Nest,
the National Employment Savings Trust

Corporation annual report and accounts 2020/21

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Chapter 1

Performance report

This chapter explains how Nest Corporation operates as Trustee of the Nest Scheme. It describes our objectives for delivering the Scheme and serving our customers, and how we have worked towards fulfilling these objectives during the 2020/21 financial year.

Performance overview

This section sets out key facts about Nest Corporation's organisation, purpose and objectives. It provides a summary of our performance during 2020/21, including our management of principal risks.

Chair's statement

The events of the past year have been challenging for all people, including members of the Nest Scheme and the employers who have chosen us as their pension provider. Our priority has been to maintain our high standards of service and governance for them.

Otto Thoresen
Chair, Nest Corporation

We began our financial year in the midst of the first nationwide lockdown caused by the global coronavirus pandemic. We ended it as another nationwide lockdown was in the first phases of easing.

The pandemic, lockdowns and social distancing and other restrictions have had a profound effect on the work and life of all our customers. Some have experienced deep, personal losses. We remain fully mindful of this, and of the continuing impact of the pandemic, as we publish this report on 2020/21.

Delivering our services

We have maintained reliable access to services for our customers throughout the pandemic. In this, our scheme administrator, Tata Consultancy Services (TCS), and our fund administrator, State Street Bank and Trust Company (SSB), have been vital and dependable partners.

In particular, TCS continued to serve our members, employers and intermediaries such as advisers and payroll providers while working from home (WFH) from India and the UK throughout the year. They have often exceeded our agreed service standards, for example answering customer calls on average within 27 seconds. This is the standard of service our customers have come to expect and rely upon.

We have accomplished this at scale. As at 31 March 2021 we were serving 9.9 million members and 881,000 employers. Each month in 2020/21 we received around £400 million in contributions and at year-end we were managing over £17.5 billion on behalf of our members. This scale allows us to give workers in the UK access to a quality of investment that, in the past, has typically been available only to wealthy private investors.

The pandemic significantly disrupted economies during 2020/21 and, as a result, markets have been volatile. Our investment strategy is designed to help reduce the impact of such volatility on our members' pension pots through diversification.

Our default investment strategy for members, the Nest Retirement Date Funds, have continued to perform well. The 2040 fund, for members expecting to retire in 2040, delivered five-year annualised returns of 9.8% to 31 March 2021. Around 99% of our members are invested in our default funds.

Developing our investment approach

As the Scheme's assets under management have grown, we have extended our investment approach to include a wider variety of asset types, including illiquid investments in property and private credit. We believe adding new investment classes will afford better risk-adjusted returns for our members over the long term.

To this end, in 2020/21 we selected three new investment managers, that are focused on infrastructure projects such as utility companies, digital services installations and transportation networks. One of the managers specifically has a mandate to build and invest in renewable energy projects on behalf of our members.

As a responsible steward of our members' money, we take into account climate-related investment risks and opportunities. After extensive research, in July 2020 we announced our commitment to decarbonising our portfolios by 2050 at the latest while allocating more money to companies that will be central to a low-carbon economy in the future.

In line with our climate change policy, in 2020/21 we completed moving all our developed market equities into a climate-aware fund and at year-end we were finalising the process of moving our emerging market equities into a climate aware fund too. As at 31 March 2021, 52.3% of the 2040 fund was invested in climate-aware equities.

Planning for the future

Our current contract for the Scheme's administration comes to an end in 2023.

Following a competitive procurement process run in line with public contracts regulations, we awarded the next contract for administration services to digital transformation firm Atos BPS Ltd. We are confident that this contract will allow us to offer new high-quality services to our members and employers while keeping our customers' data secure, our services robust and our costs low.

We are now focused on continuing to deliver our current high standard of service while preparing for the transition in 2023.

Assuring good governance

This year we carried out an independent external effectiveness review of our governance. We do this external review every three years.

The review found that we continue to operate effectively and in line with best practice in the UK. In addition, it made recommendations for how we might develop our governance going forward. These are being implemented.

In January 2021 the Board delegated responsibility for adjudicating disputes that reach stage 2 of The Pensions Ombudsman's internal dispute resolution procedure, the final stage of the complaints process for Scheme members, to a Nest Corporation executive committee. This executive committee reports outcomes of disputes regularly to the Board.

Our Board members, as well as the advisory members of our investment committee, have once again made a great contribution over the last year, adapting well to the WFH environment. The members of our Employers' Panel and our Members' Panel have been invaluable in informing how we respond to the impact of the pandemic on our customers during extended periods of WFH and regional and nationwide lockdowns. I am grateful to all colleagues for the skills, expertise, insights and personal commitment they have given during a difficult period.

As I write this, we can look ahead to when populations around the world are vaccinated, economies are recovering and countries are opening up. It will, however, take time. Throughout, we will remain focused on serving the interests of our members and supporting the employers who have chosen Nest as their pension provider.

Otto Thoresen
Chair, Nest Corporation

"

After extensive research, in July 2020 we announced our commitment to decarbonising our portfolios by 2050 at the latest while allocating more money to companies that will be central to a low-carbon economy in the future.

"

CEO's statement

Everything we do is rooted in a deep commitment to serve our customers.

Helen Dean, CBE
CEO, Nest Corporation

The past year has been a challenging time for many of our customers. We've heard this from our members in our online community, 'Your way', from employers participating in our quarterly surveys, from employee benefit consultants and payroll providers who support companies using Nest and from our Members' and Employers' panels – for many of them, the pandemic has caused disruption, distress and insecurity.

At Nest Corporation we considered it our duty to maintain our service standards, as by doing this we could at least help our customers to feel reassured about their pension saving. This is exactly what we have done, and I am deeply proud of what we and our delivery partners, particularly our scheme administrator Tata Consultancy Services (TCS), achieved in 2020/21.

Most importantly, we kept delivering business as usual. With TCS reliably at our side, we have continued to provide all services, day in and day out, throughout the pandemic. More than 99% of the time, we met or exceeded our high customer service availability standards. Like our own employees, TCS were committed to maintaining the same standard of service as before the pandemic.

At the same time, at Nest Corporation we have pressed forward with significant programmes of work aimed at further strengthening our organisational culture, capability and capacity, improving our services and extending our responsible investment approach over the next several years. We believe this work will benefit our members in very real ways – by cushioning their pots from market volatility while also lowering the costs of running the Scheme.

"At Nest Corporation we considered it our duty to maintain our service standards, as by doing this we could at least help our customers to feel reassured about their pension saving."

Serving our customers

The pandemic demanded some shift in our activities to meet the changed needs and priorities of our members, employers and intermediaries such as advisers and payroll providers.

Immediately, we shared information about the impact of the pandemic on markets and pension pot values. We continued to safeguard our customers' data and assets in the context of ongoing economic uncertainties, for example, signposting the threat of pension fraud and scams to our members.

We monitored the support provided by the government's Coronavirus Job Retention Scheme (CJRS). We believe the CJRS helped many of our members to continue to save for retirement despite their employers being affected by lockdowns and other pandemic restrictions.

In autumn 2020, once many people had adjusted to pandemic restrictions, we introduced a redesigned range of pensions communications for employers to share with their workers. We also ran member engagement campaigns with an eye to increasing online account registrations. We ended 2020/21 with 28.0% of members registered, compared with 23.5% last year.

We're always listening to hear what would work better for our customers and improving on what we offer them.

This year, for example, we launched a new member dashboard which highlights the key information people need for retirement planning and decision-making. It's designed to be simple and visually engaging to get members thinking about their pension pot long before they reach retirement. It's mobile-friendly to make it easy for the 60.0% of our registered members (16.8% of all active members) who log in to their account using a smartphone or tablet.

We learned from the first group of Scheme members to join our retirement income solution, the Nest Guided Retirement Fund. This fund allows retired members to access some of the money in their pot while keeping some money in growth-seeking investments.

We also built a new bulk transfer solution for employers wishing to consolidate their employees' pension arrangements into a defined contribution (DC) scheme like ours. This tool was designed and reviewed internally, then reviewed by independent third parties, to ensure it met our high standards.

In 2020/21 our customer satisfaction ratings remained relatively steady from the previous year, with 71.0% of members, 74.0% of employers and 77.0% of payroll providers and other intermediaries using the Nest Connect service giving us marks of 7 to 10 out of 10. This reflects the constancy of our services during the pandemic, but we shall not rest until we're in reach of 100%.

To support a culture of continuous improvement, in January 2021 we created Nest Experience, a single business unit dedicated to our customers. Nest Experience brings together teams responsible for scheme operations, commercial management, member engagement, employer and intermediary services, user design, customer research and other areas. We're now better positioned to respond swiftly to the changing needs of our customers.

Supporting our people

We would not have been able to accomplish so much in such challenging circumstances without the hard work and dedication of our employees. I would like to thank everyone at Nest Corporation for their resilience, perseverance, flexibility and steadfast commitment to our customers.

To drive the best retirement outcomes for our members, we need to continue to ensure that our staff have the right skills and expertise and our organisational culture gives them the right support while challenging them to achieve their full potential. We want our employees to be emotionally invested in Nest Corporation, just as they and our members are financially invested in the Scheme, for the long term.

Academic research shows that workers who are happy and healthy in their jobs, motivated by their organisation's mission and empowered in their work are more productive, better performing and more committed. So we were especially focused on the wellbeing of our people during this full year of working from home (WFH). Despite the stresses of the pandemic, we've seen a significant increase in the percentage of our people who said we support their wellbeing, from 75.0% in 2019/20 to 86.0% in 2020/21. And 92.0% of our people said our purpose to help millions enjoy a better retirement makes them feel good about their work.

We're also holding ourselves to higher environmental, social and governance (ESG) standards, including through our diversity and inclusion strategy. We signed the Women in Finance Charter[1] in 2016 and have published a gender pay gap report annually since then, watching our gender pay gap close year after year.[2]

1 gov.uk/government/publications/women-in-finance-charter

2 nestpensions.org.uk/schemeweb/dam/nestlibrary/gender-pay-gap-report-2020.pdf

In 2021 we have voluntarily published our first ethnicity pay gap report,[3] a summary of which is included on page 86. It contains quite sobering figures, but we're committed to being transparent about where we are and what we're doing to improve it.

Our goals are twofold: to support a working environment that will attract and retain top talent and to develop a workforce that can understand and meet the diverse needs of our customers.

Looking ahead

This year brought two milestones: the selection of Atos BPS Ltd as our next scheme administrator and the launch of our new climate change policy.[4]

The process of procuring our next contract for scheme administration services gave us an opportunity to consider how pension saving might be transformed through the use of new digital tools and technologies. We will transition to our new service in 2023, and aim to take advantage of these while also delivering significant cost savings.

While our decision to invest in more climate-aware mandates was driven by our belief that this will lead to better risk-adjusted and more sustainable returns,[5] we also know that three in four Scheme members say it's important that their pension is invested in a way that supports a 'green' recovery from the pandemic[6] – it's not just what they want us to do, but what they expect us to do.

As more of our members learn about the power of pension pots in creating a net-zero future, we believe they will become more engaged in their pension saving.

We were set up by the government to do one very important thing – to help every worker in the UK save more for retirement. The UK's auto enrolment system has been a success, and we're looking forward to working with the government on what comes next.

We're continuously developing our investment strategy and independent research on saving behaviour to support better member outcomes. We've been recognised internationally for this work.

What we stand for

Our duty to serve every employer with auto enrolment duties, and their workers, is written into the Nest Order as a public service obligation, like the one the BBC or the NHS has. Everything we do starts with that commitment to serve. We're here to deliver for our customers, in all of their diversity.

Our members range in age from 18 to past retirement, with a large portion under age 35. They come from all over the UK and work in almost any industry you can think of – from restaurant waitstaff and financial analysts to construction labourers and charity directors. Our employers range from chain supermarkets and utility companies employing thousands to individuals who are in business for themselves with no one else on their payroll.

About one in three UK workers saves into a pension pot with us. Whether our members have one pound in their account or tens of thousands or more, whether our employers are big or small, we're focused on helping those pots grow so that, down the road, our members can have a bigger pension in a better world.

That's why we pushed forward this year to be among the first pension providers in the UK to commit to being net zero by 2050. It's why we've kept developing new tools to make things simpler for members, employers and intermediaries. It's why we're putting effort into ensuring that the people who work at Nest Corporation reflect the diversity of our customers and remain committed and capable of providing high-quality services, even during difficult days. And it's why we're continuing to seek out the voices of our members and the employers who have chosen the Scheme for their workers, to hear how the pandemic has hit home and what the future looks like for them.

As the economy emerges from the impact of Covid-19, there will be uncertainty for our members, employers and those who support them. We'll be here to help our customers save for the future, which we'll be building together.

Helen Dean, CBE
Chief Executive Officer,
Nest Corporation

3 nestpensions.org.uk/schemeweb/dam/nestlibrary/ethnicity-pay-report-2020.pdf
4 nestpensions.org.uk/schemeweb/nest/aboutnest/investment-approach/How-climate-change-could-impact-your-pension.html
5 nestpensions.org.uk/schemeweb/nest/aboutnest/investment-approach/responsible-investment.html
6 Nest Corporation 'Voice of the customer' quarterly survey, June 2020

About Nest Corporation

This section details who we are, how we are structured and what we aim to achieve.

What is Nest?

Nest, the National Employment Savings Trust, is a workplace pension scheme established by an Act of Parliament (the Pensions Act 2008) to help support the introduction of auto enrolment.

The Nest Scheme, or the Scheme as we may refer to it in this report, has been authorised as a master trust by The Pensions Regulator (TPR). A master trust is used by two or more employers to provide benefits on retirement based on the members' contributions into the scheme and the returns after charges[7] on the investment of that money.

7 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 and transaction costs but not the member contribution charge. The transaction costs include both explicit and implicit costs, where applicable. Explicit costs are directly observable, such as broker costs. Implicit costs, such as market impact, are not as clearly visible.

What is Nest Corporation?

Nest Corporation is the Trustee for the Scheme. We are a public corporation which operates at arm's length from the government (known as an arm's-length body). We are accountable to Parliament through the Department for Work and Pensions (DWP).

Our purpose

To help millions enjoy a better retirement

Our goal

A bigger pension in a better world

What we do

We enable our members to save into a high-quality pension scheme at a low cost. Due to our scale, we are able to offer them a sophisticated investment strategy and easy-to-use services while keeping our charges low. We pride ourselves on our approach to responsible investment.

Any employer, however large or small, can use the Scheme if they want to. Self-employed individuals can also use it.

Our structure

Nest Corporation is comprised of up to 15 Board members and the corporation's employees. We refer to our Board members collectively as the Board of Nest Corporation, or simply the Board.

Further details about our structure are on page 67.

Our business model

We operate a predominantly outsourced business model. We work closely with our outsourcing partners to deliver our services, including scheme and fund administration. Our key business partners are noted on page 27.

Our pricing structure is set out by the Secretary of State for Work and Pensions. The Board has set a contribution charge of 1.8% and an annual management charge of 0.3%. Together, these broadly equate to an annual management charge of 0.5% over the long term.

We are funded in part by a loan from government. This will be repaid through our future income. We will eventually become self-financing as our assets under management grow. We are committed to maintaining consistently low charges while providing high-quality investment practices and robust governance to members.

Our customers

We have three key groups of customers:

- **Members:** These are mostly workers who have been enrolled in the Scheme by their employer. They also include self-employed people who have chosen the Scheme for their pension saving.
- **Employers:** These are organisations that have chosen the Scheme as the pension provider for their workers.
- **Intermediaries:** These act on behalf of employers to advise on or manage their workers' pension contributions. Intermediaries include advisers and payroll providers.

The things that make Nest, Nest

Our focus on members underpins everything we do, from the way we invest, to our approach to customer service, to the way we operate as a business. We have identified six principles that guide the way we work – the things that make Nest, Nest.

Built around customers' needs and behaviours

We build and deliver a product based on research and an expert understanding of the needs and behaviours of our customers – members, employers and intermediaries such as advisers and payroll providers. We use technology and best-in-class communication techniques to engage our customers in a timely, relevant and personal way.

Excellence in investment practice and governance

We provide excellence in investment practice and governance. We design and oversee expert investment strategies and invest responsibly and sustainably.

Low charges, and open to all employers

We use our scale to keep charges to members as low as possible. We ensure the Scheme is available for any employer that wants to use it.

Not-for-profit

We aspire to operate as a not-for-profit business over the long term. Once our loan from government has been repaid, our aim is that any surpluses generated should be reinvested in the interests of Scheme members.

A broader social purpose

We are here to help millions enjoy a better retirement. Our responsibility is to the Scheme's members, but also to a broader population of mass-market savers including both those already auto enrolled as well as anyone who could benefit from saving for retirement but currently falls outside of auto enrolment legislation.

An organisation that lives our values

We show the same level of care to our employees as we do to our customers. We champion the Scheme's values inside the organisation, making it a great place to work.

Performance summary

This section summarises our performance during 2020/21

Scheme members

9.9m members

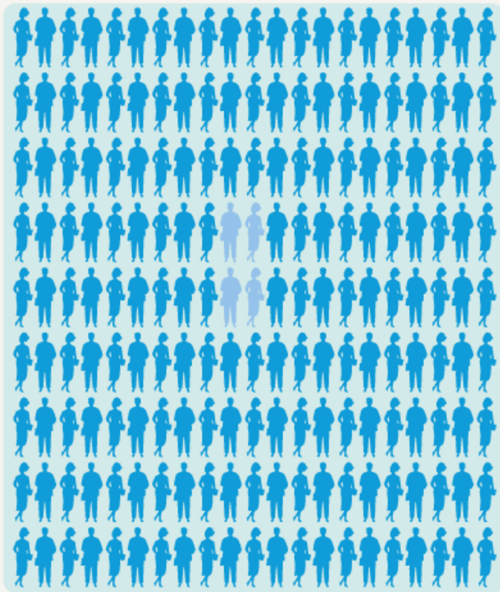
4.3m are active*

5.6m are inactive**

0.008% of Scheme membership did not have a gender listed on their Scheme enrolment.

Scheme employers

98% of employers using Nest have less than 50 employees



* Active members are either employed workers enrolled in the Scheme by their employer or self-employed workers who have enrolled themselves into the Scheme. 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.

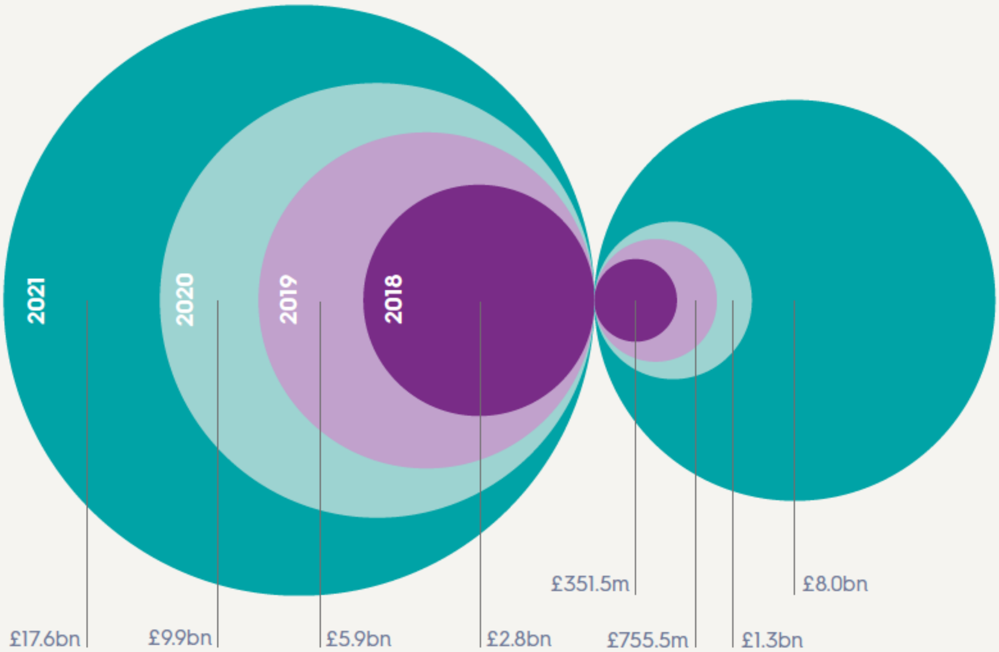
** Inactive members are members of the Scheme who have not retired, died or opted out but have either left their employment or have chosen to stop contributing.

^ These are intermediaries, such as accountants and payroll providers, using the Nest Connect service and delegated by an employer to perform some or all of the employer's Scheme account management for them.

Total net assets compared with members' investments in our climate-aware developed market equities strategy

As the total net assets have increased over the years, the proportion allocated to dedicated climate-aware strategies has increased.

Our climate-aware strategy helps to manage climate change risk by reducing investment in the biggest greenhouse gas and carbon emitters and investing more in green technology. In 2018 we had £351.5 million invested in our climate-aware strategy. As at 31 March 2021, we had £8.0 billion invested in this way.



Reducing our investments' carbon footprint

Up to December 2020, our climate-aware strategy helped reduce the carbon footprint of our members' investments by the equivalent of one of these models:

Source: UBS Asset Management (UK) Ltd, Trucost, EPA, IEA as of December 2020. Metrics are estimates based on model assumptions, for illustration purposes only.

Outcomes

Support strong member outcomes

9.8%

Five-year rolling annualised returns in the 2040 Nest Retirement Date Fund after annual management charges to 31 March 2021

28%

Account registration

(% of members who have registered for online account access)

Service

Deliver a good service to our customers^

71%

Member satisfaction^

(from the 'Voice of the customer' survey December 2020)

74%

Employer satisfaction^'

(from the 'Voice of the customer' survey March 2021)

Sustainable business model

Deliver a sustainable future business model

£4.9bn

Total annual contributions

19%

Scheme income growth to £128m

^ Satisfaction scores are based on those giving an 7–10 score on a 10-point scale and excludes those responding 'don't know'. They are drawn from the most recent annual survey of employers or members. Quarterly surveys, with a smaller respondent base, are also conducted.

' Due to a majority of UK employers working from home (WFH) during the pandemic, our annual employer survey in March 2021 was conducted using an online survey method. In previous years this survey was conducted by telephone. The change in method means that differences in scores year on year may reflect population sample differences rather than a change in employer sentiment.

Growth

Grow the business, in the right way

£406m

average per month in new contributions

6,500

Net employers joined Nest on average each month

Corporation

Deliver a corporation fit for the future

44%

of director-level roles (top two pay grades) are held by women, exceeding our Women in Finance Charter target of 30%

25%

of staff identify as being from a Black, Asian or another ethnic minority community

Awards and recognitions

We won 11 awards and commendations this year for the Scheme and the design of our investment strategy.

We were also awarded a 5 Star Rating by Defaqto for the fifth year in a row.

Corporate Adviser Awards – WINNER

Ultimate Default Fund

Best Master Trust

Best Default ESG Strategy

European Pensions AWARDS 2020 WINNER

European Pension Fund of the Year

IPE AWARDS 2020

Long-Term Investment Strategy Gold Award

Multi-Employer/ Professional Pension Fund Silver Award

Commodities highly commended

Climate Related Risk Management highly commended

PENSIONS Age AWARDS 2020 WINNER

Best Investment Strategy

PROFESSIONAL PENSIONS INVESTMENT AWARDS 2020

Master Trust of the Year

PROFESSIONAL PENSIONS UK PENSIONS AWARDS 2020

Rising Star (Stephen O'Neill)

defaqto EXPERT RATED ★★★★★ Workplace Pension 2017-2021

5 Star Rating for the fifth year in a row

Principal risks and uncertainties

This section summarises the principal risks and uncertainties in our business environment during 2020/21.

We have a duty to run the Scheme in the best interests of our members. This includes understanding and mitigating risks and uncertainties affecting our ability to achieve our strategic priorities.

At the same time, we must take risks to deliver our strategic priorities. Understanding the risks we face, and how best to control or mitigate them, is integral to this.

We have established a culture and processes designed to manage risk and uncertainties across our organisation and the Scheme in line with expectations set out by the Board. We also engage key stakeholders in these processes.

We have identified the following principal risks:

- Service failure
- Customer data and assets
- Legal and regulatory compliance
- Financial performance
- Investment performance
- Corporation culture, capability and capacity
- Failure to deliver compliant and effective member and employer proposition
- Ensuring competitiveness
- Future scheme administration service
- Conflicts arising from our funding and sponsorship

No new principal risks were identified in 2020/21.

Our approach to principal risks and uncertainties is discussed in more detail in the 'Corporate risk statement' on pages 74 to 75.

The impact of Covid-19

The pandemic has significantly impacted our customers. Some employers using the Scheme were forced to temporarily close, while others may have seen their trade shrink. Many of our members are low to moderate earners and some may have had their income disrupted. Our analysis suggests that government programmes such as the Coronavirus Job Retention Scheme (CJRS) helped support continuity in pension saving despite these disruptions.

Throughout 2020/21, alongside our key business partners and other stakeholders, we have continued working from home (WFH) in line with government guidance and through a series of regional and nationwide lockdowns. We have closely monitored our key controls and taken mitigating actions to ensure our risk exposure was managed and maintained within the risk appetite approved by the Board.

Our services have continued to be delivered to our customers in time, to the required quality and in compliance with legislation and regulations, with no essential or substantive programmes of work delayed or rescoped.

Before the pandemic, our business continuity and disaster recovery (BCDR) plans included organisation-wide WFH, which has ensured our services have remained available without interruption. We have increased our programme of wellbeing events for staff and initiated virtual platforms to sustain morale and engagement throughout this full year of WFH. We have signposted our employee assistance programme (EAP) helpline and seen increased take-up of wellbeing services through it. We have also signposted and offered assistance and support for WFH, such as our flexible working policy, particularly during school closures.

We continue to actively monitor and manage the performance of the investments we make for Scheme members. Our diversified investment strategy helped to cushion our members' money during periods of heightened market volatility in 2020/21.

The pandemic's impact on our customers has affected our income. However, this has not impacted the going concern status of either us or the Scheme. More information regarding our going concern assessment can be found on pages 24 to 25.

Going concern statement

As part of the preparation of the 'Corporation annual report and accounts', the Trustee needs to be satisfied that we are a going concern, that is, it has both the intention and the means to continue into the future.

We have assessed three key areas: scheme income, loan funding from government and wider auto enrolment pensions policy as part of our going concern considerations. As a result of this, we believe that although there continues to be global economic uncertainty due to the coronavirus pandemic, we are in a strong financial position and it is appropriate to adopt a going concern basis, for the reasons set out below.

We produce an updated business plan and long-range financial projections in February each year. The latest forecast estimates that we would be able to cover our operating costs from Scheme member charges from 2024 onwards, at which point the estimated borrowings will be £1,196 million. The plan also forecasts that we will have repaid the loan from the UK government by 2039.

Our financial position will be affected by any changes in contribution volumes and ongoing investment volatility that occur as a result of the continuing pandemic. However, assessments have been made on the three key areas that impact these long-range financial forecasts. These assessments concluded that we remain in a strong financial position.

Impact on scheme income

We have assessed the resilience of our trading income with respect to the economic impacts of the pandemic. We have a very broad customer base, meaning contribution income is not concentrated into any particular business sector. There is therefore no disproportionate exposure to companies which have been adversely impacted by the pandemic or other economic factors.

Our remaining trading income comes from member charges on assets under management. These will be impacted by any falls in global asset values. However, the Scheme has a diversified portfolio to provide some mitigation against this and any fall in this revenue will be partly offset by a fall in the costs of investment, which are calculated based on asset values.

In addition, the measures taken by the UK government throughout the pandemic, such as the Coronavirus Job Retention Scheme (CJRS), were designed to preserve as many employers and jobs as possible. Based on our analysis, we believe these programmes did support continuity in pension saving.

Impact on loan funding from government

We are financed in part through a loan agreement with DWP. This provides assurance that future funding will be provided to us until income from scheme charges is sufficient to meet future costs and settle the loan liability.

Impact on the wider auto enrolment policy

There has been no cessation in nor changes to the UK's auto enrolment policy for workplace pensions. Our public service obligation to provide a workplace pension scheme to any employer that requires one remains in place. The Pensions Regulator (TPR) has also issued detailed guidance to employers that is clear that auto enrolment is not to be paused and that employers are still expected to comply with their auto enrolment duties. This demonstrates that there is still a clear need for the Nest Scheme as part of the government's pensions policy.

"Our public service obligation to provide a workplace pension scheme to any employer that requires one remains in place."

Performance analysis

This section reviews our performance in more detail. It reports on our performance against each of our strategic objectives in the context of risks and uncertainties during 2020/21. It also includes a review of our finances and information about how we operate as a responsible business.

Principal activities

This section details our key business relationships and principal activities during 2020/21. This year we were focused on supporting our growing customer base through the coronavirus pandemic. We did this while further developing the Scheme's services and our investment strategy to benefit our members over the long term.

Key business relationships

We have several ongoing key business relationships. These include Tata Consultancy Services (TCS), which administers the Scheme, and State Street Bank and Trust Company (SSB), which provides fund administration services.

In February 2021 we appointed global digital transformation firm Atos BPS Ltd as our future scheme administrator. The new service will begin in 2023 (see page 32).

We have worked in partnership with all of our suppliers, and particularly in managing and mitigating the impact of the Covid-19 crisis, to ensure that our services continue to operate effectively and that the design and build of our future service is mobilised.

Business growth

Our customer base continued to grow in 2020/21, with 78,000 net new employers choosing the Scheme for their workers and 839,500 net new members being enrolled.

We believe the buffering effects of the government's Coronavirus Job Retention Scheme (CJRS) and other economic support measures have helped.

In the first phase of the CJRS, which ran from March 2020 through to July 2020, the government paid both the employer's and the worker's pension contributions on relevant earnings for eligible workers who had been furloughed. Later phases of the CJRS ran during the remainder of 2020/21 and are expected to continue until September 2021. In these phases employers were again responsible for paying their mandatory minimum pension contributions on workers' band earnings while the government continued to provide support for a large portion of furloughed workers' wages.

Despite the disruption caused by Covid-19, our analysis shows the percentage of our active members making contributions year on year remained stable. As at 31 March 2020, on a cash received basis, 78.8% of our active members were making contributions. On 31 March 2021 this figure increased negligibly, to 79.6%, showing that the majority of our active members continued to contribute to their pension pot.

> **"Our customer base continued to grow in 2020/21, with 78,000 new employers choosing the Scheme for their workers."**

Members

We continue to improve the services we provide to our members while remaining mindful that their short-term needs and priorities may be changing due to the pandemic's impact.

During 2020/21 we rolled out further changes to optimise our website and communications for mobile devices. Among these, we deployed a new member dashboard which more clearly displays key data needed for retirement planning and decision-making. We believe this dashboard should also make it easier for our members to monitor and engage with their pension pot well before retirement.

We continued to improve our website's search engine and created videos to walk members through processes such as transferring money in and out of their pension pot. We also added links to help members quickly find Covid-related resources.

From the start of the first lockdown in March 2020 through to September 2020 we paused a series of planned member engagement campaigns while we focused on communicating information to our members about market volatility, our long-term investment strategy and the threat of pension-transfer scams. As the markets stabilised, we built on a series of targeted campaigns to share information most relevant to a member's life stage. These emails contained links to video content as members find this more engaging. Results show that more of our members open and click on links in emails that contain engaging content and personalised information.

We give members 'one pot for life' in the Scheme to reduce the number of pension pots they have and make account access simpler.

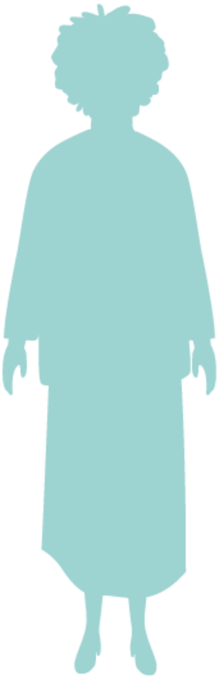
We continue to work with government, regulators and the wider pensions industry on a wide range of topics, including the development of pensions dashboards and the issues of small pots and forgotten pots.

As part of a programme of regular research to understand our members' evolving priorities and needs, we are analysing the short-term impact of the pandemic on our members' saving behaviours and attitudes.

Our active members continued to save into their pension with us at stable levels. However, it is too early to know the full effects of the Covid-19 crisis on our members' attitude towards pension saving or their ability to continue saving once government supports like the CJRS are wound up. We will monitor this closely through the coming year.

> During the pandemic, I feel Nest has been responsive in keeping in touch and giving a decent level of confidence in their pension products.

Katrina Greenhalf, Nest member, 40s



Employers and intermediaries

Since our inception we have operated the Scheme on a digital-first basis. Much of our support for employers who have chosen the Scheme for their workers, as well as intermediaries such as advisers and payroll providers, is delivered through our website and web services. This allowed us to continue to deliver most services during the pandemic with little to no disruption.

We did, however, expand some of our online offerings and adapted our communications to reflect the business context of lockdowns and the closure of some sectors. We signposted information about government support programmes such as the CJRS along with employers' duties at each phase. We also delivered and attended webinars in place of in-person events.

Our proprietary web services are a key part of our offering to employers and their intermediaries. These services allow employers of all sizes as well as intermediaries to send and collect worker pension contributions data using their existing payroll software. We work closely with payroll service providers to ensure our web services integrate well with payroll software. The number of employers using our web services increased from 186,089 in March 2020 to 222,893 in March 2021, which is 25.0% of all employers using the Scheme (compared to 23.0% of employers in 2019/20).

As part of an ongoing initiative to expand the range of tools and processes for pension scheme management that we offer to employers, we completed a major programme to develop a new bulk transfer service. This service will allow employers to more easily consolidate legacy pension arrangements with the Scheme, should they wish to do so. The new facility became available to employers starting in the first quarter of 2020/21.

The members' dashboard is easy to use to give a snapshot of fund value and contributions.

Nest member, male, mid 50s

Investment developments

The 2020/21 financial year was marked by the unprecedented disruptions to the global economy caused by the coronavirus pandemic and national and regional lockdowns. In the face of these disruptions, markets were volatile. However, weakness in risk assets such as equities and high-yield debt was primarily experienced in March 2020, before the start of this financial year. For this reason, global stock markets and most other risk assets enjoyed a positive year overall.

This positive performance was due in large part to massive quantitative easing, where central banks around the world took actions such as buying large volumes of government bonds, as well as the fiscal stimulus packages, such as the Coronavirus Job Retention Scheme (CJRS) in the UK, launched by governments to support their economies. The approval of vaccines against Covid-19, combined with the election of a new US president, further boosted markets towards the end of 2020.

Against this backdrop, the funds in which Scheme members are invested all achieved positive returns over the year. The 2040 Nest Retirement Date Fund, which is currently representative of the growth phase of our flagship default strategy, saw returns, net of annual management charges, of 28.0% over one year and 9.8% annualised over five years. Full details of the performance of all Nest Retirement Date Funds can be found in the 'Scheme annual report and accounts 2020/21': **nestpensions.org.uk/schemeweb/dam/nestlibrary/Nest-SARA-2020-21.pdf**

Our default strategy is well diversified across a range of asset classes, including global equities, global corporate bonds and global property.

To help achieve good risk-adjusted returns for Scheme members, we are increasingly looking to take advantage of opportunities in illiquid private markets such as direct property, private credit and infrastructure projects. For example, we selected three new infrastructure equity investment managers during 2020/21. When we invest in illiquid assets, we ensure that all Nest Retirement Date Funds, as well as our other, non-default fund choices for members, retain sufficient liquidity to meet member divestments and keep our portfolio in line with our asset allocation targets. Our allocation to private market assets is currently capped at 20.0% in any individual Nest Retirement Date Fund or the other fund choices. Generally, these allocations are significantly lower than this at the current time.

For a period during 2020/21, our direct UK property funds were closed to both new investors buying in and existing investors selling out – what is called being 'gated'. This was due to uncertainty around the valuation of commercial property in the UK at a time when limited transactions were taking place because of Covid-19 lockdowns and social distancing restrictions. Nest Invest Ltd, our wholly owned, Financial Conduct Authority (FCA)-approved investment subsidiary has an internal illiquidity committee which meets regularly to address any concerns about how the less frequent pricing and valuation of illiquid assets like this might affect Scheme members. In the case of these property funds, we were able to manage the impact of the gating on both our portfolio's asset allocations and our members' fund pricing.

While we managed the impact of short-term volatility in certain markets, we also continued to consider our longer-term investment strategy on behalf of Scheme members.

Most significantly, this year we launched our climate change policy and committed to aligning our entire portfolio with net-zero carbon emissions by 2050. This was one of our key initiatives during 2020/21, as noted below.

To support our climate change ambitions, one of our three new infrastructure equity investment managers procured in 2020/21 is dedicated to investing in renewable energy and related infrastructure. We also began working with all of our managers to plot a transition path to net zero by 2050 for all of our investment funds. In line with our climate change policy we have stepped up our active stewardship, including enhancing our approach to voting and engaging with companies Scheme members are invested in. And we are collaborating more with other market participants, including regulators and standard setters, to work towards a net-zero future.

When the Scheme was first set up, and while the Scheme was smaller, we invested solely in pooled funds, where an investment manager for an asset class invests on behalf of the Scheme as well as other investors. Now that the Scheme is larger, we increasingly utilise segregated mandates, which means the manager runs the fund exclusively for the Scheme. For our segregated mandates, securities are held in custody on our members' behalf by our custodian, State Street Bank and Trust Company (SSB).

During 2020/21 we transitioned our developed market equities portfolio into a segregated mandate. As a result, a large proportion of our assets are now managed in this way. This gives us greater flexibility around benchmark design and active ownership, both of which we believe will provide benefits to Scheme members over the long term. For example, the shift to segregated mandates allowed us to remove any remaining tobacco stocks from our portfolio. This meant that in August 2020, a year ahead of our target date, our portfolio became tobacco-free. Segregated mandates are also one of the tools we are deploying to help us achieve our climate change ambitions. Our developed market equities portfolio is now wholly invested to be climate-aware.

For more information on the Scheme's investments please refer to the 'Scheme annual report and accounts 2020/21': **nestpensions.org.uk/schemeweb/dam/nestlibrary/Nest-SARA-2020-21.pdf**

Other key initiatives

We continue to work towards our strategic priorities, set out on pages 36 to 37 and in our 'Corporate plan 2020-2023'.[8] Our performance against these strategic priorities is described on pages 38 to 47.

Key initiatives during 2020/21 included:

Launching our climate change policy

In June 2020 the Board and the investment committee approved our new climate change policy. This sets out how we are aiming to align our whole portfolio by 2050 with the Paris Agreement's more ambitious 1.5C limit on further warming above the average global temperature recorded from 1850 to 1900. We expect that greenhouse gas emissions in our portfolio will need to halve by 2030 to be on course to meet this ambition.

The climate change policy describes how we intend to do this, focusing on:

- Asset allocation
- Investment manager selection and monitoring
- Stewardship
- Public policy

As part of implementing our climate change policy, in September 2020 we moved all of our developed market equities into our climate-aware investment strategy with UBS Asset Management (UK) Ltd.

8 nestpensions.org.uk/schemeweb/dam/nestlibrary/Corporate-plan-2020.pdf

In December 2020 we announced that we had agreed with our emerging market equities investment manager, Northern Trust Asset Management, to move our investments with them into climate-aware holdings.

By the end of the financial year, we had also divested or removed 116 companies from the Scheme's portfolio that are known to make more than 20% of their revenue from thermal coal production and power generation, arctic exploration or oil sands. Our aim is to phase out investment in companies engaged in these activities entirely by 2025.[9]

Further, in March 2021 we named Octopus Investments one of three new infrastructure equity managers selected during the financial year.

The details of our strategy for ensuring our portfolio is aligned with limiting warming to 1.5C can be found in ‘Nest’s climate change policy’.[10]

Our 2020/21 responsible investment report, ‘Investing for a better future’,[11] has more information about how we are advancing our climate change ambitions.

Progressing our people and development strategy

Our people and development strategy aims to ensure that we have the organisational capability, leadership and culture, skills and agile operating models we need to continue to deliver competitive, high-quality services to our customers in the master trust market. In 2020/21, we focused our work around this strategy on supporting our employees’ wellbeing and making further progress towards our commitments to diversity and inclusion.

When it became clear that our people would be working from home (WFH) and living with social distancing for the entire financial year, we augmented our planned programme of wellbeing events and engagement activities. We organised our first virtual all-staff conference, which considered ways in which we could support the UK’s post-Covid ‘build back better’ initiatives.

In April 2020 we launched our first 12 mental health first aiders across the organisation. These are colleagues trained in active listening, signposting and spotting signs that someone may need wellbeing support. We also regularly signposted our flexible working policy and our confidential employee assistance programme (EAP), which includes an online health portal and a 24/7 information service and helpline.

More of our people took advantage of these offerings in 2020/21. In our January staff survey, 86.0% of staff said we are doing enough to support their health and wellbeing at work (compared to 75.0% in 2019/20) and 94.0% said they were aware of the steps we are taking to ensure this (no data for 2019/20).

We want our people to be fully engaged in realising our purpose as a public corporation and the goals of our people and development strategy. To support this, we have established ‘Your voice’, a new representative staff forum for providing ideas and feedback to our executive committee. The first representatives were elected in October 2020 and the first meetings took place in February 2021.

We also set up six working groups in October 2020 to support our diversity and inclusion targets. Each sponsored by an executive champion, these groups are considering how we can foster greater diversity and inclusion with respect to disability and neurodiversity, gender, religion and faith, LGBTQ+, mental health and race and socioeconomic background.

For more information on progress against our diversity and inclusion strategy, see page 50.

9 We will be completely divested from these carbon-intensive activities by 2025 at the latest, unless a company in which a fund is invested has a clear plan to phase out the activities by 2030.

10 nestpensions.org.uk/schemeweb/nest/aboutnest/investment-approach/How-climate-change-could-impact-your-pension.html

11 nestpensions.org.uk/schemeweb/nest/aboutnest/investment-approach/responsible-investment.html

Procuring future scheme administration services

In early February 2021 we announced that we had named global digital transformation firm Atos BPS Ltd as our future scheme administrator.

This contract was awarded following a robust, competitive tender and dialogue process run in line with the Public Contracts Regulations 2015. It will last for a minimum of 10 years, with an optional extension period of up to five years and the option of an additional period of up to three years for exit.

The new service, which will begin in 2023, will focus on making the most of advances in technology and data analytics to deliver more personalised and tailored facilities and communications to our members. Atos's state-of-the-art technology and cloud hosting platform will provide a scalable, agile and low-carbon solution for all processing and administrative IT.

Since the announcement, we have begun a phased programme to manage the transition to the next contract and ensure a stable and secure transfer of operations in 2023.

See page 45 for further information.

Creating Nest Experience

With the procurement process for our future scheme administration services completed, in January 2021 we were able to bring together several of our teams to form Nest Experience. This new business unit is singularly focused on the customer journey, including how we deliver day-to-day services, what services we aim to develop for the future and how we engage with our customers.

Understanding pension savers' needs

Our in-house research unit, Nest Insight, continues to provide insights into defined contribution (DC) pension savers' behaviours, priorities and needs, particularly in the current economic environment. During 2020/21 this included analysing the impact of the Covid-19 crisis on saving in the Scheme and early findings from a trial of a 'sidecar savings' tool for emergency saving.

This research is made available to other pension and financial services providers as well as policymakers around the world. It is funded by a range of partners, including Nest Insight's strategic partner, Invesco Ltd.

Assuring our governance

Our annual controls assurance report, following the ICAEW Audit and Assurance Faculty's 'TECH 05/20 AAF: Assurance reporting on master trusts', has been completed, giving us independent assurance that our controls are effective and that we are well governed.


WE LOVE COFFEE

Financial review

This section contains an overview of our financial performance, including our income and expenditure. It also outlines other key developments during 2020/21.

Overview of financial performance

During 2020/21 we achieved income growth aligned to our three-year business plan, met our operational targets and continued to focus on cost control. Both our costs and associated funding for the financial year have been below the annual projections and the funding limit agreed with the Department for Work and Pensions (DWP).

Scheme income, made up of members' contribution and annual management charges, increased as planned from £107.3 million in 2019/20 to £127.8 million this year. This represents an income growth of 19%. This growth was driven by increases in total net assets of the Scheme which grew from £9.9 billion in 2019/20 to £17.6 billion this year. Based on our analysis, we believe that resilience in scheme income in 2020/21 was also helped by government programmes, such as the Coronavirus Job Retention Scheme (CJRS), that were in place during the pandemic.

The Scheme's membership grew from 9.1 million in March 2020 to 9.9 million in March 2021. Given the growth in the Scheme's membership and assets under management, the costs of scheme administration and fund management have increased, as expected, by 11%, rising from £95.8 million in 2019/20 to £106.6 million this year (see note 6 of the 'Financial statements' on page 114).

Overall, we have incurred net expenditure after interest for 2020/21 of £59.3 million, compared to £59.9 million in 2019/20. The increases from growth of scheme income were offset by increases in scheme administration and fund management costs due to increases in the Scheme's membership and assets under management.

Looking ahead to 2021/22, we expect to see further increases in scheme income as the Scheme's assets under management grow.

Total expenditure will also increase, primarily due to increased fund management costs associated with the growth of the Scheme's assets under management and the cost of the delivery and implementation of the next scheme administration contract.

The net expenditure will continue to be funded from the government loan facility until repaid from the projected surpluses in future years. We are well placed to repay the loan facility. The latest forecast, drawn up in March 2021, has us breaking even in 2024 and repaying the loan by 2038. The latest forecast has been drawn up during the pandemic so makes assumptions about the economic recovery over the next few years. The loan liability with DWP as at March 2021 is £884 million, compared to £778 million at March 2020.

DWP and the Board are satisfied with the forecast three-year business plan and long-term projections. A detailed analysis of historical financial performance is presented in the 'Performance summary' opposite. For detail on the assessments that have been made on the impact of the pandemic on the long-range financial forecasts see the 'Going concern statement' on pages 24 to 25.

Performance summary

The following table provides historical information on income and expenditure.

	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m
Income					
Scheme income	15.2	25.6	61.4	107.3	127.8
Grant income	17.7	20.0	22.4	24.9	25.4
Other income	-	17.1	0.5	0.8	0.7
Total income	**32.9**	**62.7**	**84.3**	**133.0**	**153.9**
Expenditure					
Staff costs	(18.5)	(20.8)	(24.7)	(26.0)	(29.5)
Depreciation and amortisation	(10.9)	(10.9)	(12.1)	(12.3)	(15.7)
Other expenditure	(61.4)	(75.3)	(91.1)	(116.0)	(130.0)
Interest payable	(29.1)	(32.2)	(35.4)	(38.6)	(38.0)
Total expenditure	**(119.9)**	**(139.2)**	**(163.3)**	**(192.9)**	**(213.2)**
Net expenditure after interest	**(87.0)**	**(76.5)**	**(79.0)**	**(59.9)**	**(59.3)**

Income

Total income was £153.9 million for 2020/21. This is an increase of 16% from 2019/20 income of £133.0 million. The increase in total income was driven by a 19% increase in scheme income from £107.3 million in 2019/20 to £127.8 million in 2020/21. The increase in scheme income was largely due to the growth in total net assets which grew from £9.9 billion in March 2020 to £17.6 billion in March 2021. Our analysis shows that resilience in scheme income in 2020/21 was also helped by government programmes, such as the CJRS, that were in place during the pandemic.

Expenditure

We make spending decisions carefully and with the awareness that expenditure is ultimately borne by members of the Scheme. The largest expenditure increase in 2020/21 was within the 'Other expenditure' line, which includes scheme administration and fund management costs. The administration and investment costs increased by £10.8 million from £95.8 million in 2019/20 to £106.6 million in 2020/21. The increase was due to the rise in the Scheme's membership and higher fund management costs related to the growth in assets under management.

In 2020/21 staff costs increased by £3.5 million to £29.5 million, mainly due to a natural increase in headcount attributable to the increase in size and complexity of Nest Corporation and the Scheme. Depreciation and amortisation costs between 2019/20 (£12.3 million) and 2020/21 (£15.7 million) increased by £3.4 million due to additional assets being purchased to run the Scheme.

Strategic priorities 2020–2023

This section sets out our current strategic priorities, against which we analyse our performance.

We have set out five strategic priorities. These describe what we will do over the next three years to fulfil our goal of helping our members realise a bigger pension in a better world.

We share more information about our forward-looking plans in our corporate plan, which is updated annually and made available on our website.[12]

For the period 2020–2023 our strategic objectives are:

Support strong member outcomes

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

Deliver a sustainable future business model

We will agree and implement a new approach to service delivery following the expiry of our current scheme administration contract. We will maintain a cost-efficient business model to ensure we can repay our loan from government.

Deliver a good service to customers

We will deliver a sustainable, high-quality service to all our customers – members, employers and intermediaries such as advisers and payroll providers.

Deliver a corporation fit for the future

We will develop the corporation as an organisation to ensure we are well governed and ready to manage the Scheme at growing scale.

Grow the business, in the right way

We will ensure that we have a broad customer base while also remaining fully focused on the needs of our target membership of people on a low to moderate income.

12 nestpensions.org.uk/schemeweb/nest/nestcorporation/library.html

Performance against strategic priorities

This section describes how we progressed towards our priorities in 2020/21, including how the current economic and business environment affected our performance.

In 2020/21 we made significant progress towards our strategic priorities despite the challenges of operating through a global pandemic.

Both the Board and our people adapted rapidly to working from home (WFH) in March and April 2020, and most of the initiatives planned for 2020/21 proceeded. We have maintained a 'business as usual' footing throughout the pandemic, with no essential or substantive programmes of work related to delivery of the Scheme either rescoped or delayed.

However, in some cases, we chose to rescope or reschedule planned initiatives, particularly around increasing member engagement, in light of the impact the pandemic was having on our customers and staff. We did this mindful of our customers' needs and priorities during this time, as well as the wellbeing of our employees.

We also delayed the launch of our new reward and remuneration proposition for staff from April 2020 to April 2021. This was done to acknowledge uncertainties at the beginning of the pandemic.

"In 2020/2021 we made significant progress towards our strategic priorities despite the challenges of operating through a global pandemic."

Support strong member outcomes

Grow assets in a way fit for the Nest Scheme's growing membership

Why do we refer to the 2040 fund?

About 99% of Nest Scheme members have their pots invested in the Nest Retirement Date Funds. The funds in this series are 'lifestyled', where we manage members' assets according to their age as well as how markets are performing.

There are four main phases in our lifestyled investment strategy: foundation, growth, consolidation and post retirement.

The 2040 fund, for members expected to retire in 2040, is currently representative of the growth phase, which is where most members' money is invested for the longest period of time.

For our default strategy, the Nest Retirement Date Fund series, the Board has set an objective in the growth phase to target long-term investment returns equivalent to inflation, as measured by the consumer price index (CPI), plus 3.0% after charges.[13]

- As measured by the performance of the 2040 Nest Retirement Date Fund, annualised returns net of members' annual management charge were 9.8% over the five years to 31 March 2021. CPI plus 3.0% for the same period was 4.8%.

Our investment strategies for both the Nest Retirement Date Funds and our other fund choices are expected to meet their investment objectives over the long term. The objectives for our default strategy, the Nest Retirement Date Funds, and our other fund choices can be found in our 'Statement of investment principles'.[14]

We receive regulated advice on investment strategy from Nest Invest, an occupational pension scheme (OPS) firm which is a wholly owned subsidiary of Nest Corporation and regulated by the Financial Conduct Authority (FCA). Nest Invest's advice has supported the evolution of our investment approach in a year marked by ongoing market volatility and uncertainty. Nest Invest's effectiveness is reviewed and approved by the investment committee on an annual basis.

Some of the ways in which we progressed our investment strategy to serve our members' long-term interests in 2020/21 included:

- Launching our new climate change policy[15] in July 2020. This outlines our ambition to align our entire portfolio with the Paris Agreement goal to be net-zero carbon by 2050. For more information on how we made progress towards becoming net zero during 2020/21, see pages 30 to 31.
- Achieving our goal of a tobacco-free portfolio in August 2020, a year ahead of schedule. We were the first UK pension provider to announce plans to stop investing in tobacco because we believe the business and regulatory outlook for the industry make it a poor long-term investment for our members.[16]
- Restructuring our emerging market equities fund with Northern Trust Asset Management into a climate-aware fund.
- Continuing to diversify our investments to reduce risk and provide new opportunities for return, adding new asset classes including infrastructure equity to members' portfolios. We selected one new investment manager, Octopus Investments, to allow us to invest directly in green energy generation, and managed the selection process for other investment managers to be appointed in 2021/22.
- Developing an investment roadmap to help us better understand what opportunities will arise over the next decade. This has involved reviewing ways to further diversify our portfolio as well as considering changes that we can make to ensure our members' money continues to be invested and managed efficiently and effectively.

13 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 and transaction costs but not the member contribution charge. The transaction costs include both explicit and implicit costs, where applicable. Explicit costs are directly observable, such as broker costs. Implicit costs, such as market impact, are not as clearly visible.

14 nestpensions.org.uk/schemeweb/nest/aboutnest/investment-approach/statement-of-investment-principles.html

15 nestpensions.org.uk/schemeweb/nest/aboutnest/investment-approach/How-climate-change-could-impact-your-pension.html

16 nestpensions.org.uk/schemeweb/dam/nestlibrary/tobacco-free-position-paper.pdf

- Reviewing our reference portfolios annually. This helps ensure that the asset allocations of our funds are not overly concentrated in a particular asset class and match the investment principles approved by the Board. During the early months of 2020/21, one of the property funds in which the scheme was invested was 'gated' due to market volatility (see page 29). The Scheme's strong positive cashflow allowed us to rebalance the portfolio and manage these constraints.
- Continuing to act as a responsible steward of members' money. We have done this by working with our investment managers and other institutional investors to encourage the companies in which we are invested to adopt best governance practices, including on executive pay and board composition. Further details are available in our 2020/21 responsible investment report, 'Investing for a better future'.[17] Details of our voting guidelines are available on our website.[18]

We won eight awards and commendations for our investment strategy and three awards for our overall performance as a pension scheme in 2020/21. See page 21 for further details.

For more information on developments in our investment strategy, see 'Investment developments' on page 29.

Deliver a targeted approach to member engagement

We are committed to helping our members to engage more effectively with their pension pot and understand how to save adequately for their retirement.

We measure our performance in this area against the percentage of our members who have registered for online account access. In 2020/21, 28.0% of our members had registered their account (compared to 23.5% in 2019/20).

As our membership continues to grow and mature, we will need to fulfil a wider range of communication needs. We measure and analyse our members' needs and behaviour through our research programme, 'Voice of the customer' surveys and online member research community forum, 'Your way'.

In 2019/20 we began a series of test-and-learn personalised email and video campaigns to encourage members to activate their account and engage more with their pension pot. This programme was paused in the early months of the pandemic while we focused on providing information to our members about market volatility and investment performance. However, in September 2020, as economies and markets appeared to stabilise, we restarted our test-and-learn campaigns.

By testing varying levels of personalisation across our membership we have gained a better understanding of how different groups of members respond to different communications. These campaigns will help to inform our future communications strategy.

Some of the ways in which we improved member communications in 2020/21 included:

- Launching a new personalised member dashboard to simplify how members' pension pot value is presented and how members navigate to content relevant to them. This was part of a broader digital refresh to modernise how members interact with the Scheme. We saw a 26.0% increase in mailbox visits and a 400.0% increase in pension calculator completions in the wake of this redesign.
- Upgrading the Scheme's transactional website, where members log in securely to access their online account, so it is optimised for mobile devices. Currently about 60% of our registered members use mobile devices to access their account (compared to about 50% in 2019/20).
- Deploying mobile communications (SMS) to support key processes, allowing members to request a one-time-passcode when registering and to be alerted by SMS to updates on the status of transfers in and out of the Scheme and gaining access to funds in retirement.
- Introducing changes to communications which are sent when members are approaching their expected retirement date. We begin sending a suite of retirement 'warm-up' messages to members from age 50, tailoring content to their age. This is to help ensure these members are aware of the steps they need to take and can plan and review their arrangements in good time. We review the effectiveness, relevance and appropriateness of the suite of messages on an annual basis.

17 nestpensions.org.uk/schemeweb/nest/aboutnest/investment-approach/responsible-investment.html
18 nestpensions.org.uk/schemeweb/nest/aboutnest/investment-approach/responsible-investment/how-we-voted

- Updating our communications for members to alert them to the threat of scams, particularly during the pandemic. The Money and Pensions Service (MaPS), Financial Conduct Authority (FCA) and Action Fraud have noted an uptick in pension scams. During the pandemic, we have highlighted pension fraud cautions in our communications about transfers and accessing money in retirement.
- Continuing our email and video campaigns to describe our approach to responsible investing as an entry point for members to engage with their pension. Our in-house research unit, Nest Insight has found savers who care about environmental, social and governance (ESG) issues are more likely to engage with their pension when told about responsible investment.[19]
- Expanding the resources available through the Scheme's public website and member help centre, focusing on providing straightforward, engaging video guides to complex information and tasks.
- All member communications follow a marketing and creative services quality assurance process to ensure information is accurately presented, is easy to understand and is conveyed in our brand. This is part of the evidence used for our annual controls assurance report. Marketing and creative services periodically tests the effectiveness of design and editorial of how-to guides, language and key documents such as the 'Quick guide to Nest', through the Members' Panel and makes adjustments according to feedback.

19 nestinsight.org.uk/research-projects/engagement-in-pensions/esg-and-member-behaviour

Keep members' assets and data safe

It is of paramount importance that we have appropriate and robust internal controls in place to protect our members' assets and data from hacks and other threats. Our controls are also designed to ensure they meet regulatory and legislative obligations.

In 2020/21 we did this by:

- Continuing to work closely with our scheme administrator, Tata Consultancy Services (TCS), on monitoring data safeguarding controls while staff have been WFH. In March 2020, after the World Health Organisation (WHO) declared a global pandemic and offices were closed in line with government guidance, we approved a plan with TCS for delivery of our customer services on a WFH basis. This set of arrangements has been kept under review throughout 2020/21 and remained in place for the entire financial year.
- Aligning controls to the US National Institute of Standards and Technology (NIST) Cybersecurity Framework and commencing a three-year plan to further enhance ours and the Scheme's cybersecurity capability maturity by 2023, or sooner, to the target level set by the risk committee. This was done as part of an ongoing programme to implement our comprehensive cyber strategy.
- Receiving independent certification of the information security management systems operated by us, our IT managed services provider and TCS. These continue to be certified to the International Organization for Standardization (ISO) 27001:2017 standard.
- Receiving and reviewing an AAF 01/20 assurance report from TCS on the design and compliance of its key controls. This report was based on an annual review commissioned by TCS and conducted by Ernst & Young LLP (EY) in accordance with the guidelines issued by the Audit and Assurance Faculty (AAF). This report had no adverse findings, giving us significant assurance regarding TCS's controls environment.
- Receiving and reviewing independently tested controls reports in accordance with either the AAF 01/20 standard or the International Standard on Assurance Engagements (ISAE) 3402 standard from our key suppliers of fund management and fund administration services. The fund administration team reviewed these controls reports and delivered a report on them to the audit committee.

Research and policy work to support members' needs

We carry out research and public affairs work to benefit our members and the wider population of people who are or will be reliant on defined contribution (DC) savings to fund their retirement. We do this by providing evidence to Parliament, government and industry to help inform policy development.

Highlights of our policy work in 2020/21 included:

- Participating actively in HM Treasury's Asset Management Taskforce. Nest Corporation's Chief Executive Officer Helen Dean is serving on the taskforce and this year was Vice Chair of the taskforce's Stewardship Stakeholder Group which submitted a set of proposals to raise stewardship standards in the UK.

- Increasing our service to the Pensions and Lifetime Savings Association (PLSA). Our Director of Strategy Zoe Alexander has been appointed chair of the PLSA's master trust committee.
- Working closely with the government and other pension providers to consider how to solve the issue of the proliferation of small and dormant pension pots in the market.
- Continuing to work with the Department for Work and Pensions (DWP) to consider and analyse the impact of the pandemic on people's participation in workplace pensions.
- Continuing to work with DWP and the Money and Pensions Service (MaPS) to support the pensions dashboard programme.

Our in-house research unit, Nest Insight, carries out a continuous programme of research, collaborating with academics from around the world and other pension and financial services providers. This research is funded by a range of partners, including its strategic partner, Invesco.

Highlights of Nest Insight's research work in 2020/21 included:

- 'Retirement saving in the UK, 2020', the latest in our annual reports on auto enrolment through the Scheme. The reporting period for this was extended to cover the first six months of 2020/21, providing early indications of how the pandemic and government support programmes like the Coronavirus Job Retention Scheme (CJRS) were affecting contribution and opt-out rates.
- 'Responsible investment as a motivator of pension engagement', a report on the first phase of research in partnership with Legal & General Investment Management Ltd.[20] This programme aims to develop messaging frames about the ESG aspects of pension investments that might drive engagement among some groups of members.
- Early findings from setting up a trial of a 'sidecar savings' tool, where workers are offered the opportunity to add an emergency saving element alongside their pension saving.[21]

Nest Insight's research findings are publicly available at **nestinsight.org.uk**

Our 'Voice of the customer' research programme analyses how our three key customer groups – members, employers and intermediaries such as advisers and payroll providers – utilise the Scheme's services and identifies future directions for engagement based on our customers' needs and priorities.

We also carry out research directly with our members through our online member community, 'Your way'.

20 nestinsight.org.uk/responsible-investment-as-a-motivator-of-pension-engagement
21 nestinsight.org.uk/liquidity

Deliver a good service to Nest's customers

Deliver a good quality service

We have three key customer groups: members, employers and intermediaries such as advisers and payroll providers.

In partnership with our scheme administrator, Tata Consultancy Services (TCS), we delivered a good quality service to all three groups in 2020/21, as measured by our key performance indicators:

- Service channels remained available and accessible to members, employers and intermediaries more than 99% of the time, including throughout all regional and nationwide lockdowns (also more than 99% in 2019/20). Despite the pandemic, we were able to deliver uninterrupted service to our customers.
- We have set clear standards for service levels for our online and telephone services. Service level agreements were met more than 99% of the time while operating our services on a WFH basis (99.0% in 2019/20). Customer service calls were answered in 27 seconds on average.

We also measure the quality of our service through our 'Voice of the customer' annual customer satisfaction surveys:[22]

- 71.0% member satisfaction (December 2020, compared to 71.0% in November 2019)
- 74.0% employer satisfaction (March 2021 online survey, compared to 82.0% in March 2020, when the survey was conducted by phone[23])
- 77.0% Nest Connector satisfaction (March 2021 survey, compared to 72.0% in March 2020). A Nest Connector is an intermediary, such as an accountant or payroll provider, delegated by an employer to perform some or all of their pension account management on their behalf using the Nest Connect service.

For 2020/21 we had targeted improvements in customer satisfaction. These stable metrics may reflect the fact that we put some engagement campaigns on pause to focus on Covid-related support and communications. Uncertainty about the overall business environment and market volatility may have also been factors.

22 Satisfaction scores are based on those giving a 7–10 score on a 10-point scale and excludes those responding 'don't know'.

23 Due to a majority of UK employers working from home (WFH) during the pandemic, our annual employer survey in March 2021 was conducted using an online survey method. In previous years this survey was conducted by telephone. The change in method means that differences in scores year on year may reflect population sample differences rather than a change in employer sentiment.

As the Scheme continues to grow over the next decade, the volume of our interactions with members will grow. In 2019/20 we established a service improvement programme to identify opportunities to improve our member services while transaction volumes are still low. In 2020/21 we made changes to address the needs of our customers in the context of the pandemic.

Drive value for members

Each year, as part of our wider value for members assessment, we are legally required to look at the costs and charges paid by the Scheme's members and assess whether these represent good value compared to similar options available in the master trust market. As a result of this assessment we concluded that the Scheme continues to represent value for members. An explanation of our assessment is provided in the 'Report on governance' on pages 22 to 39 of the 'Scheme annual report and accounts 2020/21' at **nestpensions.org.uk/schemeweb/dam/nestlibrary/Nest-SARA-2020-21.pdf**

The Scheme's pricing structure is set out by the Secretary of State for Work and Pensions. The Board has set a contribution charge of 1.8% and an annual management charge of 0.3%. Over the long term they broadly equate to an annual management charge of 0.5%.

We believe this strikes a fair balance, as the majority of our members are aged 16 to 39 and will be saving into their pension for a long time.

We demonstrated our value for members in 2020/21 by:

- Completing a value for members assessment which provided the Board with assurance that the Scheme continues to be a good value, high-quality workplace pension scheme which meets the needs of our members.
- Publishing our costs and charges in line with the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013. The information provides charges and transaction costs for all of the Scheme's funds, including illustrations of the effects of costs and charges on member pot values over time. For information on our costs and charges, see **nestpensions.org.uk/schemeweb/nest/aboutnest/nest-charges.html**

Grow the business, in the right way

A revenue model that is sustainable while remaining fully focused on the needs of the target membership of low to moderate income earners

To ensure our continued growth, we are focused on retaining the business of employers who have chosen the Scheme and making the Scheme attractive to employers who are considering consolidation of legacy pension arrangements. We also aim to make it easy for members to transfer funds from other pensions into their pension pot with the Scheme.

Our customer base grew in 2020/21 as follows:

- 881,396 employers were using the Scheme as at 31 March 2021, a 10% increase over the previous year.
- Around 6,500 net new employers on average joined the Scheme each month. Workers from across all income groups were enrolled by these employers.

As part of our initiatives to retain employers and intermediaries, in 2020/21 we:

- Ran a programme of communications which included attending and delivering a series of webinars and round-table discussions, attending virtual trade events for large employers and intermediaries to inform them of the Scheme and providing direct email communications where appropriate.
- Improved the communications and templates that we provide to employers for use in information campaigns with their workers to expand the channels we use when communicating with members. These cover, for example, activating a member account, checking annual benefit statements, learning about responsible investment and preparing for retirement.
- Worked with payroll software providers to continue to improve systems integration with our proprietary web services, looking particularly at the experience of small and micro employers with 50 workers or less.
- Designed and engaged an independent, third-party review of the principles behind our new bulk transfers service, which was approved by the Board in October 2020. We began finalising the build phase of this service in the fourth quarter of 2020/21, with a target date for launching it into the pensions market in the first quarter of 2021/22.

Members have access to appropriate retirement income solutions

By 2025 the Scheme is expected to have more than 1.75 million members aged 55 or older.

In March 2020 we launched the Nest Guided Retirement Fund to provide members with a 'whole of life' solution for their retirement provision. This new fund is for members aged 60 to 70 who wish to have easy, regular access to some of their pension savings during the early years of their retirement while keeping a portion of their pot invested in growth-seeking assets for the future. The first member pots were automatically moved into this fund in July 2020.

In 2020/21 we continued an extensive programme of research to better understand members' challenges with decision-making around retirement.

To address these challenges, we:

- Deployed a new range of age-targeted communications encouraging members to think earlier about their retirement. The communications aim to help members better understand their retirement income options, find resources for advice and planning and make more informed decisions.
- Surveyed and interviewed members about the communications for the Nest Guided Retirement Fund to identify ways to improve them.
- Monitored the activity of the first cohort of members invested in the Nest Guided Retirement Fund. We are comfortable that the amounts allocated to provide income and set aside for emergencies appear to sufficiently meet the needs of members whose pots are now in the fund.
- Conducted our first annual review of the Nest Guided Retirement Fund to review the functioning of the new fund and consider next steps.

Deliver a sustainable future business model

Maintain a cost-efficient business model

Financial performance is influenced by the Scheme's level of assets under management, total annual contributions from members and our annual running costs. In 2020/21 strong financial performance was maintained. During 2020/21, we:

- Grew total net assets of the Scheme to £17.6 billion, with £4.9 billion in contributions received during the year. In 2019/20 total net assets stood at £9.9 billion and contributions received were £4.8 billion.
- Ensured a high level of efficiency with a three-year business plan and annual budget. Funding and resources are determined in line with strategic priorities. The chief executive officer, chief financial officer and the Board challenge the requirements before these plans are approved. A funding requirement is then submitted annually to DWP, which provides further scrutiny.
- Kept within the operational and financial targets agreed with DWP for the financial year. Scheme administration expenses were in line with expectations and the growth of the Scheme. Our costs were lower than expected due to continued focus on value for members.

Procure future scheme administration services

Following a robust, competitive procurement process, run in compliance with the Public Contracts Regulations 2015, we appointed global digital transformation firm Atos BPS Ltd as our future scheme administrator. This next service will begin in 2023.

Over the past decade, technology and customer interaction expectations have changed significantly. Our aim for the new service is to take advantage of the efficiencies that these technological advances offer to better serve our customers while also driving down operational costs.

Nest Corporation and Atos BPS Ltd are now working collaboratively to design and build the future service in line with the following critical success factors which we have identified:

- Improving customer outcomes.
- Delivering services consistent with our values and capabilities.
- Securing value for money for our customers.
- Enabling a financially sustainable corporation and scheme.
- Managing our risks.

Tata Consultancy Services (TCS), the current scheme administrator, will continue to carry out the day-to-day operation of the Scheme's administration through the completion of their contract and our transition to the new service in 2023.

Deliver a corporation fit for the future

Maintain strong standards of governance

The Scheme was authorised as a master trust by The Pensions Regulator (TPR) in 2019. As part of TPR's oversight of master trusts, we submit a supervisory return annually. This means we must undertake a due diligence review of the fitness and propriety of the Board and report on our systems, policies and processes for ensuring we continue to fulfil the master trust requirements.

We continuously review the mix of skills and experience of Board members to support succession planning, training and induction, and to identify future recruitment requirements.

In addition to these regular governance processes, in 2020/21 we also:

- Completed an effectiveness review by an external adviser of the Board and governance, which showed that we continue to operate effectively. We conduct this external review every three years to ensure that our governance remains robust and in line with best practice in the master trust sector. The nominations and remuneration committee (see page 70) is overseeing the implementation of the review's recommendations.
- Assessed and agreed the requirements for the skills and experience of two new Board members to be appointed by the Secretary of State for Work and Pensions.
- Provided oversight of the process to appoint the next Chair of Nest Corporation, who will be appointed by the Secretary of State for Work and Pensions when the current Chair's tenure ends in 2022.
- Delegated the responsibilities of the determinations committee to the Chief Executive Officer so that, from 1 January 2021, complaints that reach stage 2 of the internal dispute resolution (IDR) procedure will be decided by the executive.

Our staff are engaged and have the right skills to serve members, and are supported by a positive, inclusive and diverse working culture

The goal of our people and development strategy is to ensure that we have the organisational capability, leadership and culture, skills and agile operating models we need to continue to deliver competitive, high-quality services to our customers.

We must be able to drive the future development of the Scheme by employing the right number of staff with the right skills, building an appropriate skills base through staff training and development supplemented by external recruitment, where required. We continue to foster and develop a positive working culture where our employees are motivated, empowered and treated with respect.

In 2020/21 we have focused on new initiatives to support wellbeing and diversity and inclusion across the organisation:

- Launching a new wellbeing strategy in November 2020. This is delivering a programme of support over the next three years to promote the physical, mental and financial health of our people.
- Establishing six diversity and inclusion working groups and recruiting executive champions and staff members to serve on them. These groups are helping us identify ways to improve our organisational culture, achieve our diversity and inclusion targets and better understand the needs and priorities of our diverse customer base (see page 31).
- Establishing a new employee forum, 'Your voice', through which elected representatives from our staff are providing staff feedback into organisation-wide initiatives. This includes our career and personal development and training pathways and our 'build back better' working group for integrating new working practices developed in response to the pandemic into the anticipated return to our office in 2021/22.
- Supporting the creation of our new business unit, Nest Experience, which brings together our teams supporting our current scheme administration services, future scheme administration services implementation and customer experience and retention. This includes a review of the skills we require.

- Refreshing our presence on recruiting sites such as LinkedIn and Glassdoor to showcase our organisational culture and values. This work has been cited by new starters who have accepted job offers as a factor in their decision. We have also been showcased by LinkedIn as an employer which uses our brand well to attract candidates.

We measure our progress in achieving our people and development strategy through our people metrics and staff survey, conducted annually in January:

- 83.0% of staff said they are able to strike the right balance between work and home life (compared to 89.0% in 2019/20). Fostering the wellbeing of our staff has been impacted by the Covid-19 crisis and working from home (WFH), particularly during periods when schools have been closed and those with children have had additional care responsibilities.
  We amplified our flexible working policy to help ease this by accommodating different work hours and workflow. We also provided WFH advice, signposted mental health support and organised a series of online wellbeing and team-building activities.
- 87.0% of staff said that diversity is considered a strength (compared to 81.0% in 2019/20) and 91.0% said that the organisation as a whole respects the individual differences of employees (compared to 86.0% in 2019/20).
- 92.0% of staff said that our purpose to help millions enjoy a better retirement makes them feel good about their work (compared to 86.0% in 2019/20). Weekly live video executive updates, which began in response to the switch to WFH in March 2020, have provided an engaging forum for communicating our purpose. Staff engagement has also been supported by our response to Covid-19, which has ensured our people were set up to work and engage with each other remotely.

Effective risk management and controls

Our principal risks are reviewed every year. This ensures that the risks we have identified as having a significant potential impact on our business model remain current, relevant and appropriate and that emerging risks are identified. Further detail on our principal risks and ongoing approach to risk management can be found on pages 74 to 75.

We complete an annual controls assurance report. This gives an independent third-party assessment of the design and operation of our internal controls in line with the control objectives set out in the framework set out by the Audit and Assurance Faculty (AAF).

Our other activities in 2020/21 to mitigate and manage risk included:

- The Board conducted its annual review of our risk appetite, expressed as a series of risk appetite statements that are linked to key risk indicators.
- The audit committee approved the internal audit and compliance monitoring plans. Progress against these plans and any material findings are reported quarterly to the executive and audit committees.

Respond effectively to regulatory change

As part of our compliance activities, we have processes in place to ensure that relevant regulatory change is identified, assessed and implemented.

During 2020/21 this included implementing the Senior Managers and Certification Regime[24] for Nest Invest, our Financial Conduct Authority (FCA)-authorised investment advisory subsidiary.

24 fca.org.uk/firms/senior-managers-certification-regime

Operating responsibly

As a major financial services organisation, we are very aware of the broader impact we make – at a global, national and community level. In this section we review our continuing initiatives to foster sustainability, diversity and inclusion and engagement with our wider community.

All of our decisions aim to deliver the best value for our members. Many of those decisions have a broader positive impact that we are proud of.

Our approach to responsible investment is part of this. Evidence shows that well-run organisations with sound environmental, governance and social (ESG) practices have a better chance of long-term success and profitability. But investing responsibly may also improve things for our customers and the communities they live in. We engage companies in which we have invested for our members to pay their workers more fairly, make their workplaces safer and put more people from different backgrounds on their boards. We support companies that are cutting carbon emissions, and challenge those that aren't.[25]

Here we focus on how we create value in other ways: as a corporation, as an employer, and through our corporate social responsibility (CSR) programme.

25 nestpensions.org.uk/schemeweb/nest/aboutnest/investment-approach/responsible-investment.html

Sustainability

We respect the environment in which we operate and aim to make efficient use of natural resources. We are committed to reducing our carbon footprint by identifying and developing more environmentally sustainable working practices.

Our sustainability reporting follows the guidelines set out in the Greening Government Commitments.[26]

We report on the Scheme's performance against the Task Force on Climate-related Financial Disclosures (TCFD). The TCFD recommends that organisations, including those in the financial sector, provide climate-related financial disclosures in their mainstream annual report and accounts. More information can be found in our TCFD reporting at **nestpensions.org.uk/schemeweb/nest/nestcorporation/library.html**

26 gov.uk/government/collections/greening-government-commitments

Nest Corporation is based in a modern, efficient building which houses several Government bodies. The building's management company controls energy use by employing a dedicated technical manager with responsibility for energy reduction and applying a building-wide policy to support effective energy management.

About 80%of the building's waste is recycled or reused. Waste incinerated (about 20%) is sent to an energy-from-waste facility. Carbon dioxide equivalent (CO_2e), the widely accepted standard for measuring emissions from all greenhouse gases, is also monitored with respect to travel. In 2020/21 Nest Corporation saw a sharp fall in emissions from private vehicle, rail and air travel, to 2.1 tonnes of CO_2e (2019/20: 200.3). The decline in business travel emissions is due to reduced travel during the Covid pandemic.

Nest Corporation uses electronic reviews of working papers and documentation where possible to reduce paper. This helped to support the continued working from home during 2020/21 due to the pandemic.

Going forward Nest Corporation will focus on maintaining these more environmentally sustainable working practices which will become part of its continuing commitment to reduce its carbon footprint. For further details, see Appendix 2 on pages 127 to 133.

Diversity and inclusion

As we grow and evolve as an organisation, we want to create an accessible, inclusive workplace with the right culture, capability and capacity to run and steer the Scheme as it grows in the future.

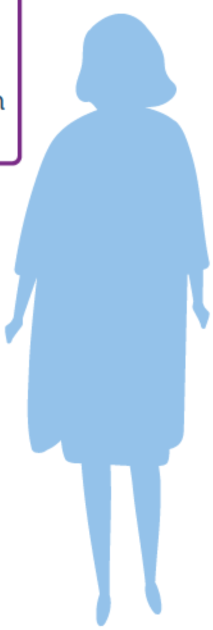
Attracting, recruiting and retaining diverse talent

To be a high-performing organisation, we must attract the very best employees based on talent alone, then support, reward and promote them proportionately in line with their role and performance.

Fostering greater diversity and inclusion will help make Nest Corporation a great place to work for all our people, allowing us to attract a broad range of candidates and retain diverse talent.

Massively pleased that Nest is taking seriously the climate and ecological emergency which is facing us all.

Blanche Ward, Nest member, early 60s



We continued to recruit and bring new staff onboard during the pandemic and to align our processes with our diversity and inclusion strategy. Our recruitment and selection processes are designed to tackle bias and barriers to the recruitment of less-represented groups. We have procured a recruitment platform which is providing detailed reporting on our hiring patterns.

We aim to have gender-balanced interview panels for every position, and have our recruiting managers undertake training on best practice and the benefits of a diverse workplace. We consider flexible working for all our roles, including during recruitment interviews.

We believe there is more work to do with line managers to improve the application of our recruitment and promotion processes.

Our January 2021 staff survey showed that 62.0% of staff agreed that recruitment processes are fair (compared to 61.0% in 2019/20) and 41.0% that promotion processes are fair (compared to 38.0% in 2019/20).

Voluntary turnover for staff who have been with us for less than one year was 16.0% (compared to 16.0% in 2019/20). The lack of change may be due to changes in the labour market as a result of the Covid-19 economic slowdown. All staff who left voluntarily in 2020/21 after less than one year of service cited family reasons. We continue to review our new starter induction processes and exit interview data with the aim of reducing this turnover.

We report on our gender pay gap. This year we have also started reporting voluntarily on our ethnicity pay gap (see page 86).

Our new reward proposition, launched in April 2021, aims to help address pay gaps and ensure fairness in recruitment and promotions.

Developing a workforce for the future

We aim to empower our people. We encourage them to reach their full and future potential while embodying the organisation's values and standards of behaviour.

This includes helping staff from underrepresented groups develop their skills, as well as investing in learning and development for all of our people. We support personal development by providing staff with secondment opportunities, mentorships, work shadowing and volunteering leave.

Ensuring inclusivity in everything we do

We understand the value of a diverse workforce. We are committed to ensuring strong representation in our staff of people from ethnic minority communities, people with disabilities and women. This extends from entry-level positions to director and executive positions, and includes support for career progression.

Equally, we aim to be flexible and inclusive by instinct and create a culture where everyone can thrive. We want our people to feel they can bring their authentic selves to work.

We have set ambitious but achievable targets in our diversity and inclusion strategy. These targets are now published in our corporate plan, so that they are publicly accountable.

We take part in accreditation schemes such as the Department for Work and Pensions (DWP) Disability Confident employer programme and HM Treasury's Women in Finance Charter.

In 2020/21 these initiatives have delivered greater gender balance, improved the representation of staff from ethnic minority communities and increased the number of people with disabilities in our workforce.

Our workforce

25%

of our workforce are from a Black, Asian or another ethnic minority community

Disability Confident (level 2) employer

88%

of our new starters in the last year were directly sourced, saving us £466k in recruitment fees (inc VAT)

An accredited Living Wage employer

48%

of our workforce are women

44%

of our director-level roles (our top two pay bands) are held by women, exceeding our HM Treasury Women in Finance Charter target of 30%

We encourage an environment where staff feel able to declare their disability status

Figures as at 31 March 2021. See page 92 for further information on Nest Corporation's disability policies.

Corporate social responsibility

Our corporate social responsibility (CSR) programme is focused on supporting charities whose missions resonate with our employees, and on making an impact in communities local to our office in Canary Wharf.

Due to social distancing guidelines put in place by the government to limit the spread of the coronavirus, we were not able to organise our annual large-scale volunteering events or activities in the London Borough of Tower Hamlets in 2020/21.

We provide our staff with up to four days' leave for volunteering each year. Our staff provided approximately 89 hours of service to charities or other not-for-profit organisations during 2020/21 through our leave programme, including:

Using personal expertise to resolve pension issues

The Pensions Ombudsman

Staff continued to volunteer to be assigned cases relating to individual savers, employers or trustees by The Pensions Ombudsman. This enables them to use their experience and understanding to help those with an enquiry, complaint or dispute about their pension. This volunteer work never involves cases relating to the Nest Scheme.

Helping their immediate community

In 2020/21 we encouraged our people to take advantage of volunteering leave to help out in their local community while working from home (WFH). Some chose to take leave to be part of national efforts to support people who were shielding or the government's Covid-19 vaccine roll-outs. Others spent volunteer leave helping a charity of their choosing.

In addition, staff also agreed flexible working arrangements with their managers to help out in their community on an ad hoc basis.

> I sort groceries and pack food boxes that get delivered to over 100 low-income families in Buckinghamshire every week. This service is run by Restore Hope, a charity which helps children, families and young people facing challenging situations. The local foodbank turned to us after it experienced an increase in demand due to Covid-19. Helping people in need is really rewarding and it's great that Nest encourages me to do this. They've been really flexible by letting me lend a hand with these essential deliveries for a few hours every other week.

Eleanor Cooksey, Senior Strategic Business Analyst, Strategy and Corporarte Affairs

> I've volunteered and helped nearly 20,000 local people get their Covid-19 vaccine. At a doctors' surgery, I directed traffic, managed queues and watched out for anyone who was struggling after the jab. The Health Secretary personally praised the surgery for administering over 3,000 vaccines in one day, which was well above the national average. I'm committed to helping to vaccinate the nation and it's cracking that Nest supports me to do this.

Paul Stovold, Strategic Account Manager, Employer and Intermediary Experience

> I've seen the impact of Covid-19 first-hand in my role as Chair of the Prout Bridge Project charity. We're based in rural Dorset and provide youth work services, mental health support and community activities. Nest's volunteer days and flexible working culture has meant that I can attend vital meetings and help steer the charity through a difficult time. The pandemic has brought financial challenges and restricted the services we can offer, but we're excited to start building back now and optimistic about the year ahead.

Jo Phillips, Research and Innovation Director, Nest Insight

Fundraising

This year staff raised over £1,000 for Evelyn Community Store, located just a few miles from our Canary Wharf office. The store is run by volunteers and provides high-quality food at affordable prices to residents on low incomes in one of Lewisham's most deprived wards.

Members of our Nest Insight and strategy teams ran over 100 kilometres between them in a single day to raise donations. The money helped the store to overcome challenges posed by the pandemic and keep serving the community during a difficult time.

Anti-discrimination, anti-bribery and human rights statement

We respect human rights for all our staff, members and business partners.

We aim to treat everyone fairly, regardless of any protected characteristics.

Any business that we conduct must comply with the anti-bribery provisions in the Bribery Act 2010. We adhere to all regulations and meet all necessary criteria to avoid corruption.

We ask potential suppliers if they are a relevant commercial organisation as defined by section 54 of the Modern Slavery Act (MSA) 2015. If so, we ask them to assure that they are compliant with the annual reporting requirements contained within that section.

Our contractual terms and conditions state that suppliers shall adhere to the UK's anti-slavery requirements. These requirements are defined as encompassing the MSA 2015 and any subordinate legislation made under that Act, in each case, as amended, superseded or replaced.

We also require suppliers and their subcontractors to notify us in writing of any actual or suspected breaches of anti-slavery requirements within seven days of becoming aware of the breach.

See page 81 for details of how we adhere to the MSA.

Preparation of the financial statements

Statutory background

The financial statements for 2020/21 are prepared in accordance with the requirements of schedule 1, part 3, paragraph 20 to the Pensions Act 2008, and in the form set out in the 'Accounts direction' issued by the Secretary of State for Work and Pensions. The 'Accounts direction' is presented in Appendix 1.

Statutory auditors

The Comptroller and Auditor General is our statutory appointed auditor 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 our 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 we did not make any payments to our external auditors for non-audit work.

Helen Dean, CBE
Chief Executive Officer,
Nest Corporation

25 November 2021

Chapter 2

Accountability report

This accountability report, including the corporate governance report, 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 1, Accounts direction on page 126.

Corporate governance report

This section includes our directors' report, statement of Chief Executive Officer's responsibilities and governance statement. Together, these report on the composition, responsibilities and interests of the Board and its committees, the responsibilities of our chief accounting officer and our risk management and internal controls systems.

Directors' report

This section described our organisational structure, including the membership of the Board of Nest Corporation and its activities during 2020/21. The Board has responsibility for the overall direction of us as Trustee of the Nest Scheme.

The Nest Scheme is a trust-based occupational master trust pension scheme set up in 2010 by statute to support the government's pension reforms. We are a public corporation which has been appointed as the Scheme's Trustee.

The Trustee is comprised of up to 15 Board members and our employees.

Under the National Employment Savings Trust Order 2010 (the Nest Order)[27] the Board receives assistance and advice from a panel that represents members' perspectives of the Scheme (the Members' Panel) and a panel that represents participating employers (the Employers' Panel). The Board consults these panels on matters to do with the operation, development or amendment of the Scheme. It also consults them when specifically required to do so by legislation, for example when making changes to the Nest Rules.

27 nestpensions.org.uk/schemeweb/nest/nestcorporation/how-nest-is-run/order-and-rules.html

Unlike any other occupational pension scheme trustee, we have a public service obligation to accept any employer that wishes to use the Scheme to meet its employer duties under auto enrolment. 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 any change to relevant legislation.

Members enrolled in 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 the Scheme throughout their life, regardless of any change in employment or personal circumstances.

The Board

Otto Thoresen

Chair, Nest Corporation
from 1 February 2015

Otto will step down as Chair of the Board of Nest Corporation on 31 January 2022, having served for seven years.

He has extensive experience in pensions, financial services and consumer issues across a range of private and public sector organisations, including periods as Director General of the Association of British Insurers and as Chief Executive of Aegon UK. He is Chair of the BT Pension Scheme Trustees as well as Chair of the Board at Aviva International Insurance and at Aberdeen Standard Investments Life and Pensions. He is a governor of the Pensions Policy Institute.

Ian Armfield

Board Member
from 1 April 2014 (second term extended to 30 June 2021)

Ian left the Nest Board on 30 June 2021 after serving for seven years.

A former partner of PwC LLP, providing audit services to investment managers and risk assurance services to the wider investment industry, he is a non-executive director of Keystone Positive Change Investment Trust plc and Managed Pension Funds Ltd, an insurance company providing pooled investment management services to pension schemes. He is also Chair of the audit and risk committee for the Pearson Pension Plan.

He brings to the Board his expertise in Financial Conduct Authority (FCA)-regulated asset management, financial accounting and audit, responsible investment, independent assurance reporting and internal audit and controls.

Karen Cham

Board Member
from 1 July 2019

Karen is Professor of Digital Transformation Design at the University of Brighton and a director of Rhizometric Design Ltd, a specialist human factors engineering consultancy. She is a critical design practitioner working in digital technology. With a background in experimental electronic arts, she is an expert in design methods for complex digital products, services, business models and strategies.

Her experience and skills in developing customer-focused technology solutions, organisational management reward and incentivisation and digital transformation oversight are central to helping shape our future strategy as a digital pensions provider.

Helen Dean, CBE

Board Member
from 1 June 2018

Chief Executive Officer, Nest Corporation

Helen has been a leading player in delivering pension reform, 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 has worked in pensions for 20 years, firstly from inside government as a regulator and then as a policy maker.

She led our product marketing and operations arms before becoming Chief Executive Officer in September 2016. She is a mentor to women in the pensions industry and has established a senior leadership programme to cultivate the next generation of diverse leaders for our future.

Helen is also a non-executive director of the debt charity StepChange, Vice Chair of the Stewardship Stakeholder Group of HM Treasury's Asset Management Taskforce and a governor of the Pensions Policy Institute.

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. A former management consultant with Deloitte & Touche and former Managing Director of a FTSE 100 utility company, he has a PhD in operational research. He has held a number of non-executive roles in the private and charitable sectors and in government agencies.

He brings his skills and experience in audit and internal control oversight, stakeholder engagement and corporate social responsibility to his roles on the Board, as well as valuable knowledge of the workings of central government and the interaction between regulators, government and business.

Chris Hitchen

Board Member
from 1 June 2018

Chair, Investment Committee
from 28 May 2019

Chris rejoined the Board in 2018, having previously served as a Board member from 2010 to 2015.

An actuary by profession, he is Chair of the Border to Coast Pensions Partnership, Chair of the Pension SuperFund and a member of the investment committee for the Guardian Media Group. He was previously the Chief Executive Officer of the UK Railways Pension Scheme.

He has extensive knowledge of pension policy and legislation, corporate governance, investment governance, the FCA regulatory environment and the process of converting pension savings into retirement income (decumulation).

Ron Jarman

Board Member
from 1 July 2016

Chair, Nominations and Remuneration Committee
from 28 May 2019

Ron left the Nest Board on 30 June 2021 after serving for 5 years.

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 Board Chair at World at Play, an international development charity and a trustee of Tempo Time Credits, a charity dedicated to recognising the value of contributions to communities of volunteering.

Ron's knowledge of oversight, public procurement, change management, stakeholder engagement and managing conflicts of interest are invaluable to the Board.

Richard Lockwood

Board Member
from 1 September 2018

Chief Financial Officer, Nest Corporation

A chartered management accountant by background, Richard previously held leading financial roles in a number of blue-chip UK retail and consumer product companies, including Home Retail Group plc, BAA plc and Kingfisher plc.

He has broad financial experience and knowledge of corporate governance, commercial finance, strategic planning and mergers and acquisitions.

Mutaz Qubbaj

Board Member
from 1 June 2018

Mutaz is a technology entrepreneur, most recently as Chief Executive Officer of Squirrel, a money management fintech start-up of which he was a founder. He has extensive financial services experience as both an investment banker in the US and UK.

He brings to the Board his knowledge of strategy formulation, customer technology solutions development and customer services insight.

Martin Turner

Board Member
from 1 June 2018

Chair, Risk Committee
from 21 February 2019

Martin spent most of his career in financial services with Barclays plc and Lloyds Banking Group plc, both in the UK and overseas, with a focus on corporate banking and operational risk. He is a non-executive director of AQA Education, for which he chairs the combined audit, risk and compliance committee and serves as a member of the nominations committee and remuneration committee.

He has a broad range of financial services experience and skills, including in enterprise risk management, stakeholder engagement, corporate governance and compliance and assurance.

Jill Youds

Board Member
from 1 April 2015 (reappointed for second term from 1 July 2019)

Senior Independent Director
from 25 July 2017

Jill is Chair of the Judicial Pensions Board for the Ministry of Justice, Chair of the Trustee Board for the National Assembly for 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. Previously, her career included a range of senior leadership positions in both large and small businesses in the commercial sector, focusing on large-scale transformation projects, people and development, finance, shared services and operations.

She has a keen interest in service delivery and customer experience. She brings her expertise in organisational management, change management, diversity, succession planning and corporate social responsibility to her roles as both a Board member and the Senior Independent Director of Nest Corporation.

Register of interests

Board members have registered any interests they hold that may create an actual or potential conflict with their responsibilities to us or the Scheme. Each Board member's register of interests is published on our website.[28]

Board members also declare conflicts in relation to any items of business at our Board or committee meetings. The executive team also register any interests they hold that may create a potential conflict with their responsibilities.

28 nestpensions.org.uk/schemeweb/nest/nestcorporation/who-runs-nest/trustee-members.html

Statement of CEO's responsibilities

Under schedule 1, part 3, paragraph 20 to the Pensions Act 2008, the Secretary of State for Work and Pensions 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 1, page 126). This 'Accounts direction' requires that the accounts are prepared on an accruals basis and must give a true and fair view of our state of affairs and of our 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' (FReM)[29] 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 FReM 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 our annual report and accounts as a whole is fair, balanced and understandable. She takes personal responsibility for the 'Corporation annual report and accounts' and the judgements 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 our assets, as set out in 'Managing public money'[30] published by HM Treasury.

29 assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/946940/MASTER_2020-21_FReM_FINAL.pdf

30 gov.uk/government/publications/managing-public-money

Governance statement

Governance framework

We subscribe to high standards of corporate governance in order to serve the best interests of the Scheme's members and fulfil our obligations as a public corporation.

We have considered the Cabinet Office's 'Corporate governance in central government departments: code of good practice'[31] within our governance framework. In respect to those principles of the code which are applicable to us, there have been no departures.

31 gov.uk/government/publications/corporate-governance-code-for-central-government-departments-2017

Accountability

We are accountable to Parliament.

The reporting lines of accountability are through the Chair of Nest Corporation to the Secretary of State for Work and Pensions, 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 Chair of Nest Corporation on all matters with the exception of those directly related to government fiscal controls, for which she reports to DWP.

Trustee effectiveness

Effectiveness reviews for the Board and its committees take place on an annual basis. In line with best practice, we engage an external facilitator to conduct an effectiveness review once every three years.

An externally facilitated review was undertaken in 2020/21 by OE Cam LLP. This provided assurance that our governance framework operated effectively. For more information on this external review, see 'Performance against strategic priorities – maintain strong standards of governance' on page 46.

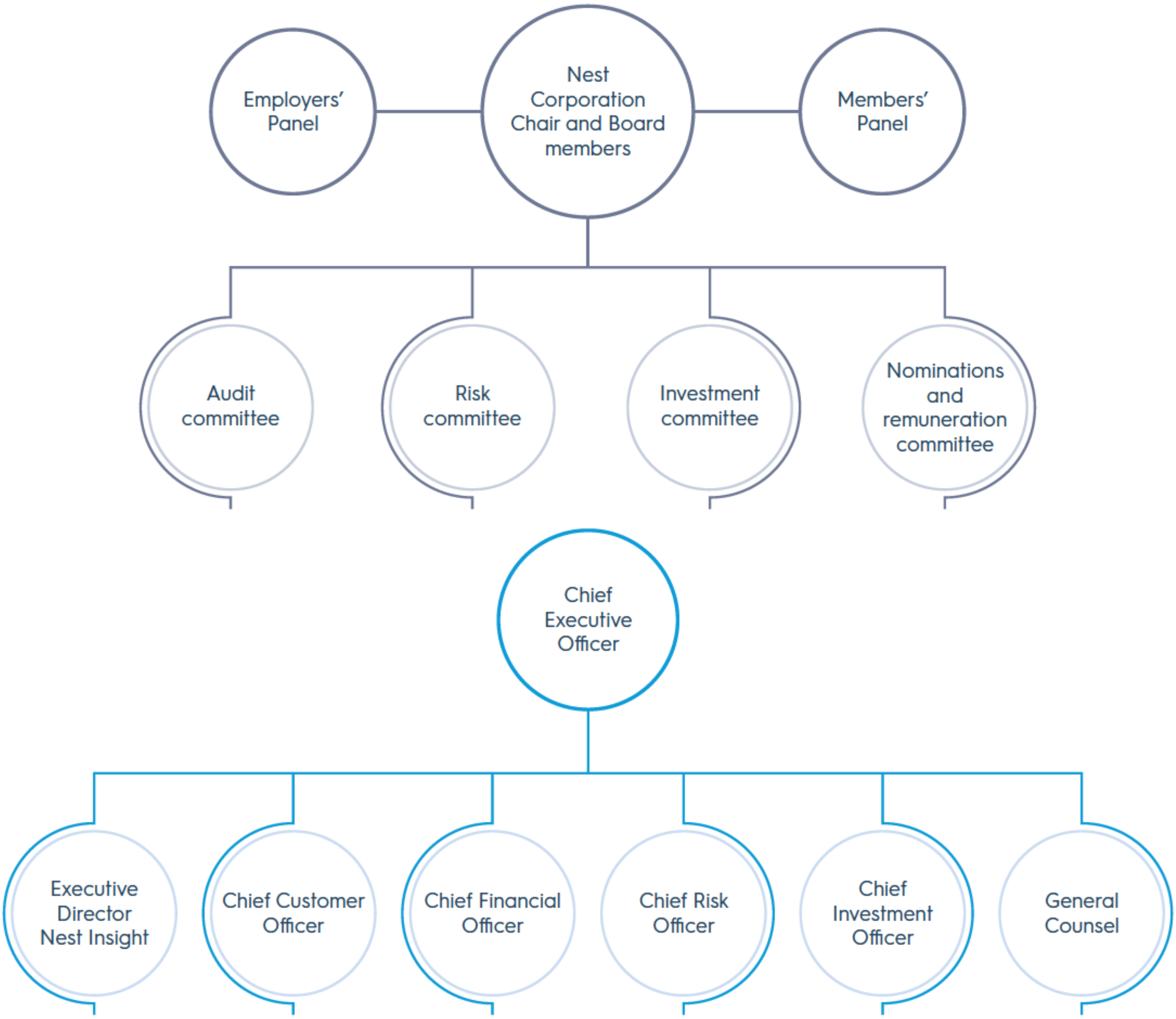
Risk management

The Board is responsible for ensuring that any material risks faced by us are regularly identified, evaluated and effectively managed.

To assist it in carrying out its responsibilities, the Board has established a risk committee in line with corporate governance best practice.

Organisational structure

Organisational chart



Executive team

Biographies of our executive team are available online at **nestpensions.org.uk/schemeweb/nest/nestcorporation/who-runs-nest/executive-team.html**

Board members and committees

As at 31 March 2021 the Board had 11 members, consisting of the Chair of Nest Corporation and 10 other Board members, two of whom have day-to-day executive responsibilities. Collectively the Board is responsible for setting the strategic direction and objectives for us, the Trustee of the Nest Scheme and representing members' interests.

The Board members are appointed by the Secretary of State for Work and Pensions in line with public appointments guidance which 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 also made in line with the Commissioner for Public Appointments' Governance Code.

All Board members, including the Chair, were non-affiliated at the time of appointment, having no current or previous material relationship with us or the Scheme as an employee, officer or contractor and have no connection to a service provider in respect of the Scheme. This is with the exception of the Chief Executive Officer and Chief Financial Officer, who are employees, and Chris Hitchen, who previously served as a Board member between 2010 and 2015.

Board members bring a range of experience and skills. Collectively these include investment, pensions, risk, member representation, finance, audit, procurement, supply, digital transformation, governance and business management. Biographies for Board members during all or part of 2020/21 are on pages 60 to 63.

Every Board member has completed The Pensions Regulator's (TPR) trustee toolkit, an online learning programme. New Board members must complete this within their first six months in addition to a detailed induction programme tailored to their requirements, skills, qualifications and experience.

Each year we carry out a skills and experience analysis of Board members. This is used to inform and support their future requirements for knowledge and understanding. Once identified, these requirements are met through relevant briefing sessions and an individual commitment to ongoing education and training for each individual. During 2020/21, Board members received briefings or training on a number of topics, including investments, cybersecurity, end-to-end flow of Scheme contributions and legal procurement processes.

To support effective and robust decision-making, the Board had four committees as at 31 March 2021 (see pages 69 to 70). The Board and its committees take decisions that affect the Scheme and ensure that we fulfil our obligations as a public corporation. The terms of reference for the Board and its committees are published on our website.[32]

In addition, article 8 of the Nest Order 2010 sets out the remit for the Employers' Panel and the 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 70 to 71.

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 our day-to-day operations and management and those of the Scheme. This document is reviewed on an annual basis by the Board to ensure that 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 committee and holds them accountable for delivery in their remit. To provide oversight of our operations and those of the Scheme, and to provide advice to the Chief Executive Officer on key issues within the Chief Executive Officer's delegated authority, the executive committee meets at least monthly and the Chief Executive Officer provides formal reports at Board meetings.

32 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 Nest Scheme, and the validity of the assurance given on them. It monitors the internal controls framework and the effectiveness of audit and compliance functions.

During 2020/21 the audit committee met seven times. All meetings were held virtually due to the government's social distancing guidelines and regional and nationwide lockdowns. The committee's work included:

- Reviewing the annual report and accounts for both Nest Corporation and the Nest Scheme and recommending their approval to the Board.
- Reviewing the plans of the external auditors for their audit of the annual accounts of both Nest Corporation and the Scheme, and overseeing the delivery and effectiveness of the external audit.
- Approving the annual internal audit plan, and providing oversight of its delivery and the implementation of its recommendations.
- Approving the annual compliance plan and receiving regular updates on delivery and findings.
- Providing oversight of our arrangements for raising concerns relating to possible wrongdoing in the organisation, including protecting against fraud and approving our whistleblowing policy and procedure.
- Reviewing our and the Scheme's system of internal controls via the AAF 02/07 controls report and recommended its approval to the Board.
- Re-appointment of KPMG as external auditor for the Scheme following a competitive tender exercise.

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 us and the Scheme.

During 2020/21 the risk committee met five times. As with the audit committee, all meetings were held virtually. The committee's work included:

- Reviewing and challenging key areas of risk in respect of our activities, including the impact of the ongoing pandemic on the organisation.
- Providing oversight of the risk appetite levels and recommending their approval to the Board.
- Providing oversight of our risks in relation to the future scheme administration contract procurement.
- Reviewing our risk management and policy frameworks and recommending them for approval to the Board.

"Each year we carry out a skills and experience analysis of Board members. This is used to inform and support their future requirements for knowledge and understanding."

Investment committee

The investment committee is responsible for overseeing the Nest Scheme's 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 2020/21 the investment committee met five times. It also met in three workshop meetings during the financial year. As with other committees, all meetings and workshops were held virtually. The committee's work included:

- Maintaining oversight of the investment performance and risk management of the Scheme's default fund and other fund choices for members, including approving changes in asset allocation as required.
- Providing oversight and approving the scope of a project, called the investment 'roadmap', aimed at clarifying the expected future evolution of our investment strategy.
- Providing oversight of and making recommendations to the Board on the development of our overall investment strategy, including changes to the funds available to Scheme members.
- Approving rebalancing rates for the Nest Guided Retirement Fund.
- Approving statutory money purchase illustration (SMPI) rates for all Scheme fund options.
- Reviewing the approach of and approving our investment manager selection framework and investment manager monitoring framework.
- Providing oversight of our developing work on responsible investment and approving our annual responsible investment report.[33]

33 nestpensions.org.uk/schemeweb/nest/aboutnest/investment-approach/responsible-investment.html

Nominations and remuneration committee

The nominations and remuneration committee is responsible for overseeing our remuneration strategies and organisational culture to enable it to attract and retain talented staff with the right capabilities. It also provides oversight of the corporate governance processes by assessing whether governance arrangements are adequate, appropriate and operating effectively.

During 2020/21 the nominations and remuneration committee met eight times. As with other committees, all meetings were held virtually. The committee's work included:

- Reviewing the results of the annual skills and experience analysis of Board members, and approving recommendations relating to Board training requirements, succession planning and implications for recruitment of new Board members.
- Agreeing the requirements for the skills and experience of two new Board members and providing oversight of the process to appoint the next Chair of Nest Corporation when the current Chair's tenure comes to an end in 2022.
- Approving the scope and objectives, and providing oversight of, the processes relating to the externally facilitated Board and committee effectiveness review. This review is conducted every three years (see page 66).
- Receiving regular reports from the Director of People and Development on people and remuneration matters, including senior executive remuneration, the results of the annual staff survey and progress against our diversity and inclusion strategy.
- Approving the remuneration proposals of two roles within the senior leadership team, as well as the appointment of a new role in the executive, Managing Director of Nest Experience.

Determinations committee

The determinations committee was responsible for adjudicating disputes related to the Nest Scheme that had reached stage 2 of the internal dispute resolution (IDR) procedure. Stage 2 is the final stage of the complaints process for Scheme members. The committee made recommendations to the executive on learning outcomes from any stage 2 IDR procedure disputes to help improve the effectiveness of the Scheme and members' experience.

During 2020/21, the Board approved disbanding this committee and delegating the determination of these cases to the Chief Executive Officer, to be overseen and decided by the executive. The committee was disbanded with effect from 1 January 2021.

Before it was disbanded, the committee met eight times. As with other committees, all meetings were held virtually.

During 2020/21 the determinations committee considered 13 cases and the executive considered 7 cases, giving a total of 20 cases considered. (Across 2019/20, the determinations committee considered 24 cases.)

- No (0) cases were upheld (2019/20: 1 case).
- 6 cases were partially upheld (2019/20: 14 cases).
- 14 cases were not upheld (2019/20: 9 cases).

Across 2020/21, the committee and the executive received information on 2 cases which had been withdrawn by the complainant before consideration (compared to no cases in 2019/20). The Pensions Ombudsman reported to our team that no cases reviewed during the year had been escalated to it after stage 2 (compared to 3 cases in 2019/20).

Employers' Panel

The Employers' Panel was set up in accordance with the Pensions Act 2008 and Nest Order 2010. It represents participating employers by providing advice on the operation, development and amendment of the Nest Scheme. The panel currently has 12 members.

During 2020/21 the panel's work included:

- Preparing and presenting the Employers' Panel annual report to the Board.
- Completing a programme of work on topics relevant to employers and useful to us in developing our services. This year's programme focused on considering our responses to the impact of the ongoing pandemic and providing feedback on the experience of both employers using the Scheme for their workers, and intermediaries using the Nest Connect service, during extended periods of working from home (WFH) and regional and nationwide lockdowns.
- Attending a joint meeting of both panels' members, Board members and the executive team. The meeting explored responses to the impact of the pandemic on employers and members as well as our approach to responsible investment.

Members' Panel

The Members' Panel was set up in accordance with the Pensions Act 2008 and Nest Order 2010 to represent Nest Scheme members and allow them to provide advice on the operation, development and amendment of the Scheme. The panel currently has 12 members.

During 2020/21 the panel's work included:

- Preparing and publishing the Members' Panel annual report for submission to the Board and the Secretary of State for Work and Pensions.
- Completing a programme of work which focused on topics that were useful to us and relevant to the panel. A highlight of this year's work programme was focusing on our response to the Covid-19 pandemic and providing feedback on the experience of Scheme members during the lockdown.
- Attending a joint meeting of both panels' members, Board members and the executive team. The meeting explored responses to the impact of the pandemic on employers and members as well as our approach to responsible investment.

Committee membership as at 31 March 2021

Audit committee	
Clive Elphick	Chair
Ian Armfield	Member
Martin Turner	Member
Risk committee	
Martin Turner	Chair
Clive Elphick	Member
Chris Hitchen	Member (from 28 May 2020)
Ron Jarman	Member
Investment committee	
Chris Hitchen	Chair
Clive Elphick	Member
Jill Youds	Member (from 1 February 2021)
Jennie Austin	Member
Jaap Van Dam	Member
Nominations and remuneration committee	
Ron Jarman	Chair
Ian Armfield	Member
Otto Thoresen	Member
Jill Youds	Member

Explanatory notes

Investment committee
Jennie Austin and Jaap Van Dam are members of the investment committee but not of the Board.

Determinations committee

The determinations committee's responsibilities were delegated to the executive on 1 January 2021 and the committee was disbanded effective from that date. From 1 April through to 31 December 2020, the committee comprised Jill Youds (Chair), Karen Cham and Otto Thoresen.

Details of meetings attended by Board members

	The Board	Audit committee	Risk committee	Investment committee	Nominations and remuneration committee	Determinations committee
No. of meetings	**9**	**7**	**4**	**5**	**8**	**8**
Otto Thoresen, Chair	9	–	–	–	8	7
Ian Armfield	9	7	–	2 of 3	8	–
Karen Cham	8	–	–	–	–	6
Helen Dean	8	–	–	–	–	–
Clive Elphick	7	7	4	5	–	–
Chris Hitchen	9	–	3 of 3	5	–	–
Ron Jarman	9	–	4	–	8	–
Richard Lockwood	8	–	–	–	–	–
Mutaz Qubbaj	8	–	–	–	–	
Martin Turner	9	5	4	–	–	–
Jill Youds	8	–	–	2 of 2	7	8
Jennie Austin	–	–	–	5	–	–
Jaap Van Dam	–	–	–	5	–	–

Explanatory notes

Risk committee

Chris Hitchen joined the risk committee on 28 May 2020.

Investment committee

Ian Armfield stepped down from the investment committee with effect from 1 February 2021.

Jill Youds joined the investment committee as a member with effect from 1 February 2021.

Jennie Austin and Jaap Van Dam are members of the investment committee but not Board members.

Determinations committee

The responsibilities of the determinations committee were delegated to the executive on 1 January 2021 and the committee was disbanded.

Board meetings

The Board met nine times during 2020/21, with one additional meeting convened to focus solely on our strategy. All meetings were held virtually due to the government's social distancing guidelines and regional and nationwide lockdowns.

At each Board meeting the chair of the audit, risk, investment, nominations and remuneration and determinations committees reported on their committee's work since the Board's last meeting. Details of Board and committee meetings and attendance can be found on page 72. Committee membership as at 31 March 2021 is set out on page 71.

The Board is responsible for agreeing our strategy. It holds the Chief Executive Officer to account for the implementation of the strategy, providing support and challenge as appropriate.

The Board's priority is to provide a robust, stable pension scheme which operates in the best interests of members. It focuses on delivering a good service to members, employers and intermediaries such as advisers and payroll providers, and meeting our public service obligation to enable any employer to choose the Scheme to meet their auto enrolment duties, as well as to accept self-employed people into the Scheme.

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 course of each year. The Chief Executive Officer provides an update at each Board meeting on the key issues on her agenda and significant decisions made within her authority since the Board's last meeting.

The quality of the information used by the Board to oversee the Corporation and the Scheme is reviewed as part of the annual Board effectiveness review. This review helps to ensure that data continues to be appropriate and supports the Board in robust decision-making.

As part of the normal business cycle in 2020/21, the Board:

- Approved our long-term financial projections, three-year business plan, annual budget and all associated funding plans.
- Approved the annual report and accounts for both Nest Corporation and the Nest Scheme.
- Approved the AAF 02/07 master trust controls assurance report for the Scheme.
- Approved the risk appetite, principal risks and risk management framework.
- Approved the 'Corporate plan 2020–2023'.
- Reviewed and approved our Modern Slavery Act (MSA) statement.
- Reviewed the annual reports of the Members' Panel and the Employers' Panel.

In addition, during 2020/21 the Board's work included:

- Providing oversight and challenge of our response to the ongoing pandemic and receiving updates on this at each meeting.
- Approving changes to our governance framework, including the disbanding of the determinations committee, and approving the updated 'Terms of reference' for the Board and all committees.[34]
- Approving changes to the 'Articles of association' of Nest Invest.
- Providing oversight of and approving the recommended supplier for our future scheme administration contract.
- Approving our annual assessment of value for members and the conclusions.

34 nestpensions.org.uk/schemeweb/nest/nestcorporation/how-nest-is-run/policy-and-procedures.html

Significant control issues

There were no significant internal control issues for inclusion in this annual report and accounts for the year ended 31 March 2021 apart from the issue relating to special payments that were made without approval from HM Treasury. For further details visit the compliance and assurance section of the Corporate governance report on page 82.

This is evidenced by reports provided to the audit committee and the Board by our 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. By following these processes, any emerging risks can be properly managed and mitigated within acceptable periods of time.

Corporate risk statement

As Trustee of the Scheme, we must consider a number of risks and uncertainties to ensure that we are able to deliver our strategic priorities each year. We have established robust processes to understand, mitigate and manage risks and, in light of economic and other uncertainties, we plan for a range of scenarios.

We also have detailed business continuity and disaster recovery (BCDR) plans in place which have helped ensure robust delivery of services, including during the coronavirus pandemic.

The risk committee is responsible for oversight and challenge of the approach to risk management (see page 66). Collectively, the members make recommendations to the Board on our risk management framework, risk appetite and principal risks.

We engage key stakeholders, such as the Department for Work and Pensions (DWP), The Pensions Regulator (TPR), our scheme administrator and our investment managers, in understanding, mitigating and managing risks.

Risk management framework

Our risk management framework is reviewed on an annual basis to ensure it remains fit for purpose and takes developments in industry practice into account. It articulates individual and collective accountabilities for risk management, risk oversight and risk assurance.

Risk appetite

Taking either too much or too little risk could reduce our ability to deliver our strategic objectives and potentially result in failure to deliver them. We have put robust management controls in place and defined our risk appetite across categories to inform our decision-making. This risk appetite framework allows us to prioritise and choose the actions that we have ascertained are most appropriate in response to risks, with the goal of driving better member outcomes.

Our current risk appetite statement was reviewed and approved by the Board in 2020/21.

Principal risks

We take an holistic approach to risk. We define a principal risk as a risk that is considered material to the development, performance, position or future prospects of the Corporation or the Scheme.

Our principal risks, detailed on pages 76 to 80, are reviewed every year to ensure that they remain appropriate and include newly identified potential and emerging risks. There were no new principal risks identified in the 2020/21 annual review.

Risk monitoring

Risk exposures, performance against risk appetite and principal risks are monitored on a continuous basis. Each business area maintains a log of key risks which is reviewed regularly. Changes in principal risks are reported to the executive committee and risk committee. Additionally, the Board receives regular information on these risks.

Risk management framework

The Board and risk committee

Executive committee

The Board and the executive committee set the tone from the top and ensure responsibility for risk management is delegated throughout the organisation.

Risk appetite

We express the level and type of risk we are willing to accept in delivering our strategic objectives.

We document and communicate this through a risk appetite table and accompanying appetite statements.

Policy framework

We provide a clear outline of the structures and approval levels of our policies and supporting governance.

Three lines of defence model

Our first line of defence comprises the scheme assurance and fund administration teams. Our second line comes from staff within our function and compliance assurance specialists. Our third line are internal and external auditors.

We ensure that each line is aware of their risk responsibilities to the Corporation and the Nest Scheme.

Risk identification, measurement and control

We categorise and assess risks at directorate, department, project and team levels.

Risk monitoring and reporting

We have a suite of risk metrics and information to support effective decision-making at all levels of the organisation.

Culture

Embedded within our organisation and our people, we foster a working culture which promotes risk awareness when considering and choosing actions and behaviours.

Resources and capabilities

We have skilled, motivated staff and other well-articulated resources to support delegated risk management responsibilities.

Key controls and mitigating actions

For each of our principal risks, we have put in place key controls and mitigating actions.

Service failure risk

We deliver the Nest Scheme through an outsourced business model.

There is a risk that our key outsourced providers may have a major service failure, or persistent low-level service failures, which prevent us from delivering timely services to our customers at a quality standard to fulfil the expectations of our customers and regulatory requirements.

Our controls and mitigating actions:

- Our contracts with key outsourced providers specify service levels that must be maintained to underpin the timely and effective delivery of the Scheme.
- We review independent assurance reports on the controls our key providers have in place to assure delivery of our customer services.
- We undertake a monthly capacity review with our scheme administrator, Tata Consultancy Services (TCS), to ensure there is sufficient IT and headcount capacity to cope with the Scheme's predicted growth.
- We have put in place a framework and an approach to limit transition and migration risk as we move to delivering the Nest Scheme under the next scheme administration contract in 2023.

Customer data and assets risk

Cyber criminals and fraudsters are developing ever more advanced means to commit crimes.

We must protect against and try to anticipate these developments, to prevent our customers from suffering a significant loss of data or assets. Such a loss of data or assets would damage our reputation in the market and could be subject to fines or sanctions from regulators.

Further, as a digital-first pension provider, we are heavily reliant on information and data to be able to serve our members. Ensuring our members' data security is key to keeping them safe in retirement and confident in saving with us.

Our controls and mitigating actions:

- We have a compliance assurance team which conducts exercises to ensure our compliance with the Data Protection Act 2018, Data Protection, Privacy and Electronic Communications (Amendments etc) (EU Exit) Regulations 2019, other amendments and financial crime legislation.
- This team also conducts exercises to ensure our compliance with the International Organization for Standardization (ISO) 27001:2017 standard.
- Both our own information security management systems and those of our key outsourced providers are scrutinised by an independent auditor to ensure they meet ISO 27001:2017.
- To support cyber resilience, we and our scheme administrator TCS regularly conduct penetration testing to assess how robust operations are. Where necessary, additional safeguards against emerging and potential threats are put in place.
- All our staff are required to complete annual e-learning modules relating to information security and data protection.

Legal and regulatory compliance risk

The legal, regulatory and policy landscape for pensions and investments is continuously evolving.

In 2019, we were accepted into the new master trust supervisory regime overseen by The Pensions Regulator (TPR).

In 2020, we received approval for our application to the FCA to authorise Nest Invest, our investment advisory subsidiary. This subsidiary is subject to FCA regulation.

If we do not meet legal and regulatory requirements, we could face fines or sanctions.

Our controls and mitigating actions:

- Our compliance management team continuously monitors government pensions legislation, and regulation from TPR and the FCA.
- We identify proposed changes in laws, regulations and policy as early as possible and plan ahead as far as possible. Our aim is to prevent such changes from adversely impacting our customers and minimise any associated costs.
- All our staff are required to complete annual e-learning modules relating to financial crime and competition law as well as information security and data protection.

Financial performance risk

We are supported by a loan from government. Our financial objectives include repaying this loan and becoming self-funded.

As part of our public service obligation, we accept all employers, large or small, that choose to use the Nest Scheme to meet their auto enrolment duties. This means we may sometimes accept business that potentially generates a loss at the level of the individual customer.

Our controls and mitigating actions:

- We generate revenue from our member contribution charges and annual management charges. We aim to be able to meet our obligations under the loan agreement by maintaining a diverse customer base and striving for cost efficiencies – in both our existing and our future scheme administration contracts.
- Our strategic plan, rolling three-year business plan and annual budgets are reviewed and challenged by the Board, which then approves the year's funding requirement for submission to the Department for Work and Pensions (DWP). DWP subjects our plans to additional scrutiny before making any funding decisions.
- Senior members of our management team meet regularly with DWP colleagues to provide them with information about our finances and continuing value for money for taxpayers. This affords additional oversight.

Investment performance risk

We compete in the market with other master trusts and companies offering group personal pension schemes. Existing and potential customers decide whether to have their pension with the Nest Scheme or another provider based on several factors. One of the key factors is the provider's investment strategy and performance against investment targets.

Market volatility is to be expected in investing. What we do to reduce the impact of volatility on our members' pots and how we communicate this strategy to our members plays a significant role in customers' confidence in us.

We are required to publish our 'Statement of investment principles' (SIP) and our 'Implementation statement', which outline our approach to investment. These statements provide the Board with a transparent framework for consistent and robust decision-making around investment allocations.

Our controls and mitigating actions:

- The investment committee oversees the Scheme's investment risks.
- Our SIP is reviewed by the Board at least every three years, or whenever we make a change to our overall investment strategy. The most recent review was conducted in March 2020.
- Our investment funds are diversified across different managers, asset classes and geographic territories. We continually monitor both investment manager and investment portfolio performance and, when and where appropriate, make changes to the Scheme's investment portfolio.
- Climate change will have a material impact on the performance of the Scheme's investments over the longer term. In July 2020 we announced our new climate change policy and our ambition and approach to being net zero across our portfolio by 2050.[35]

35 nestpensions.org.uk/schemeweb/nest/aboutnest/investment-approach/How-climate-change-could-impact-your-pension.html

Corporation culture, capability and capacity risk

We are forecast to continue to grow significantly, in terms of assets under management as well as employer and member numbers.

We need to develop and maintain the right capabilities, capacity and culture to run and steer the organisation as it grows and evolves.

We have been able to attract talented individuals with diverse skills and backgrounds who want to work with us. If we are unable to continue to do this, we could be faced with higher operating costs and professional fees to maintain our service standards, or experience errors or deficiencies at a cost to our reputation.

Our controls and mitigating actions:

- The nominations and remuneration committee oversees our people and development strategy, which focuses on attracting and retaining the people and skills we need.
- Our wellbeing strategy has been developed to support our people. Mental health first aiders were trained from among our staff and rolled out as a resource available to colleagues starting in April 2020.
- Our diversity and inclusion strategy includes ambitious targets for increasing the diversity of our staff. These have been published as part of our 'Corporate plan 2020-2023'.[36] All staff are required to attend training about diversity and inclusion.
- All our staff are required to complete annual e-learning modules relating to financial crime, competition law, information security and data protection. We also encourage and support our people to receive training for professional and leadership development.

36 nestpensions.org.uk/schemeweb/nest/nestcorporation/library.html

Failure to deliver compliant and effective member and employer proposition risk

We could fail to keep our proposition and service aligned to regulatory requirements, or to the changing needs or expectations of our customers.

Our controls and mitigating actions:

- We have a product roadmap which sets out the changes we are likely to make over the next three years to ensure that change is managed in line with our strategic priorities. We work alongside our scheme administrator to plan, design and build these changes into software systems and processes.
- We work with policymakers, regulators and the wider pensions industry to engage on and contribute to the development of legislative and regulatory changes.
- We seek feedback from the Employers' Panel and the Members' Panel on our customer services, including, this year, our approach to supporting and engaging with customers during the pandemic.
- We assess and monitor the needs of our members and employers through customer insight tracking and research using tools like our 'Voice of the customer' surveys, our online member community 'Your way' and studies conducted by our in-house research unit, Nest Insight. We have workstreams dedicated to identifying and prioritising improvements we can make to our operations, processes and products.
- We monitor the roll-out of new products, like the Nest Guided Retirement Fund.
- We invest in projects to increase member engagement, including new communication tools and strategies and updates to our website.

"Our diversity and inclusion strategy includes ambitious targets for increasing the diversity of our staff."

Ensuring competitiveness risk

Our public service obligation requires us to accept all employers that wish to use the Scheme to meet their auto enrolment obligations.

Our competitiveness could be compromised either by an inability to compete effectively or by being perceived to abuse a position of market dominance.

Product innovations such as Nest Connect and payroll integration through web services have allowed us to create a simple and accessible service that matches the Scheme's processes to the way people work.

Our controls and mitigating actions:

- We have a competition law policy which is reviewed and approved on an annual basis and made available to all staff.
- We perform regular horizon-scanning activities to monitor market trends and potential competitive challenges. We engage with the wider pensions market and participate in government consultations, industry groups and working groups to maintain positive relationships with key stakeholders.
- We work closely with payroll providers to be aware of software changes well in advance so that our web services remain both functional
- We assign account managers to employers using the Scheme for a significant number of employees, payroll providers and employee benefit consultants. Our account managers regularly engage with our customers to understand their needs and any service gaps or opportunities. They also attend key trade events and facilitate online and, when possible, in-person events for employers.
- We regularly engage with employers, payroll providers and others using Nest Connect to understand their needs and ensure we offer an effective and competitive proposition to employers of all sizes.

Future scheme administration risk

One of our key outsourced contracts, the scheme administration services contract with Tata Consultancy Services (TCS), is due to end in 2023. In February 2021 we completed a multi-year programme to procure future scheme administration requirements for the Scheme (see page 32).

Our future scheme administration services contract will ensure that we continue to meet the requirements for master trust assurance and our statutory duties while also delivering the Scheme's services effectively and efficiently. It also provides opportunities to transform how we deliver change going forward, allowing us to build a more agile service that meets our customers' evolving needs more quickly.

There is a risk that our programme fails to deliver the necessary transformation of the Scheme's administration services or the transition to the new supplier involves significant service interruptions for our customers.

Our controls and mitigating actions:

- We proactively manage the meeting of key programme milestones and risks at the implementation and transformation steering group which supports the Chief Customer Office in leading this programme.
- We actively maintain our working relationship with TCS to ensure ongoing delivery is not disrupted.
- We assess and manage our relationship, on an ongoing basis, with the future scheme administration service provider.

Conflicts arising from Nest Corporation's government funding and sponsorship risk

This is the risk of conflict between us as a public corporation, and its sponsoring department, DWP, or the government, which provides funding through a loan facility.

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, our sole function is to be Trustee of a workplace pension scheme and act in the interests of our members.

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

Our controls and mitigating actions:

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

Business continuity

We maintain an effective business continuity and disaster recovery (BCDR) capability. This allows management to respond to and recover from any major incidents that affect business operations. Our business continuity management programme is appropriate to our size and complexity and is aligned with industry standards. Business continuity arrangements are tested, reviewed by the Chief Financial Officer and the risk committee, and renewed as appropriate.

Our business continuity plans were set into action in March 2020 when the World Health Organisation (WHO) declared a global pandemic. These plans enabled us to continue to provide all services throughout 2020/21.

> **"Our business continuity management programme is appropriate to our size and complexity and is aligned with industry standards."**

Whistleblowing

We have a whistleblowing procedure which is published on our intranet.

In line with best practice, we also have a whistleblowing hotline service which is run externally. This provides employees with the ability to report any concerns anonymously.

The audit committee reviews and approves our whistleblowing procedures annually. It is satisfied with the approach taken and the effectiveness of our arrangements.

Any whistleblowing concerns are reported and discussed with the audit committee. No such concerns were raised during 2020/21.

Modern Slavery Act

We do 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.

We have 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 reflects our commitment to acting ethically and with integrity in all our business relationships. Further information can be found on our website.[37]

We have carried out a risk-based assessment across the organisation to identify the impact of the MSA on our activities and supply chain, as well as potential exposure to modern slavery and human trafficking activity. Our due diligence exercises include contacting our 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 us of any actual or suspected breaches of modern slavery that have occurred within their organisation in the last 12 months.

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

37 nestpensions.org.uk/schemeweb/nest/nestcorporation/how-nest-is-run/policy-and-procedures.html

Internal audit

EY provides independent assurance on our internal controls and reports to the audit committee. EY also provides an annual opinion on governance, risk management and internal controls which are required to ensure we fulfil our obligations as a public corporation.

EY agrees its annual internal audit plan with the audit committee and reports on progress against the plan on a quarterly basis. The internal audit plan covers us as both a public corporation and as the Trustee of an occupational pension scheme.

EY has provided the Head of Internal Audit opinion for the period 2020/21.

Head of Internal Audit opinion

Based on the work carried out, in the opinion of the Head of Internal Audit at Nest Corporation, 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 against relevant legislative and regulatory requirements. It provides ongoing assurance to the Chief Executive Officer and the Board that we, including our occupational pension scheme (OPS) firm subsidiary, Nest Invest, are compliant with our documented internal controls, 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 plan that is agreed with the audit committee. This plan covers provision of assurance against our internal controls framework, regulation and legislation. It is risk-based and focuses on monitoring our key areas of risk. The service delivery, scheme assurance and fund administration teams ensure that we receive adequate assurance from external providers where tasks are outsourced.

Our annual controls assurance report against the TECH 05/20 AAF master trust controls assurance report for the period 1 April 2020 to 31 March 2021 has been completed. This new framework, established by The Pensions Regulator (TPR) and the Audit and Assurance Faculty (AAF) of the Institute of Chartered Accountants in England and Wales (ICAEW), sets out a series of control objectives for the governance and administration of master trust schemes. Trustees of master trust schemes should be able to demonstrate that their schemes meet these objectives.

In addition, our executives provide a quarterly attestation to the design and operating effectiveness of the key controls related to the principal risks in their areas of responsibility. These attestations are used to highlight where key controls are effective and where there may be internal control issues.

There was one significant control issue identified during the period relating to special payments of £25,000 in 2018/19, £30,000 in 2020/21 and £70,000 in 2021/22. These payments were made following a strict process of internal approvals and governance, including approval by the Nominations and Remuneration Committee (NomRem) as part of mitigating the risk of failed delivery of key strategic priorities. However under the MPM framework, HM Treasury approval for these payments should also have been obtained.

HM Treasury have not granted approval for these payments and as a result, these payments have led to a qualification of the regularity opinion in the audit certificate.

We have reinforced the following controls to ensure that MPM guidance is followed and HM Treasury's prior approval is sought for any similar payments in the future:

- Key members of staff have received further guidance and training on the principles of MPM to ensure the Board and Committees are only asked to approve payments in line with MPM guidelines;
- NomRem have been given further guidance and training on the principles of MPM to enhance their understanding of our vires around remuneration topics.

The Pension Schemes Act 2017 and the supporting Master Trust Regulations 2018 introduced significant changes to the regulation of master trust pension schemes. We became an authorised master trust in September 2019. As part of the authorisation process, we demonstrated to TPR that our internal controls and processes met or exceeded the required standard.

TPR supervises authorised master trusts through an annual supervisory meeting, the review of regular data submissions and the provision of an annual supervisory return.

The Trustee is confident that our internal controls and processes will continue to demonstrate TPR's required standards.

Information security and data protection

We are committed to supporting a secure electronic environment to conduct our business. We have a comprehensive Information Security Management System (ISMS) that is certified by the International Organization for Standardization (ISO) 27001:2017. Our outsourced administration provider, Tata Consultancy Services (TCS) holds its own ISO 27001:2017 certification for the services it provides to us. Our IT infrastructure provider, Advanced 365, holds an ISO 27001:2013 certification for services to us.

We also have a data protection policy which sets out our approach to the protection of personal data and associated training. The policy complies with the UK General Data Protection Regulation (GDPR), the UK Data Protection Act 2018 and other regulations designed to ensure security and govern the proper use of personal data.

We continue to implement our data protection policy, with a focus on application of the data retention requirements. In addition, all employees received training on how to remain compliant with the regulations.

As a public corporation, we have provided information on our 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.

In August 2019 we initiated a new cyber strategy and embarked upon a cyber maturity programme. This programme is on track to achieve its target maturity level by 2023 or sooner.

Personal data-related incidents

All government departments, including arm's-length bodies like us, are required to publish information about any incidents that have been reported to the Information Commissioner's Office (ICO).

In 2020/21 we had no incidents to report to the ICO (in 2019/20 there was one incident affecting 156 individuals).

Complaints to the Parliamentary Ombudsman

There have been no complaints to the Parliamentary Ombudsman in 2020/21 (also no complaints in 2019/20).

Helen Dean, CBE
Chief Executive Officer,
Nest Corporation

25 November 2021

"We are committed to supporting a secure electronic environment to conduct our business."

Remuneration and staff report

The remuneration and staff report sets out the remuneration policy for our executive team, how the policy was implemented and the amounts awarded to the directors. It also details the composition of our staff and our measures relating to fair pay.

Remuneration report

Remuneration policy

This report has been prepared in accordance with the relevant Employer Pension Notices (EPN), HM Treasury guidance and chapter 6 of the Companies Act 2006, and schedule 8 of Statutory Instrument 2008 No. 410 as interpreted for the public sector.

Our remuneration approach applies to all directly employed staff and consists of:

- A pay policy
- Pension arrangements
- Other benefits[38]

Our remuneration policy was reviewed in 2019 in line with civil service guidelines and a review of current market data supplied by external providers Mercer LLC and McLagan Data & Analytics.

The job architecture policy covers wider remuneration across all levels up to non-executive director.

We have further developed our reward and remuneration policy to support the people and development strategy approved by the Board in 2019/20. A new reward proposition includes changes to our annual pay awards and bonuses and a new approach to performance reviews and staff benefits and recognition. This new proposition was initially planned to be rolled out in 2020/21, but due to the pandemic we delayed the launch until April 2021.

This new reward and remuneration policy does not apply to Board members.

The disclosures in this section relate to Board members. These are the only individuals who 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 us.
- Most other non-executive Board members are required to commit to working for us 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 sets the remuneration of the Chief Executive Officer. A report on the activities of the committee can be found on page 70 of the 'Governance statement'.

38 nestpensions.org.uk/schemeweb/nest/careers/benefits/our-benefits-package.html

Performance-related pay

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

In 2020/21 the civil service and arm's-length bodies paused cost-of-living pay rises. Because Nest Corporation is an arm's length body sponsored by the Department of Work and Pensions (DWP), we also paused cost-of-living pay rises. We also did not provide consolidated or non-consolidated pay awards to our staff on a performance-related basis (compared to 1.5% in consolidated awards and 2.2% in non-consolidated awards in 2019/20). Instead, we allocated 3.0% of our overall salary bill to provide a flat-rate bonus to all staff. Additional caps in line with the DWP's approach to senior civil service pay bands or equivalents were applied.

"Average hourly gender pay gaps continue to fall as we recruit and promote more women to senior leadership roles."

Compensation (subject to audit)

There have been two compensation payments made in respect of loss of office to former senior managers.

No payments have been made during the year to past directors.

Internal comparisons (subject to audit)

Reporting bodies are required to disclose the relationship between the remuneration of the highest-paid director in their organisation and the median remuneration of the organisation's workforce.

The ratio between the median remuneration of our staff and that of the Chief Executive Officer, being the highest paid director, is 4.7 to 1 for 2020/21 (compared to 4.5 to 1 in 2019/20).

In 2020/21, one employee received remuneration in excess of the highest-paid director (compared to one in 2019/20). Remuneration ranged from £13,000 to £307,000 (compared to £20,000 to £276,000 in 2019/20).

Total remuneration includes salary, non-consolidated performance-related pay and benefits-in-kind. It does not include severance payments, employer pension contributions and the cash equivalent transfer value of pensions.

Gender pay gap

We voluntarily report on hourly and bonus gender pay gaps.[39] A summary of our most recent report can be found in the table below.

Average hourly gender pay gaps continue to fall as we recruit and promote more women to senior leadership roles. We define senior leadership roles as roles in our top four pay bands, encompassing our executive committee, director-level roles, 'head of' roles and technical leads.

New starters are eligible for a bonus if they started before the bonus cut-off date. During the year there were 54 new starters who were women and 37 new starters who were men. Some of the women new starters started after the bonus cut-off date as a result they were ineligible to receive a bonus. The timing of the women new starters therefore accounts for some of the median bonus gap.

Women's compensation

	Mean		Median	
	As at 31 March 2020	As at 31 March 2019	As at 31 March 2020	As at 31 March 2019
Hourly pay gap	17.3%	18.8%	8.6%	14.3%
Bonus gap	11.4%	21.2%	30.0%	18.0%

39 nestpensions.org.uk/schemeweb/dam/nestlibrary/gender-pay-gap-report-2020.pdf

Ethnicity pay gap

Beginning this year, we are voluntarily reporting on hourly and bonus ethnicity pay gaps.[40] We have published gender pay gap data every year since 2017 and have consistently seen progress in meeting and sometimes exceeding our targets. We believe applying the same vigour to ethnic diversity may help us to achieve positive results.

We recognise that there is a considerable amount of work ahead for us to improve the representation of people from Black, Asian or another ethnic minority community in senior leadership roles (our top four pay bands, as described above).

We have set ambitious but achievable targets for this as part of our diversity and inclusion strategy (see below).

Sickness absence

The average amount of time lost to sickness per employee in 2020/21 was 2.2 days (compared to 3.0 days in 2019/20), including Covid-related absences.

The reduction is partly a result of more proactive management of sickness and the effective implementation of our sickness absence management process.

Another factor has been the guidance for working from home (WFH) and social distancing throughout the financial year due to the pandemic. Together, these appear to have reduced the number of days people have taken leave due to seasonal infections and illnesses or to attend medical appointments.

40 nestpensions.org.uk/schemeweb/dam/nestlibrary/ethnicity-pay-report-2020.pdf

Compensation of employees from Black, Asian or another ethnic minority communities*

	Mean		Median	
	As at 31 March 2020	As at 31 March 2019	As at 31 March 2020	As at 31 March 2019
Hourly pay gap	18.5%	18.8%	8.6%	17.7%
Bonus gap	39.5%	35.0%	50.0%	63.0%

* Reported on compensation received from 1 January to 31 December

The Office of National Statistics (ONS) includes White minority populations in its reports on Black, Asian and Minority Ethnic groups. In our analysis of ethnicity pay gaps and representation, we include White British and White minorities in the same, broader category. We believe this will better focus our efforts to improve diversity and inclusion at Nest Corporation and understand the experiences of people of colour.

Pensions

Our staff are offered a defined contribution (DC) pension arrangement in the Scheme.

We hold the Pension Quality Mark (PQM) Plus standard. This demonstrates that we offer increased employer contributions for increased employee contributions.

Our default contribution levels are 5.0% gross employee contribution on earnings, with us paying an 8.0% employer contribution.

Employees can increase their contributions as follows:

- 6.0% gross employee contribution is matched by a 9.0% employer contribution from us.
- 7.0% to 10.0% gross employee contribution is matched by a 10.0% employer contribution.

The Chief Executive Officer and Chief Financial Officer are the only individuals included in the remuneration disclosures who are members of the Scheme.

> **"Beginning this year, we are voluntarily reporting on hourly and bonus ethnicity pay gaps."**

Remuneration tables

The information in the table below has been audited.

	Contract details		2020/21			
Name and position	**Contract start date**	**Unexpired term as at 31 March 2021**	**Full-year equivalent salary and allowances (£000)**	**Salary and allowances paid (£000)[1]**	**Performance related payments (£000)[2]**	**Pension benefits (to nearest £100)[5]**
Otto Thoresen Chair	1 February 2015	10 months	90-95	90-95	-	-
Iraj Amiri Board Member	20 June 2011	Contract expired 30 June 2019	-	-	-	-
Ian Armfield Board Member	1 April 2014	3 months	25-30	25-30	-	-
Graham Berville Board Member	1 June 2014	Contract expired 30 June 2019	-	-	-	-
Sally Bridgeland Board Member	1 April 2015	Contract expired 30 June 2019	-	-	-	-
Thomas Carruthers Board Member	1 July 2016	Resigned 28 November 2019	-	-	-	-
Karen Cham Board Member	1 July 2019	39 months	15-20	15-20	-	-
Clive Elphick Board Member	1 June 2018	26 months	15-20	15-20	-	-
Chris Hitchen Board Member	1 June 2018	26 months	15-20	15-20	-	-
Ron Jarman Board Member	1 July 2016	3 months	25-30	25-30	-	-
Mutaz Qubbaj Board Member	1 June 2018	26 months	10-15	10-15	-	-
Caroline Rookes Board Member	1 April 2015	Contract expired 30 June 2019	-	-	-	-
Martin Turner Board Member	1 June 2018	26 months	25-30	25-30	-	-
Jill Youds Board Member	1 April 2015	39 months	15-20	15-20	-	-
Helen Dean[6] Chief Executive Officer	1 June 2018	26 months	245-250	245-250	15-20	19,800
Richard Lockwood[6] Chief Financial Officer	1 September 2018	29 months	235-240	235-240	5-10	13,900

	2020/21	**2019/20**
Midpoint of banding at highest paid director's total remuneration excluding pension benefits	£267,500	£262,500
Median total remuneration	£57,000	£58,000
Ratio[4]	4.7	4.5

Taxable expenses (to nearest £100)[3]	Total (£000)	2019/20 Full-year equivalent salary and allowances (£000)	Salary and allowances paid (£000)[1]	Performance related payments (£000)[2]	Pension benefits (to nearest £100)[5]	Taxable expenses (to nearest £100)[3]	Total (£000)
3,300	90-95	90-95	90-95	-	-	11,800	100-105
-	-	15-20	0-5	-	-	1,200	5-10
-	25-30	15-20	15-20	-	-	-	15-20
-	-	15-20	0-5	-	-	3,900	5-10
-	-	15-20	0-5	-	-	-	0-5
-	-	15-20	10-15	-	-	-	10-15
-	15-20	15-20	20-25	-	-	3,000	25-30
-	15-20	15-20	15-20	-	-	10,600	25-30
8,100	25-30	15-20	15-20	-	-	400	15-20
200	25-30	15-20	15-20	-	-	500	15-20
-	10-15	10-15	10-15	-	-	-	10-15
-	-	15-20	0-5	-	-	-	0-5
-	25-30	15-20	25-30	-	-	700	25-30
1,600	20-25	15-20	15-20	-	-	6,300	25-30
400	285-290	245-250	245-250	15-20	6,400	-	265-270
400	260-265	230-235	240-245	5-10	6,200	-	255-260

Notes

1. Board members' terms of engagement allows them to claim for time in excess of their contractual obligation.
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 4.7 in 2020/21 (2019/20, 4.5) primarily due to a rise in the highest paid director's remuneration and a fall in the median remuneration.

   In 2020/21, 1 (2019/20, 1) employee received remuneration in excess of the highest-paid director in the above remuneration table. Remuneration ranged from £13,000 to £307,000 (2019/20, £20,000 to £276,000)
5. Pension benefits comprise employer contributions into the Scheme.
6. Helen Dean and Richard Lockwood were both Board members as at 31 March 2021. The remuneration disclosed is in respect of their positions as Chief Executive Officer and Chief Financial Officer.

Staff report

Summary of staff costs for 2020/21

The information in this table has been audited.

	Year ended 31 March 2021 £000	Year ended 31 March 2020 £000
Directly employed staff		
Wages and salaries	22,240	19,698
Social security costs	2,851	2,332
Pension costs	1,733	1,476
Subtotal	**26,824**	**23,506**
Secondees	384	283
Interim staff	2,297	2,166
Total staff costs	**29,505**	**25,955**

We were staffed in 2020/21 by a combination of direct employees, staff seconded from other bodies and interim staff employed through third-party organisations. In 2020/21 we had no staff consultancy expenditure.

The information in this table has been audited.

	Year ended 31 March 2021 average FTE	Year ended 31 March 2020 average FTE
Directly employed	359	305
Secondees	2	4
Interim staff	10	9
Total average number of staff	**371**	**318**

Staff composition and gender analysis

The following table shows the total number and gender breakdown of the Board, executive committee and all other staff as at 31 March 2021.

Title	Men	Women	Total
Board members (ex CEO and CFO)	7	2	9
Executive committee (inc CEO and CFO)	6	1	7
All other staff	181	174	355
Total	**194**	**177**	**371**

Other

Staff policies

Staff policies are documented in our staff handbook and are available to all staff via our intranet.

Health, safety and wellbeing

We respect all of our employees and want to ensure they are safe at work and treated fairly.

We have a health, safety and wellbeing policy that defines staff's responsibilities in this area. Our minimum requirement is to meet standards set out in appropriate health and safety legislation. We aim to exceed these where possible.

Employment practices

Our staff handbook and line managers' toolkit document our approach to employment issues including recruitment practices, employee participation and consultation with staff. The staff handbook includes information about people management, such as pay policies, standards of staff behaviour and career management. We also have a recruitment and redundancy policy which is made available to all staff during their induction and through our intranet. Our people and development team reviews employee relations cases on a monthly basis.

Although we do not recognise any trade unions, we established a workforce advisory forum of elected representatives from our staff, called 'Your voice', in 2020/21. The forum began to meet regularly in January 2021 and is providing a robust channel for employee feedback to our executive committee on returning to the office, our wellbeing initiatives and other matters of staff concern.

Flexible working

We recognise that flexible working can provide benefits to both members of staff and the organisation, and we aim to support our employees where possible to manage the balance between work and home life. Our flexible working policy provides for arrangements on an ad hoc, temporary or formal, ongoing basis. Our existing ability to accommodate working from home (WFH) and flexible hours has enabled staff to work successfully throughout the pandemic, including during extended school closures.

Diversity and inclusion

Our diversity is progressing. However, we still have much work to do.

We are reviewing our recruitment and career development pathways to ensure that these support a diverse range of experiences, skills and backgrounds. Our new reward proposition, launched in April 2021, has been designed to ensure our people are rewarded fairly, in proportion to what they do.

We report on and monitor ethnicity and gender pay gaps (see pages 85 to 86).

Our diversity and inclusion strategy includes ambitious but achievable targets for more inclusive representation across senior leadership roles, director-level roles and our executive team. We do not include Board members in our targets because appointments to the Board are made by the Secretary of State for Work and Pensions.

Our executive committee comprises our executive team. See our organisational chart on page 67 for details of the roles in this committee. Director-level roles are those in our top two pay bands, including directors and executive committee members. Senior leadership roles are those in our top four pay bands, including director-level roles as well as 'head of' roles and technical leads.

By 2025 we want at least 13% of executive and senior leadership roles to be held by people from a Black, Asian or another ethnic minority community and at least 12% of executive and senior leadership roles to be held by people with disabilities. These targets are based on the working-age population demographics of the UK.

As at 31 March 2021 the proportion of people from a Black, Asian or another ethnic minority community in senior leadership roles was 20.0% and in director-level roles 9.0%. During 2020/21 there were no individuals from a Black, Asian or another ethnic minority community on our executive committee.

We have established a working group on race and socioeconomic diversity. This group is championed by the Chief Executive Officer and the Managing Director of Nest Experience. It has oversight of our efforts to improve ethnic diversity across leadership levels. We have also established a working group on disability and neurodiversity and continue to work on fostering an environment where staff feel able to declare their disability status.

We remain committed to HM Treasury's Women in Finance Charter[41], which aims to improve gender balance across financial services, particularly at the director level. We exceeded our target of 30.0% of director-level roles being held by women in September 2019 and have since set a more ambitious target of

41 gov.uk/government/publications/women-in-finance-charter

50.0% of these roles being held by women by 2025. We also want at least 30% of our executive roles to be held by women by then. Further details on our involvement in the Women in Finance Charter are available on our website.[42]

As at 31 March 2021 the proportion of women in senior leadership roles was 46.0%, in director-level roles 44.0% and in executive roles 14.0%.

Disability Confident

In 2020/21 we maintained our status as a Disability Confident (level 2) employer in the Department for Work and Pensions (DWP) employer scheme.[43] This recognises our drive to be an inclusive employer.

We guarantee that job applicants with a disability who meet the essential criteria for a role will be shortlisted for interview.

If an employee becomes disabled while working for us, we will work with their occupational health provider to assess the employee's needs and make reasonable adjustments.

We have a generous learning and development budget for our staff, including our colleagues with disabilities. We encourage all employees to have routine discussions about their career development during regular one-to-one meetings with their line manager, and these are supported by a professional development plan. We make reasonable adjustments for any training or other development needs.

42 nestpensions.org.uk/schemeweb/nest/nestcorporation/how-nest-is-run/policy-and-procedures.html
43 gov.uk/government/collections/disability-confident-campaign

Off-payroll engagements

For all off-payroll engagements as at 31 March 2021, amounting to more than £245 per day and that last for longer than six months:

Number of existing engagements as at 31 March 2021	**10**
of which	
Number that have existed for less than one year at time of reporting	5
Number that have existed for between one year and two years at time of reporting	2
Number that have existed for between two years and three years at time of reporting	3
Number that have existed for between three years and four years at time of reporting	-
Number that have existed for four or more years at time of reporting	-

For all new off-payroll engagements, or those that reached six months in duration, between 1 April 2020 and 31 March 2021, amounting to more than £245 per day and that last for longer than six months:

Number of new engagements, or those that reached six months in duration between 1 April 2020 and 31 March 2021	**8**
of which	
Number assessed as caught by IR35 (taxed as similar to employment)	8
Number assessed as not caught by IR35	-
of which	
Number engaged directly (via PSC contracted to department) and are on the departmental payroll	-
Number of engagements reassessed for consistency or assurance purposes during the year	-
Number of engagements that saw a change in IR35 status following consistency review	-

Exit packages (subject to audit)

Exit packages for 2020/21 totalled £247,563. This includes contractual redundancy pay in line with our policy and, where applicable, payment in lieu of notice. In total there were 13 involuntary leavers during the year. This included 10 redundancies, one performance-related dismissal and two failed probations. There was also one voluntary leaver who had a contractual exit package payment of £58,708.

Redundancy and other departure costs are paid in accordance with our redundancy policy which sets out to pay statutory minimum amounts. Exit costs are accounted for in full in the year of departure. Where we agree early retirements, the additional costs are met by us and not by the Civil Service Pension Scheme. Ill-heath retirement costs would be met by that pension scheme and are not 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	
	2020/21	2019/20	2020/21	2019/20	2020/21	2019/20
<£10,000	2	2	–	–	2	2
£10,000 - £25,000	6	–	–	–	6	–
£25,000 - £50,000	1	1	–	–	1	1
£50,000 - £100,000	1	1	1	–	2	1
£100,000 - £150,000	–	–	–	–	–	–
£150,000 - £200,000	–	–	–	–	–	–
Total number of exit packages	**10**	**4**	**1**	**-**	**11**	**4**
Total cost					**£247,563**	**£110,390**

Parliamentary accountability and audit report

The 'Parliamentary accountability and audit report' brings together the key documents demonstrating our accountability to Parliament in relation to this annual report and accounts. It comprises of:

a) Regularity of expenditure
b) Remote contingent liabilities
c) Fees and charges
d) Certificate and report of the Comptroller and Auditor General to the Houses of Parliament

Regularity of expenditure (subject to audit)

HM Treasury's publication 'Managing public money'[44] 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 2020/21 (2019/20: none).

Total losses and special payments did not exceed £300,000 in 2020/2021 or 2019/20. However we made special payments of £25,000 in 2018/19, £30,000 in 2020/21 and £70,000 in 2021/22. For further details visit the compliance and assurance section of the Corporate governance report on page 82.

There have been no gifts exceeding £300,000 in 2020/21 (2019/20: none).

44 gov.uk/government/publications/managing-public-money

Remote contingent liabilities (subject to audit)

There are no remote contingent liabilities that we are aware of at the time of signing of the annual report and accounts.

Fees and charges (subject to audit)

There is no charge for employers to set up or use the Scheme. There is also no charge for delegates who are acting on behalf of an employer, for example an intermediary such as a payroll provider that the employer has asked to administer the Scheme for them. The Scheme 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% on the value of each new contribution into the member's pension pot and an annual management charge of 0.3% on the total value of the member's pension pot each year which is calculated on a daily basis and reflected in the unit price.

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.

For further information on our financial objectives and performance against them, as well as costs, charges and scheme income, please see the 'Financial review' on pages 34 to 35.

Helen Dean, CBE
Chief Executive Officer,
Nest Corporation

25 November 2021

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 Corporation for the year ended 31 March 2021 under the Pensions Act 2008. The financial statements comprise: Statements of Comprehensive Net Income, 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. The financial reporting framework that has been applied in their preparation is applicable law and International Accounting Standards as interpreted by HM Treasury's Government Financial Reporting Manual.

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 2021 and of the National Employment Savings Trust Corporation's net income for the year then ended;
- have been properly prepared in accordance with the Pensions Act 2008 and Secretary of State directions issued thereunder.

Opinion on regularity

In my opinion, except for the matter described on the basis for the qualified opinion paragraph below, 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 for the qualified opinion on regularity

The National Employment Savings Trust Corporation (NESTC) is required to comply with the requirements of HM Treasury's "Managing Public Money". During 2018-19, NESTC committed to making non-contractual, retention payments to two individuals. Those payments were made at the end of 2020-21 and the beginning of 2021-22. Such payments are outside of NESTC's delegation and Managing Public Money states that retention payments require explicit Treasury approval before any commitment, whether oral or in writing, is made. HM Treasury was not notified of these payments until September 2021, after the payments were made.

A business case for retrospective approval was subsequently submitted to and rejected by HM Treasury.

In my opinion, these payments did not conform with the authorities which govern NESTC and resulted in an irregular payment of £30,000 in 2020-21. I consider the actions carried out by NESTC in respect of these payments indicate an insufficient regard for the public spending framework and the irregular payment is material by nature. Further detail can be found in my following report.

Basis for opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK), applicable law 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 2019. I have also elected to apply the ethical standards relevant to listed entities. I am independent of the National Employment Savings Trust Corporation in accordance with the ethical requirements that are relevant to my audit of 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

In auditing the financial statements, I have concluded that National Employment Savings Trust Corporation's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work I have performed, I have not identified any material uncertainties relating to events or conditions that, individually or collectively, 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 when the financial statements are authorised for issue.

My responsibilities and the responsibilities of the National Employment Savings Trust Corporation and the Chief Executive Officer with respect to going concern are described in the relevant sections of this certificate.

The going concern basis of accounting for the National Employment Savings Trust Corporation is adopted in consideration of the requirements set out in International Accounting Standards as interpreted by HM Treasury's Government Financial Reporting Manual, which require entities to adopt the going concern basis of accounting in the preparation of the financial statements where it anticipated that the services which they provide will continue into the future.

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 certificate thereon. The National Employment Savings Trust Corporation and the Chief Executive Officer is responsible for the other information. My opinion on the financial statements does not cover the other information and except to the extent otherwise explicitly stated in my certificate, 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 I identify such material inconsistencies or apparent material misstatements, I am required to determine whether this gives rise to a material misstatement in the financial statements themselves. 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, based on the work undertaken in the course of the audit:

- 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; 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

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 material misstatements in the Performance Report and Accountability Report. 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
- certain disclosures of remuneration specified by HM Treasury's Government Financial Reporting Manual are not made; 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.

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 in accordance with the applicable financial reporting framework and for being satisfied that they give a true and fair view.
- internal controls as the Chief Executive Officer determines is necessary to enable the preparation of financial statement to be free from material misstatement, whether due to fraud or error.
- assessing the National Employment Savings Trust Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Chief Executive Officer anticipates that the services provided by the National Employment Savings Trust Corporation will not continue to be provided in the future.

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.

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a certificate that includes my opinion. 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.

I design procedures in line with my responsibilities, outlined above, to detect material misstatements in respect of non-compliance with laws and regulation, including fraud.

My procedures included the following:

- Inquiring of management, internal audit and those charged with governance, including obtaining and reviewing supporting documentation relating to the National Employment Savings Trust Corporation's policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
  - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations including the National Employment Savings Trust Corporation's controls relating to the Pensions Act 2008 and Managing Public Money;
- discussing among the engagement team regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, I identified potential for fraud in the following areas: revenue recognition, fraudulent information from suppliers, bias in accounting estimates and posting of unusual journals;
- obtaining an understanding of the National Employment Savings Trust Corporation's framework of authority as well as other legal and regulatory frameworks that the National Employment Savings Trust Corporation operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the National Employment Savings Trust Corporation. The key laws and regulations I considered in this context included the Pensions Act 2008, Managing Public Money, Employment Law, tax Legislation, pension legislation and the regulations set by the Pensions Regulator; and
- obtaining an understanding of the control environment in place at the National Employment Savings Trust Corporation, including the control environment at the scheme administrator.

In addition to the above, my procedures to respond to identified risks included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management and the Audit Committee concerning actual and potential litigation and claims;
- reading minutes of meetings of those charged with governance and the Board;
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business; and
- reviewing all income and expenditure streams for any irregularities or non-compliance with laws and regulations.

I also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and significant component audit teams and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

A further description of my responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: **www.frc.org.uk/auditorsresponsibilities**. This description forms part of my certificate.

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.

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.

Gareth Davies
Comptroller and Auditor General

2 December 2021

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

Report of the Comptroller and Auditor General to the Houses of Parliament

Introduction

The National Employment Savings Trust Corporation (NESTC) was established under the Pensions Act 2008 and is a Public Corporation with accountability through the Department for Work and Pensions. Its main purpose is to be Trustee to the National Employment Savings Trust, a workplace pension scheme to help support the policy of auto enrolment.

The purpose of my report

The purpose of this report is to explain the circumstances which led me to qualify my audit opinion on regularity on the 2020-21 financial statements of NESTC.

Qualified audit opinion arising from irregular expenditure on retention payments

During the year, NESTC management disclosed to the NAO that they had committed in 2018-19 to making retention payments to two individuals totalling £100,000. NESTC considered that the retention payments would provide better value for money compared to the operational costs of potentially hiring equivalently skilled individuals were they to leave NESTC.

The payments were made to the individuals and were split with £30,000 made in financial year 20-21 and £70,000 made at the start of financial year 21-22.

The commitment to make the payments was approved by NESTC's Nominations and Remuneration Committee in 2018-19 but no consultation took place with NESTC's sponsor Department, or HM Treasury until the payments were brought to the attention of the NAO. Under Managing Public Money (MPM), NESTC is required to obtain explicit approval for retention payments from HM Treasury before any commitment, whether oral or in writing, is made. As set out on page 96, once the payments were disclosed to the NAO, NESTC submitted a business case to HM Treasury requesting retrospective approval for the payments which they had already committed to and made. NESTC have also taken actions to strengthen controls around special payments, including revising terms for their Nominations and Remuneration Committee and providing training on MPM for key members of NESTC staff and the Board.

The business case put to HM Treasury was rejected as the Chief Secretary to the Treasury did not agree with NESTC's rationale for making the payments, nor the Nomination and Remuneration Committee's approval of them. HMT viewed that the justification NESTC provided did not meet the principles outlined in MPM, such as the need for sufficient market evidence to justify the use of retention payments, evaluation of the risks to public funds and the costs of alternative options.

As a result of this rejection, I consider the payments to be irregular. Whilst the payments are not material in size, I consider this breach of the clear regulations in Managing Public Money to be a material breach by nature. I also note that there was an earlier retention payment committed to in 2017 which was paid in 2018. This payment does not impact my regularity opinion on the 20-21 accounts.

MPM sets out a range of criteria entities should consider in judging whether retention payments are value for money, and emphasises that HM Treasury will always be sceptical of whether they are necessary. It is my view that NESTC did not sufficiently take account of these criteria in committing to and making the payments. I have therefore qualified my opinion on regularity for the 20-21 accounts.

Gareth Davies
Comptroller and Auditor General

2 December 2021

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

Chapter 3

Financial statements

This chapter includes our statement of comprehensive net income, statement of financial position, statement of cash flows, statement of changes in taxpayers' equity for 2020/21 and notes to these statements.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Nest Corporation financial statements

Statement of comprehensive net income

for the year ended 31 March 2021

	Note	Year ended 31 March 2021 £000	Year ended 31 March 2020 £000
Income			
Members' contribution and annual management charges	2	127,774	107,289
Grant income	3	25,435	24,908
Other income	4	648	805
Total operating income		**153,857**	**133,002**
Expenditure			
Staff costs	5a	(29,505)	(25,955)
Scheme investment and administration costs	6b	(106,589)	(95,842)
Depreciation and amortisation	6a	(15,676)	(12,331)
Other expenditure	6c	(23,400)	(20,112)
Total operating expenditure		**(175,170)**	**(154,240)**
Net financing expenditure			
Interest payable	7	(38,039)	(38,612)
Total financing expenditure		**(38,039)**	**(38,612)**
Net comprehensive income for the year		**(59,352)**	**(59,850)**
Other comprehensive net income			
Net (gain) on revaluation of non-current intangible assets	9	546	544
Total comprehensive income for the period		**(58,806)**	**(59,306)**

All income and expenditure is derived from continuing operations. The accounting policies and notes on pages 106 to 123 form part of these financial statements.

Statement of financial position

as at 31 March 2021

	Note	Year ended 31 March 2021 £000	Year ended 31 March 2020 £000
Non-current assets			
Property, plant and equipment	8	11,808	13,551
Intangible assets	9	31,008	37,976
Prepayment amounts falling due over 1 year	10a	4,538	5,013
Total non-current assets		**47,354**	**56,540**
Current assets			
Trade and other receivables	10b	16,991	15,139
Other current assets	10c	12	67
Cash and cash equivalents	11	89,393	34,179
Total current assets		**106,396**	**49,385**
Total assets		**153,750**	**105,925**
Current liabilities			
Interest payable	12a	(15,512)	(17,419)
Trade and other payables	12b	(19,225)	(17,400)
Other liabilities <1 year	12c	(3,972)	(2,612)
Provisions for liabilities and charges	14	0	(32)
Total current liabilities		**(38,709)**	**(37,463)**
Total assets less current liabilities		**115,041**	**68,462**
Non-current liabilities			
DWP loan	13	(883,647)	(777,647)
Other liabilities	13	(3,646)	(4,301)
Provisions for liabilities and charges >1 year	14	(1,181)	(1,141)
Total non-current liabilities		**(888,474)**	**(783,089)**
Total assets less total liabilities		**(773,433)**	**(714,627)**
Taxpayers' equity and other reserves			
General reserve		(777,209)	(717,857)
Revaluation reserve		3,776	3,230
Total equity		**(773,433)**	**(714,627)**

The accounting policies and notes on pages 106 to 123 form part of these financial statements.

The financial statements, including the accounting policies and notes on pages 106 to 123, were approved by the Trustee on 25 November 2021.

Helen Dean, CBE
Chief Executive Officer,
Nest Corporation

25 November 2021

Statement of cash flows

for the year ended 31 March 2021

	Note	Year ended 31 March 2021 £000	Year ended 31 March 2020 £000
Cash flows from operating activities			
Expenditure	5a,6	(175,170)	(154,240)
Members' contribution and annual management charges	2	127,774	107,289
Other income	4	648	805
Grant income for non-chargeable costs	3	495	459
Adjustment for non-cash items	22	14,440	10,045
(Increase) in trade and other receivables	10	(801)	(1,956)
Increase in trade and other payables	12	266	3,137
Increase in provisions	14	8	1,098
Net cash outflow from operating activities		**(32,340)**	**(33,363)**
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets	22	(123)	(67)
Payments towards imputed lease liability of TCS* assets	22	(5,224)	(7,720)
Net cash outflow from investing activities		**(5,347)**	**(7,787)**
Cash flows from financing activities			
Loan interest	7	(38,039)	(38,612)
Public service obligation offset	3	24,940	24,449
Loan received from DWP	13	106,000	63,900
Net cash inflow from financing activities		**92,901**	**49,737**
Net increase in cash and cash equivalents in the period	11	55,214	8,587
Cash and cash equivalents at the beginning of the period	11	34,179	25,592
Cash and cash equivalents at the end of the period		**89,393**	**34,179**

* Tata Consultancy Services (TCS) was the administrator of the Scheme in 2020/21.

The accounting policies and notes on pages 106 to 123 form part of these financial statements.

Statement of changes in taxpayers' equity

for the year ended 31 March 2021

	Revaluation reserve £000	General fund £000	Total reserves £000
Total taxpayers' equity as at 1 April 2019	2,686	(658,007)	(655,321)
Changes in taxpayers' equity 2019/20			
Release of reserves to the statement of comprehensive net income	–	–	–
Net gain on revaluation of non-current assets	544	–	544
Net expenditure after interest	–	(59,850)	(59,850)
Total changes for 2019/20	**544**	**(59,850)**	**(59,306)**
Total taxpayers' equity as at 31 March 2020	**3,230**	**(717,857)**	**(714,627)**
Changes in taxpayers' equity 2020/21			
Release of reserves to the statement of comprehensive net income	–	–	–
Net gain on revaluation of non-current assets	546	–	546
Net expenditure after interest	–	(59,352)	(59,352)
Total changes for 2020/21	**546**	**(59,352)**	**(58,806)**
Total taxpayers' equity as at 31 March 2021	**3,776**	**(777,209)**	**(773,433)**

The accounting policies and notes on pages 106 to 123 form part of these financial statements.

Notes to the financial statements

1 Statement of accounting policies

These financial statements have been prepared in accordance with the 2020/21 '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 for the purpose of giving a true and fair view has been selected. The particular policies adopted by us are described below. They have been applied consistently in dealing with items that are considered material to the accounts. We are required, under the Pensions Act 2008, to prepare our accounts for the year ended 31 March, in accordance with the directions made by the Secretary of State for Work and Pensions with the consent of HM Treasury. The Secretary of State has required us to comply with the requirements of the FReM.

These financial statements relate to Nest Corporation as the Trustee of the Scheme. The Scheme accounts are prepared separately.

1.1 Basis of preparation

These financial statements have been prepared on an accruals 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

We were established in 2010 to serve as Trustee of the Scheme. Our financing is met through a combination of loan and grant income funding supplied through the Department for Work and Pensions (DWP). These are approved annually by Parliament. In November 2010 we signed a loan agreement with DWP that provides assurance that future funding will be provided to us until income from the Scheme's 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, we have explained why we have adopted a going concern basis in preparation of these accounts. This can be found in the 'Going concern statement' on page 24.

1.3 Changes in accounting policy and disclosures

a) Changes in accounting policies and standards

There have been no changes to accounting policies and no new standards adopted during the financial year 2020/21.

b) New standards, amendments and interpretations issued but not effective for the financial year 2020/21 and not adopted early

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

IFRS 16: leases

From 1 April 2020, IFRS 16 requires lessees and lessors to provide information about leasing activities within their financial statements. Under the FReM, IFRS 16 is not due for adoption until 1 April 2022. The financial statements for 2020/21 therefore do not include the changes required under IFRS 16. They will instead form part of the 2022/23 financial statements based on the 1 April 2022 adoption date. We will disclose the expected impact in 2021/22 before full adoption in 2022/23.

IFRS16 eliminates the operating/finance lease distinction and imposes a single model geared towards the recognition of all except low-value or short term (less than 12 months) leases. These will now be recognised on the balance sheet and disclosed separately from other non-lease assets and liabilities as a 'right of use' asset, lease liability and a lease premium asset (where applicable).

The lease liability will be measured at initial recognition as the present value of future lease payments, with the asset additionally including any initial direct costs incurred by the lessee. The estimate of any dismantling/restoration costs is held separately in the dilapidation provision.

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 new standard 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. Due to the material nature it is expected that these will be presented on the face of the balance sheet, particularly in first year adoption.

Under FReM guidelines, the new standard is due to be adopted from 1 April 2022. The financial statements for 2020/21 therefore do not include the changes required by the new standard. IFRS 16 is anticipated to be implemented as part of the 2022/23 financial statements.

1.4 Accounting estimates and judgements

The development, selection and disclosure of significant accounting estimates and judgements and the application of these judgements and estimates 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 we control both the services and any significant residual interest. The contract assets are reflected in the 'Statement of financial position' as we control both elements.

1.4 b) Critical accounting estimates and assumptions

Revaluation of intangible assets

The FReM interpretation of IAS 38 requires us to revalue our intangible assets to depreciated replacement cost as a proxy for fair value. As suggested in the FReM, we apply an appropriate index to revalue software licence and software development assets at year-end if the impact is over 1% of the net book value of the relevant asset class. Software licences and software development is revalued by applying an appropriate index published by the Office of National Statistics.

Scheme software and our software licences

Management believe there is currently no accurate software license index or trend information available on the specific licences held by us. As the next best alternative, we apply an appropriate index published by the Office of National Statistics to achieve the requirement of IAS 38 and the FReM to establish a suitable proxy for fair value. 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 an appropriate index published by the Office of National Statistics will be the best proxy to establish fair value for IT-related assets.

Asset refresh prepayment

We have 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. 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 (that is, until June 2023) is an estimate, based on the latest available 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. Bonuses for the Chief Executive Officer and Chief Financial Officer are disclosed in the remuneration report when payments to individuals have been determined by the nominations and remuneration committee.

1.6 Pension costs

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

We recognise the employer costs for the Scheme in the period in which they are incurred. The pension cost of civil servants on secondment to us is reimbursed as part of the employment costs. There is no residual pension liability for us.

1.7 Value added tax (VAT)

We are treated as a special investment fund for VAT purposes and all UK-based scheme administration services (provided by TCS), investment funds administrator services (provided by State Street Bank and Trust Company (SSB)) and fund managers fees are treated as exempt from VAT.

The revenue and expenses related to research carried out by our in-house research unit, Nest Insight, are vatable. However, the rest of the our 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 income in line with IFRS 15: contracts with customers (as adapted for the public sector by HM Treasury) and the revenue is recognised when we meet its performance obligations.

In 2020/21 we had three material revenue streams:

a) Scheme income

Scheme income is recognised when the obligation of investing and administering members' pots has been met.

b) Public service obligation offset payment

Costs 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'.

We also receive a commercial rate of interest on the loans to DWP. We also receive a grant from DWP to reduce the interest payable on the loans from the commercial rate to the government rate of borrowing. The grant is treated as income, known as the public service obligation offset payment, which recognises that we have met our 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 the employer's size.

C) Sponsorship and research revenue

Revenue generated by our in-house research unit, Nest Insight, is recognised once the event stated in the contract or performance obligation(s) has been satisfied. With general funding that is not linked to a specific event or deliverable, the revenue is recognised on a straight-line basis over the period that it has been provided for. Any payment received in advance of the recognition criteria is held as deferred revenue.

All significant contract balances for 2020/21 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 Scheme 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.

1.9 Loan funding from DWP

Loan funding is provided by DWP to meet the Scheme's implementation and running costs until the Scheme reaches a suitable scale for us 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 our 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 us 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 income.

Internally generated software development costs are capitalised when the criteria for recognition are met, following IAS 38: Intangible assets. We capitalise 85% of gross software development costs incurred by the scheme administration services provider, TCS, the reduction of 15% 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. The useful economic lives of assets are as follows:

- Furniture and fittings: 2 to 5 years
- Information technology and telecoms equipment: 3 to 5 years
- Scheme administration IT hardware assets: 7 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 income 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. The useful economic lives of assets are 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: 7 years
- 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 income over the remaining life of the asset.

1.14 Revaluation and impairment of non-current assets

We carry out an annual valuation review of our 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 income.

Impairment losses that result from a clear consumption of economic benefit are taken directly to the statement of comprehensive net income. 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 income.

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 our 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 we become party to the contractual provisions to receive or make cash payments.

Derecognition

A financial asset is considered for derecognition when the contractual rights to the cash flows from the financial asset expire, or we have either transferred the contractual right to receive the cash flows from the asset, or have assumed an obligation to pay those cash flows to one or more recipients, subject to certain criteria. We derecognise a transferred financial asset if we transfer substantially all the risks and rewards of ownership.

Classification and measurement – financial assets

In addition to cash and cash equivalents, we have 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, we assess 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

We have 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 income.

1.16 Provisions for liabilities and charges

In accordance with IAS 37: Provisions, contingent liabilities and contingent assets, we provide for legal or constructive obligations where the transfer of economic benefit is probable, but where the timing or amount at the end of the reporting period is uncertain. 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 income on the basis of rentals payable in the year.

We have one finance lease as set out under service concession arrangements. See note 1.19 below.

Payments in relation to lease premiums are recognised as an asset in accordance with IAS 17: Leases. They are amortised on a straight-line basis over the remaining term of the lease and credited to the statement of comprehensive net income.

1.18 Operating segments

Although IFRS 8: Operating segments applies in full we do not have separate operating segments as defined by the standard.

1.19 Service concession arrangements

Service Concession Arrangements are accounted for in accordance with International Financial Reporting Interpretations Committee (IFRIC) 12, as adapted for the public sector context by FReM. Where we control the services provided and retain a significant residual interest in the asset, the asset is recognised on our '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.

1.20 Subsidiaries and controlled entities

Nest Invest is a wholly owned subsidiary of Nest Corporation and is registered at 1st Floor, 10 South Colonnade, Canary Wharf, London, E14 4PU.

Nest Invest is not consolidated into these financial statements by virtue of IAS 8, 'Accounting policies, changes in accounting estimates and errors'. Nest Invest is not material to the group and therefore IFRS 10, 'Consolidated financial statements', has not been applied.

The separate financial statements of Nest Invest are filed with Companies House.

2 Members' contribution and annual management charges

	Year ended 31 March 2021 £000	Year ended 31 March 2020 £000
Members' contribution and annual management charges	127,774	107,289
Total	**127,774**	**107,289**

Contribution charges relate to the 1.8% deduction on invested contributions from members of the Scheme and the 0.3% annual management charge on the value of the Scheme's assets under management.

3 Grant income

	Year ended 31 March 2021 £000	Year ended 31 March 2020 £000
Grant income for non-chargeable costs	495	459
Public service obligation offset payment	24,940	24,449
Total	**25,435**	**24,908**

Costs associated with the functions of government are not chargeable to Scheme members and are met through grant income funding from the Department for Work and Pensions (DWP).

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

4 Other income

	Year ended 31 March 2021 £000	Year ended 31 March 2020 £000
Interest received and receivable	8	123
Sponsorship and research revenue	540	492
Sponsorship and research revenue from DWP	100	190
Total	**648**	**805**

Interest received and receivable on cash balances which we held on deposit with the Government Banking Service during the reporting period is treated as income.

The sponsorship and research revenue is to fund our in-house research unit, Nest Insight. Additionally, Nest Insight received a research grant of £100k from DWP (in 2019/20, it received £190k from DWP). The grant is not classified as state aid.

5 Staff numbers and related costs

a) Staff costs

In 2020/21 we were staffed by a combination of direct employees, staff seconded from other bodies and interim staff employed through third-party organisations.

	Year ended 31 March 2021 £000	Year ended 31 March 2020 £000
Directly employed staff		
Wages and salaries	22,240	19,698
Social security costs	2,851	2,332
Pension costs	1,733	1,476
Subtotal	**26,824**	**23,506**
Secondees	384	283
Interim staff	2,297	2,166
Total staff costs	**29,505**	**25,955**

b) Pension arrangements

We operate one active defined contribution (DC) pension scheme for our directly employed staff. There were 359 workers in this scheme as at 31 March 2021 (compared with 292 at 31 March 2020).

We recognise the employer's costs in the period to which they relate. At 31 March 2021 there was one month's contributions outstanding, amounting to £248k (compared with £192k at 31 March 2020).

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

6 Depreciation, amortisation and other expenditure

	Note	Year ended 31 March 2021 £000	Year ended 31 March 2020 £000
a) Depreciation and amortisation			
Depreciation and amortisation	8,9	15,676	12,331
Total		**15,676**	**12,331**
b) Scheme investment and administration costs			
Scheme administration expenses		93,187	86,789
Scheme investment costs		13,402	9,053
Total		**106,589**	**95,842**
c) Other expenditure			
Professional fees and advice		6,557	5,511
Information technology and telecoms equipment		3,679	2,654
Legal fees and expenses		3,514	2,584
Accommodation		3,529	2,949
Research, marketing and communications		2,097	2,000
Recruitment and training		879	1,121
Movements in property repair provisions in the year	14	8	1,098
Insurance		965	637
Loss on disposal of non-current assets	8,9	1,561	494
Industry engagement		243	378
Auditor's remuneration – Nest Corporation		96	90
Auditor's remuneration – Nest Scheme		100	90
Other running costs		172	506
Total		**23,400**	**20,112**

Scheme administration expenses shown here are exclusive of £800k (compared to £178k in 2019/20) set aside for asset refresh prepayment in 2021/22.

7 Interest payable

	Year ended 31 March 2021 £000	Year ended 31 March 2020 £000
Loan interest paid and payable	38,039	38,612
Total	**38,039**	**38,612**

Interest payable relates to interest charged on balances outstanding on the loan from DWP (see note 13). Under the terms of the loan agreement, we borrow at a fixed commercial rate of interest prevailing at the time of each loan drawdown. We receive a grant from DWP (public service obligation offset payment) which effectively reduces the commercial rate to the government borrowing rate. The effective interest rate at 31 March 2021, net of grant, was 2.08% (compared to 2.45% in 2019/20).

8 Property, plant and equipment

Our property, plant and equipment assets comprise of furniture and fittings and information technology used directly by our employees. Purchased Scheme hardware is used by Tata Consultancy Services (TCS) for scheme administration.

2020/21	Furniture and fittings £000	Information technology £000	Scheme hardware £000	Total £000
Cost				
As at 1 April 2020	510	742	22,651	23,903
Additions	–	123	1,695	1,818
Disposals	–	–	(4,093)	(4,093)
As at 31 March 2021	**510**	**865**	**20,253**	**21,628**
Depreciation				
As at 1 April 2020	(138)	(384)	(9,830)	(10,352)
Charged in period	(70)	(157)	(2,644)	(2,871)
Disposals	–	–	3,403	3,403
As at 31 March 2021	**(208)**	**(541)**	**(9,071)**	**(9,820)**
Net book value at 31 March 2021	**302**	**324**	**11,182**	**11,808**
Asset financing:				
Owned	302	324	11,182	11,808
Net book value at 31 March 2021	**302**	**324**	**11,182**	**11,808**

2019/20	Furniture and fittings £000	Information technology £000	Scheme hardware £000	Total £000
Cost				
As at 1 April 2019	510	686	23,768	24,964
Additions	–	67	2,857	2,924
Disposals	0	(11)	(3,974)	(3,985)
As at 31 March 2020	**510**	**742**	**22,651**	**23,903**
Depreciation				
As at 1 April 2019	(68)	(246)	(11,031)	(11,345)
Charged in period	(70)	(144)	(2,538)	(2,752)
Disposals	0	6	3,739	3,745
As at 31 March 2020	**(138)**	**(384)**	**(9,830)**	**(10,352)**
Net book value at 31 March 2020	**372**	**358**	**12,821**	**13,551**
Asset financing				
Owned	372	358	12,821	13,551
Net book value at 31 March 2020	**372**	**358**	**12,821**	**13,551**

9 Intangible assets

Our intangible assets comprise of purchased software licences used directly by our employees, purchased software licences used by TCS for scheme administration and software developed by TCS for scheme administration.

2020/21	Note	Corporation software licences £000	Scheme software licences £000	Scheme developed software £000	Total £000
Cost					
As at 1 April 2020		707	28,587	71,915	101,209
Additions		–	2,777	3,384	6,161
Disposals		–	(2,250)	–	(2,250)
Revaluation	a	(11)	518	1,564	2,072
As at 31 March 2021		**696**	**29,632**	**76,863**	**107,192**
Amortisation					
As at 1 April 2019		(677)	(18,819)	(43,737)	(63,233)
Charged in period		(21)	(3,423)	(9,361)	(12,805)
Disposals		–	1,380	–	1,380
Revaluation	a	2	(374)	(1,154)	(1,526)
As at 31 March 2021		**(696)**	**(21,236)**	**(54,252)**	**(76,184)**
Net book value at 31 March 2021		**-**	**8,396**	**22,611**	**31,008**

2019/20	Note	Corporation software licences £000	Scheme software licences £000	Scheme developed software £000	Total £000
Cost					
As at 1 April 2019		890	29,091	64,982	94,963
Additions		–	1,969	5,816	7,785
Disposals		(194)	(2,943)	–	(3,137)
Revaluation	a	11	470	1,117	1,598
As at 31 March 2020		**707**	**28,587**	**71,915**	**101,209**
Amortisation					
As at 1 April 2019		(820)	(19,113)	(35,550)	(55,483)
Charged in period		(40)	(2,071)	(7,468)	(9,579)
Disposals		194	2,689	–	2,883
Revaluation	a	(11)	(324)	(719)	(1,054)
As at 31 March 2020		**(677)**	**(18,819)**	**(43,737)**	**(63,233)**
Net book value at 31 March 2020		**30**	**9,768**	**28,178**	**37,976**

a) Intangible assets were revalued to fair value by applying an appropriate Office of National Statistics index. The revaluation gain reflects movements in the index since 1 April 2020.

10 Prepayments, trade and other receivable, and other current assets

	As at 31 March 2021 £000	As at 31 March 2020 £000
a) Amounts falling due over 1 year		
Lease premium on property	3,832	4,206
Prepayments in respect of asset refresh	706	807
	4,538	**5,013**
b) Amounts falling due within 1 year		
Accrued public sector obligation offset payment	10,433	11,098
Accrued grant income for non-chargeable costs	257	235
Lease premium on property	374	374
Prepayments in respect of asset refresh	800	178
Other trade receivables	9	43
Other prepayments and accrued income	5,118	3,211
	16,991	**15,139**
c) Other current assets		
Staff loans	12	67
	12	**67**
Total	**21,541**	**20,219**

Included in prepayments is £1,506k (compared to £985k in 2019/20) for amounts set aside from service charges to fund future scheme asset replacement. It is estimated that part of the £1.5 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 2021 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 £4.2 million (compared to £4.6 million in 2019/20) has been recognised for advanced payments made to the landlord of the property that we occupy.

11 Cash and cash equivalents

	Year ended 31 March 2021 £000	Year ended 31 March 2020 £000
Opening balance	34,179	25,592
Net change in cash balances	55,214	8,587
Balance at end of year	**89,393**	**34,179**

12 Current liabilities

	As at 31 March 2021 £000	As at 31 March 2020 £000
a) Interest payable		
Accrued interest payable to DWP	15,512	17,419
	15,512	**17,419**
b) Trade and other payables		
Trade payables	755	2,015
Accruals	18,470	15,385
	19,225	**17,400**
c) Other liabilities		
Other taxation and social security	875	582
Pension costs liability	248	193
Imputed finance lease element of TCS assets	2,849	1,837
	3,972	**2,612**
Total	**38,709**	**37,431**

13 Non-current liabilities

	As at 31 March 2021 £000	As at 31 March 2020 £000
DWP Loan	883,647	777,647
Imputed finance lease element of TCS assets	3,646	4,301
Total	**887,293**	**781,948**

Loan funding from DWP is provided to meet the Scheme's implementation and running costs and will subsequently be repaid from future income. 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 2021, the effective interest rate was 2.08% (compared to 2.45% as at 31 March 2020) (see note 7).

In total, an imputed finance lease of £6.5 million (as compared to £6.1 million in 2019/20) has been recognised, mainly reflecting the shortfall between the scheme administration assets recognised and cash payment made to TCS.

14 Provisions for liabilities and charges

	Note	Year ended 31 March 2021 £000	Year ended 31 March 2020 £000
Balance as at 1 April 2020		1,173	75
Provided in the year	6	8	1,098
Balance as at 31 March 2021		**1,181**	**1,173**
Classified as:			
Amounts falling due within 1 year		–	32
Amounts falling due over 1 year		1,181	1,141
		1,181	**1,173**

The provision of £1,181k (compared to £1,141k in 2019/20) relates to a dilapidation liability for 10 South Colonnade. The provision is based upon our share of the dilapidation costs which are due at the end of the tenancy in 2033/34.

15 Capital and other financial commitments

a) Capital and other financial commitments

	As at 31 March 2021 £000	As at 31 March 2020 £000
Contracted financial commitments not included elsewhere in these financial statements		
< 1 year	63,112	89
1-5 years	210,872	156
> 5 years	248,105	-
	522,090	**245**

The contracted commitments relate to the next scheme administration contact with Atos BPS Ltd (£521,646k) and banking services (£444k).

The next scheme administration contracted commitments relates to the new contract with Atos BPS Ltd to provide scheme administration services when the current TCS contract comes to an end in June 2023. The Atos contract was signed on 4 February 2021, it is a 10 year contract expiring on 4 February 2031. There is an option to extend the contract, by a maximum of 5 years, to the fifteenth anniversary of the effective date. The contracted financial commitments in the table above cover the initial 10 year period only. Operational costs under the contract are dependent on contributing and non-contributing member numbers. The financial commitment is based on our March 2021 membership forecasts.

The accounting treatment of the contract will be finalised during 2021-22 and will be set out in the accounting policies in the 2021-22 financial statements. No payments were made under the Atos contract in 2020-21.

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

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

We have a contract with TCS for administration of the Scheme which has been assessed under IFRIC 12 and recognised as a service concession. As a result, assets used for the contract have been recognised as non-current assets in the 'Statement of financial position' 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.

Total obligations under service concession arrangements reflected in the 'Statement of financial position' for the following periods comprise:	Year ended 31 March 2021 £000	Year ended 31 March 2020 £000
Not later than 1 year	93,973	85,114
Later than 1 year and not later than 5 years	132,513	224,247
Total gross obligation	**226,486**	**309,361**
Less interest element discount	(3,257)	(9,000)
Present value of obligations	**223,229**	**300,361**

Present value of obligations under service concession arrangements reflected in the 'Statement of financial position' for the following periods comprise:	Year ended 31 March 2021 £000	Year ended 31 March 2020 £000
Not later than 1 year	93,973	85,114
Later than 1 year and not later than 5 years	129,256	215,247
Total present value of obligations	**223,229**	**300,361**

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

The total amount charged to the statement of comprehensive net income in 2020/21 in respect of the service element of this service concession was £93.2 million (compared to £86.8 million in 2019/20) and the payments to which we are committed (subject to the conditions of the contract, particularly volume levels) are as follows:

	Year ended 31 March 2021 £000	Year ended 31 March 2020 £000
Not later than 1 year	84,920	77,429
Later than 1 year and not later than 5 years	120,112	206,567
Total	**205,032**	**283,996**

16 Commitments under leases

Operating leases

Future minimum lease payments comprise:	As at 31 March 2021 £000	As at 31 March 2020 £000
Buildings:		
Within 1 year	2,942	2,875
Between 1 year and 5 years	12,673	12,389
Over 5 years	23,055	26,574
	38,670	**41,838**

The future minimum lease payments represent a lease for our offices at South Colonnade from 1 April 2021 to 27 June 2032.

17 Financial instruments

Financial assets	Note	As at 31 March 2021 £000	Year ended 31 March 2020 £000
Cash and cash equivalents	11	89,393	34,179
Staff loans	10c	12	67
Total		**89,405**	**34,246**

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

Financial liabilities	Note	As at 31 March 2021 £000	Year ended 31 March 2020 £000
DWP loan	13	883,647	777,647
Trade payables	12b	755	2,015
Accruals	12	33,982	32,804
Total		**918,384**	**812,466**

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

We have limited exposure to interest rate risk for our loans as the rates are set and fixed on drawdown or rollover for a period of five years.

The book value of our financial assets and liabilities as at 31 March 2021 and 31 March 2020 are not materially different from their fair values.

18 Contingent liabilities disclosed under IAS 37

There are no contingent liabilities to disclose for 2020/21 or 2019/20.

19 Contingent assets disclosed under IAS 37

There are no contingent assets to disclose for 2020/21 or 2019/20.

20 Losses and special payments

There are neither losses nor special payments to disclose for 2020/21 or 2019/20.

21 Related-party transactions

We are accountable to the Secretary of State for Work and Pensions and are classified as a public operation. DWP is our sponsoring department and the two bodies are regarded as related parties. During 2020/21 we had a number of material transactions with DWP. These are detailed in the table below.

	Note	Year ended 31 March 2021 £000		Year ended 31 March 2020 £000	
		Income	Expenditure	Income	Expenditure
Loan funding and repayment	13	106,000	–	63,900	–
Sponsorship and research revenue	4	100	–	190	–
Loan interest	7	–	38,039	–	38,612
Other transactions	3	25,435	362	24,908	379
Total		**131,535**	**38,401**	**88,998**	**38,991**

As at 31 March 2021, excluding the liability to repay the loan which does not come into effect for more than 12 months, we had £15.8 million outstanding liability with DWP (compared to £17.4 million in 2019/20).

This relationship with DWP includes the provision of:

a) loan funding

b) public service obligation offset payments and grant income

c) premium on letter of credit

d) secondees

e) grant to fund pension research (through our in-house research unit, Nest Insight)

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

During 2020/21 we received income from the Scheme of £127.8 million (compared to £107.3 million in 2019/20). See note 2 for details. We are a participating employer in the Scheme. Contributions of £2.7 million (compared to £2.3 million in 2019/20) were payable by us to the Scheme during the period.

No Board members, senior managers or other related parties have undertaken any material transactions with us during the period.

22 Cashflow analysis

	Note	Year ended 31 March 2021 £000	Year ended 31 March 2020 £000
Non-cash items			
Depreciation and amortisation including non-TCS	6a	15,676	12,331
Loss on disposal of assets	6c	1,561	494
Prepayment asset refresh		(619)	(1,091)
Offset for lease liability		(2,312)	(1,848)
Finance credit charge		134	159
Total non-cash items		14,440	10,045
Purchase of intangible assets			
Purchase of IT	8	(123)	(67)
Total of intangible assets		**(123)**	**(67)**
Payments towards imputed lease liability of TCS assets			
Total lease liability payments made in the year		**(5,224)**	**(7,720)**

23 Political and charitable donations

We made no political or charitable donations in the year.

24 Events after the reporting period

IAS 10, 'Events after the reporting period', requires us to disclose the date on which the accounts are authorised for issue.

There were no reportable events after the reporting period.

The 'Corporation 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.

Appendices

Appendix 1

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' (FReM) issued by HM Treasury 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 Joures

3 March 2011

Report and Accounts of the National Employment Savings Trust Corporation

Appendix 2

Overview of environmental performance

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

Nest Corporation is located at 10 South Colonnade, Canary Wharf, a modern multi-tenant Government Property Unit building, housing several department and arm's-length bodies.

The building's 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 support an effective management strategy.
- Use of motion-activated low-energy LED lighting.

Tenants are not provided with detailed energy data usage as part of the multi-tenant arrangement. The data provided is for the building as a whole, reducing the level of detail that Nest can report on our scope 2 emissions. So scope 2 emissions are estimated based on the amount of space Nest Corporation occupies within the building, which is 6.8%. This has been used for both the 2019/20 and 2020/21 calculations to provide an indicator of Nest Corporation's environmental impact, although during 2020/21 most Nest staff were working from home (WFH).

Our scope 3 reported emissions data is captured directly from expense claims and contract reporting.

During 2018/19 Nest Corporation moved offices from Riverside House to 10 South Colonnade. No data was available for the first quarter of 2018/19, so Nest Corporation had approximated energy usage on an average basis for this reporting period. This is likely to have overstated the costs because the initial three months of the year would have been warmer months where gas and electricity usage would be much lower.

Additionally, gas consumption in our 2018/19 calculation was estimated on the Chartered Institution of Building Services Engineers (CIBSE) figures for a similar size and type of building which assumed that gas was used for heating. At that stage, the building management company had no confirmed gas supply or history of meter readings. The 2019/20 gas figures are based on actual meter readings and reflect very low levels of consumption because at 10 South Colonnade gas is only used for hot water.

Our electricity costs in 2018/19 were based on the building management's understanding of the distribution network at the time. These figures represented a potential overestimate of between 5% and 10% as they included electricity costs which a third party pay for directly.

In 2019/20, the building management company arranged a contract for gas, electricity and water. As part of this contract, it has been given rates to calculate the cost of these utilities. Our 2019/20 figures were based on meter readings and the rates provided by the building management company.

In 2020/21, the building management company have continued to receive more accurate data on electricity usage and costs from the new supplier. Similarly, they have received more accurate data for gas and water costs in the last quarter of the year which has been used to generate the cost estimate for 2019/20.

Summary

In 2020/21 we have seen a fall in scope 2 reported emissions compared to both 2019/20 and 2018/19. This is partly because gas usage was overstated in 2018/19, as it was assumed that gas was used for both heating and hot water. However in 2019/20 actual meter readings indicated that gas is only being used for hot water. The 2019/20 and 2020/21 figures were based on the meter readings and rates provided by the building management company. We ascribe the fall in scope 2 emissions in 2020/21 to corporation-wide WFH, following government guidance to restrict spread of the coronavirus.

We have also seen a sharp fall in scope 3 reported emissions from private vehicles, car hire, taxis, rail and air travel compared to last year. This is based on a significant reduction in the cost figures for business travel compared to 2019/20. Covid-19 travel restrictions and precautions have continued to contribute to the fall in these emissions.

The total amount of waste produced by Nest Corporation this year has dropped compared to 2019/20. A higher proportion of waste disposed has been recycled in comparison to 2019/20, with 80% of total waste being recycled. The building management company has confirmed that 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.

The absolute paper usage at Nest Corporation's office also decreased compared with last year. This is mirrored by a corresponding drop in usage per full-time equivalent (FTE) employee. As nearly all employees were working from home throughout the financial year we have seen great improvements in remote collaboration and working practices and significant reduction in printing and reliance on paper copies. Going forward, this is an area where we aim to continue to improve our overall carbon footprint.

2020/21 environmental performance

Area	Actual performance	Normalising data (per FTE)
Average annual full-time equivalent staffing figure: 390[1]		
Estate energy and emissions		
GHG emissions from offices	203 tonnes CO_2e	0.52 tonnes CO_2e
Total organisation energy consumption	808,634 kWh	2,073 kWh
Total energy expenditure	£96,219	£246.71
Travel emissions		
CO_2e emissions from business travel[2]	2 tonnes CO_2e	0 tonnes CO_2e
Total expenditure on business travel	£3,954	£10.14
Waste		
Total waste produced	8.7 tonnes	0.02 tonnes
Total recycled/reused	7.0 tonnes	0.02 tonnes
Total incinerated	1.8 tonnes	0.00 tonnes
Total to landfill	0.0 tonnes	0.00 tonnes
Total waste expenditure	£6,272	£16.08
Paper		
Total paper usage	0 tonnes CO_2e	0 tonnes CO_2e
Total paper expenditure	£67	£0.17
Water		
Total water consumption	601 m^3	2 m^3
Total water expenditure	£1,442	£3.70

Notes

1 This figure includes employees, Board members, interims, secondees and panel members.

2 CO_2e means carbon dioxide equivalent, which is a widely accepted standard for measuring emissions from all greenhouse gases.

Greenhouse gas emissions (GHG)

The data for scope 2 emissions for 2020/21 is taken as a percentage of the overall data for the building based on our 6.8% occupancy. This provides Nest with an indication of performance.

Greenhouse gas emissions		2018/19	2019/20	2020/21
	Scope 2 - Gas and electricity			
	Gas	32.7	4.0	3.7
	Electricity – total	336.9	218.2	199.7
	Electricity – brown[1]	n/a	n/a	n/a
	Electricity – green[1]	n/a	n/a	n/a
	Electricity – CHP[2]	-	-	-
	Total scope 2	**369.6**	**222.2**	**203.4**
	Scope 3 - Business travel[2]			
Non-financial indicators (tonnes CO_2e)	Private vehicle	13.2	11.5	0.6
	Car hire	0.1	0.1	0.0
	Taxis	0.4	0.8	0.0
	Air	221.7	181.4	1.4
	Rail	8.9	6.5	0.1
	Total scope 3	**244.3**	**200.3**	**2.1**
	Total emissions	**613.9**	**422.5**	**205.4**
	Scope 3 - Paper			
	Paper	1.6	1.9	0.1

Notes

1. In 2018/19, Nest Corporation moved to a new office in Canary Wharf and the building management firm that provides us with our data changed. The building management company is unable to allocate the electricity costs and usage to green and brown electricity based on the information supplied to it from the electricity suppliers.
2. 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. The calculation used for this proxy was the total expenses divided by 11 months and multiplied by 12 months.

Greenhouse gas emissions		2018/19	2019/20	2020/21
Related energy consumption in kilowatt hours (kWh)	**Scope 2 - Gas and electricity[2]**			
	Gas	178,001	21,599	18,300
	Electricity – total	-	-	-
	Electricity – brown[1]	1,096,666	786,762	712,827
	Electricity – green[1]	n/a	n/a	n/a
	Electricity – CHP	n/a	n/a	n/a
	Total scope	**1,274,667**	**808,361**	**808,634**
Financial indicators (£)	**Scope 2 - Gas and electricity[2]**			
	Gas	13,172	368	802
	Electricity – total	208,367	112,331	95,416
	Electricity – brown	n/a	n/a	n/a
	Electricity – green	n/a	n/a	n/a
	Electricity – CHP	-	-	-
	Total scope 2	**221,539**	**112,699**	**96,219**
	Scope 3 - Business travel[3]			
	Private vehicle	20,776	20,342	1,103
	Car hire	146	142	0
	Taxis	2,597	6,894	5
	Air	168,800	159,834	1,902
	Rail	100,031	54,124	944
	Total scope 3	**292,350**	**241,336**	**3,954**
	Scope 3 - Paper			
	Paper	1,664	2,047	67
Volume of paper in reams	**Scope 3 - Paper**			
	A4	570	740	15
	A3	30	30	5

Notes

1. In 2018/19, Nest Corporation moved to a new office in Canary Wharf and the building management firm that provides us with our data changed. The building management company is unable to allocate the electricity costs and usage to green and brown electricity based on the information supplied to it from the electricity suppliers.
2. The utilities figures are cost estimates provided by the building management company to support intergovernmental department reporting against Greening Government Commitments or for departmental or agency sustainability reporting. These reporting costs may not reflect the way costs are attributed in any tenancy or other contractual agreement.

   The utilities only came onto contract part way through 2019/20. The costs of electricity, gas and water for the full year are estimated based on the actual invoices from the point when each utility came onto contract during 2019/20 and actual meter readings for the full year. These estimates only relate to the consumption in 2019/20 and do not include any other back-dated costs for the periods prior to a formal contract.
3. 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. The calculation used for this proxy was the total expenses divided by 11 months and multiplied by 12 months.

Business travel emissions

Tonnes CO_2e

	Private vehicle	Car hire	Taxi	Air	Rail
2019/20	11.5	0.1	0.8	181.4	6.5
2020/21	0.6	0.0	0.0	1.4	0.1

Greenhouse gas emissions

Tonnes CO_2e

	Gas and electricity (scope 2)	Business travel (scope 3)
2019/20	222.2	200.3
2020/21	203.4	2.1

GHG performance commentary including target

Nest Corporation is located in a well maintained, energy-efficient building. Although we do not have direct influence over how the building is managed, we will continue to work with the building management company on any energy management initiatives that are undertaken. With the current limitations in place, we believe that a target to reduce scope 2 emissions is currently not viable.

We actively seek to reduce international business travel and only undertake it when necessary and unavoidable.

We will continue to encourage initiatives to reduce the need for paper copies of business documents through electronic review processes and electronic records management.

Use of finite resources

Scope 2 – Water consumption		2018/19	2019/20	2020/21
Non-financial indicators (m^3)	Water consumption	2,214.5	2,360.1	600.6
Financial indicators (£)	Total water costs[1]	5,181.8	4,811.0	1,442.4

Performance commentary

Nest Corporation's current water usage is $1.54m^3$ per person which represents a reduction of 79% compared with the previous year. The drop is driven mainly by a fall of headcount in the office due to the introduction of WFH measures following government guidance. The figure is an approximation based on 6.8% of the total building space which Nest Corporation occupies.

Notes

1. The utilities figures are cost estimates provided by the building management company to support intergovernmental department reporting against Greening Government Commitments or for departmental or agency Sustainability reporting. These reporting costs may not reflect the way that costs are attributed in any tenancy or other contractual agreement.

   The utilities only came onto contract part way through 2019/20. The costs of electricity, gas and water for the full year are estimated based on the actual invoices from the point when each utility came onto contract during 2019/20 and actual meter readings for the full year. These estimates only relate to the consumption in 2019/20 and do not include any other back-dated costs for the periods prior to a formal contract.

Waste management

Waste		2018/19	2019/20	2020/21
Non-financial indicators (tonnes)	Waste to landfill	0.0	0.0	0.0
	Waste recycled/ reused	6.2	5.2	7.0
	Waste incinerated[1]	8.1	9.1	1.8
	Total waste	14.3	14.3	8.7
Financial indicators (£)	Total waste costs[2]	5,945	6,272	6,272

Performance commentary

All of the waste produced by Nest Corporation in the building is diverted from landfill. Waste that can be recycled is collected either through a dry mixed recycling bin or a confidential paper bin to aid effective recycling. All waste that is incinerated is sent to an energy-from-waste facility to produce refuse-derived fuel and therefore had an element of energy recovery. The figures for waste usage are an approximation based on Nest Corporation's 6.8% occupancy of the building and total waste figures supplied by the building management company.

Notes

1. 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.
2. Total waste expenditure does not include the cost of confidential waste recycling in order to compare the figure against prior year. Waste disposal services are provided as a fixed cost as part of the facility management contract for the building. The costs provided for waste are therefore only indicative.

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