



# National Employment Savings Trust Corporation

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Annual report and accounts  
2018/2019

HC2157



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Annual report and accounts  
2018/2019

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

Ordered by the House of Commons to be printed on 11 July 2019

HC2157



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10 South Colonnade  
Canary Wharf  
London E14 4PU

CCS - CCS0419974414

ISBN - 978-1-5286-1380-4

Printed on paper containing 75% recycled fibre content minimum

Printed in the UK by the APS Group on behalf of the Controller of Her Majesty's Stationery Office

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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 performance and position.

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 or position.



## Chapter 1

# Performance report



# Overview

This section explains the purpose of Nest Corporation and the Nest scheme, Nest's vision and objectives and how it works towards fulfilling them.



## 1.1

# Chair's statement

The pensions landscape has continued to evolve in the last year, with the first of two rounds of increases to minimum contributions and a new, rigorous regulatory regime for Master Trusts. Nest Corporation has ensured that it is well prepared to meet these regulations, fulfil the needs of our diverse customer base and manage our growing assets under management.



**Otto Thoresen**  
Chair, Nest

## What we have achieved

It is now a full year since minimum contributions increased for the first time under auto enrolment in April 2018 (see What is phasing?, page 19). We are now managing £5.7 billion on behalf of 7.9 million members and 720,000 employers. Nest Corporation has monitored the opt-out rates of members since the increase in contribution levels and we have seen the overall opt-out rates remain at around 7.4 per cent.

Our revenue from charges on contributions and assets under management (AUM) grew by £35.8 million (140 per cent) and net expenditure after interest grew by £2.5 million (3 per cent). This increase was in line with our expectations.

## Investment

Global markets have been challenging in 2018/19 but thanks in part to our diversified portfolio, the one-year performance of our 2040 fund to the end of March 2019 remained above our investment return objectives at 7.8 per cent net of annual management charges (see Why do we refer to the 2040 fund, page 19). This is a positive achievement but long-term investment performance is the more important focus, as for most people pension saving is a process played out over 30, 40 and perhaps even 50 years. Our longer term investment performance continues to be strong, with five-year annualised returns of 9.2 per cent net of annual management charges.

I am confident that Nest's award-winning investment approach, robust risk management processes and rigorous control over investment costs will continue to deliver good outcomes for our members over the long term.

We must continue to develop our investment approach. Expanding into new asset classes is a natural progression for Nest as our assets under management increase. It gives us more opportunities to earn the best returns at an acceptable level of risk to support our long-term investment objectives.

We introduced commodities into the portfolios in July 2018. For the first time we used a segregated mandate which allowed us to customise the portfolio to more effectively manage the environmental, social and governance (ESG) risks associated with commodities. See page 28 for more information. We updated our **Statement of investment principles** to reflect the move into segregated mandates.

Our approach to responsible investment is a major success story. As Nest continues to grow, so does our influence as an investor. That gives us the opportunity to engage directly with the companies in which we invest. Our third annual responsible investment report<sup>1</sup> further explores how we aim to achieve that.

## **Governance**

The Department for Work and Pensions (DWP) published a Tailored Review of Nest Corporation in March 2018. In response to a recommendation in the review, we moved to a unitary board structure in June 2018. Nest Corporation's Chief Executive Officer, Helen Dean, and Chief Financial Officer, Richard Lockwood, have joined Nest Corporation's Board as a result of this change.

In February 2019, the DWP and Nest Corporation agreed a new Framework Document<sup>2</sup>. This governs the relationship between the DWP and Nest Corporation and sets out our respective roles and responsibilities. The new framework included no substantial changes from the previous arrangement.

As Nest matures, we must ensure that our Board continues to have the combination of skills and the diversity that we need for the future. We must also make sure that there are succession plans in place as existing Board Members complete their tenures. Nest Corporation continually reviews the skills and experience of our board, including an annual skills assessment. Based on the findings of this assessment, we have extended our Board's range of experience with the addition of four new members: Clive Elphick, Chris Hitchen, Mutaz Qubbaj and Martin Turner (see pages 47 to 52 for more information).

In addition to the significant financial services experience that they bring, our extended Board also strengthens our expertise in areas such as digital solutions that will be crucial to the future evolution of Nest. It will also ensure strong chairmanship of our main committees, a key part of our governance system. This ensures that we continue to be in a good position to meet the standards required by the Master Trust Authorisation (MTA) regime.

The new MTA regulations and code of practice were introduced as part of the Pension Schemes Act 2017 and Nest Corporation submitted its application for authorisation in March 2019. The introduction of MTA is a welcome move to improve standards across the whole Master Trust sector and to increase public confidence in workplace pensions. The application process has been an opportunity for us to evidence our governance, systems and controls.

In addition to applying for authorisation we have also continued to complete our annual Audit and Assurance Framework (AAF) 02/07 control assurance report against the Master Trust assurance framework. This gives us an independent assessment of the design and operation of our internal controls.

Nest Corporation continues to improve the range and quality of services that we offer to members. For example, in 2018 we introduced enhanced support for transfers of pension pots into and out of Nest.

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<sup>1</sup> [nestpensions.org.uk/schemeweb/nest/aboutnest/investment-approach/responsible-investment.html](https://nestpensions.org.uk/schemeweb/nest/aboutnest/investment-approach/responsible-investment.html)

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<sup>2</sup> [nestpensions.org.uk/schemeweb/dam/nestlibrary/NEST-Framework-Document-signed-and-effective-from-February-2019.pdf](https://nestpensions.org.uk/schemeweb/dam/nestlibrary/NEST-Framework-Document-signed-and-effective-from-February-2019.pdf)



We have also continued to research the needs of our members. In conjunction with its strategic partner Vanguard, our internal research unit, Nest Insight, published the first edition of **How the UK Saves**<sup>3</sup>, an annual report looking at the pension saving experiences of people who've been enrolled into Nest. It sets out key lessons from Nest's member data that can contribute to broader policy debates.

I would like to thank our Board Members, Employers' Panel and Members' Panel for their hard work over the course of the year. In particular, Carolan Dobson who has stepped down from the Board. Carolan has been a Board Member since 2014 and was Chair of Nest Corporation's investment committee between 2014 and 2017. I would like to take this opportunity to thank Carolan for the significant contribution that she has made to Nest Corporation over that time.

## Forward look

We are making progress with the procurement of our next scheme administration contract. The aim is to make the scheme ready for a digital world, improving our service and also harnessing advances in technology to further increase efficiency.

In 2018 we engaged with a range of service providers to prepare for our procurement. The coming year will see the procurement develop as potential bidders are invited to demonstrate their capabilities and competencies through the competitive dialogue process.

We expect the new service to deliver improved outcomes for our customers whilst maintaining our low-cost ethos and ensuring a service that is robust and secure.

At a scheme level, during 2019/20 we will see the impact of the second and final part of phasing, as well as potential changes in the Master Trust market as a result of the implementation of the new more rigorous MTA standards.

There is increasing encouragement from government for pension schemes to become more active as providers of long-term investment capital, for example through infrastructure investment. We see our role as early adopters and leaders wherever these innovations are relevant to, and add value for, our members.

Just as I have been able to reflect positively on Nest Corporation's achievements this year, I am very confident that our current skills, corporate structure and future plans will enable us to continue to deliver for our members in the years ahead.

<sup>3</sup> [nestinsight.org.uk/how-the-uk-saves/](https://nestinsight.org.uk/how-the-uk-saves/)

## 1.2

# CEO's report

Nest is now one of the biggest defined contribution pension schemes in the UK. Our business plans reflect the change of scale that we have already seen in recent years as well as significant future growth. We are always developing our resources, infrastructure and processes to meet the changing needs of our members and 2018/19 has been no exception.



**Helen Dean**

Chief Executive Officer, Nest

The scale of Nest's development is even clearer if we look back five years to our 2013/14 corporate annual report and accounts. The comparison shows just how far Nest has grown and developed over that time.

In 2013/14 the scheme had assets under management of just £3.8 million, with 347 participating employers and 80,000 members. Five years later, as our key figures show on page 22, there has been a significant shift in the scale of Nest. In the intervening period we have seen the completion of staging, the first increase in minimum contributions through phasing (see What is staging? and What is phasing?, page 19) and the growth of the scheme into a major force in UK pensions.

We expect that pace of change to continue in the years ahead as our assets under management continue to increase. In the next financial year we anticipate these will increase in size from £5.7 billion to around £10 billion.

We began the 2018/19 financial year with a focus on the remaining small and micro employers who reached their staging date in the period up to February 2018. Onboarding (i.e. setting up new employers joining the scheme) and supporting this very large group of employers continued well into the 2018/19 financial year.

Throughout staging and beyond, we have ensured that our systems are easy to use. I am pleased that we have delivered strong service levels, especially given the large numbers of employers and members that have joined Nest in that period. Most have been able to use our service without assistance from our contact centre. On average each month, only four per cent of our active employers have contacted us via telephone, webchat or secure email. On those occasions when members or employers do need to contact us, we aim to make it quick and easy for them to reach us.

For example, our contact centre answers the majority of calls within 60 seconds. We have also seen an increase in the use of our web services. This year there has been a month-by-month increase in the number of employers using web services to process data from 135,500 in April 2018 to 180,751 in April 2019.

The success of the service we provide is also due to the positive engagement of intermediaries (see page 36) and payroll professionals who use us to support employers through our Nest Connect service. The services our Connectors provide is a tremendous advantage in enabling employers to use Nest.

Nest's services have proved their resilience throughout staging. I would like to thank everyone involved for their hard work in retaining system availability rates of over 99 per cent, even during our busiest periods. This is just one example of the commitment of our staff who have helped to build Nest Corporation into the organisation it is today.

As our members become used to saving into a pension, we have deepened our understanding of their needs and how we can work with them to support their retirement plans. We have also trialled new approaches to engagement such as personalised video messages to members, as well as extending the range of information and help tools available on our website.

Our work is continuing to pay off, evidenced by the industry awards that we have won in this financial year (see page 20). We continue to be rated as a five-star workplace pension provider by industry analysts Defaqto, the highest rating awarded by this independent body.

## Current focus

At Nest Corporation, along with the rest of the pensions industry, we have been very pleased with how well the first stage of phasing has progressed (see What is phasing, page 19). This is clear evidence that auto enrolment has been embraced in the UK. The 'nudge' approach of scheduled, gradual increases in contributions has guided people in a direction that they feel comfortable with.

Following the second increase in phasing, automatically enrolled workers will be saving at the rate of at least eight per cent of band earnings, with around half provided through employer contributions and tax relief. This is a good platform on which to build and look forward as an industry and help government define a future path for retirement savings.

There has been much debate about whether minimum contributions should be increased further. At Nest Corporation we are keen that we seek to understand the broader needs of our members. We know that around half of UK workers are struggling with their short-term financial commitments so we need to consider the role of short term emergency saving alongside pension saving.

In fact, joining up short-term and pension savings may improve financial outcomes in the long run. Our in-house research group, Nest Insight, is now running a project with volunteer employers to test the impact of a sidecar savings approach<sup>1</sup>. Sidecar savings link an accessible emergency savings account with a pension pot. The trial will help us to understand if this approach works and what an optimal level of accessible savings might be, while also maximising long-term pension contributions.

As well as exploring how those people who have already benefitted from auto enrolment can achieve better outcomes, the wider savings industry must also look at ways to support those who are not currently eligible for auto enrolment. We know that self-employed people and those working in the 'gig economy' are less likely to have pension provision: according to the Office for National Statistics, only 17 per cent of the self-employed are saving into a pension<sup>2</sup>. I am therefore encouraged that the government has asked Nest Insight and other organisations to trial interventions with people in this sector to find out what best promotes savings behaviour. This will help to influence how we move on from auto enrolment and encourage others to save for retirement.



**The wider savings industry must look at ways to support those who are not currently eligible for auto enrolment.**

<sup>1</sup> [nestinsight.org.uk/liquidity/](https://nestinsight.org.uk/liquidity/)

<sup>2</sup> Venturing to Retire (RSA April 2018) [thersa.org/globalassets/pdfs/reports/rsa\\_venturing-to-retire-report.pdf](https://thersa.org/globalassets/pdfs/reports/rsa_venturing-to-retire-report.pdf)



## Looking forward

We are operating in an exciting but increasingly demanding environment. It is important that Nest Corporation plans for and responds to the challenges of the future. This includes developing a workforce that has the skills we need for our long-term development and reflects the demographics of the people we serve.

To facilitate this, Nest Corporation has launched a skills and development programme for its employees. As a part of this, we have created a Leadership Academy that will enable us to support our staff in developing their skills and further their careers. I was delighted with the results of our staff survey this year, which has shown a significant improvement particularly in relation to feedback on employee engagement, positive views on leadership and the working culture at Nest Corporation.

I am determined that Nest Corporation remains inclusive as an employer. We are committed to employing a greater proportion of women at a senior level and I am confident that the actions we are taking now, including developing our own staff to become leaders in the future, will bear fruit. Furthermore, we have introduced a new strategy for diversity and inclusion at Nest Corporation. This has been done to create truly inclusive opportunities for both new and existing employees. For example, by 2025 we want at least 30 per cent of our executive roles to be held by women and at least 13 per cent of executive roles to be held by Black, Asian and Minority Ethnic (BAME) staff (see page 75 for more details).

The work we do at Nest Corporation is focused on a series of strategic priorities that define how we will achieve our vision of helping millions enjoy a better retirement. During the year we continued to make good progress towards these, and the work we've done is described in detail on pages 32 to 38.

I remain confident that Nest Corporation is on track to repay the loan from government, and our latest forecasts estimate Nest Corporation will repay its loan by 2038.

We continue to meet our public service obligation, to accept any employer who wants to use us to meet their auto enrolment duties. Nest also has a duty to accept any self-employed person who wishes to use us. We remain focused on the needs of a wide demographic range of pension savers, many of whom would previously have been excluded from affordable, good quality savings. As pot sizes increase, Nest Corporation and the wider industry must continue to understand and meet members' evolving needs. Just as I have been able to reflect positively on Nest Corporation's achievements over the last five years, I am very confident that our current skills, infrastructure and future plans will enable us to continue to deliver great value for our members in the years ahead.



**We are operating in an exciting but increasingly demanding environment. It is important that Nest Corporation plans for and responds to the challenges of the future.**



## Key phrases

The following are brief explanations of some key phrases and details about Nest used throughout this report.

### What is staging?

Staging was the process of requiring all employers to fulfil their auto enrolment duties, in order of company size. Every employer in the UK was allocated a staging date between October 2012 and February 2018, based on the size of the employer's PAYE scheme.

Staging completed in February 2018.

All newly formed businesses with employees in the UK must also comply with their auto enrolment duties.

### What is phasing?

As part of the auto enrolment legislation, mandatory minimum pension contributions for employers and employees have increased twice, as shown in the table below. These increases are referred to as phasing.

### Who are Nest's customers?

Nest has three types of customer:

- Members of the pension scheme: These are mostly employees of businesses that have chosen Nest as their pension scheme, or self-employed pension savers.
- Employers: Businesses that have chosen Nest as the pension scheme for their employees.
- Intermediaries: Intermediaries act on behalf of employers to manage their employees' pension contributions. These include accountants and payroll providers.

Throughout this report, references to customers means all three of the above groups. We'll otherwise just refer to members, employers or intermediaries as appropriate.

### Why do we refer to the 2040 fund?

Nest Corporation's investment approach has three phases: foundation, growth and consolidation.

The 2040 fund is referenced here as representative of the growth phase, which is where most members' money is invested for the longest period of time.

### About Nest's charges

We have used the phrase 'after charges' throughout this report when referring to investment returns.

The return figures are net of costs and charges including the annual management charge (AMC) and transaction costs but not the contribution charge. The transaction costs include both explicit and implicit costs, where applicable. Explicit costs are directly observable, such as broker costs. Implicit costs are not as clearly visible. We calculate these using the slippage cost methodology which is described in more detail here:

[fca.org.uk/publication/consultation/cp16-30.pdf](https://fca.org.uk/publication/consultation/cp16-30.pdf)



Effective date	Employer minimum contribution	Employee minimum contribution	Total minimum contribution
6 April 2019 onwards	3%	5%	8%
From 6 April 2018 to 5 April 2019	2%	3%	5%
Up until 5 April 2018	1%	1%	2%

This table outlines the requirements for employers using defined contribution schemes for auto enrolment and bases employers' and employees' contributions on the band of earnings prescribed in the auto enrolment legislation. Other contribution options are available.

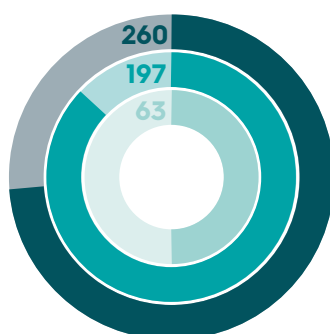
## Awards and recognitions

Nest is proud to have been awarded a 5-star rating by the independent body Defaqto, demonstrating that it provides one of the highest quality pension schemes in the market



ShareAction independent survey of 10 UK auto enrolment providers

### Nest ranked first



- Total score (out of 352)
- Responsible investment score (out of 227)
- Communications & engagement score (out of 125)

Nest has been recognised for the way we invest members' money



## 1.3

# About Nest

## What is Nest?

Nest is a workplace pension scheme established by an Act of Parliament (Pensions Act 2008) to support the introduction of auto enrolment. Any employer, however large or small, can use Nest if they want to.

Nest Corporation is the Trustee responsible for running the Nest pension scheme.

Nest is funded by a loan from government which will be repaid through member charges and is planning to become self-financing while providing consistently low charges to members.

## Nest Corporation's vision

To help millions enjoy a better retirement.

## What Nest does

Nest Corporation helps members of the Nest pension scheme have a better retirement, whenever and whatever they save.

Nest Corporation enables its members to save into a high quality pension at a low cost. Due to Nest's scale, we are able to offer members a sophisticated investment strategy and easy-to-use services within a low charge level.

## Nest's structure

Nest is a trust-based workplace pension scheme run by a Trustee. Nest Corporation is the Trustee of Nest. Nest Corporation comprises up to 15 members. We refer to these members as Board Members, and to them collectively as the Board of Nest Corporation.

Nest Corporation is a public corporation that operates at arm's length from the Government, known as an arm's-length body. It is accountable to Parliament through the Department for Work and Pensions.

Further details about Nest Corporation's structure are on page 55.



**Nest Corporation helps members of the Nest pension scheme have a better retirement, whenever and whatever they save.**



## Risk and uncertainties

The culture and processes at Nest Corporation are designed to manage risk in line with the expectations of Board Members. The Board has a legal responsibility to act in the interests of the members of the Nest pension scheme.

Nest Corporation must take risks to deliver its strategic priorities. It takes a holistic approach to understanding the risks and uncertainties it faces and how best to control or mitigate them across the scheme and the Corporation.

Nest Corporation engages with key stakeholders to understand and manage risk.

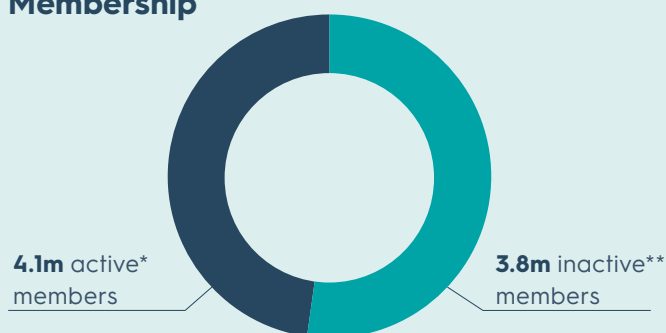
For more information about Nest Corporation's approach to risk, see page 61.

1.4

# Key figures

as at 31 March 2019

## Membership



# 7.9m

Total members



# 53%

Male

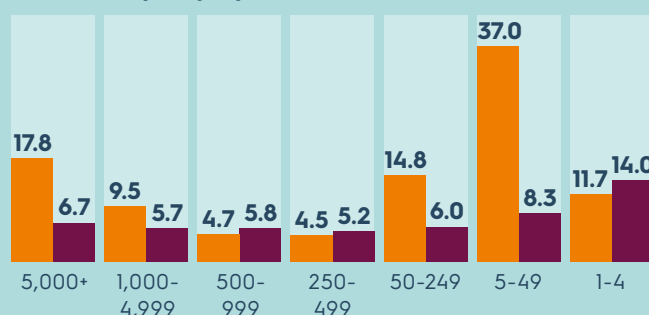
# 47%

Female

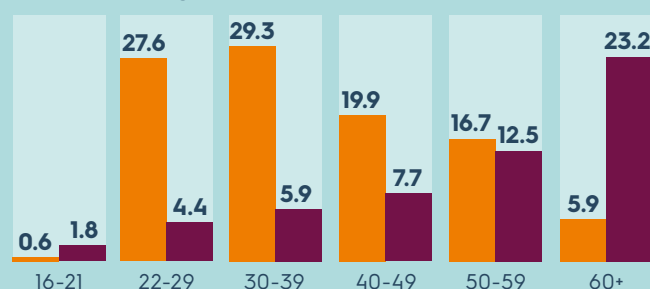
0.005% of our membership have not been assigned a gender by their employer.

## Opt-out rate

### Members by employer size



### Members by age



# 7.4%

Overall opt-out rate

Membership %  
Opt-out rate %

\* Active members either have Nest contributions managed by their employer or are self-employed. This excludes members that may have either left the employer that enrolled them, chosen to stop contributing or been transferred to a different provider by their employer.

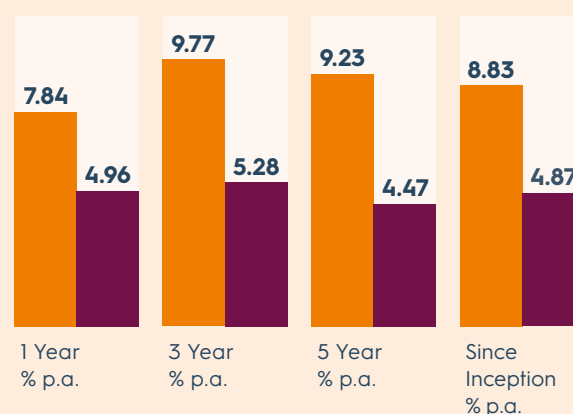
\*\* Inactive members are members of the Nest scheme who have not died, retired or opted out. However, they have either left their employment or they have chosen to stop contributing.



# £5.7bn

Assets under  
management  
as at 31 March 2019

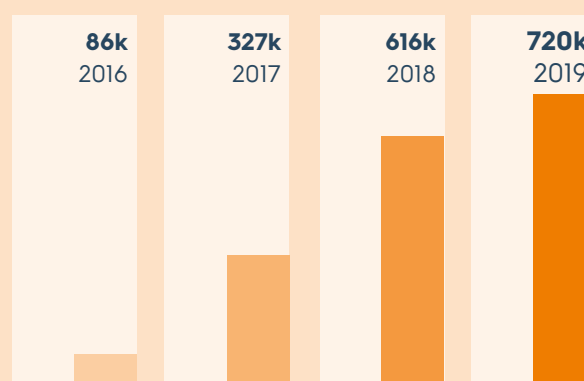
## Annualised fund performance for the Nest 2040 Retirement Fund to 31 March 2019



● Your Nest 2040 Retirement Fund ● UK CPI +3%

Inception date: August 2011  
All figures are net of AMC

## Number of employers using Nest\*



\* These are employers who have completed employer participation, the process an employer goes through in order to first set up their Nest scheme. Most employers will do this through the scheme website, however it can also be completed via web services.

## 1.5

# Principal risks and uncertainties

The principal risks and uncertainties are included as part of Nest Corporation's risk statement, see the Corporate risk statement overview on page 61.

---

### Going concern

The statement on going concern is included in Chapter 3, Notes to the financial statements, section 3.2 on page 88.

Nest Corporation's latest forecasts estimate that it would be able to cover its operating costs from pension scheme member charges from 2026, at which point the estimated borrowings will be £1,158 million. Nest Corporation expects to have repaid its loan by 2038.

Nest Corporation and the Department for Work and Pensions (DWP) have agreed funding arrangements for the duration of the loan payback period. Nest Corporation has agreed funding levels with the DWP for 2019/20.







# Performance analysis



## 1.6

# Principal activities

This section details the principal activities that Nest Corporation has undertaken during the course of 2018/19, focused on its business growth and investment developments.

Nest is a multi-employer workplace pension scheme. It enables millions of members from employers across the UK to build pension savings and has a public service obligation to accept any employer. Nest also has a duty to accept any self-employed person who wishes to use it.

Nest operates a predominantly outsourced business model and works closely with its outsourcing partners to deliver its services.

In 2018/19, it continued to make progress towards its strategic priorities which are detailed in the Business review on page 29.

## Business growth

Nest conducts regular research across its three key customer groups (see Who are Nest's customers?, page 19) to better understand their priorities and needs and inform and influence Nest's future programme of work.

In the course of 2018/19, the focus of Nest and the rest of the pensions industry has moved from staging to phasing (see page 19). This has been a major factor in the increase of Nest's assets under management from £2.7 billion in 2017/18 to £5.7 billion in 2018/19. Nest's customer base continued to grow in 2018/19 with 1.5 million members and over 100,000 employers joining Nest during the year.

## Employers and intermediaries

Support for web services is a key part of Nest Corporation's offering to help employers. Nest's web services allow employers of all sizes as well as their intermediaries to send and collect data from Nest electronically via their payroll software. The number of employers using web services to process data increased from 135,500 in April 2018 to 180,751 in April 2019.

## Members

Nest has also continued to develop its services for members during 2018/19. This has included testing new approaches to communications (see page 33) and introducing new services to support transfers in and out of the scheme.

It continues to work with government, regulators and the wider pensions and savings industry to understand members' retirement decision-making needs and ensure good outcomes for members.

Nest Corporation has monitored the effect that the first round of phasing has had on its opt-out rates, and found that these have remained stable at 7.4 per cent.

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## Investment developments

The 2018/19 financial year was characterised by an uncertain investment landscape. High-profile global political developments, such as the trade wars between the US and China, and the presidential elections in Brazil and Mexico created volatility for investors.

Over the financial year, equities were more volatile than they have been in recent years, but overall developed equity markets posted positive returns. The US and UK stock markets finished the year up, however emerging markets and European equities were weak. Bond markets also generated positive returns. This was emphasised by a 9.5 per cent increase in the S&P 500, the FTSE 100 increasing by 7.6 per cent and a decrease of 7.1 per cent in the MSCI Emerging Markets Index.

Both UK and US interest rates were raised several times in 2018 leading to a strengthening dollar which limited returns from emerging markets. The UK currency weakened due to uncertainty around the date of the UK's exit from the EU and to help protect members' pots, Nest introduced a currency hedge against half of its developed market equity exposure.

Nest continued to diversify the range of assets in its portfolio, seeking to achieve the best risk-adjusted returns on behalf of members. This included adding a segregated commodities mandate to act as a diversifier to equities and help protect members' pots against inflationary pressures. Managing environmental, social and governance (ESG) risks is central to the commodities fund's design. Nest updated its **Statement of investment principles** to reflect this move into segregated accounts for the first time.

Nest is seeking to approve fund managers to invest in global investment grade corporate bonds and private credit (illiquid assets), which will enable it to open up new return opportunities.

Nest's latest responsible investment report was published in October 2018<sup>1</sup>. It explored how Nest invests responsibly as part of its fiduciary duty and highlighted members' desire for their money to be invested responsibly. Nearly two thirds of Nest savers surveyed thought it important their pension scheme considers the environment, society and behaviour of companies when investing their money.

Periods of negative returns are to be expected in pension saving. The equity markets have predominately experienced growth in the last decade, however Nest's investment approach has always anticipated that this growth will eventually subside.

That expectation has driven Nest's investment approach. As a result of its diversified portfolio, the one-year performance of the 2040 Retirement Date Fund was 7.8 per cent net of annual management charges. Nest's five-year annualised returns remain strong and above target at 9.2 per cent net of annual management charges. Nest has achieved these returns without taking excessive investment risk (see page 19, Why do we refer to the 2040 fund?)

Nest anticipates that the current uncertainty in markets will continue into 2019/20. The scheme will therefore continue to diversify its portfolio to help members achieve good long-term performance while helping to reduce the level of volatility within their investments.

For more information on Nest's investments please refer to the Scheme accounts 2018/19:

**[nestpensions.org.uk/schemeweb/dam/nestlibrary/Nest-SARA-2019.pdf](https://nestpensions.org.uk/schemeweb/dam/nestlibrary/Nest-SARA-2019.pdf)**

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<sup>1</sup> [nestpensions.org.uk/schemeweb/dam/nestlibrary/nest\\_building\\_new\\_norms\\_2018.pdf](https://nestpensions.org.uk/schemeweb/dam/nestlibrary/nest_building_new_norms_2018.pdf)

## 1.7

# Business review

This section contains an overview of Nest's financial performance, including its income and expenditure. It also outlines other key developments during 2018/19.

## Overview of financial performance

The Board is satisfied with the financial performance of Nest Corporation for 2018/19. During 2018/19 Nest Corporation achieved income growth aligned to its three-year business plan and met its operational targets. At the same time, Nest Corporation has continued its focus on cost control. Corporation costs and associated funding for the financial year are below the annual expectations and the funding limit agreed with the Department for Work and Pensions (DWP).

Scheme income, made up of income from members' contribution and annual management charges, increased as planned from £25.6 million in 2017/18 to £61.4 million this year. This represents an income growth of 140 per cent, driven by increases in member numbers, assets under management (AUM) and average contributions due to phasing (see page 19). More specifically:

- Nest's membership grew from 6.4 million members in 2017/18 to 7.9 million members in 2018/19
- Nest's AUM grew from £2.7 billion in 2017/18 to £5.7 billion in 2018/19

- total minimum contribution rate increased from two per cent to five per cent.

Given the growth in scheme membership and AUM, the costs of scheme administration and fund management have also increased as expected by 24 per cent, rising from £59.9 million in 2017/18 to £74.4 million in 2018/19 (see note 3 of the financial statements).

As a result, Nest Corporation has incurred a net expenditure after interest for 2018/19 of £79.0 million compared to £76.5 million in 2017/18. Its financial performance for the year 2018/19 is in line with expectations.

Looking ahead to 2019/20, Nest Corporation expects to see further increases to both scheme income and other expenditure, primarily because of the second round of phasing that took effect in April 2019, with total minimum statutory contribution rates rising from five to eight per cent. Scheme income is expected to increase to £108.3 million and other expenditure to £124.8 million, with net expenditure after interest forecast to be £71.4 million in 2019/20.

The forecast net expenditure will continue to be funded from the loan facility, until repaid from the projected surpluses in future years.

The Board is satisfied with Nest Corporation's forecast three-year business plan and long-term projections. Nest is well placed to deliver its forecast milestones of achieving breakeven in 2026 and repaying its loan facility by 2038.

Nest's loan liability to the DWP as at 31 March 2019 is £714 million compared to £623 million at 31 March 2018.

A detailed analysis of financial performance is presented in the Performance summary on page 30.

## Performance summary

The following table provides historical and projected information on income and expenditure.

	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m
<b>Income</b>							
Grant income	12.7	15.1	17.7	20.0	22.4	24.0	27.8
Scheme income*	5.9	9.0	15.2	25.6	61.4	108.3	134.6
Other income	0.0	0.0	0.0	17.1	0.5	1.0	0.8
<b>Total income</b>	<b>18.6</b>	<b>24.1</b>	<b>32.9</b>	<b>62.7</b>	<b>84.3</b>	<b>133.3</b>	<b>163.2</b>
<b>Expenditure</b>							
Staff costs	(20.4)	(18.9)	(18.5)	(20.8)	(24.7)	(27.4)	(30.9)
Depreciation and amortisation	(13.5)	(14.2)	(10.9)	(10.9)	(12.1)	(13.1)	(14.0)
Other expenditure**	(43.0)	(45.1)	(61.4)	(75.3)	(91.1)	(124.8)	(147.6)
Interest payable	(21.7)	(25.6)	(29.1)	(32.2)	(35.4)	(39.4)	(42.5)
<b>Total expenditure</b>	<b>(98.6)</b>	<b>(103.8)</b>	<b>(119.9)</b>	<b>(139.2)</b>	<b>(163.3)</b>	<b>(204.7)</b>	<b>(235.0)</b>
<b>Net expenditure after interest</b>	<b>(80.0)</b>	<b>(79.7)</b>	<b>(87.0)</b>	<b>(76.5)</b>	<b>(79.0)</b>	<b>(71.4)</b>	<b>(71.8)</b>

\* Members' contribution and annual management charges

\*\* Includes scheme administration and investment expenses

### Income

Total income of £84.3 million for 2018/19 has seen an increase of 35 per cent (from 2017/18 income of £62.7 million). The increase in total income is driven by a 140 per cent increase in scheme income from £25.6 million in 2017/18 to £61.4 million in 2018/19.

The increase in scheme income is largely due to the rise in minimum statutory contribution rates in April 2018. This rise in contribution rates combined with the increase in scheme membership of 1.5 million members and the growth in AUM to £5.7 billion, has resulted in the 140 per cent increase in scheme income during 2018/19. The decrease in other income from £17.1 million in 2017/18 to £0.5 million in 2018/19, is due to a one-off £16.9 million historical VAT reclaim included in 2017/18 other income.

Nest Corporation has forecast scheme income to increase to £108.3 million in 2019/20, because from April 2019 the minimum statutory contribution rates will rise from five to eight per cent.

### Expenditure

Nest Corporation's spending decisions are made prudently, and it recognises that its expenditure is ultimately borne by scheme members.

The largest expenditure increase in the year is within the other expenditure line, which includes scheme administration expenses and scheme investment costs, and has increased by £15.8 million from £75.3 million in 2017/18 to £91.1 million in 2018/19. This increase is due to the rise in scheme membership and higher fund manager fees related to the growth in AUM.

The forecast increase in the scale of the scheme means scheme administration costs and fund manager fees are expected to continue to increase in 2019/20 and 2020/21. Expenditure will also increase due to the costs associated with the procurement of a new scheme administration service.

In 2018/19 staff costs increased by £3.9 million to £24.7 million (2017/18: £20.8 million) mainly due to the recruitment of additional staff to support the procurement process. This planned procurement means staff costs are forecast to continue to rise to £30.9 million by 2020/21. Staff costs unrelated to the procurement of a new scheme administration service are not expected to materially increase during this period.



Depreciation and amortisation costs between 2017/18 (£10.9 million) and 2018/19 (£12.1 million) have increased by £1.2 million due to Nest Corporation acquiring additional assets to run the scheme.

The higher forecast interest charges for 2019/20 and 2020/21 is driven by the increased loan balance required to fund the ongoing net expenditure for the period to 2020/21.

## Developments during 2018/19

Nest Corporation continued to evolve its infrastructure and processes to support members' and employers' changing needs.

Nest Corporation continued to make progress towards the strategic priorities outlined in its Corporate Plan 2018-2021 ([nestpensions.org.uk/schemeweb/dam/nestlibrary/Corporate-plan-2018.pdf](https://nestpensions.org.uk/schemeweb/dam/nestlibrary/Corporate-plan-2018.pdf)). This is detailed in the Performance against strategic priorities section on pages 32 to 38.

During the year, Nest Corporation's executive team and Board Members carried out a zero-based review of its principal risks. More information on this review and its outcome is available on page 62.

The annual type 2 AAF 02/07 control assurance report has been published in parallel with this annual report and accounts. This gives independent assurance that Nest Corporation's controls are effective and that it is well governed.

## Master Trust Authorisation

In March 2019 Nest Corporation submitted its application for Master Trust Authorisation to The Pensions Regulator. Authorisation is a requirement of the Pensions Schemes Act 2017 and the supporting Master Trust Regulations which came into effect in October 2018. The assessment process is still ongoing. However Nest Corporation is confident that it meets the criteria required by the new regulations. Nest Corporation welcomes the increased scrutiny that the new regime brings and its ongoing focus on good governance and robust systems across the industry.

As a part of the new regulations, all authorised Master Trusts must demonstrate that they have sufficient capital to allow their scheme to be wound up without cost to members. The Government has provided Nest with a letter of comfort in support of its application for Master Trust Authorisation and the financial sustainability criteria that must be satisfied. The Letter confirms that, in the remote possibility of an unexpected business continuity event occurring, government would fund Nest through to closure and meet any one-off associated closure costs.

## DWP and Nest framework document

In 2017/18, the Department for Work and Pensions (DWP) carried out a Tailored Review of Nest Corporation, which was published in March 2018. A Tailored Review assesses the ongoing need for and operational efficiency of a government body and is typically carried out on a five-yearly basis.

The review and its recommendations are available online at [gov.uk/government/publications/national-employment-savings-trust-nest-corporation-tailored-review](https://gov.uk/government/publications/national-employment-savings-trust-nest-corporation-tailored-review)

The review recommended refreshing the framework document that governs the relationship between Nest Corporation and the DWP. The new framework document was signed in February 2019 and it is available online at [nestpensions.org.uk/schemeweb/dam/nestlibrary/Nest-Framework-Document-signed-and-effective-from-February-2019.pdf](https://nestpensions.org.uk/schemeweb/dam/nestlibrary/Nest-Framework-Document-signed-and-effective-from-February-2019.pdf)

## Nest's future scheme administration requirements

As detailed on page 36, Nest has begun the process of considering its future scheme administration requirements.



The team leading the procurement has moved the programme forward to a stage where Nest released a contract notice in the Official Journal of the European Union (OJEU) in May 2019.

Over 2018/19, the programme has been in a pre-procurement phase which has involved wide ranging market engagement with potential suppliers, clarification of Nest's requirements and a robust programme of assurance. Throughout this phase the programme secured input from subject matter experts from Nest, independent advisers and from government.

Nest Corporation will begin the process of evaluating responses to the contract notice in May 2019 and then intends to engage in a competitive dialogue process with short-listed bidders, leading to an expected contract award date during 2020.

## Performance against strategic priorities

Nest Corporation's performance is assessed by reference to its strategic priorities. These describe how Nest Corporation will work towards achieving its overarching vision: to help millions enjoy a better retirement. The strategic objectives focus on achieving the best possible outcomes for members, delivering a great service, maintaining a sustainable business, ensuring systems are cost efficient, and running the Corporation in a way that allows Nest Corporation's staff to deliver for its customers.

Objective 	What we've done and how we've performed 
<b>1. Support strong member outcomes</b>	
<b>Grow assets in a way fit for our membership</b>	<p>Nest Corporation undertakes extensive and continuous research into members' characteristics and retirement savings needs and uses this evidence to design its investment strategy.</p> <p>The performance of Nest's 2040 fund (see Why do we refer to the 2040 fund?, page 19) in the growth phase to end March 2019 on an annualised five-year rolling period was 9.2 per cent, after charges (see About Nest's charges, page 19). This exceeded Nest Corporation's objectives of CPI plus 3 per cent after charges over the long term, which is detailed in its <b>Statement of investment principles (SIP):</b> <a href="https://nestpensions.org.uk/schemeweb/dam/nestlibrary/SIP-Apr18-Mar21.pdf">nestpensions.org.uk/schemeweb/dam/nestlibrary/SIP-Apr18-Mar21.pdf</a></p> <p>The effect of market conditions on Nest's investments is detailed in section 1.6 Principal activities, on page 28.</p> <p>As Nest's assets under management have increased, it has been able to evolve its investment approach to provide a more sophisticated investment strategy for members, while remaining fit for their needs. It has continued to diversify its portfolio, to look for new sources of returns and further risk management opportunities. In line with this, Nest introduced its first commodities mandate in July 2018, a segregated account managed by CoreCommodity Management. Nest has used a segregated approach to enable it to control the design of the fund, and the SIP was updated to reflect this. Using a segregated mandate also means that Nest can more closely apply environmental, social and governance (ESG) rigour to its commodities investments, in line with its SIP.</p> <p>Nest Corporation's influence as a shareholder is also increasing. It has continued to develop direct voting and engagement activity with the companies it invests in, to drive better risk-adjusted returns for members. For example, Nest is now investing £133 million less in carbon-intensive companies as a result of its approach to climate change investing. Further details of Nest's engagement with shareholders and other responsible investment activities are in its third annual responsible investment report, released in October 2018 available at <a href="https://nestpensions.org.uk/schemeweb/nest/aboutnest/investment-approach/responsible-investment.html">nestpensions.org.uk/schemeweb/nest/aboutnest/investment-approach/responsible-investment.html</a></p> <p>Responsible investment campaigner ShareAction has recognised Nest's commitment to ESG. In June 2018, it rated Nest as the top Master Trust auto enrolment provider in <b>The Engagement Deficit: Ranking Auto-enrolment Pension Providers on Responsible Investment and Member Communications and Engagement</b> available at <a href="https://shareaction.org/research-resources/">shareaction.org/research-resources/</a></p> <p>Nest Corporation carried out a member evidence review in September 2018. This supports the Board in identifying how it interprets its fiduciary duty towards members. The report re-evaluated the ideas and evidence used to develop Nest's original investment strategy in 2012<sup>1</sup>. It showed that the approach is still valid and gave Nest Corporation indicators for further development of the investment strategy and communications to members.</p>

<sup>1</sup> [nestpensions.org.uk/schemeweb/nest/aboutnest/investment-approach/investment-research.html](https://nestpensions.org.uk/schemeweb/nest/aboutnest/investment-approach/investment-research.html)

	<p>In 2018/19 Nest began to seek fund managers to invest in global investment grade corporate bonds and private credit, which will enable it to open up new return opportunities. The procurements are ongoing and announcements on successful fund managers will be made later in 2019.</p> <p>During 2018/19, Nest Corporation won six industry awards for its investment strategy:</p> <ul style="list-style-type: none"> <li>— Pensions Expert/PIPA Awards – DC Investment Provider</li> <li>— Professional Pensions Investment Awards – Target Date Fund Manager of the Year</li> <li>— Pensions Insight – Most Innovative Scheme Investment Approach</li> <li>— IPE Awards – Country Award: United Kingdom</li> <li>— Pensions Age Awards – Pensions Innovation</li> <li>— Institutional Investor Peer to Peer Awards – Pioneer in Impact Investment.</li> </ul>
<b>Communications to members are easy to understand and accessible</b>	<p>Nest Corporation is committed to helping members engage with their pensions and understand how to save adequately for retirement. To achieve that, it measures, researches and analyses members' needs, behaviours and actions and uses these insights to create engagement tools targeted at its membership. During 2018/19 it has:</p> <ul style="list-style-type: none"> <li>— Deployed four test and learn activation campaigns during February and March 2019 using both personalised videos and standard emails. The response to these communications was positive, with members opening them, viewing the content and carrying out the desired action of activating their Nest online accounts.</li> <li>— The Nest public area website has been regularly reviewed and updated with content to support members in their pension savings and retirement journeys. Videos on key topics like benefits of saving in a pension scheme and three steps to retirement planning have been created and uploaded. These will help to provide complex information in a simple and engaging way. More of such rich content will be created and made available to members in 2019/20.</li> </ul>
<b>Members' assets and data are kept safe</b>	<p>Nest Corporation keeps members' assets and data safe by operating an appropriate internal control framework that allows it to meet its regulatory and legislative obligations.</p> <p>The information security management systems operated by Nest Corporation, its scheme administrator and its IT managed services provider are all independently certified to the ISO 27001 standard. This provides assurance that systems and processes are robust and protect members' data.</p> <p>The Nest scheme administrator, Tata Consultancy Services (TCS), uses strict operational procedures to safeguard members' data.</p> <p>Ernst and Young carried out a review of the scheme administrator's design of and compliance with key controls, enabling the scheme administrator to deliver to Nest an assurance report in accordance with the AAF 01/06, covering the calendar year 2018. Nest takes significant assurance from this report, which includes coverage of key controls which support the objective of keeping members' assets and data safe. This review will continue to be carried out on an annual basis.</p> <p>Nest Corporation's key suppliers of fund management and fund administration services provide independently tested control reports in accordance with either the AAF 01/06 standard or the international ISAE 3402 standard. The fund administration team review and report to the audit committee on an annual basis to ensure compliance with these standards.</p>



**Research and policy work that supports members' needs**

Nest Corporation's research and public affairs work is focused on helping its members enjoy a better retirement. It also looks more broadly at the needs of the 'defined contribution generation', and those who may not be saving but could benefit from doing so, such as the self-employed.

Nest Corporation provides evidence to Parliament, government and industry about how best to make the system work for the new generation of savers brought in by auto enrolment. It carries out its own research (mostly through its in-house research unit, Nest Insight) and looks at national and international evidence to better understand the needs, preferences and behaviours of its membership. It also considers how policy can best support them to save effectively for retirement.

Examples of Nest Corporation's policy work in 2018/19 include:

- calling for consumer-focused governance to support the new pensions dashboard by responding to the Government's consultation
- giving evidence at the Work and Pensions Select Committee all-evidence session on auto enrolment, providing the committee with evidence about how our membership is evolving and issues to consider for the next phase of auto enrolment
- advocating the needs of mass market savers in the PLSA's policy making as a member of the Pensions and Lifetime Savings Association (PLSA) policy board.

Nest Insight continued its programme of research and events to better understand the needs of the 'defined contribution generation' and how they will build adequate retirement incomes.

With its strategic partner Vanguard, the team published the first edition of **How the UK Saves**<sup>2</sup>, an annual report looking at the pension saving experiences of people who've been enrolled into Nest. It sets out key lessons from Nest's member data that can contribute to broader policy debates.

**How the UK Saves** was published to coincide with Nest Insight's third annual conference in June 2018. The event also included discussions on topics that are relevant to Nest's membership and potential future members, including the future of the auto enrolment programme, ways to increase saving among the self-employed, digital nudging, and the concept of workplace sidecar saving as a way of improving savers' broader financial wellbeing.

During the year, Nest Insight also announced two major research grants. The first of these was a joint grant from the JPMorgan Chase Foundation and Money Advice Service to fund work on emergency savings. The resulting research featured at a major launch event as part of Talk Money Week 2018.

The second was a grant from the Department for Work and Pensions (DWP) to fund research work that explores approaches to increasing long-term saving among the self-employed. During 2018/19, work has focused on research design and project mobilisation, as well as on the completion of a formal literature review and qualitative message testing. During 2019/20 Nest will be rolling out email-based trials to encourage saving with Nest's self-employed members and others and developing detailed plans for further trials integrating savings tools into services the self-employed use to manage their finances. Further updates on the project will be published during 2019/20 and when the project concludes in 2020/21.

In March 2019, Nest Insight published research into the attitudes and behaviours of members before and after the first phased rise in auto enrolment contributions. This was launched at a round-table with Legal & General Investment Management, which sponsored the research.

<sup>2</sup> [nestinsight.org.uk/how-the-uk-saves/](https://nestinsight.org.uk/how-the-uk-saves/)

## 2. Deliver a good service to our customers

<b>Deliver a good quality service</b>	<p>Nest Corporation has three key customer groups: employers, members and intermediaries. Nest's core service continued to be very stable, with service levels reliably met and low volumes of incidents that could impact the delivery of services to our customers.</p> <p>Nest made improvements to its service during 2018/19, including the implementation of a new process to better support members who choose to transfer money in or out of Nest. Following launch in November 2018, Nest has experienced a dramatic increase in overall satisfaction with the transfer experience and will continue tracking satisfaction throughout 2019/20.</p> <p>Nest continues to conduct regular research across its key customer groups to better understand the priorities, issues wants and needs of its customers. These insights are used to inform and influence Nest Corporation's ongoing and future programme of work including prioritisation.</p>
<b>Channels are available and accessible to customers</b>	<p>Service channels remained available and accessible to members and employers more than 99 per cent of the time during 2018/19. This included the Nest public area website, web services and the contact centre.</p> <p>Nest continues to drive improvements in member service. This includes updates to the way in which it measures the effectiveness of its services to focus simultaneously on both quality and productivity.</p>
<b>Drive value for members</b>	<p>Nest Corporation prepares an annual Value for Members assessment for internal use and assesses costs and charges applied to its membership. It carefully considers whether the benefits and services received provide good value for money and whether they meet the needs of the membership. This analysis is used as the basis for future work on value for members.</p> <p>Nest's pricing structure is set by the Secretary of State for Work and Pensions. The Board sets the levels of contribution charge of 1.8 per cent and annual management charge (AMC) of 0.3 per cent. Over the lifetime of the majority of members saving into Nest, Nest Corporation expects these charges to broadly equate to an AMC of 0.5 per cent.</p> <p>In 2018, Nest Corporation analysed a random sample of 100,000 members and calculated the range of charges they have incurred to date. Although members will always start with higher charges, over time this showed a distribution curve that centred around 0.5 per cent over the long term.</p> <p>Nest Corporation believes this strikes a fair balance, as the majority of Nest's membership are between the ages of 16 and 39 and will therefore be saving into their pension for a long time.</p> <p>To comply with the new Pension Disclosure Regulations, Nest now publishes its costs and charges report in line with this prescribed approach. The information includes charges and transaction costs for all funds, including illustrations of the effect of costs and charges on member pot values over time. For information about the funds that members can invest in, see: <a href="https://nestpensions.org.uk/schemeweb/dam/nestlibrary/the-effect-of-our-costs-and-charges.pdf">nestpensions.org.uk/schemeweb/dam/nestlibrary/the-effect-of-our-costs-and-charges.pdf</a></p>

### 3. Grow the business, in the right way

#### A revenue model that is sustainable while remaining fully focused on the needs of the low-to-moderate income target market

Nest Corporation grew the number of employers who choose Nest for their employees from all income groups and further strengthened its relationship with intermediaries.

- Nest Corporation continues to work with and via intermediaries and on a direct to employer basis, so that it meets the needs of all employers however they choose to select and run their pension arrangements.
- Nest Corporation continues to maintain and enhance its relationship with key payroll software providers, as these are vital to its retention and growth strategy.
- Nest Corporation has seen a month on month increase in the numbers of employers using web services to process data, from 135,500 in April 2018 to 180,751 in April 2019.
- Nest Corporation continues to extend its use of strategic account managers, helping to strengthen relationships with employers and Nest Connectors.

#### Members have access to appropriate retirement income solutions

Nest Corporation continues to carry out research to understand members' retirement decision-making needs. It will use the findings to further develop appropriate support in the future. In 2018/19, it:

- Increased member engagement with the tools offered on the Nest website through targeted email activity.
- Delivered greater flexibility for members to access their pension pots at retirement by allowing more frequent withdrawals for members taking money in stages from their Nest pot.
- Continued to work with government, regulators and the wider pensions and savings industry through consultation responses and dialogue aimed at ensuring good outcomes for members.
- Carried out member research to understand particular challenges with retirement decision-making and ensure that Nest offers the right level of support to help.

### 4. Develop a sustainable future business model

#### Maintain strong financial performance

Nest Corporation's financial performance is influenced by the scheme's level of assets under management, total annual contributions from members and the Corporation's annual costs.

- Assets under management increased to £5.7 billion with £2.8 billion contributions received during the year. In the previous year assets under management stood at £2.7 billion and contributions received were £1.1 billion.
- Nest Corporation ensures a high level of efficiency by developing a three-year business plan and annual budget. As part of this process each directorate specifies the funding and resources that they need to deliver the objectives relevant to them, determined by Nest's strategic priorities. The Chief Executive Officer, the Chief Financial Officer and the Board challenge the requirements before the plans are approved. A funding requirement is then submitted annually to the DWP, which provides further scrutiny.
- Nest Corporation has kept within the operational and financial targets agreed with the DWP for the financial year. Scheme administration expenses were in line with expectations and the growth of the scheme. Nest Corporation's costs were lower than expected due to continued focus on targeted efficiencies.
- According to Nest Corporation's latest forecasts, it will be able to cover its operating costs from pension scheme member charges from 2026. At this point, its estimated borrowing will be £1,158 million. Nest Corporation expects to be free of all funding debt by 2038.

#### Procure future scheme administration services

Since 2010, Nest has contracted with Tata Consultancy Services to carry out the day to day operation of scheme administration for Nest. This contract will come to an end in 2023. A programme has been established to consider Nest's future scheme administration requirements, run by a team harnessing senior expertise from across Nest as well as subject matter experts from central government and professional services.

In May 2019 Nest Corporation issued a contract notice for future services, starting a formal procurement process. The contract award is planned for November 2020.

For more information on the scheme administration services procurement process, see page 31.

## 5. Deliver a corporation fit for the future

### Maintain strong standards of governance

Nest Corporation further strengthened its governance by moving to a unitary board structure on 1 June 2018. This change was made following a recommendation in the DWP's Tailored Review of Nest, published in March 2018. As part of this new structure, Helen Dean, Chief Executive Officer, joined the Board in June 2018 and Richard Lockwood, Chief Financial Officer, joined in September 2018. This has helped Nest Corporation to continue to improve how it performs at Board level.

Nest Corporation continuously reviews the skills and experience mix of its Board Members, to support succession planning and to identify future recruitment requirements.

This analysis informed the appointment of four new Board Members with skills that complement those of existing Board Members: Clive Elphick, Martin Turner, Mutaz Qubbaj and Chris Hitchen. For more information on their skills and experience, see pages 47 to 52.

In 2017/18 an external review of Nest Corporation's governance was carried out by organisation effectiveness consultant OE Cam. The findings from the review were implemented during this financial year, and a Board Internal Effectiveness review for 2018/19 showed that the governance at Nest Corporation continues to operate effectively.

The Framework Document which governs the relationship between the DWP and Nest, was refreshed in response to recommendations in the Tailored Review of Nest.

### Staff have the right skills to deliver for members, supported by a positive, inclusive and diverse working culture

Nest Corporation needs to make sure that it can continue to grow at scale to support the future development of the scheme. It does that by employing the right number and quality of employees and building an appropriate skills base through staff training and external recruitment where required. It has also continued to develop a positive working culture so that employees are motivated, empowered and treated with respect.

- In April 2018, Nest Corporation revised its corporate scorecard and values. Staff contributed to the definitions of the Nest values of ease, transparency, empowerment and respect.
- Following its successful office move to 10 South Colonnade, Canary Wharf, in July 2018, Nest Corporation conducted a staff satisfaction survey. Eighty one per cent of staff said that they had adopted smarter working practices using the different environments available including quiet spaces and breakout areas, as well as working from home. Employees reported that the arrangements have improved collaborative working between teams, including with colleagues who are working remotely.
- In 2018/19, Nest Corporation launched its Diversity and Inclusion strategy. It aims to have 13 per cent of executive roles held by Black, Asian and Minority Ethnic (BAME) members of staff by 2025 and at least 30 per cent of executive roles held by women by the same date.
- Nest Corporation launched its Leadership Academy in October 2018. A second cohort started the Academy in January 2019, with one more cohort starting in September 2019.
- In 2018/19, Nest continued to develop its core learning programme in line with its objective of building corporate capability. The programme now comprises 12 courses including business administration, project management fundamentals and stakeholder engagement. The average satisfaction score for the programme is 90 per cent.
- To support future recruitment and retention, Nest Corporation regularly reviews how it attracts candidates. In 2018/19 it published updated flexible working and family leave policies and is also progressing a review of its pay and reward strategy to ensure this remains fit for purpose for the future.

**Effective risk management and controls**

Nest Corporation's principal risks are reviewed every year to ensure that they remain appropriate for the organisation. Every three years this takes the form of a comprehensive zero-based review, which took place during 2018/19. The outcomes are reflected on page 62. Nest Corporation's risk management is comprised of the following:

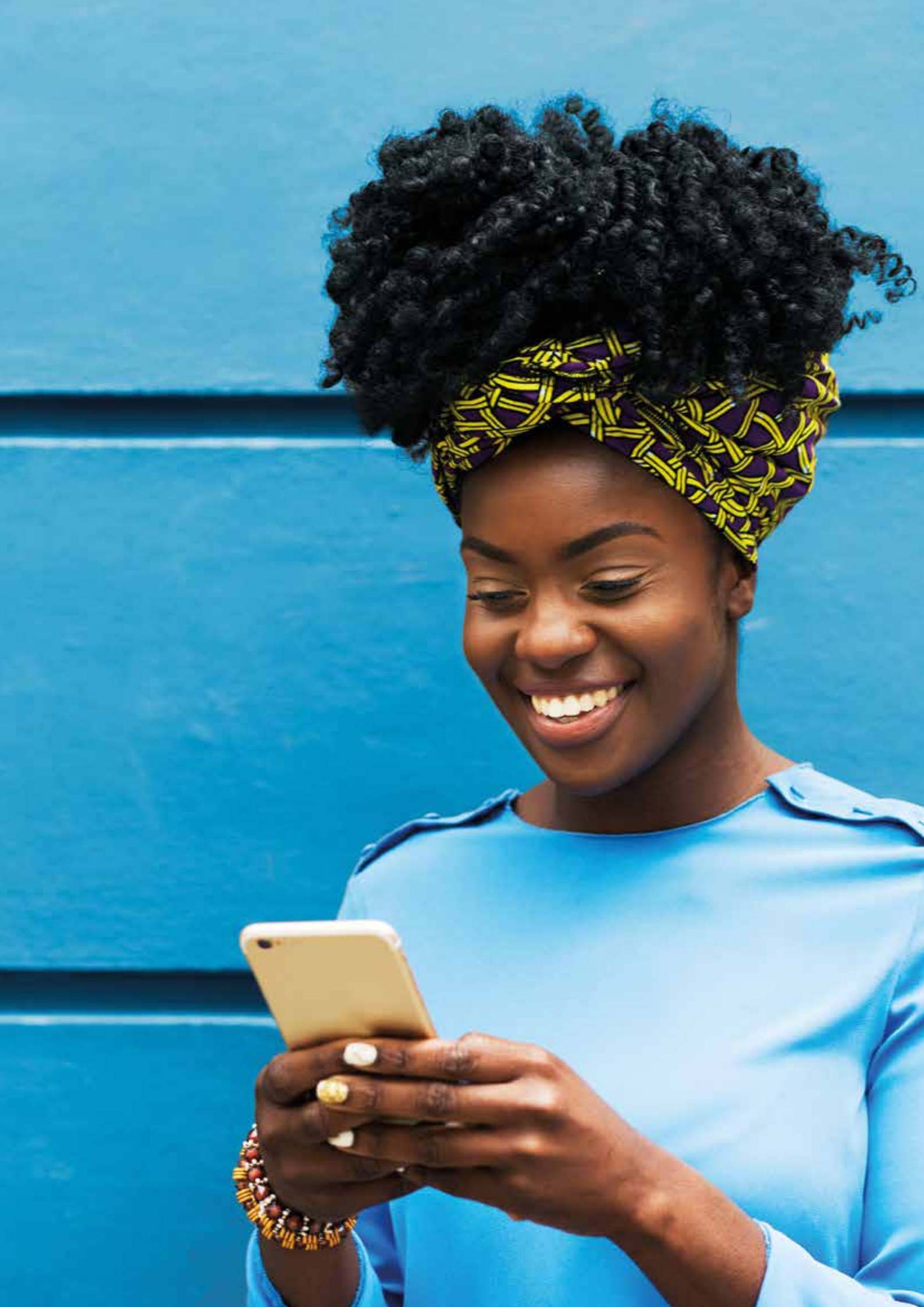
- First line assurance is provided by accountable executives in each directorate and owners of key policies. This is based on an attestation letter process run by the risk team.
- There is an extensive second line compliance and monitoring programme, and third line internal audit programme. Nest Corporation uses an annual monitoring programme for second and third line assurance which has been completed to plan. No material findings arose from these reviews.
- Nest Corporation has completed its annual AAF 02/07 controls assurance report against the Master Trust assurance framework. This gives an independent assessment of the design and operation of Nest's internal controls. The report confirms that all the control objectives set out in the AAF guidance were met for the reporting period.

**Respond effectively to regulatory change**

The General Data Protection Regulation (GDPR) came into force on 25 May 2018, introducing stricter controls over how members' data is stored and used. Nest Corporation has ensured that it is fully compliant with this legislation.

New Master Trust Authorisation legislation, introduced by the Pension Schemes Act 2017, will drive stronger governance as well as improved financial sustainability and resilience for Master Trust schemes in general. Nest Corporation is fully supportive of the new requirements.





## 1.8

# Nest Corporation's strategy for 2019/22

Nest's vision is to help millions enjoy a better retirement. This section describes the strategy that Nest Corporation will use to achieve that vision.

Nest's member-focused approach underpins everything it does, from the way it invests, to its customer service, to the way that it operates as a business. It has defined six organisational principles which together describe the way that it will always work for its members. These are called 'the things that make Nest, Nest'.

### **The things that make Nest, Nest**

#### **Built around customers' needs and behaviours**

Nest Corporation builds products based on research and an expert understanding of customer needs (see Who are Nest's customers? page 19) and behaviours. It uses technology and best-in-class communication techniques to engage its members in a timely, relevant and personal way.

#### **Excellence in investments and governance**

Nest Corporation provides excellence in investment practice and governance. It designs and oversees expert investment strategies and invests responsibly and sustainably.

#### **Low charges, and open to all employers**

Nest Corporation leverages its scale to keep charges to members as low as possible and will be open to any employer that wants to use the scheme.

### **Not-for-profit**

Nest Corporation aspires to operate as a not-for-profit business over the long-term. Once the loan from government is repaid, it is Nest's aim that any surpluses generated should be reinvested in the interests of members.

### **A broader social purpose**

Nest is here to help millions enjoy a better retirement. That responsibility is to members, but also to a broader population of mass market savers and those who could benefit from saving but may currently fall outside of auto enrolment.

### **An organisation that lives its values**

Nest Corporation will always show the same level of care to employees as it does to its customers, championing the scheme values and making Nest Corporation a great place to work.

## The strategic priorities

Nest Corporation has five strategic objectives which describe what it will do over the next three years to fulfil its vision. Further information is available in Nest Corporation's **Corporate Plan**, which is updated annually and is available on the Nest website. For the period 2019/22, its strategic priorities remain the same as for 2018/19, as follows:

### Support strong member outcomes

Nest will grow members' assets and keep their data safe. It will deliver a targeted approach to increasing member engagement, including at retirement, while continuing also to focus on ensuring the right retirement products exist to meet their needs.

### Deliver a good service to customers

Nest will deliver a sustainable high quality service to customers, members, employers, and intermediaries such as advisers and payroll providers.

### Grow the business, in the right way

Nest will ensure it has a broad customer base while remaining fully focused on the needs of its low-to-moderate income target market.

### Deliver a sustainable future business model

Nest will agree and implement a new approach to service delivery following the expiry of its current scheme administration contract. It will maintain a cost efficient business model to ensure it can repay the loan from government.

### Deliver a Corporation fit for the future

Nest will develop the Corporation to ensure it is well governed and ready to manage the scheme at scale.



**Nest Corporation has five strategic objectives which describe what it will do over the next three years to fulfil its vision.**





## 1.9

# Key business relationships

Nest Corporation has several key business relationships. These include Tata Consultancy Services (TCS) which administers the scheme, and State Street Bank which provides fund administration services.

It has worked in partnership with all of its suppliers throughout the year to ensure that the scheme operates effectively.

Its initial 10-year scheme administration contract with TCS was due to finish in 2020, but in 2015 it was extended to 2023.

## 1.10

# Sustainable development

Nest Corporation respects the environment in which it operates and aims to make efficient use of natural resources. For further information, see the the Overview of environmental performance on page 113.

## 1.11

# Anti-discrimination, anti-bribery and human rights

Nest Corporation respects human rights for all its staff, members and business partners.

Nest Corporation aims to treat everyone fairly, regardless of any protected characteristics.

Any business that Nest Corporation conducts must comply with the Anti-Bribery Act 2010. It adheres to all regulations and meets all necessary criteria to avoid corruption.

Nest Corporation asks potential suppliers if they are a relevant commercial organisation as defined by section 54 of the Modern Slavery Act 2015, and if so if they are compliant with the annual reporting requirements contained within section 54 of the Act.

Nest Corporation's contractual terms and conditions state that suppliers shall adhere to Anti-Slavery Requirements and defines these as the Modern Slavery Act 2015 and any subordinate legislation made under that Act (in each case, as amended, superseded or replaced).

Nest Corporation also requires its suppliers and their sub-contractors to notify it in writing of any actual or suspected breach of the Anti-Slavery Requirements within seven days of becoming aware of the breach.

See page 68 for details of Nest Corporation's adherence to the Modern Slavery Act.

## 1.12

# Preparation of the financial statements

## Statutory background

The financial statements for 2018/19 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.

The Chief Executive Officer has taken all the steps that she ought to take to make herself aware of any relevant audit information and to establish that Nest Corporation's auditors are aware of that information. So far as the Chief Executive Officer is aware, there is no relevant audit information of which the entity's auditor is unaware.

During the year Nest Corporation did not make any payments to its external auditors for non-audit work.

Helen Dean  
Chief Executive Officer  
Nest Corporation

27 June 2019



## Chapter 2

# Accountability report



## 2.1

# Corporate governance report

This accountability report, including the Directors' report, the Statement of Chief Executive Officer's responsibilities, Governance statement, Remuneration and staff report and Parliamentary accountability and audit 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 Directors' report

#### About Nest Corporation

Nest is a trust-based occupational Master Trust 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. Nest Corporation is a public corporation which has been appointed as the Trustee of the Nest pension scheme. It has duties both as a public body and as a pension scheme Trustee. As a Trustee, Nest Corporation has a duty to run the scheme in the best interests of its members.

Nest Corporation comprises up to 15 members. The members of Nest Corporation are referred to as Board Members and collectively as the Board of Nest Corporation.

Under the **National Employment Savings Trust Order 2010** (Nest Order) the Board receives assistance and advice from a members' panel that represents the members' perspective of the scheme, and an employers' panel that represents participating employers. The Board consults the panels on matters to do with the operation, development or amendment 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 Board has a public service obligation to accept any employer who wishes to use Nest to meet its employer duties. Such an employer needs to agree to the employer 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 stop contributions. A member can continue using Nest throughout their working life, regardless of a change of employment or personal circumstances.

## Organisational structure

The organisational structure of Nest Corporation is described in this section.

### Board Members



**Otto Thoresen**

**Chair, Nest Corporation**

from 1 February 2015

Otto has extensive experience in pensions, financial services and consumer issues across a range of private and public sector organisations, including a period as Director General of the Association of British Insurers and Chief Executive of Aegon UK. Otto was appointed Independent Chair of the BT Pension Scheme Trustees in February 2019. He is also Chairman of the Board at Aviva International Insurance and the Board of Standard Life Aberdeen Management's Life subsidiary. He is a governor of the Pensions Policy Institute.



**Iraj Amiri**

**Board Member**

from 20 June 2011, appointed for a second term in 2015

**Chair, audit committee**

from 1 April 2014 to 28 January 2019

Iraj led the National Internal Audit Group of Deloitte, where he was a partner. He is a member of the regulatory decisions committee of the Financial Conduct Authority and Chair of the audit and risk committee for the Institute and Faculty of Actuaries. Iraj is a non-executive director and Chair of the audit committee at the Development Bank of Wales. In September 2018 Iraj became a non-executive member of the Board at Coventry Building Society.



**Ian Armfield**

**Board Member**

from 1 April 2014

Ian is a non-executive director of Keystone Investment Trust plc and Managed Pension Funds Limited, an insurance company providing pooled investment management services to pension schemes, and Chair of the audit and risk committee for Pearson Pension Plan. He was formerly an audit and risk assurance partner with PricewaterhouseCoopers LLP in the investment and pensions sectors.



**Graham Berville**

**Board Member**

from 1 June 2014

**Chair, risk committee**

from 25 September 2017 to  
20 February 2019

Graham has worked in financial services for 40 years. His executive career was with the Automobile Association (AA), Aviva plc and Police Mutual. In addition to general management roles he specialised in marketing and product development. Graham is currently Chair of the LV= With Profits Committee, Keycare Insurance, Furness Building Society and Yorkshire Cancer Research.



**Sally Bridgeland**

**Board Member**

from 1 April 2015

**Chair, investment committee**

from 2 July 2017

Sally's non-executive directorships include Royal London Group and the Local Pensions Partnership. Sally is a Trustee of pension schemes at the Lloyds Banking Group and of the RAF Central Fund. She was formerly Chief Executive Officer and Trustee of the BP Pension Fund.

Sally is a member of the 300 Club and serves on the investment committee of Nesta. She was the first lady Master of the Worshipful Company of Actuaries in 2016-17.





### **Tomas Carruthers**

**Board Member**  
from 1 July 2016

Tomas is Chief Executive Officer of Project Heather, the project of re-establishing the Scottish Stock Exchange. He is also an adviser in the field of social finance. He was Chief Executive Officer of the Social Stock Exchange, which was launched by the Prime Minister in 2013. Prior to that appointment he was Chief Executive Officer of Interactive Investor plc, which he founded.



### **Helen Dean**

**Board Member**  
from 1 June 2018

**Chief Executive Officer,  
Nest Corporation**

Helen is one of the architects of auto enrolment, having worked at the Department for Work and Pensions (DWP) to design a solution to the UK's problem of chronic under-saving in pensions.

She led the product marketing and operations arms of Nest before becoming Chief Executive Officer in September 2016.

Helen is a mentor to female professionals. She has established a senior leadership programme to cultivate the next generation of diverse leaders for Nest.



### **Carolan Dobson**

**Board Member**  
from 1 April 2014 to 30 June 2018

Carolan is an experienced trustee and non-executive director with a background in asset management.

Her experience includes Chair of Blackrock Latin American Trust plc, Brunner Investment Trust plc, JP Morgan European Smaller Companies Trust plc and a non-executive director at the ISC at the London Collective Investment Vehicle (LCIV). She also advises the Competition and Markets Authority.



**Clive Elphick**

**Board Member**

from 1 June 2018

**Chair, audit committee**

from 29 January 2019

Clive is an independent director of National Grid Gas plc and of National Grid Electricity Transmission plc. He chairs the audit committees of both companies. He is a member of the Competition Appeal Tribunal. Clive is a former Board Member of the Environment Agency where he chaired their pension fund. He was formerly Chair of the Confederation of British Industry for the North West of England and has held a number of board memberships.



**Chris Hitchen**

**Board Member**

from 1 June 2018

Chris re-joined the board of Nest in 2018, having previously served as a Trustee Member from 2010 to 2015. Chris is also Chair of the £40 billion Border to Coast Pensions Partnership, Chair of the Pension SuperFund and sits on the investment committee for the Guardian Media Group. Previously, Chris was Chief Executive Officer of the UK Railways Pension Scheme.

Chris is a Board Member for the Toronto-based International Centre for Pensions Management and the UK's Investor Forum.



**Ron Jarman**

**Board Member**

from 1 July 2016

As a former President and Chair of the Chartered Institute of Procurement and Supply, Ron has extensive supply chain and procurement experience from working with many private and public sector organisations.

He is currently a senior member of Proxima's Consulting practice, Board Chair at World at Play, and an advisor to the Bridge Institute, which brings senior government, business and civic leaders together to solve societal issues.



### **Richard Lockwood**

**Board Member**  
from 1 Sept 2018

**Chief Financial Officer,  
Nest Corporation**

Richard is a Chartered Management Accountant with broad financial experience and extensive knowledge of corporate governance, commercial business partnering, strategic planning, mergers and acquisition activity and system improvements.

His experience over the last 25 years includes leading financial roles in a number of blue-chip UK retail and consumer product companies, such as Home Retail Group, BAA and Kingfisher.



### **Mutaz Qubbaj**

**Board Member**  
from 1 June 2018

Mutaz is the Chief Executive Officer of Squirrel. He has extensive financial services experience with a career spanning 20 years both as an investment banker in the US and UK as well as an established entrepreneur in the UK fintech space.



### **Caroline Rookes CBE**

**Board Member**  
from 1 April 2015

**Chair, nominations and  
remuneration committee**  
from 28 November 2017

Caroline is a Trustee of the Pension SuperFund and in January 2019 The Pensions Regulator released Caroline's review of the support provided to British Steel Pension Scheme members in 2017/18.

Caroline retired as Chief Executive Officer of the Money Advice Service in June 2017 and previously held Director-level roles with the DWP and HM Revenue and Customs. In 2014, she was awarded an Alumni Award by Lancaster University.



**Martin Turner**

**Board Member**

from 1 June 2018

**Chair, risk committee**

from 21 February 2019

Martin has 37 years' experience in financial services for Barclays and Lloyds, from front line customer service and relationship management through to strategy and transformation, IT and operational services.

More recently Martin has worked in the second line risk function with group-level accountabilities for operational risk, regulatory compliance, internal risk reporting and external risk disclosures, and significant structural reform programmes.

Martin is currently a non-executive with AQA Education, chairing their combined audit and risk committee.



**Jill Youds**

**Board Member**

from 1 April 2015

**Senior Independent Director**

from 25 July 2017

**Chair, determinations committee**

from 24 March 2016

Jill is Chair of the Judicial Pensions Board for the Ministry of Justice and of the Northern Ireland Judicial Pensions Board. She is Chair of the Trustee Board for the National Assembly of Wales Assembly Members' pension scheme, Chair of Trustees for the Legal Services Commission pension scheme and a non-executive director at the Local Pensions Partnership.

Jill is a fellow of the Chartered Institute of Personnel and Development.

## Register of interests

Board Members have registered any interests they hold that may create an actual or potential conflict with their responsibilities to the Corporation and scheme. The register of interests is published on the Nest website **nestpensions.org.uk/schemeweb/nest/**

**nestcorporation/who-runs-nest/trustee-members.html**

Board 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.

## 2.1.2 Statement of Chief Executive 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 require 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 Chief Executive 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 Chief Executive Officer confirms that the annual report and accounts as a whole is fair, balanced and understandable. She takes personal responsibility for the annual report and accounts and the judgments required for determining that it is fair, balanced and understandable.

- The Chief Executive Officer confirms that as far as she is aware, there is no relevant audit information of which the entity's auditors are unaware.
- The Chief Executive Officer has taken all the steps that she should take to make herself aware of any relevant audit information, and to establish that the auditors are aware of that information.

The Principal Accounting Officer for the Department for Work and Pensions (DWP) has designated the Chief Executive Officer as having responsibility for the propriety and regularity of the public finances for which the Chief Executive Officer is answerable for keeping proper records and for safeguarding Nest Corporation's assets, as set out in **Managing Public Money**, published by HM Treasury.

## 2.1.3 Governance statement

### Governance framework

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 public corporation. Nest Corporation has considered the Cabinet Office Corporate Governance in Central Government Departments Code of Good Practice, within its own governance framework. In respect of those principles of the Code which are applicable to Nest Corporation, there have been no departures.

### Accountability

Nest Corporation is accountable to Parliament. The reporting lines of accountability are through the Chair to the Secretary of State, and through the Chief Executive Officer to the Principal Accounting Officer in the Department for Work and Pensions (DWP). The Chief Executive Officer reports to the Nest Corporation Chair on all matters, except those directly related to government fiscal controls for which she reports to the DWP.

### Trustee effectiveness

Effectiveness reviews for the Board and its committees take place on an annual basis. In line with best practice, Nest Corporation engages an external facilitator once every three years. The last external review took place in 2017/18. Throughout 2018/19 the nominations and remuneration committee provided oversight of the implementation of the recommendations.

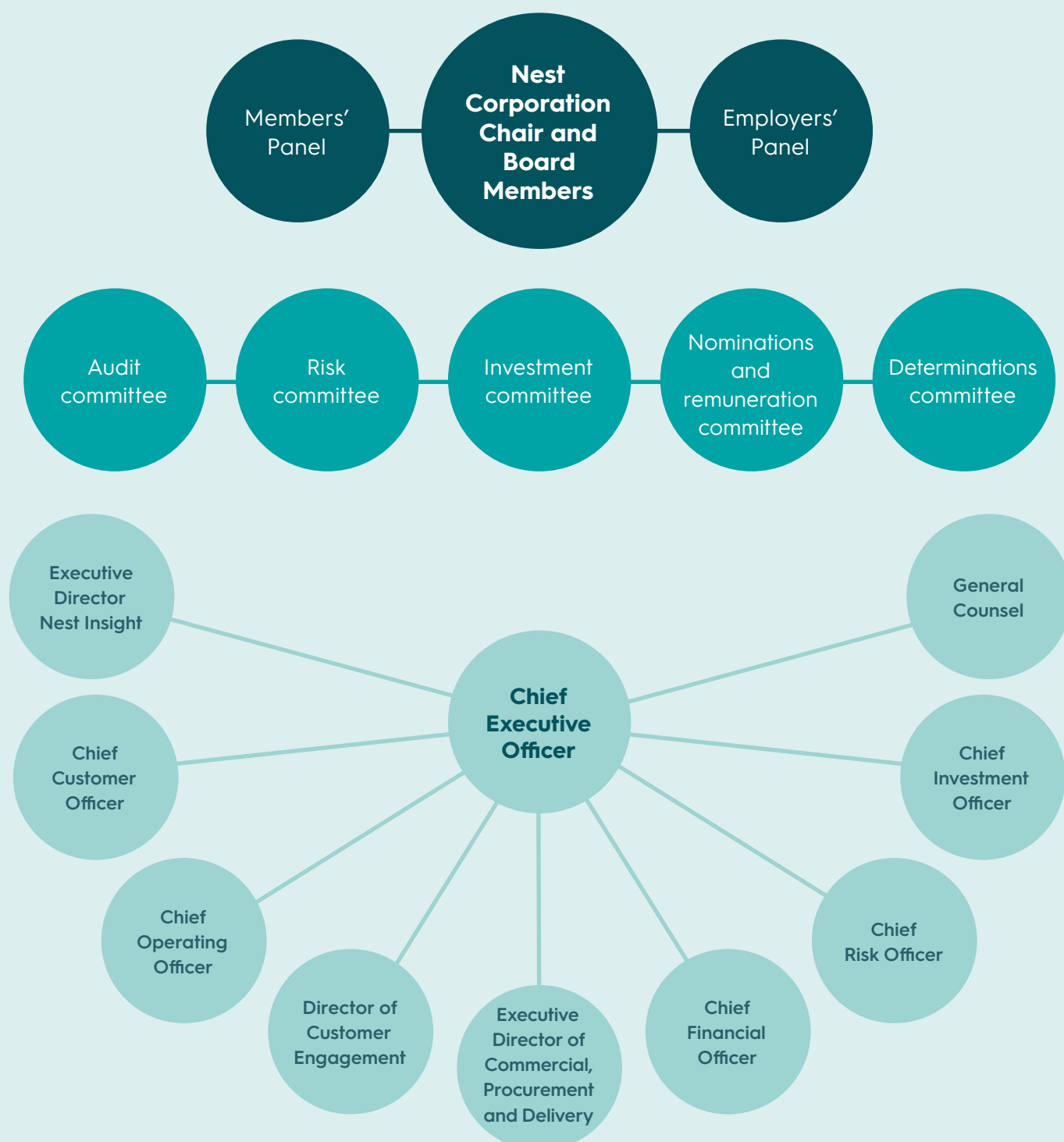
During 2018/19, an internal effectiveness review continued to provide assurance that the Nest governance framework operated effectively. The report made a number of recommendations that were discussed and agreed at the Board meeting in March 2019, including in relation to how the Board continues to ensure effective communications with the Nest Members' and Employers' Panels and the delegations to the Board Committees.

### Risk management

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



## Organisational structure



### Executive Board

Biographies of the Executive Board are available on the Nest website at [nestpensions.org.uk/schemeweb/NestWeb/public/aboutnestcorporation/contents/executive-team.html](https://nestpensions.org.uk/schemeweb/NestWeb/public/aboutnestcorporation/contents/executive-team.html)

## Nest Corporation Board Members and committees

As at 31 March 2019, the Board had fifteen members, consisting of a Chair and fourteen other Board Members, two of whom have day to day executive responsibilities. Collectively they are responsible for setting the strategic direction and objectives for Nest Corporation.

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

All Board Members were independent at appointment having no current or previous material relationship with the organisation as an employee, officer or contractor. This is with the exception of the Chief Executive Officer and Chief Financial Officer (who are employees of Nest) and Chris Hitchen, who previously served as a Board Member of Nest between 2010 and 2015.

Every Board Member has completed The Pensions Regulator's Trustee Toolkit, an online learning programme. New Board Members must complete this within their first six months, in addition to a detailed induction programme. A full skills and experience analysis of Board Members is completed on an annual basis in order to support and inform their continuing requirement for knowledge and understanding, which is met through briefing sessions on relevant topics and an individual commitment to ongoing education and training.

The combined knowledge and understanding of the Board Members, together with the advice available to them, enables them collectively to exercise their responsibilities as the Board. They do this by providing experience of investment, pensions, risk, member representation, finance, audit, governance and business management.

To support effective and robust decision making, the Board has established five committees (see pages 57 to 58). The Board and its committees take decisions that affect the scheme and ensure that Nest Corporation fulfils its obligations as a public corporation. The terms of reference for the Board and its committees are published on the Nest website<sup>1</sup>.

In addition, the Nest Order 2010, article 8 sets out the remit for an Employers' Panel and a Members' Panel, in accordance with the requirements of the Board under the Pensions Act 2008. As requested by the Board, these panels must give assistance and advice about the operation, development or amendment of the scheme. For further information on the panels, see pages 58 to 59.

A Scheme of Reserved Matters and Delegations outlines the matters reserved to the Board, and delegations to the committees. Decisions which are not reserved to the Board or a committee are within the authority of the Chief Executive Officer, who is responsible for the day to day operations and management of Nest Corporation and the Nest pension scheme. This document is reviewed on an annual basis to ensure that the decisions are made at the right level and within the right governance forum, and to reflect any new reserved matters relating to new processes.

The Chief Executive Officer delegates authority to each member of the executive team and holds them accountable for delivery in their remit. In order to provide oversight of the operations of Nest Corporation and the scheme, and to provide advice to the Chief Executive Officer on key issues within the Chief Executive Officer's delegated authority, an Executive Board meets at least monthly and the Chief Executive Officer provides formal reports at the Board meetings.

<sup>1</sup> [nestpensions.org.uk/schemeweb/nest/nestcorporation/how-nest-is-run/policy-and-procedures.html](https://nestpensions.org.uk/schemeweb/nest/nestcorporation/how-nest-is-run/policy-and-procedures.html)

## Audit committee

The audit committee is responsible for monitoring the integrity of the financial statements for Nest Corporation and the scheme and the validity of the assurance given on them. It approves and monitors the internal control framework and the effectiveness of audit and compliance functions.

During the year, the audit committee:

- reviewed the annual report and accounts for both Nest Corporation and the scheme and recommended their approval to the Board
- reviewed the plans of the external auditors for their audit of the annual accounts of both Nest Corporation and the scheme, and oversaw the delivery and effectiveness of external audit
- approved the annual internal audit plan and provided oversight of its delivery and implementation of its recommendations
- approved the annual compliance plan and received regular updates on delivery and findings
- provided oversight of Nest's application for Master Trust Authorisation to The Pensions Regulator and recommended the submission to the Board for approval
- reviewed the system of internal controls within Nest Corporation and the scheme, via the AAF 02/07 report.

## Risk committee

The risk committee is responsible for advising on overall risk strategy. It considers all aspects of risk, and the management of those risks that could affect Nest Corporation and the scheme.

During the year, the risk committee:

- undertook the three yearly zero-based review of Nest's principal risks and recommended their approval to the Board
- reviewed Nest Corporation's risk management and policy frameworks and recommended them for approval to the Board
- provided oversight of the risk appetite levels and tolerances for each principal risk and recommended their approval to the Board
- reviewed and challenged key areas of risk
- reviewed and approved financial crime prevention, information security and business continuity management policies.

## Investment committee

The investment committee is responsible for overseeing the scheme'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, the investment committee:

- reviewed the **Statement of investment principles** (SIP) and recommended its approval to the Board
- provided oversight and made recommendations to the Board on the development of the overall investment strategy, including changes to the funds available to Nest members
- maintained oversight of the investment performance and risk management of all Nest retirement funds, including the approval of changes in asset allocation as required
- gave ongoing consideration to the development of the Nest investment approach
- provided oversight of the developing work on responsible investment and considered the annual responsible investment report.

## Nominations and remuneration committee

The primary role of the nominations and remuneration committee is to ensure remuneration strategies and organisation culture enable Nest to attract and retain the required capabilities and talent of senior executives. It also provides oversight of the corporate governance processes within Nest.

During the year, the nominations and remuneration committee:

- reviewed the results of the annual skills and experience analysis of Board Members and approved recommendations relating to Board training requirements, induction processes, and any implications on recruitment of Board Members
- reviewed the responses of Board Members' annual fitness and propriety questionnaires, and the questionnaires submitted with the Pensions Regulator's Master Trust Authorisation application
- considered the recommendations arising from the annual internal board and committee effectiveness review
- approved the induction plans for the six new Board Members appointed during the year
- discussed the annual recruitment plan for new members of both the Employers' and Members' panels
- received regular reports from the Director of People and Development on people and remuneration matters across Nest
- provided oversight of the development of the executive team succession plan.

## Determinations committee

The determinations committee is responsible for adjudicating the disputes received about the scheme at Stage 2 of the Internal Dispute Resolution Procedure (IDRP). This is the final stage of the complaints process for members of the scheme.

The committee makes recommendations to the executive on learning outcomes from the Stage 2 IDRP disputes to help improve the effectiveness of the scheme and member experience.

During the year, the determinations committee considered 29 cases (2017/18: 31 cases):

- 7 were upheld (2017/18: 8 cases)
- 16 were partially upheld (2017/18: 9 cases)
- 6 were not upheld (2017/18: 8 cases).

The committee also received information on six cases which had been withdrawn by the complainant before consideration by the committee (2017/18: 6 cases) and 5 cases, which were escalated to the Pensions Ombudsman after IDRP Stage 2. One case already upheld was taken to the Pensions Ombudsman and resulted in a higher level of compensation being paid to the complainant.

## Employers' Panel

The Employers' Panel was set up in accordance with the Pensions Act 2008 and Nest Order 2010 to represent participating employers by providing advice on the operation, development and amendment of the scheme. The panel has 10 members. During the year the Employers' Panel:

- Prepared and presented the Employers' Panel annual report to the Board.
- Completed its programme of work which focused on topics that were useful to Nest Corporation and relevant to the panel. A highlight of the work programme was the panel's advice on the development of Nest's employers' strategy.
- Held a joint meeting between Board Members, panel members and the executive team. The meeting explored what employers should do to help their employees understand more about pensions.
- Were consulted on a proposed change to the SIP.

## Members' Panel

The Members' Panel was set up in accordance with the Pensions Act 2008 and Nest Order 2010 to represent scheme members by providing advice on the operation, development and amendment of the scheme. The panel has 11 members. During the year, the Members' Panel:

- Prepared and published the Members' Panel annual report for submission to the Board and the Secretary of State for Work and Pensions.
- Completed its programme of work which focused on topics that were useful to Nest Corporation and relevant to the panel. A highlight of the work programme was the panel's advice on the development of Nest's members' strategy.
- Held a joint meeting between Board Members, panel members and the executive team. The meeting explored what employers should do to help their employees understand more about pensions.
- Were consulted on a proposed change to the SIP.
- Responded to the DWP consultation paper on the Pensions Dashboard.

## Committee membership as at 31 March 2019

### Audit committee

**Clive Elphick** (Chair from 29 January 2019 and member from 24 July 2018)  
**Iraj Amiri** (Chair until 28 January 2019)  
**Ian Armfield**  
**Graham Berville**  
**Martin Turner** (member from 24 July 2018)

### Risk committee

**Martin Turner** (Chair from 21 February 2019 and member from 24 July 2018)  
**Graham Berville** (Chair until 20 February 2019)  
**Iraj Amiri**  
**Clive Elphick** (member from 24 July 2018)  
**Sally Bridgeland**  
**Ron Jarman**

### Investment committee

**Sally Bridgeland** (Chair)  
**Ian Armfield**  
**Graham Berville**  
**Chris Hitchen** (member from 24 July 2018)

### Nominations and remuneration committee

**Caroline Rookes** (Chair)  
**Ian Armfield**  
**Ron Jarman**  
**Otto Thoresen**  
**Jill Youds**

### Determinations committee

**Jill Youds** (Chair)  
**Tomas Carruthers**  
**Caroline Rookes**  
**Otto Thoresen**

## Details of meetings attended by the Board Members

	Trustee Board	Audit committee	Risk committee	Investment committee	Nominations and remuneration committee	Determinations committee
<b>No. of meetings</b>	<b>11</b>	<b>6</b>	<b>5</b>	<b>5</b>	<b>6</b>	<b>12</b>
Otto Thoresen	11				6	11
Iraj Amiri	11	6	4			10 of 11
Ian Armfield	11	6		4	4	
Graham Berville	11	4	5	5		
Sally Bridgeland	10		4	5		
Tomas Carruthers	9					1 of 1
Ron Jarman	11		5		6	
Caroline Rookes	11				5	11
Jill Youds	10				6	10
Carolan Dobson	2 of 3			1 of 1	0 of 1	
Clive Elphick	7 of 9	2 of 3	1 of 4			
Chris Hitchen	8 of 9			3 of 3		
Mutaz Qubbaj	7 of 9					
Martin Turner	8 of 9	2 of 3	4 of 4			
Helen Dean	9 of 9					
Richard Lockwood	6 of 7					

### Explanatory notes:

#### Board:

Carolan Dobson's term came to an end on 30 June 2018.

Clive Elphick, Chris Hitchen, Mutaz Qubbaj, Martin Turner and Helen Dean became Board Members on 1 June 2018.

Richard Lockwood became a Board Member on 1 September 2018.

The following Board Members' terms end on 30 June 2019:

Iraj Amiri  
Graham Berville  
Caroline Rookes  
Sally Bridgeland.

#### Audit committee:

Iraj Amiri was Chair until 28 January 2019.

Martin Turner and Clive Elphick became committee members from 24 July 2018.

Clive Elphick took over as Chair on 29 January 2019.

#### Risk committee:

Graham Berville was Chair until 20 February 2019.

Martin Turner and Clive Elphick became committee members from 24 July 2018.

Martin Turner took over as Chair on 21 February 2019.

#### Investment committee:

Carolan Dobson's term came to an end on 30 June 2018.

Chris Hitchen became a committee member from 24 July 2018.

#### Nominations and remuneration committee:

Carolan Dobson's term came to an end on 30 June 2018.

#### Determinations committee:

Iraj Amiri's term as a committee member came to an end on 14 February 2019.

Tomas Carruthers became a committee member from 14 February 2019.



## Board meetings

The Board met 10 times during the year, with one additional meeting focused solely on strategy. The Board oversees the implementation of the agreed strategy as well as the day to day operation of Nest Corporation and the scheme, holding the Chief Executive Officer to account and providing support and challenge as appropriate.

The audit, risk, investment, nominations and remuneration and determinations committees also met on a regular basis and the Chair of each committee reported back on their work to a subsequent Board meeting. Details of the meetings and attendance can be found on page 60 and committee membership is set out on page 59.

The priority of the Board is to provide a robust, 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 and to accept self-employed people into the scheme. The quality of the data used by the Board is reviewed annually as part of the Board effectiveness review to ensure that this continues to be appropriate and supports the Board in effective decision making.

Information on strategy, scheme administration, member volumes and service, investment performance, risk management, internal controls, operational activities and financial performance is received and challenged by the Board during the year. The Chief Executive Officer provides an update at each meeting on the key issues on her agenda and significant decisions made within her authority.

As part of the normal business cycle, Nest Corporation:

- approved the long-term financial projections, three-year business plan, annual budget and all associated funding plans
- approved the annual report and accounts for both the scheme and for Nest Corporation
- approved the AAF 02/07 Master Trust assurance report for the scheme
- approved the revised SIP
- approved the risk appetite and tolerances for each principal risk
- approved changes to committee membership upon the recommendation of the nominations and remuneration committee
- reviewed and approved the revised Scheme of Reserved Matters and Delegations.

In addition, during the year it:

- approved Nest Corporation's application to the Pensions Regulator for Master Trust Authorisation
- approved the amended and restated loan agreement with the Department for Work and Pensions (DWP)
- approved an updated Framework Agreement between Nest Corporation and the DWP
- approved a revised Memorandum of Understanding with the Members' Panel and Employers' Panel
- received annual reports from the Members' Panel and Employers' Panel
- approved the annual assessment of value for members
- provided oversight of the procurement process for Nest's future scheme administration service.

## Significant control issues

There are no significant internal control issues that merit inclusion in the annual report and accounts for the accounting period 1 April 2018 to 31 March 2019.

This is evidenced by reporting provided to the audit committee and the Board by the internal audit and compliance assurance functions, in line with annual internal audit and assurance plans approved by the audit committee.

Where any control weaknesses are identified by these activities, appropriate actions are assigned to ensure closure within appropriate timescales. These actions are tracked and escalated to the audit committee where closure is not achieved as agreed. These activities ensure that any emerging risks can be properly managed and mitigated within acceptable periods of time.

## Corporate risk statement overview

Nest Corporation has established a culture and processes designed to manage risk in line with the expectations of its Board Members. Nest Corporation and the Nest pension scheme takes a single holistic approach to risks and uncertainties, so this risk statement applies to both Nest Corporation and the scheme.

Nest Corporation must take risks to deliver its strategic priorities. Understanding the risks it faces and how best to control or mitigate them is integral to this. It doesn't do this alone, it also engages with key stakeholders to understand and manage risk.

## Nest Corporation's risk management framework

Nest Corporation's risk management framework is reviewed on an annual basis to ensure it remains fit for purpose and takes developments in industry practice into account. At the core of its framework is the risk management process shown in the diagram below.

Each business area across Nest Corporation maintains a log of its key risks, which is reviewed regularly. A principal risk dashboard is used to report critical, principal and other significant risks to the Executive Board and risk committee. Additionally, the Board receives regular principal risk information.

In addition to the controls and mitigating actions recorded within the risk log, Nest has a Crisis Management Policy and Crisis Management Plan which it would invoke in the event of a crisis, including the appearance of a principal risk. There is also a Business Continuity Plan and Major Incidents Management Process which detail the arrangements should a business continuity event or incident occur.

## Nest Corporation's principal risks

A risk is an uncertain event, which if it were to occur, could impact the delivery of Nest Corporation's objectives. Nest Corporation has identified principal risks in relation to the delivery of its strategic priorities.

Its definition of a principal risk is: 'A risk that is considered material to the development, performance, position or future prospects of Nest'.

Principal risks are reviewed every year to ensure that they remain appropriate. Every three years this takes the form of a comprehensive zero-based review, and this was carried out during 2018/19. This has led to some change in how principal risks are categorised. The review was led by the executive team and risk committee and approved by the Board in November 2018. The current set of principal risks which resulted from the zero-based review are explored in further detail below.

The types of risks that Nest Corporation reviews are continually monitored, to ensure that they are still appropriate and complete. The risk committee undertakes in-depth reviews of individual principal risks to scrutinise management's approach to risk management.



## Risk appetite

For each of its principal risks Nest Corporation has identified key risk indicators. The Board has set a risk appetite and tolerance level for each of these. This allows Nest Corporation to monitor whether it is managing risk in line with Board objectives.

Principal risk indicators and risk appetite levels for each indicator were most recently approved in March 2019.

The Executive Board and risk committee receive reports on performance against risk appetite and tolerance levels four times a year, and the Board receives a performance report across all principal risks and indicators twice annually. These reports identify key risk indicators that are performing outside the Board approved risk appetite and tolerance levels, and the resulting actions taken to bring performance back on target.

In addition to the key risk indicators for each principal risk, Nest Corporation also monitors, assesses and reports against:

- its readiness to respond to the risk should it begin to crystallise
- the assurance actions it has taken related to the controls that mitigate the risk
- other risks from the risk log that are linked to the principal risk.

The following sections detail each of Nest's principal risks and the key controls and mitigating actions that are in place to manage them.

## Customer data and assets risk

Customer data and assets risk is the risk that Nest Corporation and/or its customers suffer detriment from a significant loss of data or assets. Cyber criminals and fraudsters are developing ever more advanced means to commit crimes and Nest Corporation must keep ahead of these developments. It is committed to safeguarding customers' data and assets from this very real threat.

### Key controls and mitigating actions

- The information security management systems operated by Nest Corporation, its scheme administrator and its IT managed services provider are all independently certified to the ISO 27001 standard. This gives assurance that systems and processes are robust and help protect customers' data.
- The scheme administrator has strict operational procedures in place to safeguard customers' data and assets.
- On an annual basis, an independent reporting accountant reviews the design of, and compliance with, key controls of the scheme administrator and provides Nest Corporation with an assurance report. Nest Corporation follows up on any exceptions identified within the report. The scheme administrator also regularly conducts penetration testing and responds appropriately to any findings.

## Service failure risk

Service failure risk is the risk that there is a major service failure, or persistent low-level service failures, that prevent Nest Corporation from delivering services to its customers in time, to the required quality or that meet compliance standards.

### Key controls and mitigating actions

- Nest Corporation works closely with its key suppliers to support them in providing a stable, reliable service to our customers. It undertakes a monthly capacity review with its scheme administrator to make sure that there is sufficient IT and headcount capacity to cope with predicted future transaction volumes. There are contractual service levels in place to underpin the timely and effective delivery of this work.
- Processes and systems are designed to be as straightforward to use as possible, and Nest Corporation consistently looks for ways to make its systems easier to use. For example, in November 2018 Nest Corporation introduced Origo Options, which makes members' experience of Nest's transfer services significantly quicker and easier.
- Key outsourced providers are required to provide Nest Corporation with independent assurance reports on their controls. Nest Corporation reviews these reports and follows up on weaknesses or control failures if any have been identified.

## Investment performance and reputation risk

This is the risk that the scheme's investments fail to perform to targets and that stakeholders, especially members, lose confidence in the investment approach. Nest Corporation's approach to investment is underpinned by its **Statement of investment principles** (SIP) and investment beliefs which provide the Board with a transparent framework for consistent and good quality decision making.

### Key controls and mitigating actions

- Nest Corporation's SIP is reviewed at least every three years by the Board. The last review was March 2019.
- Nest's funds are diversified across different asset classes and fund managers. Nest Corporation continually monitors its investment performance and risk, and where appropriate makes changes to its investment portfolios.
- Oversight of investment risk is primarily the responsibility of the investment committee.

## Financial performance risk

Financial performance risk is the risk that Nest Corporation fails to meet its financial objectives as agreed with government, which include repaying its loan and becoming self-funded.

### Key controls and mitigating actions

- Nest Corporation generates revenue from its contribution charge and annual management charge. Its public service obligation requires it to accept all employers that wish to use it to meet their auto enrolment obligations. This means it must also accept business that potentially generates a loss. However, it aims to be profitable overall through maintaining a diverse membership base and continuing to strive for cost efficiencies.
- Nest Corporation continually invests in service improvements and keeps costs as low as possible. It has a strategic plan, a rolling three-year business plan and an annual budget setting process where every directorate outlines their resource requirements for the forthcoming year, consistent with Nest Corporation's strategic plan and strategic priorities. These plans are reviewed and challenged by the Board. A funding requirement is then submitted to the Department for Work and Pensions (DWP) which provides additional oversight, scrutiny and challenge of these plans before making any funding decisions.
- Senior members of the Nest Corporation management team meet with DWP colleagues on a regular basis to provide them with oversight of Nest's finances and assurance of value for money for the taxpayer.



**Nest Corporation continually invests in service improvements and keeps costs as low as possible.**



## Corporation culture, capability and capacity risk

The Corporation culture, capability and capacity risk is the risk that Nest Corporation does not develop and maintain the right capabilities, capacity and culture to run and steer the company as it grows and develops. Nest Corporation has been able to attract talented individuals who want to work with it to help millions enjoy a better retirement. If it cannot continue to do so it could face higher operating costs, professional fees and increases in errors and losses, with associated reputational consequences.

### Key controls and mitigating actions

- Nest Corporation's staff handbook sets out the values, behaviours and standards it expects from employees, along with the core policies and procedures that its staff should follow. It is aligned to internal Nest values of transparency, ease, empowerment and respect.
- The staff induction process ensures these expectations are communicated and understood at the outset of employment. Expectations are then reinforced through the performance management and appraisal process. The staff handbook is supplemented by a line manager's toolkit which gives further guidance to managers in supporting Nest Corporation's values and behaviours on an ongoing basis.
- All staff are required to attend mandatory training relating to diversity and inclusion and complete e-learning modules relating to financial crime, information security, GDPR and competition law.
- An annual staff engagement survey seeks feedback from across the workforce and an associated action plan is developed based on the findings.
- Nest Corporation holds an annual staff conference, along with quarterly town hall briefings, to ensure core messages are communicated and understood by everyone.
- Nest Corporation established a Leadership Academy in 2018 which will develop 60 leaders over the next two years. In addition, it has a core learning programme in line with its objective of building corporate capability.
- It has introduced a diversity and inclusion strategy, which will further support Nest Corporation in attracting and retaining capable, skilled staff. It is resourced by a Diversity and Inclusion Business Partner.

## Legal and regulatory compliance risk

Legal and regulatory compliance risk is the risk that Nest Corporation fails to comply with relevant law and regulation resulting in a major breach.

### Key controls and mitigating actions

- Nest Corporation and the scheme are required to comply with pension-specific legislation including the Pensions Act 2008, The Pensions Regulator's codes of practice and its new supervisory regime. It has a compliance assurance function which undertakes an annual plan of activity to monitor compliance with pensions legislation. The function also undertakes assurance activities over compliance with the Data Protection Act 2018, the General Data Protection Regulation (GDPR) and financial crime legislation.
- To ensure Nest Corporation remains compliant, it must react in a timely fashion to regulatory change. Nest Corporation continually scans the legislative, regulatory and policy landscape which allows it to identify change early and plan ahead as far as possible, to manage and incorporate changes into its systems and processes. Its ability to manage and respond effectively to legislative and regulatory change will prevent such changes from adversely impacting its members and will minimise any associated costs.



- The principal change in this risk over the last year has been the introduction of the Master Trust regulatory regime and of the related application for authorisation. Nest Corporation is confident that the governance and operational policies and processes it has put in place are adequate to meet the requirements set out by the Pensions Regulator and it will receive authorisation. This risk is likely to continue requiring elevated focus and attention even after receiving Master Trust Authorisation, in order to meet the ongoing requirements of the supervisory regime.

### Failure to deliver compliant and effective member and employer proposition risk

Failure to deliver compliant and effective member and employer proposition risk is the risk that Nest Corporation fails to keep its proposition and service aligned to regulatory requirements and/or to the changing needs or expectations of its customers.

#### Key controls and mitigating actions

- Nest Corporation continues to work with policy makers, regulators and the wider industry to help find solutions which will meet the needs of its members and employers both now and in the future. Regular meetings are held to identify and recognise any impacts arising from new legislation or regulation through detailed horizon scanning sessions. These meetings help to ensure that necessary changes required to maintain the compliance of the Nest scheme are captured, understood and delivered effectively.

- Nest Corporation continues to assess and monitor the needs of its members and employers through a detailed programme of research and customer insight tracking to continually evaluate the effectiveness of the proposition. It has implemented two new 'improvement' workstreams for both members and employers, to identify, understand and prioritise necessary operational and product improvements to key member and employer processes. Recent changes have included operational and product improvements to retirement and transfer processes to enable better outcomes for Nest members. Further product improvements are planned in 2019/20.

- There is ongoing investment in improvements to member engagement, including the development of new tools and communication strategies and updates to the Nest scheme website. These improvements allow members to better engage with Nest across a range of devices and to more effectively manage their pension and plan for their retirement.
- Changes have traditionally been incorporated into the Nest scheme through twice yearly service releases. A product roadmap sets out the changes that Nest Corporation is likely to make over the next three years to ensure that change is managed in line with its strategic priorities. This also incorporates legal and regulatory change. Nest works alongside its scheme administrator to plan, design and build these changes into its software systems and processes.

- Nest Corporation is reviewing the way that change is delivered as it nears the end of its current scheme administration contract and as work progresses to procure a new contract. As part of this transition Nest Corporation has sought to limit procurement risk by exploring new approaches to change.

### Ensuring competitiveness risk

Ensuring competitiveness risk is the risk that Nest Corporation's competitiveness is compromised either by its inability to compete effectively or the risk of being perceived to abuse a position of market dominance. Nest Corporation's public service obligation requires it to accept all employers that wish to use it to meet their auto enrolment obligations.

#### Key controls and mitigating actions

- Nest Corporation performs regular horizon scanning activities. This is to monitor market trends and potential upcoming competitive challenges to ensure that it remains competitive. It also engages with the market and participates in government consultations, wider market activities, industry groups and working groups. It does this to maintain a positive relationship with government, regulators and industry peers.
- Nest Corporation plans to further improve its employer experience through changes to product and processes. Incremental improvements to web services and web functionality are also planned, as well as refreshed branding. The member proposition is also evolving as Nest Corporation looks to provide a wider suite of retirement options for members.



- To enable effective engagement with employers and intermediaries, Nest Corporation develops thought leadership content and publishes a wide range of media through trade publications and digital channels. Its account management team attends key trade events and it facilitates two employer events per year for large employers.
- Product innovations such as Nest Connect and payroll integration, through web services, has allowed Nest Corporation to create a simple and hassle-free service that matches Nest's processes to the way people work. Nest Corporation continues to evaluate this service and engages regularly with Nest connectors, employers and payroll organisations to maintain these relationships and ensure it maintains an effective and competitive proposition.

### **Future scheme administration service risk**

One of Nest Corporation's key outsourced contracts, the scheme administration contract, is due to expire in 2023. A programme has been established to prepare and operate a procurement of future scheme administration requirements to ensure that Nest Corporation continues to meet its scheme and statutory duties and remains effective and efficient.

The future scheme administration service risk is the risk that the programme fails to deliver the necessary transformation of our scheme administration services.

#### **Key controls and mitigating actions**

- A programme-specific governance structure ensures that decisions are made appropriately.
- The programme has determined Critical Success Factors for the programme, and there are structures in place to ensure those success factors are achieved.
- The programme regularly re-assesses the impacts (if any) it has on the overall risk exposure for Nest, via an impact assessment across all principal risks.

### **Conflicts arising from Nest Corporation's government funding/sponsorship risk**

This is the risk of conflict between Nest Corporation (a public corporation) and its sponsoring department (DWP) or the government, which also provides its funding.

The DWP has a wide pensions policy agenda and the government has an even broader interest in promoting the general health of the UK economy. In contrast, Nest Corporation's sole function is to be a trustee of an occupational pension scheme acting in the interest of its members.

These differing remits and interests could cause conflicts. As government policy develops, Nest Corporation will continue to fulfil its public service obligation and act in members' interests.

#### **Key controls and mitigating actions**

- Nest Corporation has key relationships at a strategic level with central government and the DWP, as well as an agreement with the DWP setting out its operating framework and accountabilities.
- Nest Corporation has a governance structure in place designed to ensure that appropriate decisions can be made, and that the Board acts in members' interests.

## Whistleblowing

Nest Corporation has a whistleblowing procedure which is published on its intranet.

The audit committee reviews and approves the procedure on an annual basis and is satisfied with the plan and the approach taken.

In line with best practice, Nest has also established an external whistleblowing hotline service which provides employees with the ability to report any concerns anonymously.

Any whistleblowing concerns are reported and discussed with the audit committee. No such concerns were raised during 2018/19 (2017/18: none).

## Modern Slavery Act

Nest Corporation does not condone any activity which constitutes modern slavery or human trafficking under the Modern Slavery Act (MSA) 2015.

Any commercial organisation in the UK with a turnover in excess of £36 million is required to produce a slavery and human trafficking statement, under section 54(9) of the Act.

Nest Corporation has a staff handbook which sets out all the key policies and organisational standards that employees are expected to follow and uphold. Its corporate responsibility statement (see Appendix two, page 120) reflects Nest Corporation's commitment to acting ethically and with integrity in all its business relationships. Further information can be found on the website.

Nest Corporation has carried out a risk-based assessment across the organisation to identify the impact of the MSA on its activities and supply chain, and the potential exposure to modern slavery and human trafficking activity.

Nest Corporation carries out due diligence exercises, contacting its main suppliers to monitor their compliance with section 54 of the MSA by requesting, where applicable, a copy of their published MSA statement. The supplier is asked to notify Nest Corporation of any actual or suspected breaches of modern slavery that have occurred within their organisations in the last 12 months.

As a public corporation, Nest Corporation undertakes due diligence when considering taking on new suppliers in accordance with the Public Contracts Regulations 2015.

## Internal Audit

Ernst & Young LLP (EY) provides independent assurance on internal controls to Nest Corporation and reports to the audit committee. EY also provides an annual opinion on governance, risk management and internal controls required to fulfil Nest Corporation's obligations as a public corporation.

EY agrees its annual internal audit plan with Nest Corporation's audit committee and reports on progress against the plan on a quarterly basis. The internal audit plan covers Nest Corporation as both a public corporation and the Board of an occupational pension scheme. EY has provided the head of internal audit opinion for the period 2018/19.

## Head of Internal Audit opinion

Based on the work carried out, in the opinion of the Head of Internal Audit at Nest, there is reasonable assurance that Nest Corporation has adequate and effective systems of governance, risk management and internal control.

## Compliance and assurance

The compliance assurance team is responsible for monitoring compliance with governance requirements. It provides ongoing assurance to the Chief Executive Officer and Board that Nest Corporation is compliant with internal controls, that it complies with statutory and regulatory requirements for pension schemes and maintains controls to govern information security and financial crime prevention.

The compliance assurance team follows an annual compliance plan that is agreed with the audit committee, and which covers provision of assurance against the internal control framework, regulation and legislation. It ensures that key risk activities are identified, and that sufficient monitoring is undertaken. The service management team and scheme assurance team ensure that Nest receives adequate assurance from external providers where tasks are outsourced.

Nest Corporation has published its annual control assurance report against the AAF 02/07 Master Trust control assurance report, for the period 1 April 2018 to 31 March 2019. This framework, established by The Pensions Regulator 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. Trustees of Master Trust schemes ('the Board' in Nest's case) should be able to demonstrate that their schemes meet these objectives.

In addition, members of the executive team provide an annual personal assurance statement to the Chief Executive Officer relating 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 2018/19 there were none (2017/18: none).

The Pension Schemes Act 2017 and the supporting Master Trust Regulations 2018 introduced significant changes to the regulation of Master Trust pension schemes. Nest Corporation has applied for authorisation under the new Master Trust Authorisation regulatory regime. It believes that the internal controls of the Corporation and Scheme already meet the standards set out by the Pensions Regulator to protect the members of these schemes.

## Information security and data protection

Nest Corporation is committed to supporting a secure electronic environment to conduct its business. It has a comprehensive Information Security Management System (ISMS) that is certified against the International Standards Organisation (ISO) 27001:2013. Its outsourced administration provider, Tata Consultancy Services, and IT infrastructure provider, Advanced 365, each hold their own ISO27001:2013 certification for the services they provide to Nest Corporation.

Nest Corporation also has a data protection policy, which sets out its approach to the protection of personal data and associated training. The policy has been updated to comply with the EU General Data Protection Regulation (GDPR), the subsequent Data Protection Act 2018, and other regulations designed to ensure the security of and govern the proper use of personal data.

Recognising the impact of the new GDPR requirements, Nest Corporation has undertaken a full review of the data that it controls and processes and has taken steps to ensure that all appropriate processes for both Nest Corporation and scheme data are compliant with the new regulations. In addition, training on the new regulations has been delivered to the whole of Nest Corporation. It has issued GDPR addendums to in-scope suppliers to ensure its contracts are compliant with the requirements of article 28 of the GDPR.

As a public corporation, Nest Corporation has provided information on its management of information risk and compliance to the Department for Work and Pensions (DWP) Information Security and Assurance Report. This is for use by the DWP's senior information risk owner.

## Complaints to the Parliamentary Ombudsman

There have been no complaints about Nest to the Parliamentary Ombudsman in 2018/19 (2017/18: none).

## Business continuity

Nest Corporation maintains an effective business continuity capability. This allows management to respond to and recover from any major incidents that affect business operations. Its business continuity management programme is appropriate to the size and complexity of Nest Corporation and is aligned with industry standards. Business continuity arrangements are tested, reviewed by the Chief Risk Officer and the risk committee, and renewed as appropriate.

Helen Dean  
Chief Executive Officer  
Nest Corporation

27 June 2019

## 2.2

# Remuneration and staff report

The remuneration and staff report sets out the remuneration policy for directors, how the policy was implemented and the amounts awarded to those directors. It also details the composition of staff employed by Nest Corporation and measures relating to fair pay.

## Remuneration report

### Remuneration policy

This report has been prepared in accordance with relevant 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.

Nest's remuneration policy was implemented in July 2015 in line with civil service guidelines and a review of current market data supplied by external providers (Hay Korn Ferry and McLagan). The job architecture policy covered wider remuneration across the organisation at all levels up to non-executive director.

Its main objectives were:

- to review pay across the organisation
- to provide a transparent pay model and framework/governance for changes to remuneration for both managers and employees.

These disclosures relate to Nest Corporation Board Members and the Chief Executive Officer. Those are 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. 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.

Most other Nest Corporation Board Members are required to commit to working for Nest for 30 days a year. Board Members are appointed by the Secretary of State for a period of initially between four and five years. In accordance with paragraph 7 of schedule 1 to the Pensions Act 2008, the remuneration of Board Members is determined by the Secretary of State. The terms of appointment allow for extra days to be remunerated on a pro-rata basis.

The nominations and remuneration committee is responsible for advising on the appropriateness of remuneration strategies and setting the remuneration of the Chief Executive Officer.

A report on the activities of the committee can be found in section 2.1.3.

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

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

### Performance-related pay

The Chief Executive Officer approves the performance-based approach to reward. This recognises staff who perform well and contribute more.

For 2018/19 Nest Corporation used 1.5 per cent of its overall salary bill to provide consolidated pay awards to its staff on a performance-related basis.

For 2018/19 Nest Corporation allocated 2.2 per cent of its overall salary bill to provide non-consolidated awards to its staff. Additional caps in line with the Department for Work and Pensions (DWP) approach to senior civil service pay bands or equivalents were applied.

### 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.



## Internal comparisons (subject to audit)

The ratio between the median remuneration of Nest Corporation's staff and that of the Chief Investment Officer, being the highest paid director, is 4.2 to 1 for 2018/19. In 2017/18 it was 4.1 to 1. For this comparison, total remuneration includes salary and benefits in kind as well as non-consolidated performance related bonuses. It does not include severance pay. It does not include employer pension contributions or the cash equivalent transfer value of pensions.

## Pensions

Nest Corporation's staff are offered a defined contribution arrangement in the Nest scheme.

Nest Corporation holds the Pension Quality Mark (PQM) Plus standard. This demonstrates 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.

The Chief Executive Officer and Chief Financial Officer are the only individuals included in the remuneration disclosures to be members of the Nest pension scheme.



## Remuneration tables

The information in the table below has been audited.

Contract details			2018/19			
Name and position	Contract start date	Unexpired term as at 31 March 2019	Full-year equivalent salary and allowances £000	Salary and allowances paid £000 <sup>1</sup>	Performance related payments £000 <sup>2</sup>	Pension benefits (to nearest £100) <sup>5</sup>
Otto Thoresen Chair	01/02/2015	Reappointed 01/02/2020 to 31/01/2022	90-95	90-95	0	0
Iraj Amiri Board Member	20/06/2011	3 months	15-20	15-20	0	0
Ian Armfield Board Member	01/04/2014	15 months	15-20	15-20	0	0
Graham Berville Board Member	01/06/2014	3 months	15-20	15-20	0	0
Sally Bridgeland Board Member	01/04/2015	3 months	15-20	15-20	0	0
Tomas Carruthers Board Member	01/07/2016	27 months	15-20	15-20	0	0
Carolyn Dobson Board Member	01/04/2014	Contract expired 30 June 2018	20-25	5-10	0	0
Clive Elphick Board Member	01/06/2018	50 months	15-20	15-20	0	0
Chris Hitchen Board Member	01/06/2018	50 months	15-20	15-20	0	0
Ron Jarman Board Member	01/07/2016	27 months	15-20	15-20	0	0
Mutaz Qubbaj Board Member	01/06/2018	50 months	10-15	10-15	0	0
Caroline Rookes Board Member	01/04/2015	3 months	15-20	15-20	0	0
Martin Turner Board Member	01/06/2018	50 months	15-20	15-20	0	0
Jill Youds Board Member	01/04/2015	3 months of current term, reappointed from 1 July 2019 to 30 June 2024	15-20	15-20	0	0
Helen Dean <sup>6</sup> Chief Executive Officer	01/06/2018	N/A	235-240	235-240	15-20	6,500
Richard Lockwood <sup>6</sup> Chief Financial Officer	01/09/2018	N/A	225-230	225-230	5-10	6,200

	2018/19	2017/18
Midpoint of banding of highest paid director's total remuneration excluding pension benefits (£)	252,500	237,500
Median total remuneration (£)	59,517	57,262
Ratio <sup>4</sup>	4.2	4.1

		2017/18					
Taxable expenses (to nearest £100) <sup>3</sup>	Total £000	Full-year equivalent salary and allowances £000	Salary and allowances paid £000 <sup>1</sup>	Performance related payments £000 <sup>2</sup>	Pension benefits (to nearest £100) <sup>5</sup>	Taxable expenses (to nearest £100) <sup>3</sup>	Total £000
16,600	105-110	90-95	90-95	0	0	10,700	100-105
7,200	25-30	15-20	15-20	0	0	6,100	25-30
0	15-20	20-25	20-25	0	0	0	20-25
9,900	25-30	20-25	20-25	0	0	5,200	25-30
0	15-20	15-20	15-20	0	0	0	15-20
0	15-20	15-20	15-20	0	0	0	15-20
1,800	5-10	20-25	20-25	0	0	4,000	20-25
3,300	15-20						
400	15-20						
0	15-20	15-20	15-20	0	0	0	15-20
0	10-15						
0	15-20	15-20	15-20	0	0	0	15-20
600	15-20						
6,600	20-25	15-20	15-20	0	0	6,400	25-30
0	260-265	220-225	220-225	15-20	7,000	0	245-250
0	235-240						

**Notes**

1. Board Members terms of engagement allows them to claim for time in excess of their contractual obligation.

No excess time was claimed.

2. With the exception of the Chief Executive Officer and Chief Financial Officer, Board Members do not receive any performance related payments.

3. Taxable expenses relate to travel and subsistence.

4. The ratio has increased to 4.2 in 2018/19 (2017/18, 4.1) primarily due to a rise in the highest paid director's remuneration.

In 2018/19, 1 (2017/18, 1) employee received remuneration in excess of the highest-paid director in the above remuneration table. Remuneration ranged from £20,000 to £272,000 (2017/18, £23,000 to £255,000).

5. Pension benefits comprise employer contributions into two defined contributions schemes.

6. Richard Lockwood and Helen Dean were both Board Members as at 31 March 2019. The remuneration disclosed is mainly in respect of their positions as Chief Executive Officer and Chief Financial Officer.



## Staff report

### Summary of staff costs for 2018/19

The information in the tables below has been audited

	Year ended 31 March 2019 £000	Year ended 31 March 2018 £000
<b>Directly employed staff</b>		
Wages and salaries	17,658	15,525
Social security costs	2,145	1,830
Pension costs	1,292	1,105
<b>Subtotal</b>	<b>21,095</b>	<b>18,460</b>
Seconded	225	239
Interim staff	3,361	2,084
<b>Total staff costs</b>	<b>24,681</b>	<b>20,783</b>

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 2019 Average FTE	Year ended 31 March 2018 Average FTE
<b>Directly employed</b>	273	240
<b>Seconded</b>	3	1
<b>Interim staff</b>	19	12
<b>Total average number of staff</b>	<b>295</b>	<b>253</b>

### Staff composition and gender analysis

The following table shows the total number and gender breakdown of the Board, executive team and all other staff at Nest as at 31 March 2019.

Title	Male	Female	Total
Board Members (ex CEO and CFO)	10	3	13
Executive Board (inc CEO and CFO)	9	1	10
All other staff	148	132	280
<b>Total</b>	<b>167</b>	<b>136</b>	<b>303</b>

## Other

### Diversity

Nest Corporation's diversity is strong. As at 31 March 2019 the proportion of females in senior leadership roles (grade A and above) was 41 per cent and the proportion of Black, Asian and Minority Ethnic (BAME) employees in senior leadership roles was 23 per cent. It has recently launched a diversity and inclusion strategy including ambitious but achievable targets. These include a target of 13\* per cent of executive roles to be held by BAME members of staff by 2025. We will also continue to monitor BAME representation in leadership roles.

Nest Corporation is also committed to promoting diversity in other characteristics. By 2025 we want at least 30 per cent\* of our executive roles to be held by women. We also want at least 12 per cent\* of our executive and leadership roles to be held by people with disabilities.

### Sickness absence

The average amount of time lost to sickness per employee in 2018/2019 was 4.5 days compared to 5.1 days in 2017/2018. The reduction is a result of more proactive management of sickness within Nest and the effective implementation of the sickness absence management process.

### Staff policies

Staff policies are documented in the staff handbook and are available to all staff via Nest Corporation's intranet.

### Women in Finance

Nest Corporation is committed to the Government's Women in Finance charter. Its aim is to improve gender balance across financial services.

Further details on its involvement are available on Nest's website [nestpensions.org.uk/schemeweb/nest/nestcorporation/how-nest-is-run/policy-and-procedures.html](https://nestpensions.org.uk/schemeweb/nest/nestcorporation/how-nest-is-run/policy-and-procedures.html)

Nest Corporation has already exceeded its Women in Finance target of 30 per cent of leadership roles to be held by women by September 2019.

Nest Corporation is a Disability Confident employer. See page 120 for more details.

\* these figures are based on the UK's working age population.

## Off-payroll engagements

For all off-payroll engagements as of 31 March 2019, amounting to more than £245 per day and that last for longer than 6 months:

<b>Number of existing engagements as of 31 March 2019</b>	<b>12</b>
<b>of which</b>	
Number that have existed for less than one year at time of reporting	7
Number that have existed for between one and two years at time of reporting	3
Number that have existed for between two and three years at time of reporting	1
Number that have existed for between three and four years at time of reporting	0
Number that have existed for four or more years at time of reporting	1

For all new off-payroll engagements, or those that reached six months in duration, between 1 April 2018 and 31 March 2019, amounting to more than £245 per day and that last for longer than six months:

<b>Number of new engagements, or those that reached six months in duration, between 1 April 2018 and 31 March 2019</b>	<b>12</b>
<b>of which</b>	
Number assessed as caught by IR35	6
Number assessed as not caught by IR35	6
<b>of which</b>	
Number engaged directly (via PSC contracted to department) and are on the departmental payroll	0
Number of engagements reassessed for consistency / assurance purposes during the year	8
Number of engagements that saw a change to IR35 status following the consistency review	0

## Exit packages (subject to audit)

Exit packages totalled £135,577 in 2018/19 (2017/18: £178,964). This comprised five redundancy related payments totalling £71,031 (2017/18: £178,964) and six other involuntary exits where a payment in lieu of contractual notice period was made, totalling £64,546 (2017/18: nil).

Redundancy and other departure costs are paid in accordance with the provisions of the Civil Service Compensation Scheme, a statutory scheme made under the Superannuation Act 1972. Nest Corporation's redundancy policy is set out to pay statutory minimum amounts. Exit costs are accounted for in full in the year of departure. Where Nest Corporation agrees early retirements, the additional costs are met by Nest Corporation and not by the Civil Service Pension Scheme. Ill-health retirement costs would be met by the pension scheme and would not be included in the table. This table has been audited.

Exit package cost band	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band	
	2018/19	(2017/18)	2018/19	(2017/18)	2018/19	(2017/18)
<£10,000	2	(4)	3	(-)	5	(4)
£10,000 - £25,000	2	(2)	3	(-)	5	(2)
£25,000 - £50,000	1	(1)	-	(-)	1	(1)
£50,000 - £100,000	-	(-)	-	(1)	-	(1)
£100,000 - £150,000	-	(-)	-	(-)	-	(-)
£150,000 - £200,000	-	(-)	-	(-)	-	(-)
Total number of exit packages	<b>5</b>	<b>(7)</b>	<b>6</b>	<b>(1)</b>	<b>11</b>	<b>(8)</b>
<b>Total cost</b>					<b>£135,577</b>	<b>(£178,964)</b>

No ex-gratia payments were made to any individuals who left Nest Corporation during the year.

## 2.3

# Parliamentary accountability and audit report

The parliamentary accountability and audit report bring together the key documents demonstrating Nest Corporation's accountability to Parliament in relation to the annual report and accounts. It comprises of:

- a) regularity of expenditure;
- b) remote contingent liabilities;
- c) charge; and
- d) the certificate and report of the Comptroller and Auditor General to the Houses of Parliament.

### Regularity of expenditure (subject to audit)

HM Treasury's publication of Managing Public Money (MPM) prescribes any losses or special payments in excess of £300,000 should be disclosed. There have been no individual losses or special payments over £300,000 in 2018/19 (2017/18: none). Total losses and special payments do not exceed £300,000 in 2018/19 (2017/18: none).

### Remote contingent liabilities (subject to audit)

There are no remote contingent liabilities that Nest Corporation is aware of at the time of signing of the report and accounts.

### Charges (subject to audit)

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: a contribution charge of 1.8 per cent on the value of each new contribution into a member's pension pot and an annual management charge of 0.3 per cent on the total value of a member's pension pot each year, which is reflected in the unit price and calculated on a daily basis.

The Board also assesses value for members in each year. This brings together information from investment reports and market data to assess the quality of service provided against the costs and charges applied to members.

Helen Dean  
Chief Executive Officer  
Nest Corporation  
27 June 2019

## The certificate and report of the Comptroller and Auditor General to the Houses of Parliament

### Opinion on financial statements

I certify that I have audited the financial statements of the National Employment Savings Trust (Nest) Corporation for the year ended 31 March 2019 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, including the significant accounting policies. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Accountability Report that is described in that report as having been audited.

#### 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 2019 and of net expenditure 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 regularity

In my opinion, in all material respects the income and expenditure 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.

### Basis of opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK) and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my certificate. Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2016. I am independent of the National Employment Savings Trust Corporation in accordance with the ethical requirements that are relevant to my audit and the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

### Conclusions relating to going concern

I am required to conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the National Employment Savings Trust Corporation's ability to continue as a going concern for a period of at least twelve months from the date of approval of the financial statements. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern. I have nothing to report in these respects.

## Responsibilities of the Corporation and Chief Executive Officer for the financial statements

As explained more fully in the Statement of Chief Executive Officer's responsibilities, the Chief Executive Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

## Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit, certify and report on the financial statements in accordance with the Pensions Act 2008.

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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (UK), I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the National Employment Savings Trust Corporation's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

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



## Other information

The National Employment Savings Trust Corporation and the Chief Executive Officer are responsible for the other information. The other information comprises information included in the annual report, but does not include the parts of the Accountability Report described in that report as having been audited, the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

## Opinion on other matters

### In my opinion:

- the parts of the Accountability Report to be audited have been properly prepared in accordance with Secretary of State directions made under the Pensions Act 2008;
- in the light of the knowledge and understanding of the National Employment Savings Trust Corporation and its environment obtained in the course of the audit, I have not identified any material misstatements in the Performance Report or the Accountability Report; 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 parts of the Accountability 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.

Gareth Davies  
Comptroller and Auditor General  
4 July 2019  
National Audit Office  
157-197 Buckingham Palace  
Road Victoria  
London  
SW1W 9SP

## Chapter 3

# Financial statements



## 3.1

# Nest Corporation financial statements

## Statement of comprehensive net expenditure

for the year ended 31 March 2019

	Note	Year ended 31 March 2019 £000	Year ended 31 March 2018 £000
<b>Expenditure</b>			
Staff costs	2a	24,681	20,783
Depreciation and amortisation	3	12,113	10,898
Other expenditure	3	91,060	75,356
		<b>127,854</b>	<b>107,037</b>
<b>Income</b>			
Grant income	4	(22,422)	(20,046)
Scheme income	5a	(61,359)	(25,604)
Other income	5b	(458)	(17,046)
<b>Net expenditure</b>		<b>43,615</b>	<b>44,341</b>
Interest payable	6	35,391	32,159
<b>Net expenditure after interest deducted from general reserve</b>		<b>79,006</b>	<b>76,500</b>
<b>Other comprehensive net expenditure</b>			
Net loss/(gain) on revaluation of non-current intangible assets	8	382	(152)
Release from lease incentive reserve	3	32	77
<b>Total comprehensive net expenditure for the period</b>		<b>79,420</b>	<b>76,425</b>

All income and expenditure is derived from continuing operations.  
The accounting policies and notes on pages 88 to 108 form part of these financial statements.

## Statement of financial position

as at 31 March 2019

	Note	As at 31 March 2019 £000	As at 31 March 2018 £000
<b>Non-current assets</b>			
Property, plant and equipment	7	13,619	9,854
Intangible assets	8	39,479	40,736
Prepayment amounts falling due over one year	9a	4,541	3,933
<b>Total non-current assets</b>		<b>57,639</b>	<b>54,523</b>
<b>Current assets</b>			
Trade and other receivables	9b	13,998	16,815
Other current assets	9c	63	53
Cash and cash equivalents	10	25,592	12,935
<b>Total current assets</b>		<b>39,653</b>	<b>29,803</b>
<b>Total assets</b>		<b>97,292</b>	<b>84,326</b>
<b>Current liabilities</b>			
Interest payable	11a	(16,042)	(14,582)
Trade and other payables	11b	(15,628)	(13,238)
Other liabilities	11c	(2,218)	(2,109)
Provisions for liabilities and charges	13	(35)	(1,303)
<b>Total current liabilities</b>		<b>(33,923)</b>	<b>(31,232)</b>
<b>Total assets less current liabilities</b>		<b>63,369</b>	<b>53,094</b>
<b>Non-current liabilities</b>			
DWP loan	12	(713,747)	(622,747)
Other liabilities	12	(4,903)	(6,248)
Provisions for liabilities and charges	13	(40)	-
<b>Total non-current liabilities</b>		<b>(718,690)</b>	<b>(628,995)</b>
<b>Total assets less total liabilities</b>		<b>(655,321)</b>	<b>(575,901)</b>
<b>Taxpayers' equity and other reserves</b>			
General reserve		(658,007)	(579,001)
Revaluation reserve		2,686	3,068
Lease incentive reserve		-	32
<b>Total equity</b>		<b>(655,321)</b>	<b>(575,901)</b>

The financial statements, including the accounting policies and notes, on pages 88 to 108 were approved by the Trustee on 27 June 2019. The accounting policies and notes on pages 88 to 108 form part of these financial statements.

Helen Dean, Chief Executive Officer, 27 June 2019

## Statement of cash flows

for the year ended 31 March 2019

	Note	Year ended 31 March 2019 £000	Year ended 31 March 2018 £000
<b>Cash flows from operating activities</b>			
Expenditure	2a, 3	(127,854)	(107,037)
Scheme income	5a	61,359	25,604
Other income	5b	458	17,046
Grant income for non-chargeable costs	4	458	407
Adjustment for non-cash items	21	9,551	8,815
Increase in trade and other receivables	9	(2,377)	(5,221)
Increase in trade and other payables	11	3,898	6,544
(Decrease)/increase in provisions	13	(1,228)	420
<b>Net cash outflow from operating activities</b>		<b>(55,735)</b>	<b>(53,422)</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment and intangible assets	21	(601)	(747)
Payments towards imputed lease liability of TCS assets	21	(8,580)	(9,322)
<b>Net cash outflow from investing activities</b>		<b>(9,181)</b>	<b>(10,069)</b>
<b>Cash flows from financing activities</b>			
Loan interest	6	(35,391)	(32,159)
Public service obligation offset	4	21,964	19,639
Loan received from DWP	12	91,000	83,600
<b>Net cash inflow from financing activities</b>		<b>77,573</b>	<b>71,080</b>
<b>Net increase in cash and cash equivalents in the period</b>	10	<b>12,657</b>	<b>7,589</b>
Cash and cash equivalents at the beginning of the period	10	12,935	5,346
<b>Cash and cash equivalents at the end of the period</b>		<b>25,592</b>	<b>12,935</b>

In the statement of cash flows the amounts related to loan interest and the public service obligation offset have been reclassified from cash flows relating to operating activities, to cash flows relating to financing activities. The reason for the reclassification is that these headings better reflect the nature of the cash flows. Amounts reclassified in the comparative figures can be seen in the Statement of cash flows.

The accounting policies and notes on pages 88 to 108 form part of these financial statements.



## Statement of changes in taxpayers' equity

for the year ended 31 March 2019

	Lease incentive reserve £000	Revaluation reserve £000	General fund £000	Total reserves £000
<b>Total taxpayers' equity as at 1 April 2017</b>	<b>109</b>	<b>2,916</b>	<b>(502,501)</b>	<b>(499,476)</b>
<b>Changes in taxpayers' equity 2017/18</b>				
Release of reserves to the statement of comprehensive net expenditure	(77)	-	-	(77)
Net gain on revaluation of non-current assets	-	152	-	152
Net expenditure after interest	-	-	(76,500)	(76,500)
<b>Total changes for 2017/18</b>	<b>(77)</b>	<b>152</b>	<b>(76,500)</b>	<b>(76,425)</b>
<b>Total taxpayers' equity as at 31 March 2018</b>	<b>32</b>	<b>3,068</b>	<b>(579,001)</b>	<b>(575,901)</b>
<b>Changes in taxpayers' equity 2018/19</b>				
Release of reserves to the statement of comprehensive net expenditure	(32)	-	-	(32)
Net change to loss on revaluation of non-current assets	-	(382)	-	(382)
Net expenditure after interest	-	-	(79,006)	(79,006)
<b>Total changes for 2018/19</b>	<b>(32)</b>	<b>(382)</b>	<b>(79,006)</b>	<b>(79,420)</b>
<b>Total taxpayers' equity as at 31 March 2019</b>	<b>-</b>	<b>2,686</b>	<b>(658,007)</b>	<b>(655,321)</b>

The accounting policies and notes on pages 88 to 108 form part of these financial statements.

## 3.2

# Notes to the financial statements

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### 1 Statement of accounting policies

These financial statements have been prepared in accordance with the 2018/19 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. 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 2019, 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 as the Trustee of the Nest Pension Scheme. The 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 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. In March 2019 this loan agreement was amended and restated. Therefore, in accordance with FReM 2.2.3, it is appropriate to adopt a going concern basis of preparation for these accounts.

## 1.3 Changes in accounting policy and disclosures

### a) Changes in accounting policies

There have been no changes to accounting policies.

### b) New and amended standards adopted

There have been two new standards adopted from 1 April 2018 to 31 March 2019:

#### IFRS 9: Financial instruments

Effective 1 April 2018: IFRS 9 (replaces IAS 39) aims to simplify the accounting of financial instruments and more closely align accounting and practices with how instruments are used in the business specifically around classification, measurement and impairment.

The initial recognition and classification of financial assets and financial liabilities is the same under IAS 39 and IFRS 9. Nest Corporation has two categories of financial assets: cash and cash equivalents and staff loans. Applying the new expected credit loss impairment model, Nest Corporation only has one financial asset (staff loans) for which this model may be applicable. However, given the nature of the loans, there is very little risk, if any, of impairment and no additional impairment disclosures are required.

#### IFRS 15: Revenue from Contracts with Customers

Effective 1 April 2018: IFRS 15 aims to replace a significant amount of existing guidance and reduce inconsistencies by setting a new principles-based standard. The step by step process in IFRS 15 involves identifying contractual performance obligations, allocating the transaction price to those obligations, and recognising revenue only when those obligations are satisfied.

Nest Corporation has assessed all of its revenue streams against the steps set out in IFRS 15 and is satisfied that all revenue is recognised in line with the new standard. The revenue within the scope of IFRS 15 is detailed in note 1.8 and is recognised when the performance obligation is met. The transition from IAS 8 did not result in any material changes in opening balances.

### c) New standards, amendments and interpretations issued but not effective for the financial year beginning 1 April 2018 and not adopted early

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

#### IFRS 16: Leases

Effective 1 April 2020: IFRS 16 eliminates the operating/finance lease distinction and imposes a single model geared towards the recognition of all except low-value or short term (<12 million) leases. These will now be recognised on the Balance Sheet as a 'right of use' asset and lease liability. The lease liability will be measured at initial recognition as the value of future lease payments, with the asset additionally including any initial direct costs incurred by the lessee, plus an estimate of any dismantling/restoration costs. Subsequent measurement of both asset and liability will need to respond to any changes in lease terms, and the accounting for the asset can be on a cost less depreciation and impairment model or a revaluation (fair value) model.

The above standard to be adopted is expected to have a material impact on the financial statements by the recognition of both a 'right of use' asset and an associated lease liability.

## 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 have been discussed and agreed with the 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 Nest Corporation controls both the services and any significant residual interest. The contract assets are reflected in the Statement of Financial Position (SoFP) as Nest 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.

### Scheme software and Nest Corporation software licences

Management believe there is currently no accurate software license index or trend information available 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 cost 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.

### Asset refresh prepayment

Nest Corporation has adopted the 'prepayment lifecycle approach', which means that a portion of the monthly scheme administration charge paid to TCS is set aside as a prepayment to fund future replacement assets within the life of the scheme administration services contract. The rate at which the assets are replaced is assessed annually and where the carrying amount of the prepayment is greater than the estimated total of the future assets to be refreshed the prepayment is impaired, and if; conversely where the carrying amount is lower, the prospective amounts set aside in future years are adjusted to reflect the change in estimate. The value of assets to be refreshed over the remainder of the scheme administration services contract (i.e. to June 2023) is an estimate, based on the latest available, reliable information provided by TCS.

## 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.

Nest Corporation recognises the employer costs for the 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)

In 2014 the European Court of Justice ruling in the ATP (Danish pension fund) case concluded that for VAT purposes DC pension schemes with certain characteristics should be treated as a 'Special Investment Fund' and therefore all costs associated with the management of those funds should be exempt from VAT. Consequently Nest Corporation should be treated as a Special Investment Fund and all UK based Scheme administration services (provided by TCS), Investment funds administrator (provided by State Street) and Fund managers fees are now treated as exempt from VAT. In 2017/18 Nest Corporation received a historical reclaim of VAT for its fund administration charges, and the reclaim has been classified as income.

In 2017/18 Nest Corporation received a new revenue stream to help fund its pension research (Nest Insight), and as a result has registered for VAT effective 1 October 2017, as it was expected to have a turnover in excess of £85,000. The revenue and expenses related to this research will be VATable, however the rest of the Corporation's revenue and cost activities are classified as either exempt of VAT or out of scope of VAT.

## 1.8 Income

Income is reflected in the Statement of Comprehensive Net Expenditure in line with IFRS 15: Contracts with Customers (as adapted for the public sector by Treasury) and the revenue is recognised when Nest meets its performance obligations.

The adoption of IFRS 15 in 2018/19 has not resulted in any changes to Nest's opening balances and will not affect the accounting going forward.

In 2018/19 Nest had three material revenue streams of revenue streams:

1. Scheme Income
2. Public Service Obligation Offset Payment (PSOOP)
3. Sponsorship and research revenue.

Article 27 of the Nest Order gives Nest Corporation a duty to make deductions from members' funds to 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. Revenue is recognised when the obligation of investing and administering the members pots have been met.

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, known as the Public Service Obligation Offset Payment (PSOOP), which recognises that Nest has met its public service obligation over the reporting period. The performance obligation is to provide a pension service to any employer at a standard charge regardless of its size.

Revenue generated by the Corporation's pension research team, Nest Insight, will be recognised once the event stated in the contract and/or performance obligation(s) have been satisfied. With general funding, that is not linked to a specific event or deliverable, the revenue will be recognised on a straight-line basis over the period that it relates to. Any payment received in advance of the recognition criteria will be held as deferred revenue.

In 2017/18 Nest Corporation received a historical reclaim of VAT for its fund administration charges, which are now classified as exempt (see note 1.7). The reclaim has been classified as income as it met the recognition criteria prescribed in IAS 18 Income (effective in 2017/18) rather than a credit to the expenditure that generated them.

All significant contract balances for 2018/19 have been settled one month after the balance sheet date.

### **Income outside the scope of IFRS 15**

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.

### **1.9 Loan funding from DWP**

Loan funding is provided by DWP to meet the scheme implementation and running costs until the scheme reaches a suitable scale for the Corporation to be self-funding. Interest is charged at a commercial rate and is determined by the interest rate prevailing at the time of each drawdown. Interest payments are made twice a year in April and October and the principal will be repaid in a series of repayments in line with the amortisation schedule in the amended and restated loan agreement signed in March 2019.

### **1.10 Property, plant and equipment**

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.

Internally generated 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.

### **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: 3 to 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. Downward 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:

**Staff loans**

Staff loans are loans that have fixed or determinable payments that are not quoted in an active market. Staff loans 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 impairment to a financial asset or a group of financial assets. This assessment is done using the forward looking Expected Credit Loss model as prescribed in IFRS 9. The model contains a three-stage approach based on the change in credit quality of financial assets since initial recognition.

**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.

**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 1.19 below.

Payments in relation to lease premiums are recognised as an asset in accordance with IAS 17 and amortised on a straight-line basis over the remaining term of the lease and credited to the Statement of Comprehensive Net Expenditure.

**1.18 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.

**1.19 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 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 2019 £000	Year ended 31 March 2018 £000
<b>Directly employed staff</b>		
Wages and salaries	17,658	15,525
Social security costs	2,145	1,830
Pension costs	1,292	1,105
<b>Subtotal</b>	<b>21,095</b>	<b>18,460</b>
Seconded	225	239
Interim staff	3,361	2,084
<b>Total staff costs</b>	<b>24,681</b>	<b>20,783</b>

Further staffing details are analysed in the remuneration and staff report in section 2.2.

### b) Pension arrangements

Nest Corporation operates one active defined contribution pension scheme for its directly employed staff. There were 248 workers in this pension scheme as at 31 March 2019 (31 March 2018: 234).

Nest Corporation recognises the employer's costs in the period to which they relate. At 31 March 2019 there was one month's contributions outstanding amounting to £166k (31 March 2018: £154k).

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.

### 3 Depreciation, amortisation and other expenditure

	Note	Year ended 31 March 2019 £000	Year ended 31 March 2018 £000
<b>Depreciation and amortisation</b>	7,8	<b>12,113</b>	<b>10,898</b>
<b>Other expenditure</b>			
Scheme administration expenses		69,496	57,065
Scheme investment costs		4,868	2,815
Professional fees and advice		3,345	2,206
Legal fees and expenses		2,826	828
Information technology and telecoms equipment		2,604	3,256
Rentals under operating leases		2,295	1,865
Research, marketing and communications		1,969	3,026
Accommodation		1,796	1,700
Recruitment and other staff costs		1,305	1,176
Insurance		613	347
Industry engagement		360	130
Business travel		313	247
Loss on disposal of non-current assets	7,8	147	5
Auditor's remuneration - corporation		87	80
Auditor's remuneration - scheme		90	90
Information security audit		8	3
Impairment of scheme assets	7,8	-	-
Release of lease incentive reserve		(32)	(77)
Movements in property repair provisions in the year	13	(1,228)	420
Other running costs		198	174
<b>Sub total</b>		<b>91,060</b>	<b>75,356</b>
<b>Total</b>		<b>103,173</b>	<b>86,254</b>

Scheme administration expenses are exclusive of £1.3 million (2017/18: £0.6 million) set aside for asset refresh prepayment in 2019/20.

## 4 Grant income

	Year ended 31 March 2019 £000	Year ended 31 March 2018 £000
Grant income for non-chargeable costs	458	407
Public service obligation offset payment	21,964	19,639
<b>Total</b>	<b>22,422</b>	<b>20,046</b>

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 from the date of the first loan interest payment.

## 5a Scheme income

	Year ended 31 March 2019 £000	Year ended 31 March 2018 £000
Members' contribution and annual management charges	61,359	25,604
<b>Total</b>	<b>61,359</b>	<b>25,604</b>

Scheme income is made up of members' contribution and annual management charges. 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 assets under management.

## 5b Other income

	Year ended 31 March 2019 £000	Year ended 31 March 2018 £000
Interest received and receivable	50	20
Sponsorship and research revenue	320	121
Sponsorship and research revenue from DWP	88	-
VAT recovery	-	16,905
<b>Total</b>	<b>458</b>	<b>17,046</b>

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.

The sponsorship and research revenue is to fund Nest's pension research think tank, Nest Insight. Additionally Nest Insight received a research grant of £88k from the Department for Work and Pensions. The grant is not classified as state aid.

In 2014 the European Court of Justice ruling in the ATP case concluded that for VAT purposes DC pension schemes with certain characteristics should be treated as a 'Special Investment Fund' and therefore all costs associated with the management of those funds should be exempt from VAT. Nest Corporation concluded it should be treated as a Special Investment Fund and all UK based scheme administration services provided by Tata Consultancy Services (TCS) be treated as exempt from VAT. In 2017/18 Nest has recovered from HMRC all VAT paid in respect of services provided to Nest by TCS for the period commencing four years prior to the submission of the first claim in October 2014 (i.e. from October 2010) to the date TCS ceased charging VAT (i.e. to 30 November 2016). The total amount of the claim included in year ended 31 March 2018 amounted to £16.9 million.

## 6 Interest payable

	Year ended 31 March 2019 £000	Year ended 31 March 2018 £000
Loan interest paid and payable	35,391	32,159
<b>Total</b>	<b>35,391</b>	<b>32,159</b>

Interest payable relates to interest charged on balances outstanding on the loan from DWP (see note 12). Nest Corporation'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 Corporation borrows at a fixed commercial rate of interest prevailing at the time of each drawdown. Nest Corporation receives a grant from DWP (Public Service Obligation Offset Payment) which effectively reduces the commercial rate to the government borrowing rate. The cumulative WACC up to 31 March 2019, net of the grant, is 2.50 per cent (2017/18: 2.63 per cent).

## 7 Property, plant and equipment

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

2018/19	Furniture & fittings £000	Information technology £000	Scheme hardware £000	Total £000
<b>Cost</b>				
As at 1 April 2018	244	2,535	21,471	24,250
Additions	496	105	6,808	7,409
<b>Disposals</b>	(230)	(1,954)	(4,511)	(6,695)
<b>As at 31 March 2019</b>	<b>510</b>	<b>686</b>	<b>23,768</b>	<b>24,964</b>
<b>Depreciation</b>				
As at 1 April 2018	(198)	(1,873)	(12,325)	(14,396)
Charged in period	(74)	(234)	(3,211)	(3,519)
Disposals	204	1,861	4,505	6,570
<b>As at 31 March 2019</b>	<b>(68)</b>	<b>(246)</b>	<b>(11,031)</b>	<b>(11,345)</b>
<b>Net book value at 31 March 2019</b>	<b>442</b>	<b>440</b>	<b>12,737</b>	<b>13,619</b>
<b>Net book value at 31 March 2018</b>	<b>46</b>	<b>662</b>	<b>9,146</b>	<b>9,854</b>
<b>Asset financing:</b>				
Owned	442	440	12,737	13,619
<b>Net book value at 31 March 2019</b>	<b>442</b>	<b>440</b>	<b>12,737</b>	<b>13,619</b>

2017/18	Furniture & fittings £000	Information technology £000	Scheme hardware £000	Total £000
<b>Cost</b>				
As at 1 April 2017	276	2,444	19,969	22,689
Additions	14	532	5,747	6,293
<b>Disposals</b>	(46)	(441)	(4,245)	(4,732)
<b>As at 31 March 2018</b>	<b>244</b>	<b>2,535</b>	<b>21,471</b>	<b>24,250</b>
<b>Depreciation</b>				
As at 1 April 2017	(194)	(1,948)	(13,738)	(15,880)
Charged in period	(48)	(364)	(2,831)	(3,243)
Disposals	44	439	4,244	4,727
<b>As at 31 March 2018</b>	<b>(198)</b>	<b>(1,873)</b>	<b>(12,325)</b>	<b>(14,396)</b>
<b>Net book value at 31 March 2018</b>	<b>46</b>	<b>662</b>	<b>9,146</b>	<b>9,854</b>
<b>Net book value at 31 March 2017</b>	<b>82</b>	<b>496</b>	<b>6,231</b>	<b>6,809</b>
<b>Asset financing:</b>				
Owned	46	662	9,146	9,854
<b>Net book value at 31 March 2018</b>	<b>46</b>	<b>662</b>	<b>9,146</b>	<b>9,854</b>



## 8 Intangible assets

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

2018/19	Note	Corporation software licences £000	Scheme software licences £000	Scheme developed software £000	Total £000
<b>Cost</b>					
As at 1 April 2018		1,129	31,920	60,058	93,107
Additions		-	3,166	4,576	7,742
Disposals		(225)	(5,615)	-	(5,840)
Revaluation	a	(14)	(380)	348	(46)
<b>As at 31 March 2019</b>		<b>890</b>	<b>29,091</b>	<b>64,982</b>	<b>94,963</b>
<b>Amortisation</b>					
As at 1 April 2018		(989)	(22,255)	(29,127)	(52,371)
Charged in period		(68)	(2,816)	(5,710)	(8,594)
Disposals		225	5,593	-	5,818
Revaluation	a	12	365	(713)	(336)
<b>As at 31 March 2019</b>		<b>(820)</b>	<b>(19,113)</b>	<b>(35,550)</b>	<b>(55,483)</b>
<b>Net book value at 31 March 2019</b>		<b>70</b>	<b>9,978</b>	<b>29,432</b>	<b>39,480</b>
<b>Net book value at 31 March 2018</b>		<b>140</b>	<b>9,665</b>	<b>30,931</b>	<b>40,736</b>

2017/18	Note	Corporation software licences £000	Scheme software licences £000	Scheme developed software £000	Total £000
<b>Cost</b>					
As at 1 April 2017		1,175	28,691	54,216	84,082
Additions		201	4,366	4,533	9,100
Disposals		(251)	(1,336)	-	(1,587)
Revaluation	a	4	199	1,309	1,512
<b>As at 31 March 2018</b>		<b>1,129</b>	<b>31,920</b>	<b>60,058</b>	<b>93,107</b>
<b>Amortisation</b>					
As at 1 April 2017		(1,162)	(20,623)	(23,158)	(44,943)
Charged in period		(77)	(2,723)	(4,855)	(7,655)
Disposals		251	1,336	-	1,587
Revaluation	a	(1)	(245)	(1,114)	(1,360)
<b>As at 31 March 2018</b>		<b>(989)</b>	<b>(22,255)</b>	<b>(29,127)</b>	<b>(52,371)</b>
<b>Net book value at 31 March 2018</b>		<b>140</b>	<b>9,665</b>	<b>30,931</b>	<b>40,736</b>
<b>Net book value at 31 March 2017</b>		<b>13</b>	<b>8,068</b>	<b>31,058</b>	<b>39,139</b>

a. Intangible assets were revalued to fair value by applying an appropriate Office of National Statistics 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

	As at 31 March 2019 £000	As at 31 March 2018 £000
<b>a) Amounts falling due over one year</b>		
Lease premium London property	4,541	3,923
Prepayments	-	10
	<b>4,541</b>	<b>3,933</b>
<b>b) Amounts falling due within one year</b>		
Accrued income public sector obligation offset payment	10,005	8,950
Accrued grant income for non-chargeable costs	241	211
Lease premium London property	371	292
Prepayments in respect of asset refresh	1,324	5,900
Other prepayments and accrued income	2,057	1,462
	<b>13,998</b>	<b>16,815</b>
<b>c) Other current assets</b>		
Staff loans	63	53
	<b>63</b>	<b>53</b>
<b>Total</b>	<b>18,602</b>	<b>20,801</b>

Included in the prepayments is £1.3 million (2017/18: £5.9 million) for amounts set aside from service charges to fund future scheme asset replacement. It is estimated that £6.0 million of scheme replacement hardware and software will be funded out of this prepayment and an additional amount to be set aside from future scheme administration services payments between April 2019 and June 2023. As this is a management estimate, reassessed annually, the set aside is not built up evenly over the life of the scheme administration services contract.

A lease premium of £4.9 million has been recognised for advanced payments made to the landlord of the property that Nest Corporation relocated to in 2018/19.

## 10 Cash and cash equivalents

	Year ended 31 March 2019 £000	Year ended 31 March 2018 £000
Opening balance	12,935	5,346
Net change in cash balances	12,657	7,589
<b>Balance at end of year</b>	<b>25,592</b>	<b>12,935</b>

## 11 Current liabilities

	As at 31 March 2019 £000	As at 31 March 2018 £000
<b>a) Interest payable</b>		
Accrued interest payable to DWP	16,042	14,582
	<b>16,042</b>	<b>14,582</b>
<b>b) Trade and other payables</b>		
Trade payables	1,060	488
Accruals	14,568	12,750
	<b>15,628</b>	<b>13,238</b>
<b>c) Other liabilities</b>		
Other taxation and social security	621	585
Pension costs liability	166	154
Imputed finance lease element of TCS assets	1,431	1,370
	<b>2,218</b>	<b>2,109</b>
<b>Total</b>	<b>33,888</b>	<b>29,929</b>

## 12 Non-current liabilities

	As at 31 March 2019 £000	As at 31 March 2018 £000
DWP loan	713,747	622,747
Imputed finance lease element of TCS assets	4,903	6,248
<b>Total</b>	<b>718,650</b>	<b>628,995</b>

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 2019, the weighted cost of capital on loan funding was 2.5 per cent (31 March 2018: 2.63 per cent) (see note 6). Interest on loans is payable in April and October each year. In March 2019 Nest signed an amended and restated loan agreement with DWP which was an update to the 2010 loan agreement.

In total, an imputed finance lease of £6.3 million (2017/18: £7.6 million) has been recognised, mainly reflecting the shortfall between the scheme administration assets recognised and cash payments made to TCS.

## 13 Provisions for liabilities and charges

	Note	Year ended 31 March 2019 £000	Year ended 31 March 2018 £000
Balance at 1 April 2018		1,303	883
(Released)/provided in the year	3	(1,228)	420
<b>Balance as at 31 March 2019</b>		<b>75</b>	<b>1,303</b>
Classified as:			
Amounts falling due within one year		35	1,303
Amounts falling due over one year		40	-
		<b>75</b>	<b>1,303</b>

The provision of £35k (2017/18: £1,303k) relates to property repairs and a dilapidation liability for Riverside House, which Nest Corporation exited in August 2018. The provision of £35k in 2018/19 is lower than the provision estimated in 2017/18 of £1.3 million due to the landlord's own refurbishment works which reduced the provision down by £1.2 million.

## 14 Capital and other financial commitments

### a) Capital and other financial commitments

	As at 31 March 2019 £000	As at 31 March 2018 £000
Contracted financial commitments at 31 March 2019 not otherwise included in these financial statements	923	90
<b>Balance as at 31 March 2019</b>	<b>923</b>	<b>90</b>

The contracted commitment relates to a 4 year contract for banking services ending in December 2022 with options to extend by one year terms.

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 (SoFP) and the liability to pay for these assets has been accounted for as a finance lease.

The commitments analysed below reflect advance payments towards milestones, investment decision 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.

<b>Total obligations under service concession arrangements reflected in the SoFP for the following periods comprise:</b>	As at 31 March 2019 £000	As at 31 March 2018 £000
Not later than one year	78,093	67,460
Later than one year and not later than five years	301,409	338,099
Later than five years	-	26,191
<b>Total gross obligation</b>	<b>379,502</b>	<b>431,750</b>
Less interest element discount	(16,121)	(25,146)
<b>Present value of obligations</b>	<b>363,381</b>	<b>406,604</b>

<b>Present value of obligations under service concession arrangements reflected in the SoFP for the following periods comprise:</b>	As at 31 March 2019 £000	As at 31 March 2018 £000
Not later than one year	78,093	67,460
Later than one year and not later than five years	285,288	316,141
Later than five years	-	23,003
<b>Total present value of obligations</b>	<b>363,381</b>	<b>406,604</b>

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

The total amount charged to the Statement of Comprehensive Net Expenditure in 2018/19 in respect of the service element of this service concession was £69.5 million (2017/18: £57.1 million) and the payments to which Nest Corporation is committed (subject to the conditions of the contract, particularly volume levels) is as follows:

	As at 31 March 2019 £000	As at 31 March 2018 £000
Not later than one year	71,027	60,394
Later than one year and not later than five years	291,328	324,469
Later than five years	-	25,514
<b>Total</b>	<b>362,355</b>	<b>410,377</b>

## 15 Commitments under leases

### Operating leases

	As at 31 March 2019 £000	As at 31 March 2018 £000
<b>Future minimum lease payments comprise:</b>		
Buildings:		
Within one year	2,786	4,362
Between one year and five years	12,000	12,907
Over five years	29,731	36,910
<b>Total</b>	<b>44,517</b>	<b>54,179</b>

In 2017/18 Nest signed a lease with the Cabinet Office to occupy part of a newly fitted building in South Colonnade, Canary Wharf. The prescribed term for the lease concludes in June 2032 and there is no break clause.

The future minimum lease payments represent a lease for Nest Corporation's offices at South Colonnade from the 1st April 2019 to 27th June 2032.

## 16 Financial instruments

	Note	As at 31 March 2019 £000	As at 31 March 2018 £000
<b>Financial assets</b>			
Cash and cash equivalents	10	25,592	12,935
Staff loans	9	63	53
<b>Total</b>		<b>25,655</b>	<b>12,988</b>

The above figures exclude statutory receivables and prepayments and imputed finance lease elements.

	Note	As at 31 March 2018 £000	As at 31 March 2017 £000
<b>Financial liabilities</b>			
DWP loan	12	713,747	622,747
Trade payables	11	1,060	488
Accruals	11	30,610	27,332
<b>Total</b>		<b>745,417</b>	<b>650,567</b>

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 (2017/18: nil).

Nest Corporation has limited exposure to interest rate risk for its loans as the rates are set and fixed on drawdown or rollover for a period of five years.

The book value of Nest Corporation's financial assets and liabilities as at 31 March 2019 and 31 March 2018 are not materially different from their fair values.



## 17 Contingent liabilities disclosed under IAS 37

There are no contingent liabilities to disclose.

## 18 Contingent assets disclosed under IAS 37

There are no contingent assets to disclose.

## 19 Losses and special payments

There are neither losses nor special payments to disclose.

## 20 Related-party transactions

Nest Corporation is 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 2019 £000		Year ended 31 March 2018 £000	
		Income	Expenditure	Income	Expenditure
Loan funding and repayment	12	91,000	-	83,600	-
Sponsorship and research revenue	5	88	-	-	-
Loan interest	6	-	35,391	-	32,159
Other transactions		22,422	1,438	20,046	3,384
<b>Total</b>		<b>113,510</b>	<b>36,829</b>	<b>103,646</b>	<b>35,543</b>

At 31 March 2019 excluding the liability to repay the loan which does not come into effect for more than 12 months, Nest Corporation had £16.7 million outstanding liability with DWP (2017/18: £14.8 million).

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

- a) loan funding
- b) public service obligation offset payments and grant income, and
- c) property operating lease and secondees
- d) grant to fund pension research (Nest Insight).

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 period Nest Corporation received income from the Nest Pension Scheme of £61.4 million (2017/18: £25.6 million), see note 5 for details.

Nest Corporation is a participating employer in the scheme. Contributions of £2,017k (2017/18: £1,731k) were payable by Nest Corporation to the scheme during the period.

No Board Members, senior managers or other related parties have undertaken any material transactions with Nest Corporation during the period.

## 21 Cashflow analysis

	Note	Year ended 31 March 2019 £000	Year ended 31 March 2018 £000
<b>Non cash items</b>			
Depreciation and amortisation including non-TCS	3	12,113	10,898
(Release) of lease incentive reserve	3	(32)	(77)
Loss on disposal of assets	3	147	5
Prepayment asset refresh		(1,295)	(589)
Offset for lease liability		(1,549)	(1,680)
Finance credit charge		167	258
<b>Total non cash items</b>		<b>9,551</b>	<b>8,815</b>
<b>Purchase of PPE and intangible assets</b>			
Purchase of software licences	8	-	(201)
Purchase of furniture and fittings	7	(496)	(14)
Purchase of IT	7	(105)	(532)
<b>Total PPE and intangible assets</b>		<b>(601)</b>	<b>(747)</b>
<b>Payments towards imputed lease liability of TCS assets</b>			
Total lease liability payments made in the year		<b>(8,580)</b>	<b>(9,322)</b>

## 22 Political and charitable donations

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

## 23 Events after the reporting period

IAS 10, events after the reporting period, requires Nest Corporation to disclose the date on which the accounts are authorised for issue.

There were no reportable events after the reporting period.

The annual report and accounts were authorised by the Chief Executive Officer for issue on the date of the Comptroller and Auditor General's audit certificate.

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# Appendices



# Appendix one

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

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

1. In exercise of the powers conferred by paragraphs 17(2)(b) and 20(2) of Schedule 1 to the Pensions Act 2008 (c.30), the Secretary of State hereby directs the National Employment Savings Trust Corporation (Nest Corporation), as follows:
2. Nest Corporation shall prepare accounts for the 12 month Year ended 31 March 2012, and subsequent financial years, in compliance with the accounting principles and disclosure requirements of the edition of the Government Financial Reporting Manual issued by HM Treasury (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 the Nest 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 Jours

3 March 2011

Report and Accounts of the National Employment Savings Trust Corporation

# Appendix two

## Overview of environmental performance

Our sustainability reporting aims to conform to the Greening Government Commitments.

Nest Corporation is now located at 10 South Colonnade, Canary Wharf<sup>1</sup>, a modern multi-tenant Government Property Unit building, housing several Government/Government related bodies.

The buildings management has control of energy usage for example through:

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

Tenants are not provided with accurate energy data usage as part of the multi-tenant arrangement. The data Nest is provided with is for the building as a whole, reducing the level of detail that can be reported on scope 2 emissions. Calculations are based on the amount of space Nest occupies within the building as advised by the building management.

The overall percentage of space occupied in 10 South Colonnade is 6.8 per cent. This has been used for the relevant 2018/19 calculations to provide an indicator of Nest's environmental impact.

During the period 2018/19 Nest Corporation moved offices from Riverside House. No data is available for the first quarter of 2018/19, so Nest Corporation has approximated the energy usage on an average basis for the relevant calculations here.

## Summary

There has been an increase in reported emissions compared to 2017/18, because the buildings management company was unable to separate out usage data between the tenants. This is being further investigated and will be rectified for subsequent reports.

Nest Corporation has noted a sharp fall in emissions from private vehicles, taxis and air travel compared to last year. Emissions from car hire have seen a small increase in the year while emissions from rail travel have decreased slightly.

This is mirrored in the cost figures for private vehicle, car hire and taxi usage, although both air and rail have increased in cost despite emissions reducing in the year.

The amount of waste produced by Nest Corporation has significantly decreased compared to 2017/18, as the building management at 10 South Colonnade have a range of initiatives in place to reduce waste.

Initiatives such as greater use of laptops for sharing information and collaborative working have reduced Nest Corporation's paper usage.

<sup>1</sup> Nest Corporation moved offices in July 2018 to Canary Wharf from Riverside House, Southwark



Summary of 2018/19 year performance		
Area	Actual performance	Normalising data (per FTE)
Average annual full-time equivalent staffing figure: 295 <sup>1</sup>		
Estate energy and emissions		
GHG emissions from offices	370 tonnes CO <sub>2</sub> e	1.25 tonnes CO <sub>2</sub> e
Total organisation energy consumption	1,274,667 kWh	4,321 kWh
Total energy expenditure	£221,539	£750.98
Travel emissions		
CO <sub>2</sub> e emissions from business travel	244 tonnes CO <sub>2</sub> e	0.83 tonnes CO <sub>2</sub> e
Total expenditure on business travel	£292,350	£991.02
Waste		
Total waste produced	14.3 tonnes	0.05 tonnes
Total recycled/reused	6.2 tonnes	0.02 tonnes
Total incinerated	8.1 tonnes	0.03 tonnes
Total to landfill	0.0 tonnes	0.00 tonnes
Total waste expenditure	£5,945	£20.15
Paper		
Total paper usage	1.6 tonnes CO <sub>2</sub> e	0.01 tonnes CO <sub>2</sub> e
Total paper expenditure	£1,664	£5.64
Water		
Total water consumption	2,214 m <sup>3</sup>	7.5 m <sup>3</sup>
Total water expenditure	£5,182	£17.57

<sup>1</sup> This figure includes employees, Board Members, interims, secondees and panel members.

## Greenhouse gas emissions (GHG)

The data for scope 1 and 2 emissions for 2018/19 are taken as a percentage of the overall data for the building based on our 6.8 per cent occupancy. This provides Nest with an indication of performance.

Greenhouse gas emissions		2016/17	2017/18	2018/19
Non-financial indicators (tonnes CO <sub>2</sub> e)	<b>Scope 1 – Gas</b>			
	Gas	36.6	54.3	32.7
	<b>Total scope 1</b>	<b>36.6</b>	<b>54.3</b>	<b>32.7</b>
	<b>Scope 2 – Electricity</b>			
	Electricity: brown <sup>1</sup>	164.9	181.4	n/a
	Electricity: green <sup>1</sup>	22.0	24.2	n/a
	Electricity: CHP	33.0	36.3	0.0
	<b>Total scope 2</b>	<b>219.9</b>	<b>241.9</b>	<b>336.9</b>
	<b>Scope 3 – Business travel<sup>2</sup></b>			
	Private vehicle	14.3	16.9	13.2
	Car hire	0.4	0.0	0.1
	Taxis	1.0	0.9	0.4
	Air	259.5	243.2	221.7
	Rail	10.3	9.0	8.9
	<b>Total scope 3</b>	<b>285.5</b>	<b>270.0</b>	<b>244.3</b>
	<b>Total emissions</b>	<b>542.0</b>	<b>566.2</b>	<b>613.9</b>
	<b>Scope 3 – Paper</b>			
	Paper	5.0	2.2	1.6

<sup>1</sup> In 2018/19, Nest Corporation moved to a new office in Canary Wharf and the building management firm that provides Nest Corporation with its data changed. The building management company was unable to allocate the electricity costs and usage to green and brown electricity based on the information supplied to them from the electricity suppliers.

<sup>2</sup> In 2018/19, Nest Corporation introduced an online expenses system which took effect from May 2018. As there were no expenses available from the system in April 2018, the average monthly expenses has been used as a proxy for the April expenses.

Greenhouse gas emissions		2016/17	2017/18	2018/19
Related energy consumption (kWh)	<b>Scope 1 - Gas</b>			
	Gas	199,020	294,854	<b>178,001</b>
	<b>Scope 2 - Electricity</b>			
	Electricity: brown <sup>1</sup>	400,150	440,165	n/a
	Electricity: green <sup>1</sup>	53,353	58,688	n/a
	Electricity: CHP	80,029	88,032	0
	<b>Total electricity</b>	<b>533,532</b>	<b>586,885</b>	<b>1,096,666</b>
	<b>Scope 1 and 2 - Gas and electricity<sup>2</sup></b>			
	Gas	4,544	8,311	13,172
	Electricity: brown	52,289	57,518	n/a
Financial indicators (£)	Electricity: green	6,972	7,669	n/a
	Electricity: CHP	10,458	11,504	0
	<b>Electricity: Total</b>	<b>69,719</b>	<b>76,691</b>	<b>208,367</b>
	<b>Scope 3 - Business travel<sup>3</sup></b>			
	Private vehicle	21,592	29,075	20,776
	Car hire	561	85	146
	Taxis	7,612	7,962	2,597
	Air	84,147	109,252	168,800
	Rail	75,734	81,501	100,031
	<b>Scope 3 - Paper</b>			
Volume of paper in reams	Paper	3,483	3,483	1,664
	<b>Scope 3 - Paper</b>			
	A4	1,290	945	570
	A3	40	30	30

<sup>1</sup> In 2018/19, Nest Corporation moved to a new office in Canary Wharf and the building management firm that provides Nest Corporation with its data changed. The building management company was unable to allocate the electricity costs and usage to green and brown electricity based on the information supplied to them from the electricity suppliers.

<sup>2</sup> The electricity costs are based on the building management company's latest understanding of the distribution network and may represent an over estimate of between 5 and 10 per cent as these figures may include the electricity costs that a third party pay for directly. The gas costs are based on meter readings and estimates using the typical CCS rates for utilities as currently the building management company do not have billed rates from the utility suppliers.

<sup>3</sup> In 2018/19, Nest Corporation introduced an online expenses system which took effect from May 2018. As there were no expenses available from the system in April 2018, the average monthly expenses has been used as a proxy for the April expenses.

## Business travel emissions

Tonnes CO<sub>2</sub>e

16.9	0.0	0.9	243.2	9.0
13.2	0.1	0.4	221.7	8.9



Private  
vehicle

Car  
hire

Taxi

Air

Rail

● 2017/18

● 2018/19

## Greenhouse gas emissions

Tonnes CO<sub>2</sub>e

54.3	241.9	270.0
32.7	336.9	244.3



Gas  
(Scope 1)



Electricity  
(Scope 2)



Business Travel  
(Scope 3)

● 2017/18

● 2018/19

## GHG performance commentary including target

Nest Corporation is located in a well maintained, energy efficient building. Although it does not have any direct influence over how the building is managed, it will continue to work with the landlord and building management on any energy management initiatives. Due to this scenario we believe that a scope 1 and 2 emissions reduction target is currently not viable.

Nest Corporation actively seeks to reduce international travel and only undertakes it when necessary and unavoidable.

We have continued to see a decrease in A4 paper consumption due to increased electronic records management and greater use of staff laptops, which has reduced the need for paper copies of documents.

## Use of finite resources

Water consumption (scope 2)		2016/17	2017/18	2018/19
Non-financial indicators (m <sup>3</sup> )	Water consumption	2,125.0	2,722.0	<b>2,214.5</b>
Financial indicators (£)	Total water costs <sup>1</sup>	4,985.0	5,088.6	<b>5,181.8</b>

## Performance commentary

GGC state the typical usage for an organisation and structure of our size is between 4-6m<sup>3</sup>. Nest's current usage is 10.1m<sup>3</sup> per person, this is a 30 per cent increase from the previous year. This is an approximation as the building's landlord has used 6.8 per cent of those totals as that is the amount of space we occupy.

## Waste management

Waste		2016/17	2017/18	2018/19
Non-financial indicators (tonnes)	Waste to landfill	0.0	0.0	0.0
	Waste recycled/reused	7.9	14.3	6.2
	Waste incinerated <sup>2</sup>	11.4	12.2	8.1
	Total waste	19.3	26.5	14.3
Financial indicators (£)	Total waste costs <sup>3</sup>	4,750	3,736	5,945

<sup>1</sup> The water costs are based on meter readings and estimates using the typical CCS rates for utilities as the building management company do not currently have billed rates from the utility suppliers.

<sup>2</sup> In 2018/19, the waste incinerated was sent to an 'energy from waste' facility or to produce refuse derived fuel and therefore had an element of energy recovery.

<sup>3</sup> Total waste expenditure does not include the cost of confidential waste recycling, which is required in order to compare the figure against prior year.

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## Performance commentary

All of the waste produced by Nest in the building is diverted from landfill. Waste that can be recycled is collected either in a dry mixed recycling bin or confidential paper bin to aid effective recycling. General waste is converted to refuse-derived fuel and then incinerated to produce energy. Food waste is collected separately and sent for anaerobic digestion to produce energy.

The figures for recycled/reused and incinerated waste is an approximation based on 6.8 per cent occupancy. We have seen a large decrease in the amount of waste produced over the year by 46 per cent which is due to the waste initiatives in place.



# Corporate social responsibility

Nest aims to be an example of good corporate social responsibility. As an organisation with a social purpose, we are committed to looking at our impact as an organisation in the round: on the environment and wider community, and on our employees.



Nest Corporation  
aims to make a  
difference in a  
number of ways

Pages 113 to 119 set out our environmental performance for 2018/19.

Nest Corporation wants to ensure that its business partners treat their employees as fairly as Nest Corporation treats its own employees. This includes:

- Making sure that staff employed by business partners are paid the National Living Wage or London Living Wage as appropriate. This is done through an annual review.
- Requiring that business partners and their own supply chains adhere to the Modern Slavery Act 2015. This is managed through our procurement and contracts.

## Responsible Employer

### Disability Confident

Nest Corporation recognises the positive impact that diversity brings to organisations and society as a whole. We have signed up to the Department for Work and Pensions' Disability Confident campaign. This is a voluntary scheme which aims to make the most of the talents that disabled people bring to the workforce and increase the proportion of the disabled population in work. There are three stages to the scheme:

**Level 1:**  
**Disability Confident Committed**

**Level 2:**  
**Disability Confident Employer**

**Level 3:**  
**Disability Confident Leader**

Nest Corporation has signed up at level 1 and it aims to achieve at least a level 2 by March 2020.





### Women in Finance Charter

Nest signed up to HM Treasury's Women in Finance Charter in July 2016. Its aim is to improve gender balance across financial services, recognising that gender balance will improve productivity, introduce new talents and improve decision making in our sector. In line with the charter, Nest set itself a goal to achieve 30 per cent of our leadership being female by September 2019.

Nest has developed a women's mentoring programme and will be rolling this out shortly. Nest's Diversity and Inclusion Steering Group has responsibility for delivering the recommendations in the charter. Nest is now looking beyond 2019 and will set more ambitious targets for gender balance over the coming years.

### Promoting good mental health

Nest recognises that employers have an important role in promoting mental wellbeing and resilience and combating the stigma that surrounds poor mental health.

In February 2019, Nest Corporation participated in the #timetotalk campaign, which encourages employees to have open conversations with colleagues about their mental health. The campaign aims to break down stereotypes, improve relationships, aid recovery and take the stigma out of something that affects many people. Nest Corporation used posters, desk drops, posts on the intranet and office TV screens to raise awareness of the campaign.

Nest celebrated Mental Health Awareness Week in May 2019 and used it as an opportunity to share experiences of poor mental health and signpost and promote mental wellbeing in the workplace.

Beyond this, Nest aims to deliver broader impact in a number of ways.

### What we buy

We are increasingly examining ways in which we can deliver positive impact through the companies we work with day to day. In 2018/19 we:

- Held our staff town hall at the International Students House (ISH) at One Park Crescent. ISH is a social enterprise that uses profits from the hire of the venue to provide bursaries for foreign students from low income families.
- Employed Mediorite, a social enterprise providing work experience in film and photography to disadvantaged youths in London, to produce video content for internal and external marketing.
- Bought prizes for staff events from social enterprises, including the Soap Co and Divine Chocolate.





## Charity fundraising

### Macmillan Cancer Support

In August 2018, Nest Corporation chose Macmillan Cancer Support as its charity partner of the year. This was the first time that Nest Corporation has partnered with one specific charity, a decision that was taken to provide a focus for fundraising efforts. Staff are however actively encouraged to undertake activities to support other charities if they wish.

In 2018/19 Nest staff raised over £1,280 for Macmillan Cancer Support through a programme of internal events. As well as raising money for charity, these events foster a sense of community at Nest Corporation and support high staff engagement.

Staff events included karaoke, a staff quiz night, a cake sale, a Christmas performance by the Nest choir, a Christmas raffle and a film showing for World Cancer Day.

### First Love Foundation

The First Love Foundation was established in 2011. Since then, it's helped thousands of people in extremely deprived UK boroughs get their lives back on track by serving as a foodbank as well as an advice and support centre.

With a small team of seven people in place, the First Love Foundation help approximately 100 people per month, including families with children and single people by providing food, counsel and opportunities, to help tackle poverty.

As part of Nest Corporation's corporate responsibility programme, colleagues raised £380 and donated six sacks of food to the First Love Foundation. A small group of Nest colleagues also visited the First Love Foundation offices in December 2018 to meet the Chief Executive Officer Denise Bentley and the project manager, Debbie Pemberton.

### Volunteering

Volunteering can bring benefits both in terms of social impact and staff development. Staff are entitled to take four days per year to volunteer, which can be used to work with charities or organisations of their choice.

Regular internal communications encourage staff to volunteer, either individually or in groups. Over the past year employees have participated in community clear ups, fundraising for charities, volunteering in care and nursing homes and engaging with young people in schools.





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CCS - CCS0419974414  
ISBN - 978-1-5286-1380-4

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