to provide us with an indication of performance and costs.

The scope 3 data is captured directly from expense claims as well as contract costs and reporting. We have only reported on paper purchased directly through our stationery suppliers.

Greenhouse gas emissions		2013/14	2014/15	2015/16
Non-financial indicators (tonnes CO ₂ e)	Scope 1 – Gas			
	Gas	50.8	39.3	46.4
	Total scope 1	50.8	39.3	46.4
	Scope 2 – Electricity			
	Electricity: brown	259.4	234	244.9
	Electricity: green	34.6	31.2	32.7
	Electricity: CHP	51.9	46.8	49
	Total scope 2	345.9	312	326.6
	Scope 3 – Business travel			
	Private vehicle	12.4	5.8	13.7
	Car hire	21.8	7	11
	Taxis ⁴	2.4	0.9	2.1
	Air	114	246	183
	Rail	30.2	16	18.2
	Total scope 3	180.8	275.7	218.1
	Total emissions	577.5	627	591.1
	Scope 3 – Paper			
Paper	5.5	6.8	4.7	

Greenhouse gas emissions		2013/14	2014/15	2015/16
Related energy consumption (kWh)	Scope 1 – Gas			
	Gas	274,369	212,690	251,447
	Scope 2 – Electricity			
	Electricity: brown	498,505	473,431	529,816
	Electricity: green	66,467	63,124	70,642
	Electricity: CHP	99,701	94,686	105,963
	Total electricity	664,674	631,242	706,421
Financial indicators (£)	Scope 1 and 2 – Gas and electricity			
	Gas	12,095	8,649	7,857
	Electricity: brown	62,874	64,953	n/a
	Electricity: green	8,383	8,660	n/a
	Electricity: CHP	12,575	12,991	n/a
	Scope 3 – Business travel			
	Private vehicle	20,756	8,077	19,897
	Car hire	11,004	4,400	1,588
	Taxis	8,851	6,136	8,448
	Air	151,057	185,615	94,407
	Rail	185,677	105,615	69,525
	Scope 3 – Paper			
	Paper	3,648	3,157	3,298
	Volume of paper in reams	Scope 3 – Paper		
A4		1490	1230	1150
A3		0	30	65

GHG performance commentary including target

NEST is located in a well maintained energy efficient building. As we do not have any direct influence on building management we feel that a scope 1 and 2 emissions reduction target is currently unachievable.

NEST does have direct control over its business travel and we have seen an overall reduction in emissions, with a reduction in air travel the biggest contributor. Whilst regular

travel to our scheme administrator, Tata Consultancy Services, Indian offices is still essential, as we enter further into a period of 'steady state' the overall need for travel has started to reduce. The increase in private vehicle emissions and reduction in car hire emissions reflects a change to NEST's driving policy and arrangements.

NEST has seen a steady reduction in A4 paper consumption each year. We are investigating the spike in A3 paper usage this year.

Use of finite resources

Water consumption (scope 2)		2013/14	2014/15	2015/16
Non-financial indicators (m³)	Water consumption	2,608	3,187	2,055
Financial indicators (£)	Total water costs	5,676	6,468	Unknown ¹

Performance commentary

GGC states that typical usage for an organisation of our size and structure is 4–6m³ per person. Our current usage, based on assumptions, is 8.3m³ per person which is

a 35 per cent reduction from the previous year, driven by initiatives undertaken by the landlord for the building's overall usage.

Waste management

Waste		2013/14	2014/15	2015/16
Non-financial indicators (tonnes)	Waste to landfill	0	0	0
	Waste recycled or reused	13.9	10.7	26.2
	Waste incinerated ¹	15	11.9	12.9
	Total waste	28.9	22.6	39.1
Financial indicators (£)	Total waste costs ²	6,980	Unknown	Unknown

¹ Waste is incinerated by waste contractor with energy recovery.

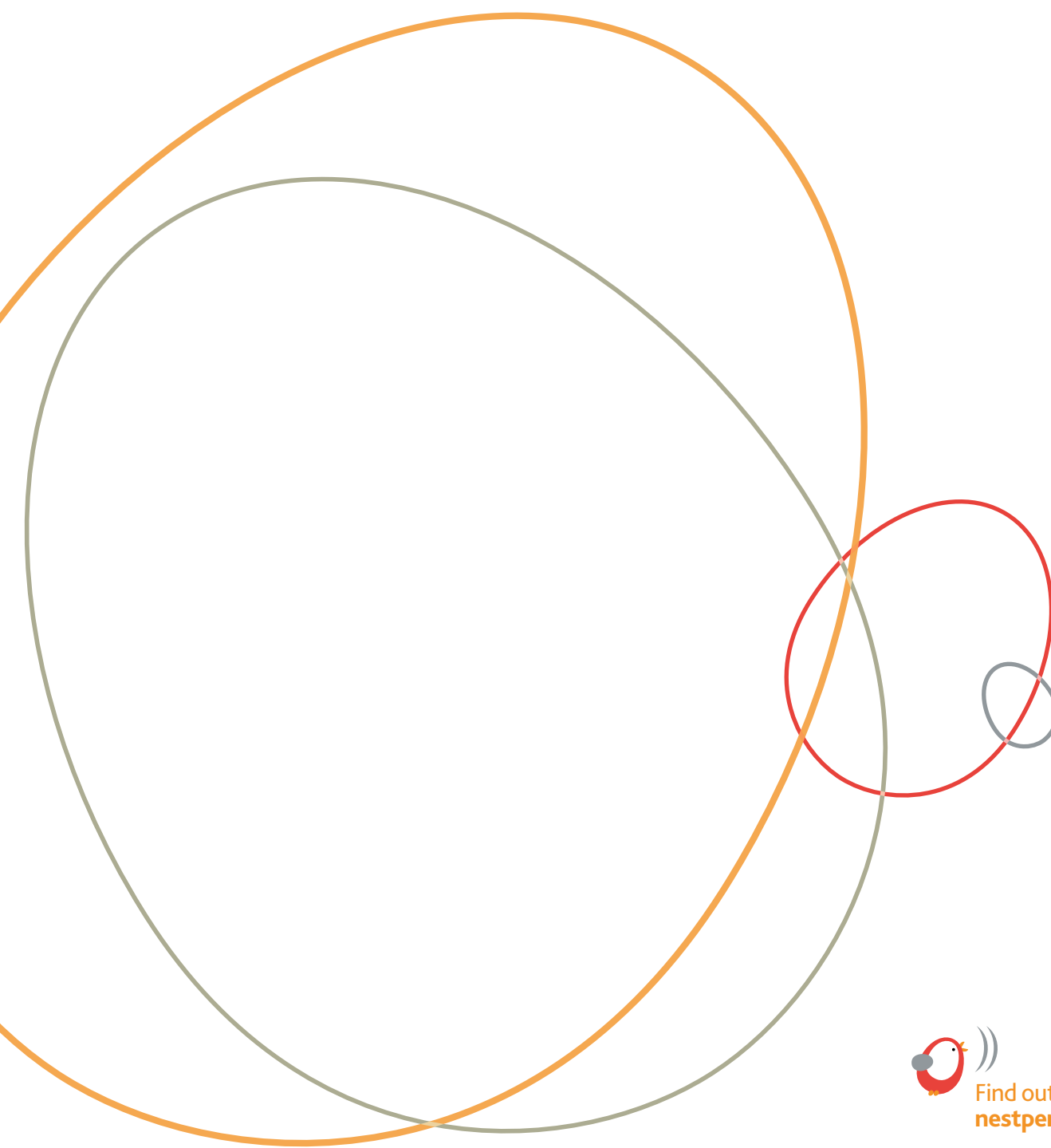
² Financial data for individual waste categories is not currently available.

Performance commentary

At NEST we've the ability to recycle all of our waste streams and we have a one waste bin system to aid the recycling rates. Non-recyclable waste is incinerated for energy recovery. While the amount of waste has increased overall, this is predominantly recycled. In previous years NEST has been able to obtain an estimate of the waste it has specifically produced. Due to changes to the methodology used for the building, this year we can only obtain an estimate based on a proportion of the overall waste of the building. We believe this explains the increase attributed in NEST's figures this year.

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nestpensions.org.uk