



Department
for Work &
Pensions

Tailored Review of NEST Corporation

March 2018

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The fieldwork for this review was conducted between September and December 2017. In some cases there is now updated data available but this report refers to the period of the review.

Executive Summary

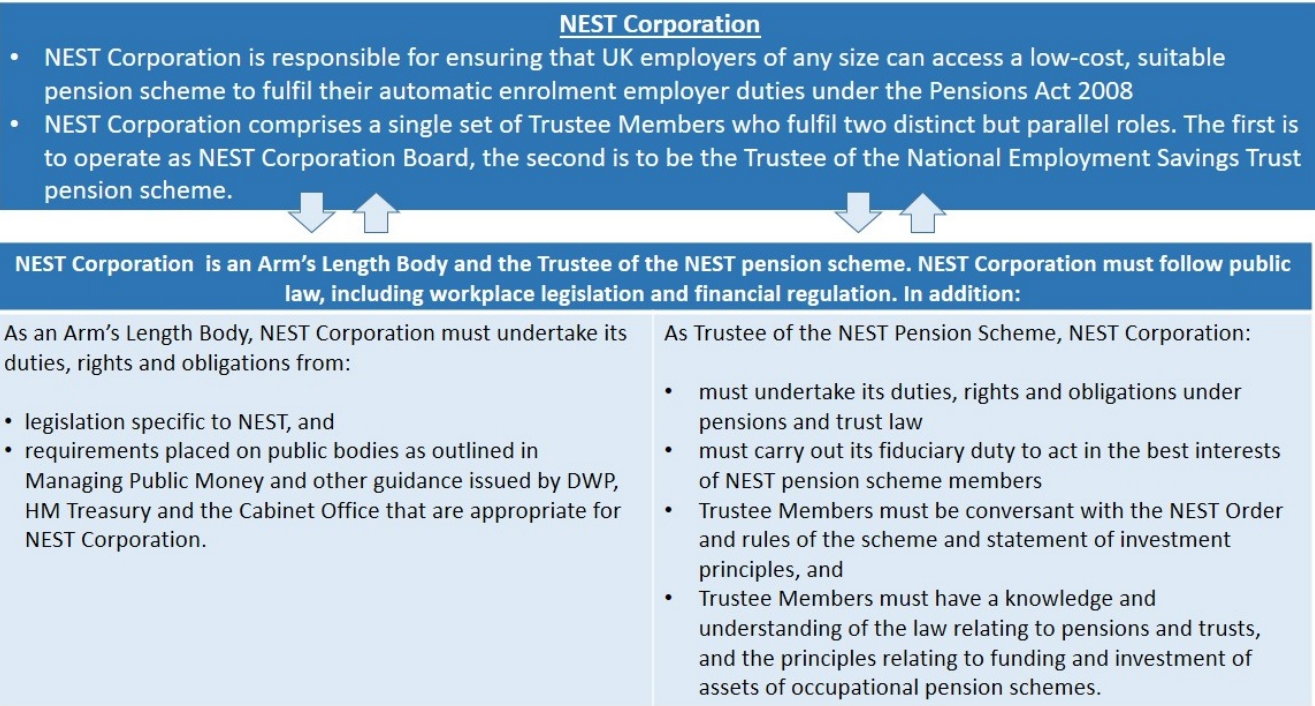
National Employment Saving Trust (NEST) Corporation

The National Employment Savings Trust (NEST) Corporation was set up as an Arm’s Length Body by the Department for Work and Pensions in 2010, to act as the sole trustee of the NEST pension scheme. Its aim is to ensure that all UK employers, of any size, have access to a low-cost pension scheme through which they can fulfil their automatic enrolment employer duties under the Pensions Act 2008.¹

NEST Corporation Board is responsible for the corporate, operational and financial management of NEST Corporation (though, in practice, it delegates the day to day running of NEST Corporation to its Chief Executive Officer).

As the Trustee of the NEST pension scheme, NEST Corporation has a fiduciary duty to act in the best interests of its pension scheme members. NEST Corporation is expected to fulfil its obligations as an Arm’s Length Body, unless these conflict with its fiduciary duty. To date, no formal conflict between these roles has been raised by the NEST Corporation Board.

NEST Corporation's roles



¹ Pensions Act 2008, <https://www.legislation.gov.uk/ukpga/2008/30/contents>

The aims of the Tailored Review were:

- to provide a robust challenge to and assurance on the continuing need and correct form for NEST Corporation as an Arm's Length Body;
- to ensure that the control and governance arrangements in place are effective and in line with the principles of good corporate governance; and
- to assess NEST Corporation's capacity to deliver more efficiently and effectively, including an assessment of its performance and assurance processes.

This review has not considered NEST pension scheme or NEST Corporation Board's role in its capacity as the Trustee of the NEST pension scheme.

The key findings of the Tailored Review

Form and Function: There is an ongoing need for the functions of NEST Corporation in its current form as an Arm's Length Body but its classification should be amended to provide clarity about its status as a public corporation.

NEST Corporation Governance: Internal governance processes are effective, but there is a need to strengthen some corporate governance arrangements, including developing a clearer performance framework and refreshing the Framework Document between NEST Corporation and the Department.

NEST Corporation Board: The NEST Corporation Board is effective but would further benefit from becoming a unitary board of both Executive and Non-Executive Trustee Members. NEST Corporation should also continue to regularly assess the skills, membership and information required by both the Board and the Chief Executive's senior team.

Employee Diversity and Engagement: Overall Black, Asian and Minority Ethnic (BAME) and gender diversity within NEST Corporation is strong, but the organisation would benefit from increasing gender diversity among the Chief Executive's senior team and directors. NEST Corporation should also continue to promote diversity in other characteristics, such as disability, where there is low disclosure at all levels within the organisation. NEST Corporation should continue to prioritise improving employee engagement which has remained largely static and slightly below industry benchmarks despite efforts to improve it.

Operational Efficiency: NEST Corporation operates an outsourced delivery model with over 70 contracts covering areas such as scheme administration; scheme investment; research, marketing and communications; and IT and telecoms. Its largest contract covers the administration of NEST pension scheme. NEST Corporation has made efforts over recent years to rationalise its staff and non-staff costs, including committing to relocate to the Government Hub in Canary Wharf in 2018 under a 14.5-year lease. NEST Corporation plans to reduce its corporate costs to £29.3 million in 2019/20, from £33.4m in 2016/17.

Operational Effectiveness: NEST pension scheme's services are almost entirely digital. The contracted scheme administrator has consistently met and often

exceeded its targets in terms of service level performance, and complaints about the service are very low. In partnership with NEST Corporation, the scheme administrator has successfully innovated to cope well with the very high volumes of employers and members signing up to NEST pension scheme. Overall customer satisfaction for members, employers, intermediaries and NEST Connect² users showed improvements in 2017 compared to 2016. The employer satisfaction scores were particularly strong in 2017.

Recommendations

Form, Function and Funding

1. NEST Corporation should remain an Arm's Length Body. However, this review has agreed with Cabinet Office and HM Treasury that NEST Corporation's public sector classification should change from its current multiple classification as a Non-Departmental Public Body and a Public Corporation, to a sole classification as a Public Corporation. Additional controls will be imposed by the Department while NEST depends on loan funding.
2. As NEST Corporation's funding arrangements, core functions and legislative policy framework are refined over time, the appropriate model for the organisation and its strategic objectives should be periodically reviewed, at least at every five years.

NEST Corporation Governance

3. The Framework Document between the Department and NEST Corporation should be refreshed:
 - a. to more closely reflect the template in Managing Public Money³, particularly regarding the overarching strategic objectives of NEST Corporation and the NEST pension scheme;
 - b. to include appropriate controls following the change to NEST Corporation's classification; and
 - c. to be the sole governance document between the Department and NEST Corporation, incorporating any loan or Automatic Enrolment Programme requirements as far as possible.
4. Each year, NEST Corporation should submit a draft of its corporate plan covering the next three years, alongside a more detailed business plan for the year ahead, to the Department for review and discussion. This should include key financial and non-financial performance indicators, and be focused on meeting its current functions efficiently and effectively, in alignment with NEST Corporation's and the

² NEST Connect is an online hub for professionals such as financial advisers, accountants and payroll providers who are offering auto enrolment services to employers.

³ HM Treasury, (2012), 'Managing Public Money',
<https://www.gov.uk/government/publications/managing-public-money>

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Department's strategic objectives. Any potential concern or conflict regarding NEST Corporation's fiduciary duty should be raised during the business planning process.

5. The Department and NEST Corporation should consolidate the current various review meetings into Quarterly Accountability Reviews to assess NEST Corporation's performance against its business plan. NEST Corporation should provide information (including the latest Board performance report) to the Department for the Quarterly Accountability Reviews.
6. Subject to any commercial considerations, the latest corporate and business plan should be published on NEST Corporation's website and be actively shared with NEST Corporation staff at the start of each financial year.

NEST Corporation Board

7. The 'initial period' (which denotes that the Secretary of State rather than NEST Corporation appoints NEST Corporation Board Trustee Members under the Pensions Act 2008) should continue for the immediate future but be reviewed periodically.
8. The Department should set out the appropriate process for the appointment of NEST Corporation Trustee Members once the 'initial period' ends, particularly in regard to the roles of the Secretary of State and the NEST pension scheme members' panel.
9. As the funding arrangements, core functions and legislative policy framework of NEST Corporation are refined over time, the balance between the NEST Order and scheme Rules should be reviewed in parallel and as relevant decisions are made.
10. NEST Corporation Board should become a unitary board, with a majority of Non-Executive Trustee Members, with all Trustee Members appointed by the Secretary of State during the initial period.
11. In the first instance, the Secretary of State should be asked to appoint the current Chief Executive Officer and Chief Financial Officer to the NEST Corporation Board on their existing terms and conditions. NEST Corporation Board and the Department should work together to consider the timing of these appointments.
12. The number of members of the NEST Corporation Board should, within the statutory parameters, be driven by the collective skills requirements and duties of the Board, and aim to be as few as possible whilst ensuring that the Board can operate efficiently and effectively.

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13. The Department and NEST Corporation should clarify a new appointment process for future senior directors who are likely to be Executive Trustee Members of NEST Corporation Board, given that NEST Corporation are responsible for the appointment of all staff, while the Secretary of State is responsible for the appointment of all Trustee Members and agreeing terms and conditions.
14. NEST Corporation should consider how best to manage the recruitment and retention of senior directors, whilst ensuring appropriate succession planning and length of service for incumbents.
15. As part of NEST Corporation Board's existing annual effectiveness review it should:
 - a. continue to undertake a skills audit for Trustee Members and use this to determine the appropriate board size and skills requirements for recruitment to the Board;
 - b. assess whether existing Non-Executive Trustee Members can effectively undertake their duties within their contractual hours and where they cannot, discuss options with the Department;
 - c. ensure the remit and responsibilities of the Board collectively and individually are clear; and
 - d. ensure Board interaction with the Chief Executive's senior team is effective.
16. NEST Corporation Board should continue to ensure it receives all the information necessary for it to be an effective decision-making body, including any new key financial and non-financial performance indicators agreed with the Department.
17. A single 'Nominations and Remuneration Committee' should be created from the previous 'Nominations and Governance Committee', and 'Remuneration Committee'. During the course of this review, the NEST Corporation Board has agreed this merger.
18. This review recommended that NEST Corporation Board consider whether the 'Propositions Committee' is still required and NEST Corporation Board have since decided to disband the 'Propositions Committee' with immediate effect.

Employee Diversity and Engagement

19. NEST Corporation should strengthen activity and engagement with its staff to improve its annual employee engagement score, with a particular focus on improving scores linked to senior leadership.
20. NEST Corporation should continue its work to improve the diversity of its staff at all levels, especially in senior posts, and continue to report on progress annually to the Department.

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21. NEST Corporation should work to ensure appropriate levels of disclosure of diversity data to understand its workforce and track progress.

Operational Efficiency

22. NEST Corporation should review its latest strategic objectives and agree 2018/19 key performance indicators with the Department before 1 April 2018, and then annually update the key performance indicators, as part of the refreshed business planning process. These objectives and indicators should be used by the Department to more accurately monitor NEST Corporation's effectiveness and efficiency.

23. NEST Corporation should continue to review its corporate functions, to ensure that they are the correct size and structure for a steady state, but growing, organisation.

24. NEST Corporation should continue to provide ongoing assurance to the Department that the programme and procurement costs of its future scheme administration services offer value for money.

Operational Effectiveness

25. NEST Corporation should continue to deliver good customer satisfaction scores among members and employers and to improve them further with a particular focus on the Help Centre.

26. NEST Corporation should continue to proactively and effectively manage pension scheme customer data and investment assets as the risks of cyber activity increase, including compliance with the General Data Protection Regulation.

1. Introduction

Making provision for later life

In an ageing society, it is vital that people plan and provide for retirement. Some of this provision comes through pensions paid directly by the State, but an increasing share comes through private provision arranged either directly or through employers. There is a strong public interest in the success of these private arrangements.

Confidence in the long-term stability of the system is a prerequisite for effective participation and achieving secure incomes in retirement, which are at the core of government policy in this area. For this reason, there is a distinct body of legislation about private pensions and a number of public bodies play important roles, including the National Employment Savings Trust (NEST) Corporation.

In order to meet the Department for Work and Pensions' strategic objective to 'increase saving for, and financial security in, later life'⁴, and building on the findings of the Pensions Commission⁵, automatic enrolment began in 2012, alongside wider reform of the pension system. Since then, all employers have systematically had to enrol eligible employees into a workplace pension.

At the start of the review in September 2017⁶, over 8.7 million people had been automatically enrolled into a workplace pension and the final stages of automatic enrolment will be completed in 2018. In December 2017, the 'Automatic enrolment review: Maintaining the momentum' was published, considering the success of automatic enrolment and how to develop it in the future. From April 2018, all new employers will be required to automatically enrol their eligible employees into a workplace pension from the outset. The minimum combined employee and employer contribution will increase in April 2018 to five per cent of qualifying earnings and in April 2019 to eight per cent of qualifying earnings.

National Employment Savings Trust (NEST) Corporation

NEST Corporation is an Arm's Length Body established by the Pensions Act 2008 to act as the sole corporate Trustee of the NEST pension scheme. NEST Corporation and the NEST pension scheme were established to support automatic enrolment, by addressing a supply-side market failure preventing small employers and employees

⁴ Department for Work and Pensions, (2017), 'Single Departmental Plan', <https://www.gov.uk/government/publications/department-for-work-and-pensions-single-departmental-plan>

⁵ The Pensions Commission, (2005), 'A New Pension Settlement for the Twenty-First Century: The Second Report of the Pensions Commission', <http://webarchive.nationalarchives.gov.uk/+http://www.dwp.gov.uk/publications/dwp/2005/pensionscommreport/main-report.pdf>

⁶ For consistency, data is from the commencement of this review in September 2017, though more recent information may be available.

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on low-to-moderate incomes accessing high-quality pension provision, with two key aims:

- to ensure that all UK employers of any size can access a low-cost, suitable pension scheme to fulfil their employer duties under the Pensions Act 2008, and
- to ensure that self-employed people can access a low cost, suitable pension scheme.

The NEST pension scheme was created with a public service obligation to take on any employee automatically enrolled by their employer, even if the cost of administering the account is greater than the revenue derived from charges.

NEST pension scheme's membership and number of employers has increased significantly since its creation as the staging of automatic enrolment has progressed. At the start of the review in September 2017, there were 5.5 million NEST pension scheme members (1.75 million of whom joined in the preceding 12 months) and 474,000 employers were signed up to NEST (an increase of 285,000 since September 2016). Total assets under NEST management were £2.1 billion.

NEST pension scheme is now the largest defined contribution pension scheme in the UK in terms of members, and is set to be the fastest growing in terms of assets under management in the next five years. NEST has obtained master trust assurance.

2. Form, Function and Funding of NEST Corporation

NEST Corporation's Functions

Since the creation of NEST Corporation, the market for automatic enrolment pensions has developed and several other providers now also offer workplace pensions for multiple employers and have master trust accreditation. In part, this market development is a consequence of NEST Corporation acting as a positive force for consumers, promoting good governance, low charges and innovative product thinking.

Whilst other master trusts do now exist, NEST Corporation, as trustee of NEST pension scheme, is still required to address the supply-side market failure and guarantee all employers, particularly small employers, access to a high-quality, low-cost pension scheme. No other pension scheme has a public service obligation requiring it to accept any UK employer. This is necessary for the ongoing success of automatic enrolment policy and to meet the Department's strategic objective to 'increase saving for and, financial security in, later life'.

NEST Corporation's Delivery Model as an Arm's Length Body

NEST Corporation should remain an Arm's Length Body for the immediate future. The role undertaken by NEST Corporation in running a major defined contribution pension scheme, including investing members' funds, is highly specialised and requires political impartiality, so could not be performed directly by Government or within a more informal structure.

Moreover, the functions of NEST Corporation are distinct from the functions of all other public sector bodies, including other pensions-related Arm's Length Bodies. Consequently, it would not be possible to share front-line functions and, in some cases, it would not be appropriate. For example, The Pensions Regulator regulates NEST pension scheme, and so sharing functions would threaten its impartiality.

Continuing market failure in the provision of low-cost pensions for the smallest employers and low income savers mean that NEST Corporation is still needed in its current form as an Arm's Length Body, with a public service obligation. Alternative delivery and corporate models were considered at NEST Corporation's inception but were discounted. However, it would make sense to revisit these models and alternatives periodically, as the market failure and NEST's commerciality will continue to evolve.

NEST Corporation's public sector body classification

NEST Corporation is classified by the Office for National Statistics as a Public Financial Corporation as it is the manager or sponsor of a government unit responsible for a defined contribution pension scheme.

NEST Corporation has, until now, also had a Cabinet Office administrative classification as a Non-Departmental Public Body. Consequently, NEST Corporation has been one of a few public bodies to have multiple classification.

The 2016 Cabinet Office Classification Review recommended that multiple classifications were no longer used in order to ensure greater clarity regarding the requirements placed on public bodies. Consequently, this review has considered NEST Corporation's classification with the Cabinet Office and HM Treasury and, in line with the guidance, has agreed that NEST Corporation should be solely classified as a Public Corporation, without a separate administrative classification. This single classification should be made clear in all governance documents relating to NEST Corporation and in wider publications.

The Department's Principal Accounting Officer, the Permanent Secretary, is responsible for ensuring appropriate arrangements are in place to appropriately monitor NEST Corporation, including through a robust Framework Document, and has the authority to implement controls as appropriate. Until NEST Corporation has repaid its significant public sector borrowing, it is likely that the Department will wish to impose controls and safeguards beyond the standard controls generally applicable to Public Corporations.

Therefore, this review further recommends that a refreshed Framework Document makes clear the controls that the Department will continue to require which are more commonly associated with Non-Departmental Public Bodies. These controls should be regularly reviewed by the Department to ensure that they remain appropriate, proportionate and useful.

NEST Corporation funding, 2013/14 – 2016/17

NEST Corporation's total funding over the period 2013/14 – 2016/17 has generally increased. This is due to increasing scheme administration costs as scheme membership has grown, though the increase was offset in 2015/16 by savings in staff costs. In 2016/17, NEST Corporation's total funding was £112 million. Currently, member charges do not cover the costs of the pension scheme and so other funding is required. A breakdown of annual funding since 2013/2014 is set out below.

NEST Corporation Funding

£000s ⁷	2013/2014	2014/2015	2015/2016	2016/2017
Income from members' charges	1,935	5,841	9,010	15,187
Grant-in-aid	602	442	409	450
Public service obligation offset payment	9,643	12,243	14,657	17,250
Interest received	22	16	11	10
Sub-total	12,202	18,542	24,087	32,897
Loan funding from DWP	60,000	87,830	72,500	79,500
Total Funding	72,202	106,372	96,587	112,397

The long-term ambition for NEST Corporation is for it to operate in the market and be self-sustaining, funded from the charges paid by members, akin to other pension schemes. Until then, NEST Corporation's funding is provided from four sources:

- **Income from members' charges (£15 million in 2016/17)**

NEST pension scheme members pay a 1.8% contribution charge on all contributions and an annual management charge of 0.3% of the total value of their pot. Income from members' charges has been steadily increasing since NEST Corporation was established, in line with rapidly increasing membership and pot sizes, and will rise again as minimum contribution rates increase in 2018 and 2019. However, this income stream is dependent on the number of members and employers that the pension scheme attracts; the members' cumulative savings; and member behaviour, such as opt-out rates and voluntary contributions.

- **Grant-in-aid (£450,000 in 2016/17)**

NEST Corporation receives grant-in-aid from the Department to cover the costs that it incurs as a public body that cannot be charged to members, for example the costs of participating in Departmental accountability processes, responding to Freedom of Information requests and supporting reviews such as this one.

- **Public Service Obligation Offset Payments (£17 million in 2016/17)**

Grant payments are made by the Department to compensate NEST Corporation for its public service obligation to accept any UK employer that wishes to use the scheme to meet its automatic enrolment duties. This public service obligation offset payment effectively reduces the cost of servicing the loan that NEST Corporation receives from the Department to the Government cost of borrowing. This was considered by the European Commission in 2010 to be a form of state aid compatible with EU rules as it does not over-compensate NEST Corporation.⁸

⁷ NEST will publish 2017/18 data in their 2017/18 Annual Report and Accounts.

⁸ EU Commission, (July 2010), 'State Aid Register', N158/2009

- **A loan from the Department (£79.5 million injected in 2016/17, cumulatively £539 million to March 2017)**

At present, the loan from the Department is NEST Corporation's primary source of funding. NEST Corporation pays interest on this loan, currently at the National Loan Fund rate determined by the Debt Management Office (the rate at which Government lends to public bodies). The loan is drawn down monthly and each drawdown has a specific repayment date and interest rate set.

In April 2017, the Department wrote to the House of Commons Public Accounts Committee advising that as at 31 March 2017, the total value of the loan from the Department stood at £539 million and the estimated date at which NEST Corporation would be able to cover its operating costs from pension scheme member charges was 2026.⁹ The letter also estimated that, in 2026, the loan balance will be £1,218 million and the forecast loan repayment date 2038. Under the current loan agreement, the final drawdown is in June 2020 and the loan must be repaid in full by April 2023. Future funding arrangements from 2020 onwards fall outside the scope of this review.

Devolution

Pensions law is reserved to the UK Government and is not devolved to any of the devolved administrations. All employers within the UK (including within the devolved administrations) are required to automatically enrol their eligible employees into a workplace pension, and NEST Corporation has a public service obligation to ensure that any UK employer can access the NEST pension scheme in order to meet their duties. Devolution does not affect this obligation or impact the current delivery model of NEST Corporation.

The UK's exit from the European Union

The creation of NEST Corporation and the NEST pension scheme was approved by the European Commission under state aid rules, as a service of general economic interest. In July 2010, the European Commission ruled that NEST Corporation could receive a public service obligation offset payment from the Department. When the UK exits the European Union, this may need to be reassessed.

At present, tendering for the long term scheme administration services must meet European public procurement regulations. Services are expected to be procured in 2020 and begin in 2023, after the UK exits the European Union and so may need to comply with any new UK procurement requirements.

⁹ Sir Robert Devereux KCB, (20 April 2017), 'DWP loan to the National Employment Savings Trust', <http://www.parliament.uk/documents/commons-committees/public-accounts/Correspondence/2015-20-Parliament/Correspondence-dwp-National-Employment-Savings-Trust-200417.pdf>

Form and Function Recommendations

1. NEST Corporation should remain an Arm's Length Body. However, this review has agreed with Cabinet Office and HM Treasury that NEST Corporation's public sector classification should change from its current multiple classification as a Non-Departmental Public Body and a Public Corporation, to a sole classification as a Public Corporation. Additional controls will be imposed by the Department while NEST depends on loan funding.
2. As NEST Corporation's funding arrangements, core functions and legislative policy framework are refined over time, the appropriate model for the organisation and its strategic objectives should be periodically reviewed, at least at every five years.

3. NEST Corporation Governance

Governance Overview

NEST Corporation was established by the Pensions Act 2008, without owners or shareholders. NEST Corporation is managed by NEST Corporation Board which is formed of a single set of Trustee Members, who act as a board of members akin to non-executive directors of the Arm's Length Body and collectively are the Trustee of the NEST Pension Scheme.

As both an Arm's Length Body and the Trustee of a pension scheme, its duties, rights and obligations arise from: primary and secondary legislation specific to NEST, including the NEST Scheme Order¹⁰ and the NEST Scheme Rules¹¹; pensions and trust law; public law, including workplace legislation and financial regulations; and requirements placed on public bodies as outlined in Managing Public Money¹² and elsewhere.

The NEST Scheme Order and Rules make up the governing documentation of the NEST pension scheme. The Order is the legal document that establishes the NEST pension scheme and appoints NEST Corporation as the Trustee of the scheme. The Order is secondary legislation and can only be amended by Parliament. The NEST Scheme Rules set out how the scheme is designed and operates, and can be amended by NEST Corporation.

There are a number of provisions in the Order which would more usually be in the scheme rules of a typical large occupational pension scheme or master trust. The nature of NEST Corporation means that it is entirely appropriate that some elements more usually found in scheme rules should be subject to Parliamentary scrutiny. However, this does create some restrictions and delays when changes need to be made. As such, when decisions are made about NEST Corporation's policy framework and future direction, it would be sensible to review the NEST Order and scheme Rules to ensure the balance between them is appropriate.

NEST Corporation Governance

The members of NEST Corporation Board are collectively the Trustee of NEST pension scheme and comprise a Chair and up to 14 Trustee Members. The NEST Corporation Board takes decisions in its capacity as an Arm's Length Body and in its capacity as Trustee of the pension scheme. In most cases, its duties are aligned but

¹⁰ The National Employment Savings Trust Order 2010, and

¹¹ 'Order and Rules of the National Employment Savings Trust', <https://www.nestpensions.org.uk/schemeweb/NestWeb/includes/public/docs/NEST-Order-and-Rules.PDF.pdf>

¹² HM Treasury, (2012), 'Managing Public Money'

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there is a small potential for conflict. To date, no formal conflict between these roles has been raised by the NEST Corporation Board. A clear process for resolution is contained within the Framework Document. (see Arrangements between DWP and NEST Corporation below).

Trustee Members are currently 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.

NEST Corporation appoints all members of staff including the Chief Executive Officer. The Chief Executive Officer has been designated as Accounting Officer by the Department's Permanent Secretary and is accountable to Parliament and to the Department, with responsibility for ensuring adherence to the guidance set out in Managing Public Money, other legislation and spending controls.

NEST Corporation operates in line with its statutory requirements as a public body. It has established internal audit and risk management functions, reporting to two board sub-committees, the Audit Committee and Risk Committee respectively, and its annual report and accounts are audited by the National Audit Office and laid before Parliament. As NEST Corporation is classified as a Public Corporation, its accounts are not consolidated with the Department's. A separate annual report and accounts is also published for the NEST pension scheme, in line with the requirements of the Statements of Recommended Practice.

NEST Corporation's strategic objectives as published in its Corporate Plan for 2016-19 are: ¹³

- deliver a good service through staging
- be sustainably low cost
- drive up scheme revenue
- develop retirement options for members
- build corporate capability

This review recommends a new NEST Corporate Plan be published in 2018 (and annually thereafter) to include NEST Corporation's updated strategic objectives and supporting key performance indicators as agreed between the Department and NEST Corporation through the updated annual business planning process.

Arrangements between DWP and NEST Corporation

In addition to its financing, the Department is responsible for the partnership of NEST Corporation, providing oversight, scrutiny, support and assistance. There is a Framework Document in place to govern the relationship between the Department

¹³ NEST Corporation, (2016), 'NEST Corporation Corporate Plan, 2016-19', <http://www.nestpensions.org.uk/schemeweb/NestWeb/includes/public/docs/NEST-corporate-plan-2016-2019.pdf>

and NEST Corporation, setting out roles and responsibilities.¹⁴ However, the Framework Document would benefit from more detail on NEST Corporation's aims and objectives and should be refreshed to ensure it more fully reflects the template in Managing Public Money.

Until now, some responsibilities relating to the automatic enrolment programme have been detailed in a number of documents between NEST Corporation and the Department. However, as the automatic enrolment programme is coming to an end in 2019, the Framework Document should become the sole governance document between NEST Corporation and the Department as far as possible.

The refreshed Framework Document should also require NEST Corporation to submit corporate and business plans annually for agreement with the Department prior to publication, to ensure effective challenge and alignment with the Department's Single Departmental Plan¹⁵. These plans should include clear objectives, aligned with the relevant Departmental strategic objective and consistent with NEST Corporation's current policy framework, as well as financial and non-financial performance measures that allow progress to be tracked by the Department and reported in NEST Corporation's annual report and accounts. Any potential concern or conflict between the Department's strategic objectives and NEST Corporation's fiduciary duty should be raised during the business planning process or escalated through the channels outlined in the Framework Document.

NEST Corporation and the Department have regular meetings to discuss policy and governance and to oversee the loan agreement. To bring NEST Corporation into line with arrangements for other Departmental Arm's Length Bodies, Quarterly Accountability Reviews should be introduced, to ensure regular formal assessment of performance, finances and efficiency, informed by the corporate and business plans.

NEST Corporation Governance Recommendations

3. The Framework Document between the Department and NEST Corporation should be refreshed:
 - a. to more closely reflect the template in Managing Public Money¹⁶, particularly regarding the overarching strategic objectives of NEST Corporation and the NEST pension scheme;
 - b. to include appropriate controls following the change to NEST Corporation's classification; and
 - c. to be the sole governance document between the Department and NEST Corporation, incorporating any loan or Automatic Enrolment Programme requirements as far as possible.

¹⁴ Framework Document between the Department for Work and Pensions and NEST Corporation (2016), <https://www.nestpensions.org.uk/schemeweb/NestWeb/includes/public/docs/framework-agreement,PDF.pdf>

¹⁵ Department for Work and Pensions, (2017), 'Single Departmental Plan'

¹⁶ HM Treasury, (2012), 'Managing Public Money'

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4. Each year, NEST Corporation should submit a draft of its corporate plan covering the next three years, alongside a more detailed business plan for the year ahead, to the Department for review and discussion. This should include key financial and non-financial performance indicators, and be focused on meeting its current functions efficiently and effectively, in alignment with NEST Corporation's and the Department's strategic objectives. Any potential concern or conflict regarding NEST Corporation's fiduciary duty should be raised during the business planning process.
5. The Department and NEST Corporation should consolidate the current various review meetings into Quarterly Accountability Reviews to assess NEST Corporation's performance against its business plan. NEST Corporation should provide information (including the latest Board performance report) to the Department for the Quarterly Accountability Reviews.
6. Subject to any commercial considerations, the latest corporate and business plan should be published on NEST Corporation's website and be actively shared with NEST Corporation staff at the start of each financial year.

4. NEST Corporation Board

Board composition and skills

The Pensions Act 2008 states that all appointments to the NEST Corporation Board are to be made by the Secretary of State in the ‘initial period’ and by the NEST Corporation Board after the ‘initial period’¹⁷. It is for the Secretary of State to determine when the ‘initial period’ ends. The timing of this should be considered alongside other issues, such as the repayment of the Government loan and possible changes in legislation.

At present, NEST Corporation Board is entirely composed of Trustee Members, who perform a role akin to non-executive directors as well as collectively being the Trustee of the pension scheme. This differs from the usual UK model of a unitary board comprising both executive and non-executive directors, with a requirement to have a majority of non-executives.

While some pension schemes do have purely non-executive boards, a unitary board is generally considered good practice, as set out in the UK Corporate Governance Code.¹⁸ A unitary board would strengthen connectivity between the NEST Corporation Board and the Chief Executive’s senior team, improve decision making and accountability, and bring it into line with many other Arm’s Length Bodies as well as the recommendation of a previous internal governance review.

This review recommends that the holders of certain key senior roles are appointed to the NEST Corporation Board. Initially, the Secretary of State should be asked to approve the appointment of the incumbent Chief Executive Officer and Chief Finance Officer on their existing remuneration. In accordance with the legislation, any appointment to the NEST Corporation Board must be for a fixed term of no more than five years, with the opportunity to be reappointed once. The timing of these appointments should be discussed between the Department and NEST Corporation alongside Non-Executive Trustee Member recruitment, in order to remain within the statutory parameters, of between nine and fifteen Trustee Members.

As well as the right composition, it is also vital that the collective skills of the NEST Corporation Board meet the specific requirements of the organisation. Following a skills audit in 2017, the NEST Corporation Board would like to enhance its collective skills in the following areas through recruitment:

- a. customer service and technology skills, within a broad customer base;
- b. risk management skills, in particular in relation to information security and financial crime;
- c. investment skills; and
- d. audit skills.

¹⁷ Pensions Act 2008, Sch. 1, (1)

¹⁸ Financial Reporting Council, (2016), ‘The UK Corporate Governance Code’, <https://www.frc.org.uk/getattachment/ca7e94c4-b9a9-49e2-a824-ad76a322873c/UK-Corporate-Governance-Code-April-2016.pdf>

Board appointments and numbers

As NEST Corporation is in the 'initial period', it is the responsibility of the Secretary of State to appoint Trustee Members to the NEST Corporation Board, on a fixed term of no more than five years, and ensure that the board comprises between nine and fifteen Trustee Members. Legislation does not specify whether these should be Executive or Non-Executive Trustee Members.

At the point of the review, NEST Corporation Board comprised ten Non-Executive Trustee Members. Of these, three appointments were due to end in June 2018, four in June 2019, one in 2020, and two in 2021. The Department is working closely with NEST Corporation to ensure appointments to the NEST Corporation Board strengthen its overall skills and effectiveness as well extending the diversity of the Board beyond the good gender balance historically achieved.

This review recommends that the optimum size of the Board should (within the statutory parameters) be reviewed annually as part of the Board's effectiveness review and skills audit and should continue to be determined by the skills needed to achieve its role effectively. With the proposed Executive Trustee Member appointments and areas identified to enhance board skills, it may be appropriate that total numbers are towards the higher end of the statutory parameters in the short term. However, this review recommends that the overall number be towards the lower end of the statutory parameters in the medium to longer term as a previous internal review found that a smaller board would facilitate clearer decision making, and be in line with the majority of stakeholders' views.

Board remuneration

While the nature of NEST Corporation as a public body means many Non-Executive Trustee members are motivated by public duty rather than just remuneration, it is also important to ensure the remuneration paid enables the desired diversity of Non-Executive Trustee Members. NEST Corporation Non-Executive Trustee Members are paid on average around £20,000 per annum for 30 days a year (on average over £170,000 per annum as full time equivalent). The Chair is paid £91,000 per annum for 2.5 days per week (over £180,000 per annum as full time equivalent).¹⁹ Whilst this is in line with other public bodies, it is considerably less than the corporate benchmark for non-executive directors.

¹⁹ The full time equivalent figures are based on 260 working days per year.

Board Delegation and Committees

NEST Corporation Board holds all authority in relation to its legal functions and the following:

- matters which set the strategic direction of the organisation
- overall accountability for the trust
- decisions in respect of the distribution of trust assets
- the setting of investment strategy
- matters that are vital to the overall security of the scheme assets.

NEST Corporation Board is permitted to establish committees to oversee some key activities on its behalf. At the point of the review the following committees supported the NEST Corporation Board:

- Nominations and Governance Committee – leads the recruitment process for the Chief Executive and supports the Department in recruitment of new Non-Executive Trustee Members, as well as ensuring good governance;
- Remuneration Committee – sets the remuneration of the Chief Executive and advises on others' remuneration;
- Audit Committee – oversees financial statements and assurance, internal controls and compliance;
- Risk Committee – advises on overall risk strategy and management of risk;
- Determinations Committee – decides on stage two disputes about the scheme and makes recommendations to the Chief Executive;
- Investment Committee – oversees the overall investment strategy;
- Propositions Committee – oversees the proposition offered by the scheme and ensures that it meets the needs of members.

An internal governance review in 2017 recommended that the 'Nominations and Governance Committee', and 'Remuneration Committee' be merged into a single 'Nominations and Remuneration Committee'. NEST Corporation has moved forward with this change, which this review supports. This review recommends that any governance aspects of the previous committee which do not fall within the new committee be taken on by the Audit Committee. This is in line with standard practice in other organisations and would allow for committee members' time to be spent more efficiently.

The same 2017 internal review also recommended a review of the Terms of Reference for the Propositions Committee. This review recommends that the NEST Corporation Board should consider whether the work of the Propositions Committee should be brought into the NEST Corporation Board to enable the whole board to input into discussions of strategy. NEST Corporation has also moved forward with this.

In the public sector, it is usual for there to be a single Audit and Risk Committee. NEST Corporation has two separate committees for audit and risk, in line with the

recommendations of the 2009 Walker Review.²⁰ The Chair of NEST Corporation Board's Audit Committee sits on the Risk Committee and vice versa to ensure coordination. Given the excellent work being taken forward to manage risk within NEST, including cyber security risks, this review recommends that this approach be retained.

Pension Scheme Members' and Employers' Panels

The Pensions Act 2008 required NEST Corporation to set up a members' panel and an employers' panel, to represent the views of these key customer groups²¹. The two panels have a representative and advisory role, which involves giving assistance or advice that NEST Corporation as Trustee of the pension scheme may require, or that the panel considers expedient, relating to the operation, development or amendment of the pension scheme.

There are certain areas in which NEST Corporation must consult one or both of the panels and see this as part of their governance process. These are as follows:

- Both panels must be consulted by NEST Corporation before the Secretary of State amends the NEST Order or before NEST Corporation amends the NEST scheme Rules;
- The employer panel must be consulted on changes to the Statement of Investment Principles (in line with The Occupational Pension Schemes (Investment) Regulations 2005).²² The members' panel may also be consulted, and the Order requires either panel to respond if consulted on the Statement of Investment Principles.
- NEST Corporation must seek the advice of the members' panel before making changes to the level of charges (and, after the initial period, to the method of calculating charges); and
- The members' panel must be involved in the appointment of NEST Corporation Trustee Members after the 'initial period' has come to an end.

NEST Corporation is responsible for the recruitment of panel members and has highlighted difficulties in recruiting members who are able to both act in the representative capacity required and carry out the governance activity above. This review has concluded that industry expertise is not a prerequisite for consultation or delivering the policy intention and it is appropriate for:

- both panels to be consulted on amendments to the NEST Order, in the same way as there is also a public consultation;

²⁰ D. Walker, (2009), 'A review of corporate governance in UK banks and other financial industry entities', http://webarchive.nationalarchives.gov.uk/+http://www.hm-treasury.gov.uk/d/walker_review_261109.pdf

²¹ Pensions Act 2008, s69

²² The Occupation Pension Schemes (Investment) Regulations 2005

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- the employers’ panel to be consulted on changes to the Statement of Investment Principles as this is a requirement for all pension schemes; and
- the members’ panel to be consulted before making changes to the level of charges (and, after the initial period, to the method of calculating charges).

This review does, however, agree that it would be prudent to review the appropriateness of the members’ panel involvement in NEST Corporation Board appointments when the ‘initial period’ has ended. This review also recommends that the Secretary of State’s role in the process is reviewed at the same time, as once the ‘initial period’ ends, the requirement for Secretary of State involvement is very limited compared to other Arm’s Length Bodies.

Chief Executive’s delegated authority

NEST Corporation Board delegates authority and responsibility for the day-to-day operations and management of NEST Corporation and the NEST pension scheme to the Chief Executive Officer. The Chief Executive Officer in turn delegates authority to each member of their senior team and holds them accountable for delivery in their areas of responsibility. At present the Chief Executive’s senior team consists of eight senior director posts, as set out below.



Regular meetings of this team are chaired by the Chief Executive Officer to oversee the operation of the Corporation and the scheme. The team itself has no delegated or decision-making authority but all members provide advice to the Chief Executive Officer on key issues and decisions.

Individual senior directors do have delegated responsibilities and every year, each accountable member of the Chief Executive’s senior team and key policy owner provides a Letter of Assurance attesting to a series of statements in relation to internal control in their area of responsibility. This includes a statement of understanding of the delegations and financial authorisations received from the Chief Executive Officer, and confirmation that they have acted in line with these. These letters contribute towards the Chief Executive Officer’s annual assessment in the annual report and accounts governance statement.

Given the recommendation in this review that NEST Corporation Board becomes a unitary board, the purpose and processes of both the NEST Corporation Board and the Chief Executive's senior team will require review and clarification. This review recommends that the role of the Chief Executive's senior team and delegation of powers should be considered. NEST Corporation should ensure current arrangements remain effective and all within NEST Corporation are clear about the purpose and authority of the Board and the senior team.

NEST Corporation Board Recommendations

7. The 'initial period' (which denotes that the Secretary of State rather than NEST Corporation appoints NEST Corporation Board Trustee Members under the Pensions Act 2008) should continue for the immediate future but be reviewed periodically.
8. The Department should set out the appropriate process for the appointment of NEST Corporation Trustee Members once the 'initial period' ends, particularly in regard to the roles of the Secretary of State and the NEST pension scheme members' panel.
9. As the funding arrangements, core functions and legislative policy framework of NEST Corporation are refined over time, the balance between the NEST Order and scheme Rules should be reviewed in parallel and as relevant decisions are made.
10. NEST Corporation Board should become a unitary board, with a majority of Non-Executive Trustee Members, with all Trustee Members appointed by the Secretary of State during the initial period.
11. In the first instance, the Secretary of State should be asked to appoint the current Chief Executive Officer and Chief Financial Officer to the NEST Corporation Board on their existing terms and conditions. NEST Corporation Board and the Department should work together to consider the timing of these appointments.
12. The number of members of the NEST Corporation Board should, within the statutory parameters, be driven by the collective skills requirements and duties of the Board, and aim to be as few as possible whilst ensuring that the Board can operate efficiently and effectively.
13. The Department and NEST Corporation should clarify a new appointment process for future senior directors who are likely to be Executive Trustee Members of NEST Corporation Board, given that NEST Corporation are responsible for the appointment of all staff, while the Secretary of State is responsible for the appointment of all Trustee Members and agreeing terms and conditions.

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14. NEST Corporation should consider how best to manage the recruitment and retention of senior directors, whilst ensuring appropriate succession planning and length of service for incumbents.
15. As part of NEST Corporation Board's existing annual effectiveness review it should:
 - a. continue to undertake a skills audit for Trustee Members and use this to determine the appropriate board size and skills requirements for recruitment to the Board;
 - b. assess whether existing Non-Executive Trustee Members can effectively undertake their duties within their contractual hours and where they cannot, discuss options with the Department;
 - c. ensure the remit and responsibilities of the Board collectively and individually are clear; and
 - d. ensure Board interaction with the Chief Executive's senior team is effective.
16. NEST Corporation Board should continue to ensure it receives all the information necessary for it to be an effective decision-making body, including any new key financial and non-financial performance indicators agreed with the Department.
17. A single 'Nominations and Remuneration Committee' should be created from the previous 'Nominations and Governance Committee', and 'Remuneration Committee'. During the course of this review, the NEST Corporation Board has agreed this merger.
18. This review recommended that NEST Corporation Board consider whether the 'Propositions Committee' is still required and NEST Corporation Board have since decided to disband the 'Propositions Committee' with immediate effect.

5. Employee Diversity and Engagement

Employee Diversity

NEST Corporation is committed to championing inclusion and promoting diversity. It successfully launched an Equality in Gender Group (EGG) in March 2017. This has recently been renamed the Inclusive-NEST group, widening to consider other underrepresented groups, as well as gender diversity. The group aims to:

- raise awareness of the network;
- build a community of men and women through events, meetings and communications;
- understand what it is like to work at NEST Corporation in terms of policy and culture, from different perspectives; and
- identify and initiate improvement projects to enhance working at NEST Corporation for underrepresented groups.

There is a mixed diversity picture in NEST Corporation. In March 2017, the gender balance among NEST Corporation staff was almost equal (55% male and 45% female), and the overall percentage of BAME staff (25%) was significantly greater than the percentage of economically active BAME people in the UK (11.9% at March 2017). However, there was a significant under representation of people who declared a disability (0.5% of NEST Corporation staff) and limited balance between the different age groups with just 3% aged 18 to 25 and only 10% aged over 55 years old. NEST Corporation does not measure any other protected characteristics.

NEST Corporation Gender Diversity

The gender diversity of NEST Corporation Board has been historically quite well balanced.

NEST Corporation Board Gender Diversity

	31 March 2017	
	Male	Female
NEST Corporation Board	7 (58.3%)	5 (41.7%)

In March 2017, 54% of all Civil Service employees were women, including 45% of senior managers and 41% of Senior Civil Servants. Among NEST Corporation staff

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there is an almost equal balance of men and women overall (55% men and 45% women in March 2017), but there is significant gender disparity within over half of the directorates and among the Chief Executive’s senior team and directors.

NEST Corporation has committed to the government’s ‘Women in Finance’ charter and aims to have at least 30% of its Chief Executive’s senior team and director level posts held by women by autumn 2019²³. In March 2017, nine women held applicable posts (36%), three of whom were in the senior team. By September 2017, there was only one woman within the senior team.

NEST Corporation Staff Gender Diversity

	31 March 2017	
	Male	Female
Chief Executive’s senior team and director level posts	16 (64%)	9 (36%)
Other staff	117 (54.2%)	99 (45.8%)
Total	133 (55.2%)	108 (44.8%)

NEST has recently published a gender pay report which shows there is a gender pay gap at NEST Corporation, and this is driven by the fact that there are more men in senior, higher paid roles within the business.

In March 2017, women formed only 33% of the highest paid quartile and 33% of the second highest paid quartile of NEST Corporation staff, but 53% and 56% of the lowest and second lowest paid quartiles respectively.

NEST Corporation Gender Pay

31 March 2017	Male	Female
1st pay quartile (lowest)	47%	53%
2nd pay quartile	44%	56%
3rd pay quartile	67%	33%
4th pay quartile (highest)	67%	33%

NEST is taking a number of actions to address the gender pay gap including reviewing and re-launching its flexible working policy and using a wider range of recruitment sources, including online job boards designed for women returners.

²³ HM Treasury, (2016), ‘Women in Finance Charter’, <https://www.gov.uk/government/publications/women-in-finance-charter>

NEST Corporation Ethnic Diversity

In March 2017, 11.6% of all nationwide Civil Service employees had declared that they were BAME. This included 8.7% of senior managers and 7% of Senior Civil Servants. At NEST, which is based in London, the BAME representation is considerably higher at all levels. NEST should be positively recognised for this achievement and ensure it is maintained.

NEST Corporation Staff Ethnic Diversity

31 March 2017	White	BAME
Chief Executive’s Senior Team	8 (80%)	2 (20%)
Other staff	149 (75%)	49 (25%)
Total	157 (75%)	51 (25%)

NEST Corporation Disability and Age Profile

In March 2017, 9.9% of all nationwide Civil Service employees were known to have a disability including 7% of senior managers and 4.8% of Senior Civil Servants. NEST is a relatively new organisation and has only recently become a Disability Confident employer. At present, less than 0.5% of staff have declared a disability.

Age is a protected characteristic. There are no civil service targets for age distribution but a spread across all age groups, including younger and older employees, is desirable. In March 2017, 12% of all nationwide civil servants were aged between 16 and 29 years old, 48% were aged between 30 and 49 years, and 40% were aged over 50 years old.

Based on data in 2017/18 the majority of employees at NEST Corporation fall into the 26 to 35 years old age bracket followed by the 36 to 45 years old age bracket. NEST Corporation has a fairly small number of NEST employees aged under 25 years old and over 55 years old.

NEST Corporation is considering ways to ensure that recruitment is as diverse and inclusive as possible, as well as promoting diversity through its Inclusive-NEST group. Improvements are therefore expected but NEST should ensure that it tracks its progress with its corporate scorecard to maintain BAME representation and ensure better gender representation across different grades and strong representation of other protected characteristics. This review recommends that NEST

Corporation seek to ensure appropriate levels of disclosure of diversity data in order to understand their workforce.

Employee Engagement

Since 2013, NEST Corporation has undertaken an annual employee survey which seeks to provide a score on employee engagement, employee perception of NEST Corporation leadership and the NEST brand.

The overall engagement score has generally increased each year although further improvements are needed to bring NEST in line with the UK average and the Department for Work and Pensions’ engagement score of 60%.

NEST Corporation Staff Engagement

Year	2013	2014	2015	2016	2017
Engagement score	42%	43%	44%	50%	47%

The overall engagement score in 2017 masks both a considerable range of scores for different questions and significant variation between directorates within NEST Corporation. However, there were some common themes. Staff understand what NEST wants to achieve and how their role contributes to NEST’s success. Staff say they are treated with respect by the people they work with and are proud to be part of NEST. But there remain areas for improvement, which once addressed should help improve NEST’s overall score. For example, staff felt both the Chief Executive’s senior team and their own line managers were effective, but directors and senior managers (who report to senior directors) could be more visible.

NEST Corporation is acting on the findings from the annual staff survey in a number of ways and has a programme of work underway to nurture higher levels of staff engagement, which brings together the People and Development and Staff Engagement teams, led by the Chief Executive.

People and culture also forms a quarter of the 2017/18 NEST Corporate scorecard, highlighting the importance and breadth of work being undertaken across a number of areas to improve NEST Corporation’s offer to employees. Key areas of focus are:

- strengthening staff understanding of strategic objectives and how they support the achievement of them;
- strengthening recruitment, retention and release processes by improving new staff satisfaction with the induction process, improving the staff survey ‘stay’ indicators, maintaining voluntary staff turnover at a manageable rate and ensuring succession plans are in place for all key staff;
- building an environment consistent with a high performing organisation through appropriate IT, accommodation, staff performance management processes, learning and development opportunities and by improving survey scores relating to leadership and staff engagement;
- embedding NEST Corporation values to improve staff survey results related to being treated with respect and experiencing bullying and harassment.

Improving the overall score should continue to be a priority for NEST Corporation.

Employee Diversity and Engagement Recommendations

19. NEST Corporation should strengthen activity and engagement with its staff to improve its annual employee engagement score, with a particular focus on improving scores linked to senior leadership.
20. NEST Corporation should continue its work to improve the diversity of its staff at all levels, especially in senior posts, and continue to report on progress annually to the Department.
21. NEST Corporation should work to ensure appropriate levels of disclosure of diversity data to understand its workforce and track progress.

6. Operational Efficiency

6a. Business Planning, 2017/18-2019/20

NEST Corporation has an internal business plan covering 2016/17-19/20 which was developed following a comprehensive internal business planning process including scrutiny and challenge by the Chief Executive Officer and Chief Financial Officer.

The business plan includes projected scheme administration and scheme investment costs, including the expected costs associated with the procurement of new scheme administration services during this period (see scheme administration section below), alongside projected corporation costs (which include all staff and non-staff costs other than scheme administration and scheme investment). Between 2013/14 and 2016/17, the corporation costs fell slightly from £32.6 million to £31.6 million.

Drawing from its internal business planning process, NEST Corporation has set itself an efficiency target of a £1 million year on year saving in corporate costs (around 3% per annum) over the three year period from 2017/18 to 2019/20, on top of the £10 million efficiency challenge applied against the full loan drawdown in 2017/18.

Approximately a third of the £3 million efficiency savings in corporate costs are from corporate technology and facility savings, a third from product solutions and product and marketing cost savings, and the rest from savings in HR, external relations, corporate services and the change programme.

In addition, all new contracts or extensions with a value over £2 million per annum (including consultancy, professional services, ICT, but excluding investment) are subject to Ministerial approval, within the current Framework Document between the Department and NEST Corporation (which will be reviewed, in line with the recommendations of this review).

Whilst these planned efficiencies show robust internal challenge, there is scope to strengthen the business assurance and planning process between the Department and NEST Corporation as highlighted earlier in this report.

6b. Operational Efficiency, 2013/14-2016/17

NEST pension scheme has grown from a start-up position to a scheme with 5.5 million members and £2.1 billion of assets under management, as at September 2017. All of NEST Corporation's funding and expenditure must be considered in the context of this growth and the successful launch of an unprecedented scheme model. However, NEST Corporation's costs have not risen in line with the number of members. The growth in NEST pension scheme's members and the assets under management is set out below.

NEST Pension Scheme Growth 2013/14 – 2016/17

	31 st March 2014	31 st March 2015	31 st March 2016	31 st March 2017	30 th September 2017
Members of NEST pension scheme	1 million	2 million	2.9 million	4.5 million	5.5 million
Total assets under management	£0.12 billion	£0.46 billion	£0.83 billion	£1.7 billion	£2.1 billion

Annual expenditure 2013/14 to 2016/17

NEST Corporation Expenditure

£000	2013/14	2014/15	2015/16	2016/17
Staff costs	22,645	20,399	18,877	18,540
Depreciation & amortisation	11,544	13,517	14,192	10,886
Scheme administration	23,036	32,380	31,449	43,545
Scheme investment	465	729	913	1,579
Accommodation ²⁴	2,400	3,146	3,326	2,670
Research, marketing and communications	1,252	1,285	2,862	3,440
IT and Telecoms	2,102	2,036	2,710	3,213
Professional fees and advice	2,290	2,037	2,170	1,915
Other expenditure and asset revaluation	6,146	1,248	1,397	3,419
Sub-total	71,880	76,777	77,896	89,207
Loan interest payable	17,145	21,748	25,556	29,087
Total Expenditure ²⁵	89,025	98,525	103,452	118,294

Staff Costs

A 2014 internal, independent cost review concluded that NEST Corporation had achieved a sensible business balance between risk and cost to successfully set up the NEST pension scheme within demanding timescales and to a scale and

²⁴ The accommodation cost is made up of the Accommodation figure and some Rentals under Operating Leases costs from NEST Corporation's annual accounts.

²⁵ The total expenditure figures are taken from NEST Corporation's annual accounts. The total does not equal the total funding stated in section 2 as costs may be paid in a later period than they appear in the accounts, while loan funding is provided to meet cash requirements.

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complexity not previously achieved – but that even with this rigour, corporate costs were higher than comparable commercial organisations and public bodies.

The review highlighted that NEST Corporation's corporate teams, including Human Resources and Project Management, were generally larger than those of comparable organisations in the financial services industry. Subsequently, NEST completed an internal organisational review and job architecture review. As a result of this, and its move from a start-up organisation to steady state, there has been a reduction in staff numbers and staff costs.

There was a reduction in the number of staff from 268 in 2014 to 243 in 2017, which was primarily the result of a reduction in the number of interim staff employed. There was also a small reduction in median remuneration of directly employed NEST Corporation staff in 2017 from £56,000 in 2014 to £52,500 in 2017.

NEST Corporation Staff Numbers

Staff Numbers as at 31 March	2014	2015	2016	2017
Directly employed staff	243	235	238	233
Secondees	3	2	2	2
Interim	22	13	9	8
Total number of staff	268	250	249	243

NEST Corporation Median Remuneration

Median Remuneration as at 31 March	2014	2015	2016	2017
Median Remuneration (£)	56,000	50,257	54,000	52,500
Ratio of median staff remuneration and highest paid director's salary banding	4.2	4.9	3.9	4.2

There was a significant reduction in the overall total staff cost at NEST Corporation between 2014 and 2017 (from £22.6 million in 2014 to £18.5 million in 2017), with a £2.5 million reduction in cost of interim staff and a £1.3 million reduction in the cost of directly employed staff.

NEST Corporation Staff Costs

Staff Costs as at 31 March (£000)	2014	2015	2016	2017
Directly employed staff	18,483	18,210	17,510	17,159
Secondees	468	229	183	140
Interim staff	3,694	1,960	1,184	1,241
Total staff costs	22,645	20,399	18,877	18,540

With employer staging ending in 2018, NEST Corporation is now reaching its steady state and is continuing to assess the necessary resource for the future. A review of resources in Human Resources and External Relations is currently ongoing, to ensure that these are as efficient as possible. NEST Corporation should continue to

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review staff costs, ensuring that organisational structures and size are appropriate for its steady state.

Between 2013/14 and 2016/17, expenditure on business travel, staff accommodation and subsistence, and staff training fell, while expenditure on recruitment and staff conferences and away days increased. These costs are related to staffing but are included under Other Expenditure in the Annual Report and Accounts.

Non Staff Costs

Pension Scheme Administration

Scheme administration costs rose from £23 million in 2013/14 to £43.5 million in 2016/17, mainly due to an increase of approximately 4.4 million in the number of members over this period. NEST Corporation outsources pension scheme administration, currently under a single prime contract with Tata Consultancy Services. NEST Corporation's initial contract with Tata Consultancy Services was due to run from 2010 to 2020, but was extended to 2023. The cost to NEST Corporation is fixed contractually, though NEST Corporation may incur costs for changes to the service provided by the scheme administrator. There are a number of reasons why changes are made, including implementing legal and regulatory change, improvements to the level of assurance and improvements to increase stability or efficiency. At present, there are two service releases each year with an average cost of around £2.5 million per annum (£2.7 million in 2016/17).

NEST Corporation has started work to procure new scheme administration services to replace the existing contract which ends in 2023.

The Department has oversight of all financial commitments and spending plans with special emphasis on contracts with a value greater than £2 million through the Framework Document, alongside the loan agreement and state aid requirements. The Department is working closely with the NEST Corporation project team to ensure oversight of the procurement, with a clearly defined governance structure and approval process, as well as Quarterly Accountability Reviews established specifically for the project.

It may offer value for money to include flexibilities in the procurement to add future new services, such as retirement services. This will need to be carefully assessed and the costs understood before they are included, and there should be clarity between the Department and NEST Corporation regarding this decision. Departmental oversight of such high-value procurement would benefit from commercial expertise.

Asset Investment Management and Administration

Scheme investment costs are those costs associated with investing and administering the funds under management. NEST Corporation outsources its fund administration services to State Street Bank, through a contract that is due to expire

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in October 2018. It currently outsources fund management to eleven different global fund managers. NEST invests in existing fund manager pooled funds, to keep costs down. Depending on the asset class, NEST pays different fund management fees, which are strictly controlled.

Scheme investment costs rose in proportion to assets under management from £465,000 in 2013/14 to £1.58 million in 2016/17. In 2013/14, the total funds under management were £104 million, and by 2016/17 this had risen to £1.65 billion. Costs have increased as a result of the increase in the value of the assets being invested, though costs are now a lower proportion of the total value.

The value of the funds under management will grow significantly in the future and so investment administration and management costs will also rise for the foreseeable future.

Research, marketing and communications

NEST Corporation's expenditure on marketing, advertising, customer research and regular customer communications has risen from £1.3 million in 2013/14 to £3.4 million in 2016/17.

Within this total, customer research into the needs of NEST Corporation's customers rose from £482,000 in 2013/14 to £524,000 in 2016/17 and marketing costs from £811,000 in 2013/14 to £2.9 million in 2016/17. The marketing costs are split between regular customer communications, which include statutory disclosure of information requirements and have stayed static at £0.8m per annum, and advertising which have risen from £0.1m to £2.1 million between 2014/15 and 2016/17. This increase in spend on promotional campaigns is attributable to campaigns to accompany the staging of smaller employers in this period. In future corporate publications, it would be helpful if the costs of statutory and non-statutory communications were shown separately.

The end of staging, freedom and choice reforms, the need to engage members, ongoing re-enrolment, phasing and the lifting of restrictions are all pivotal events that require NEST Corporation's positioning and propositions to evolve. However, it is important that the Department and NEST Corporation are aligned in exactly what this positioning should be. Future spend on marketing, advertising, customer research and customer communications should be critically appraised during the business planning process to ensure that spending is focused on achieving specific aims, in line with NEST's agreed strategic objectives and statutory requirements.

As NEST Corporation is classified as a Public Corporation by the Office for National Statistics, it is exempt from Cabinet Office spending controls imposed on bodies classified to be within central government, including those related to advertising, marketing and communications. However, the Principal Accounting Officer can impose additional requirements which may mirror these, and the NEST Corporation Accounting Officer is required to be able to demonstrate value for money.

Accommodation

NEST Corporation moved to Riverside House in Southwark in August 2013. In 2013/14, NEST Corporation's expenditure on accommodation totalled £2.4 million, and this rose to £3.3 million in 2015/16. NEST Corporation secured some efficiency by returning space to the Department, for Pension Wise, in February 2016 and so NEST's total accommodation costs fell to £2.7million in 2016/17.

NEST Corporation's lease at Riverside House was due to end in 2022 but the landlord has invoked the break clause to terminate the lease in 2018. NEST Corporation has committed to relocate to the new Government Hub in Canary Wharf, until 2032. This move will secure its location and stabilise estate costs, as well as support the Government Hub Programme which will generate considerable savings for the government.

NEST Corporation has also estimated that the move will generate some efficiency. However, before the building can be occupied it needs to be made ready for occupation which will incur additional costs. NEST Corporation will also incur dilapidation costs for the existing office. Both of these costs need to be offset from the savings in rents over the period of the lease, as does any limited period of dual rent costs.

NEST Corporation's location was previously considered in 2015, when it was recognised that while there may be savings to gain from moving to a location outside London, this would put at risk the successful completion of automatic enrolment staging as it might disrupt staff stability. Indeed, the NAO's recent Value for Money study of the automatic enrolment programme noted that the stability of personnel has been critical to the success of automatic enrolment²⁶. Work to consider the future location was superseded by the proposal from Government Property Unit for NEST to join the new hub at Canary Wharf. However, a future review, several years prior to the lease ending in 2032, should consider whether further efficiencies could be found, for example through the relocation of NEST Corporation outside of London.

IT and Telecoms

Expenditure in this area covers all aspects of IT and telephony including data storage, software licences and telephone call charges. Expenditure has increased from £2.1 million in 2013/14 to £3.2 million in 2016/17.

The 2014 internal cost review highlighted the high cost of the IT contract. In response NEST Corporation sought a new IT contract, which resulted in a significant drop in the cost of network services, from £1.5 million in 2015/16 to £900,000 in 2016/17. Despite this saving, and NEST Corporation closely monitoring IT contracts to ensure that service levels are met and value for money is obtained, increased expenditure

²⁶ National Audit Office, (2015). 'Automatic enrolment to workplace pensions', <https://www.nao.org.uk/wp-content/uploads/2015/11/Automatic-enrolment-to-workplace-pensions.pdf>, p. 28.

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on data centre hosting, data storage, network charges and the replacement of ageing computers has led to the overall increase in this area of spend.

Professional Services

Professional services costs include auditors, legal costs and consultants. Spend on professional services has decreased from £2.3 million in 2013/14 to £1.9 million in 2016/17, largely due to a significant reduction in spend on consultants from £963,000 in 2013/14 to £79,000 in 2016/17. However, spend on professional services increased from £309,000 in to £743,000 and spend on legal services remained around a quarter of all spend on professional services in the same period.

NEST Corporation will explore whether there is now scope for further savings in this area as the organisation moves from a start up to a steady state organisation.

Other costs and asset revaluation

Expenditure in this category includes industry engagement, business insurance, rentals, other running costs, fixed asset adjustments, and recruitment and other staff costs. Overall this expenditure reduced from £6.1 million in 2013/14 to £3.4 million in 2016/17.

Operational Efficiency Recommendations

22. NEST Corporation should review its latest strategic objectives and agree 2018/19 key performance indicators with the Department before 1 April 2018, and then annually update the key performance indicators, as part of the refreshed business planning process. These objectives and indicators should be used by the Department to more accurately monitor NEST Corporation's effectiveness and efficiency.
23. NEST Corporation should continue to review its corporate functions, to ensure that they are the correct size and structure for a steady state, but growing, organisation.
24. NEST Corporation should continue to provide ongoing assurance to the Department that the programme and procurement costs of its future scheme administration services offer value for money.

7. Operational Effectiveness

This section looks at the effectiveness of NEST Corporation's services, and the satisfaction of its key customers. NEST Corporation has three main customer groups: pension scheme members, employers and intermediaries. Pension scheme members are a key group, though many won't and don't need to engage with NEST Corporation until they seek to access their pension. As people join NEST pension scheme through their employer, or an intermediary representing employers, these are also key customer groups for maintaining and securing future revenue.

NEST Corporation Service Levels

NEST's operations are based almost entirely on digital interactions, with an online platform for members and employers to engage with the pension scheme. Members can view their pension contributions and details online, while web services allow payroll providers to connect to NEST and enable employers to make contributions automatically. Over 49,000 employers had used web services either directly or indirectly by May 2017.

NEST offers employers delegated access functionality, allowing them to hand over some or all of the tasks involved in setting up and administering NEST to someone else, either in their own organisation, or a third party such as an accountant or financial adviser. NEST has also developed NEST Connect, an online hub for professionals who offer automatic enrolment services to employers. NEST Connect is aimed at financial advisers, accountants and payroll providers and allows them to view and manage all of their clients' accounts in one place. By the end of September 2017, over 18,000 NEST Connectors were using this to support their clients.

As NEST Corporation operates an outsourced model of service delivery, service levels are managed as part of the contract with the scheme administrator, Tata Consultancy Services. NEST Corporation monitors these and in 2016/17, service level performance targets were consistently met and often exceeded despite a huge increase in volumes. For example, the volume of website visits per month almost tripled over 2016/17 but service was maintained with the availability of the website and the contact centre above 99%.

Fund management is also outsourced, to State Street Bank, and service levels are similarly monitored. Despite rapidly increasing member contributions in 2016/17, the fund administrator was consistent in meeting service levels and investing contributions in a timely and controlled manner.

NEST Corporation is confident in the service levels delivered through these contracts, but Departmental oversight can be strengthened through the new Quarterly Accountability Reviews.

Customer Satisfaction

NEST Corporation has a comprehensive programme in place to gather actionable insight from customers, including feedback from intermediaries and NEST Connect users. Overall customer satisfaction for members, employers, intermediaries and NEST Connect users showed improvements in 2017 compared to 2016. This is a considerable achievement given the rapid increase in member and employer volumes during this period.

NEST Corporation runs annual satisfaction and benchmarking surveys for its members and employers. NEST Corporation asks its customers, 'Taking everything into account how satisfied are you with NEST overall, on a 10 point scale, where 1 means you are extremely dissatisfied and 10 means you are extremely satisfied?'

In 2017, 70% of employers were satisfied compared to 63% in 2016 and 55% in 2015. In response to a survey question, 66% of NEST pension scheme members reported they would speak positively about NEST compared to 61% in 2016. Only 4% stated that they would speak negatively about NEST in 2017, unchanged from 2016. Delivering a good service to customers is a strategic priority for NEST and they continue to undertake a number of activities which support this ambition.

During 2017, NEST Corporation has introduced monthly surveys of employers, which, together with the transactional website process surveys and surveys on the usefulness of the help centre, bring a more regular and holistic view of what customers are experiencing. Early trends show that the help centre should be a focus area for NEST Corporation as satisfaction results for this area are considerably weaker than the rest of the services provided.

Complaints

NEST Corporation has a two stage complaint system for members and employers. Stage one complaints are handled by the scheme administrator. They aim to acknowledge complaints within five working days and then investigate and try to resolve it as quickly as possible, within 20 working days. The scheme administrator consistently exceeds the agreed service level for acknowledging and resolving complaints.

NEST Corporation monitors the volume of customer complaints. These have shown an increase year on year since the scheme was launched. However, compared to the volume of customers there has been a proportional decrease in complaints and the overall volume remains low. Complaint themes remain the same. The top cause of complaints relates to wider pensions and automatic enrolment legislation and not to NEST pension scheme or its service.

On average, fewer than five percent of informal complaints are progressed to a stage one dispute. Stage one disputes are handled by the scheme administrator, with volumes reported monthly to NEST. If the complainer remains dissatisfied after this point, they can ask that the trustee consider the dispute. This is the second, and final, stage of the dispute process within NEST Corporation, and is completed by the

Determinations Committee. On average, fewer than two percent of informal complaints reach this stage. Complaints which are not resolved at this stage can be escalated to the Pensions Ombudsman. The number of complaints heard by the Determinations Committee since 2013/14 is set out below.

Complaints considered by the Determinations Committee

Stage 2 disputes	2014/15	2015/16	2016/17
Total	9	22	16
Upheld	2	3	4
Not upheld	5	16	10
Partially upheld	2	3	2
Membership at year end	2m	2.9m	4.5m

Transparency

NEST Corporation welcomes questions, concerns and feedback from all of its stakeholders. Stakeholders can also raise questions and concerns through a variety of channels including making a complaint, whistle blowing, and raising a grievance.

Minutes of NEST Corporation Board meetings are published on its website and information about a wide range of subjects is provided within its annual report and accounts. This includes full audit disclosure and risk statements. It also responds to questions on its activities as a public body under the terms of the Freedom of Information Act 2000.

Pension Scheme Customer Data

NEST Corporation is committed to safeguarding the data and assets of staff and customers (members, employers and advisers) and is very aware of the risk from any failure to keep members’ data and money safe has robust policies and procedures in place to do this. NEST Corporation operates three information security management systems covering the scheme administrator, NEST Corporation’s IT provider and NEST Corporation itself. All three systems are certified to the ISO270001:2013 standard, giving assurance that the systems and processes are robust enough to help protect the data and the pension scheme member’s assets.

NEST Corporation conducts non-function security testing and penetration testing, and operates a vulnerability management process. NEST Corporation conducts an annual test of its Financial Crime and Cyber Security Response Plan, in conjunction with its key suppliers.

On an annual basis, an independent reporting accountant reviews the design of and compliance to key controls for the NEST pension scheme, including data protection and information security, and provides NEST Corporation with an assurance report.

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This forms part of the AAF 02/07 control assurance report, which NEST Corporation has published each year since 2015.

NEST is also preparing to comply with the General Data Protection Regulation (GDPR).

Operational Effectiveness Recommendations

25. NEST Corporation should continue to deliver good customer satisfaction scores among members and employers and to improve them further with a particular focus on the Help Centre.

26. NEST Corporation should continue to proactively and effectively manage pension scheme customer data and investment assets as the risks of cyber activity increase, including compliance with the General Data Protection Regulation.

8. Next Steps

The Tailored Review team has worked very closely with NEST Corporation, the Department for Work and Pensions and the Cabinet Office on this review and all recommendations have been accepted by NEST Corporation, the Department and the Cabinet Office and approved by the Minister for Pensions and Financial Inclusion.

Whilst NEST Corporation will not fall within the Tailored Review Programme as a Public Corporation, this review recommends that as NEST Corporation's funding arrangements, core functions and legislative policy framework are refined over time, the appropriate model for the organisation and its strategic objectives should be periodically reviewed, at least at every five years – the next should take place around 2023.