Nest, the National Employment Savings Trust

Corporation annual report and accounts 2021/22

HC 360

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the National Employment Savings Trust

Corporation annual report and accounts 2021/22

For the period 1 April 2021 to 31 March 2022

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

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HC360

Cautionary statement

This document contains statements that are, or may be deemed to be, 'forward-looking statements' with respect to Nest Corporation's financial performance and position.

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

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

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

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Contents

Chapter 1

Performance report

This chapter explains how Nest Corporation operates as Trustee of the Nest Scheme. It sets out our objectives for serving our customers and delivering the Scheme in our members' interests. It also describes how we have worked towards fulfilling these objectives during the 2021/22 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 2021/22, including principal risks and our overall financial position.

Chair's statement

Brendan McCafferty, Chair, Nest Corporation

After two years of a global pandemic, Scheme members and their employers are facing a cost-of-living squeeze, and investment markets continue to be volatile. Our members can be assured that we stand alongside them in helping them to secure greater financial stability and resilience in later life.

I was appointed by the Secretary of State as Chair of Nest Corporation in February 2022, succeeding Otto Thoresen for a term of five years. I am delighted to be leading the board of such a purposeful organisation. I have a background in the insurance sector and have led a number of large and complex financial services businesses as CEO. I have been passionate about the role of business as a force for good in society for many years. I live in the north-west of England.

The year in review

People and businesses are experiencing economic and wider uncertainty. Inflation and interest rates are rising. Public investment markets have been up and down. Events such as the war in Ukraine and disruptions in the global supply chain for raw materials and manufactured goods have had, and will continue to have, a significant impact on all of us.

As economies continue to recover from the worst days of the Covid-19 crisis, we're also beginning to see changes in the types of work people are doing, where and how they're doing their work and the areas of business activity which are growing versus those which are shrinking. The need to transition to a low-carbon economy is increasing in urgency, and that will reshape industries as well.

We're aware that these aren't merely issues that affect the economy in an abstract way. For many people, including our members and their employers, the pressures on everyday life are profound.

The current economic pressures also have an impact on the work we do at Nest Corporation as Trustee of the Scheme. When prices go up, it affects how the Scheme's investments perform against our objectives, since we seek to achieve returns that beat inflation. We recognise that our members are looking to us to help them grow their retirement savings enough to outpace the increasing cost of living.

When prices go up, some of the costs of delivering our services go up too. This is why we've focused intently on ensuring that our scheme administration platform will provide value for members over the coming decade, building in efficiency by design.

We centre everything we do on our purpose – to help millions enjoy a better retirement. This has provided direction for us, to make progress towards all of our strategic priorities and deliver value for our members despite the economic environment which framed our activities in 2021/22.

How we performed

As Nest Corporation and the Scheme enter our second decade, we have achieved even greater benefits of scale than were envisioned at our founding.

At the end of 2021/22, we were investing pension savings for 11.1 million Scheme members – about one in three workers in the UK. Each month on average we received £477 million in new contributions for members' pots. Whether these members have contributions going into their pot every pay period or only now and then, or they have a pot from a previous employment in our safekeeping, we know they're counting on us to be a good steward of their savings.

A wealth of economic research and historical data shows that people achieve better retirement outcomes when they persist in saving over many years. We've worked hard to earn our members' trust by delivering among the best risk-adjusted returns over the long term from a UK workplace pension.

This means we have exceeded targets for long-term performance, and we've done so while reducing the 'ups and downs' of the investment portfolio when compared to the general market.

Nearly 99% of our members remain in our default investment strategy, the Nest Retirement Date Fund series. The 2040 Nest Retirement Date Fund, for members expecting to retire in 2040, is representative of the phase when we seek growth for our members' savings, with a long-term objective of achieving investment returns of at least 3% above inflation as measured by CPI. With inflation rising rapidly in early 2022, the 2040 fund's one-year annualised returns of 9.3% as at 31 March 2022 fell short of our long-term objective, which was 10.2%.

Our ambition for the fund, however, is to deliver the advantages of world-class investment management and consistent returns for our members, not just in the short term but over the many years they'll be saving with us. The 2040 fund's annualised returns over 10 years of 9.2% outperformed our objective of 5.1%.

Developing our investment strategy

As at 31 March 2022, we were managing £24.4 billion on behalf of the Scheme's members. Our investment strategy has been designed and evolved with an awareness that public markets can sometimes become volatile, as they are now.

Our scale now allows us to access ever more attractive and diverse investment opportunities for our members. Indeed, we've been able to deliver strong risk-adjusted returns for members because of the work we've done to extend the range of asset types that we have in the Scheme's investment portfolio.

It's been a busy year for us on this front. We were one of the first DC workplace pension providers to diversify into more illiquid assets such as privately owned companies and infrastructure like solar and biomass energy farms. Illiquid investments can provide long-term returns which aren't subject to the same timings or pressures as markets for shares or bonds in publicly traded companies, or for government bonds.

Having appointed three private credit investment managers in 2019, in April 2021 we launched three new investment mandates focused on private infrastructure equity. We also announced our commitment to invest nearly £3 billion in these types of assets by 2030.

As at 31 March 2022, 2.6% of the Scheme's assets under management were invested in private infrastructure equity, including projects in the UK.

To support further diversification, we also invited private equity investment managers to tell us how they would manage members' money for the Scheme and considered how these would fit into our diversification strategy. These new mandates, which were finalised in the first quarter of 2022/23, will allow us to invest in innovative, privately owned companies which are growing and seeking new capital to help fund their expansion, both in the UK and globally.

This year we've also made major steps towards our commitment to be a 'net-zero' investor by 2050 at the latest, with a shorter-term target of halving the carbon footprint of the Scheme's investments by 2030. Companies will increasingly need to adapt to a low-carbon economy, and we believe those that change their operations to reduce real-world carbon emissions towards a net value of zero will prove to be more sustainable and better long-term investments for our members. Based upon surveys of our members and the general public, we also believe that most of our members want us to be investing their money in climate-aware companies that have medium-term and 2050 targets of their own.

We've worked closely with our investment managers for equities in both developed and emerging markets to design a climate aware investment strategy that manages climate risk and helps us to align with a low carbon economy. As at 31 March 2022, 59.9% of the 2040 fund was in climate-aware equities. We've also considered and modelled for the first time the potential effects of different climate transition scenarios including a 'disorderly' and 'orderly' transition to 2050, on our investments. This has further sharpened our focus on reducing climate change risk where it's most needed.

Addressing environmental issues like climate change across our members' investments is a key priority for us but so too are social and governance issues. We believe that the companies we invest in will be more successful over the long term if they are well governed, look after their workforce, and manage the impacts they make on their wider stakeholders and the environment. To this end, we engage with companies encouraging them to improve in these areas.

Over this last year, we have written to companies asking them to accredit with the Living Wage foundation. We have used our voting rights, where possible, to vote against excessive executive remuneration.

We have joined the Investor Alliance for Human Right's initiative for tech companies and are making efforts to understand how large companies collect and use customer data. We wrote to the chairs of 26 companies calling for them to be more diverse and have at least one director from an ethnic minority background in line with the Parker review's recommendations. In all of these endeavours, our goal is to help our members achieve a bigger pension in a better world.

Looking forward

Over the past year we've also been planning for how we might evolve our services to further support our members' needs. We're grounding this work in gaining a fuller understanding of our members' lives and experiences, particularly in these times of change.

Supported by strategic partners Invesco and BlackRock, our public-benefit research and innovation centre, Nest Insight, continues to work with policymakers, industry and academics to understand the challenges facing those who may be at risk of missing out on the full benefits of persistent saving. For example, Nest Insight's research on 'sidecar savings', where pension scheme members are able to add payroll contributions to a savings account that can be accessed for near-term needs, is surfacing ways in which the industry could help improve people's financial resilience. It's also looking at ways to increase member engagement and help employers support their people.

Among the things we continue to explore is how we can develop our services to members once they reach retirement age. We're curious to learn more about when and how people might wish to access their savings in the future, and how the changing nature of retirement is shaping this.

Over the next two years, we'll be making some changes to our services platform which will bring down costs while delivering a better experience for our members as well as the employers and intermediaries registered with the Scheme. These also support our continued and steady progress in improving our sustainability as an organisation and are why, even amid economic uncertainty, we end 2021/22 in a good position to become self-sustaining and start repaying our loan from government in the next few years.

Governance and stewardship

When I became Chair of Nest Corporation in February 2022, I was struck by how strongly purpose and member-focus were threaded through the organisation.

We work hard to continually evaluate, challenge and improve our governance, with an eye to ensuring our practices are always in line with delivering value for members and our strategic priorities. Everything is underpinned by accountability to members and our status as a public body. We aim always to exceed standards of good governance and follow best practice.

The members of the Board, the advisory members of our investment committee and our Members' Panel and Employers' Panel have been instrumental in overseeing the successful growth of Nest Corporation and the Scheme from start-up to one of the largest pension providers in the UK. In particular I want to thank the outgoing Chair, Otto Thoresen, and outgoing Board members Ian Armfield and Ron Jarman, for their years of service and stewardship.

I am keenly aware that we would not be able to deliver on our purpose without our key business partners – our scheme administrator, Tata Consultancy Services Ltd (TCS), and our fund administrator, State Street Bank and Trust Company (SSB). They have ensured that our customers continued to have dependable access to the Scheme, day after day, throughout the pandemic.

I am also grateful to the great team of people at Nest Corporation. We rely on our employees' experience, expertise and skills to translate our strategic priorities into value for all our customers. We also need high levels of engagement and dedication to our organisational purpose. It is both gratifying and central to our achievements over the past year that 93% of staff say they care about the future of Nest Corporation and the Scheme.

As a new Chair, I've been impressed by the organisation's consciousness, candour and progress around issues of diversity, equality and inclusion. There's a real commitment to addressing these issues. Doing so helps us to develop solutions that meet the needs across the diversity of our membership. We recognise that we have some way still to travel to meet our own targets and aspirations, and we're taking action.

Across the organisation, we care about how our work will shape the future, for our people, for the pensions industry and, most importantly, for our members. As we continue to mature as an organisation, we remain singularly focused on our members' best interests, and delivering a pension they continue to have good reason to trust.

Brendan McCafferty
Chair, Nest Corporation

CEO's statement

Helen Dean, CBE Chief Executive Officer (CEO), Nest Corporation

The past year proved once again to be challenging for our customers and our own staff. Despite this, we kept our focus on delivering a high-quality pension for our members while steadily improving our services. I'm very proud of what we've achieved.

In last year's annual report and accounts, I reflected on the difficulties that our customers were facing due to the pandemic. It seemed clear that these challenges would carry into 2021/22, as the world slowly but steadily shifted from living in a state of pandemic to living with an endemic virus.

It could have been tempting to scale back our ambitions for 2021/22 and focus only on ensuring we could continue delivering business as usual in these unusual times. It's imperative that our customers know we're here for them, even though, like the rest of the world, Nest Corporation's staff were impacted by the pandemic.

However, we'd also outlined an ambitious programme of work for this year as part of our ongoing corporate strategy. We decided to go ahead with most of this as we wanted to build further organisational efficiencies and capability, realise more benefits from our scale and find and implement new ways to make pensions easier, more accessible and more engaging for our members. These are central to how we sustain and increase value for our members.

We came into this year knowing we'd been able to continue to deliver all our services at our usual high standards in year one of the pandemic. We have a resilient and strong working relationship with our scheme administrator, Tata Consultancy Services (TCS), who has once again been an invaluable partner. We had a framework for managing and mitigating risks which also held up. This gave us the evidence and the confidence that we could deliver our services and our programme of improvements side by side, which we did.

Here is information on some of those improvements and what we've achieved as an organisation in 2021/22. More detail can be found in 'Peformance against strategic priorities' on **page 32**.

Serving our customers

The Scheme's service channels in 2021/22 were once again available 99% of the time at our customary high standards of service. This is a huge credit to our colleagues at TCS as well as our own people.

Our customer satisfaction ratings remained relatively steady from the previous year. We saw a small uptick to 76% among our members saying we're doing a good or excellent job of serving them, and a small downtick to 71% among employers registered with us who also feel we're good or excellent. This reflects the continuing reliability of our services.

We know that many businesses have been having a tough time. We've done what we can to keep things easy for the employers and the intermediaries such as advisers and payroll providers who use our services. We understand that straightforward administration of a pension, which doesn't take up too much of their valuable time, helps them to focus on their business priorities and contain their costs when other costs are rising. This is particularly critical for smaller and mid-sized employers, including the 98% of employers registered with the Scheme that have fewer than 50 employees, where the person administering their workplace pension may not be a pensions expert and almost always has multiple roles alongside these responsibilities. For example, to further support employers and intermediaries we identified the most-used help articles in our help centre to make these guides easier to find and follow.

We've signed on to The Pensions Regulator (TPR) pledge to combat pension scams. As an organisation we have put in place controls to assure that our processes and systems are as secure as they can be. But fraudsters are getting more sophisticated in their scams. This is why we've amplified our messaging. We want to help our members understand how they can protect themselves so that they can have full advantage of the savings they build up with us.

We've continued our member engagement campaigns with a focus on increasing the number of our members who have activated their secure online account. We ended 2021/22 with 31% of members registered, compared with 28% last year. We believe these are impressive figures given the design of auto enrolment means the vast majority of our members don't enrol themselves. But we're continuously looking for ways to reach more members because our research shows that people who receive personalised communications are more likely to engage with their pension.

We ran campaigns to increase trust in pension saving and made significant improvements to the information on our website, to give members a clearer understanding of how we're investing their money for them in a responsible way. Increased trust in pensions can help encourage members to persist with their pension saving over the long term, including when they're juggling competing financial priorities. Because persistency in saving is one of the biggest determinants of retirement outcomes, it's among the most important areas of member engagement we can pursue.

Supporting our people

I continue to be impressed by the resilience, care, flexibility and commitment to excellent customer service demonstrated by the people of Nest Corporation and our suppliers. They're the ones that turn our strategic priorities into realities for our customers. So our people and development strategy continued to be one of our core initiatives in 2021/22.

At the start of the financial year we launched our new reward proposition, which has been developed to help attract, develop and retain the best talent with diverse skills, experiences and backgrounds. As part of this, we've changed the format of annual staff reviews to focus on learning and development. Performance reviews based on delivery against targets and projects occur as things happen. We've given staff access to more learning and development options, with a goal of creating pathways for progression. In our 2022 staff survey, 75% of our people agreed that they have been given opportunities to increase skills relevant to their development plan. This is a strong showing, but we're looking to increase it.

Particularly in the current tight labour market, learning and development opportunities may be especially vital. Most pressingly, we need to improve the representation of people from an ethnic minority background in our senior leadership and director roles, and the pay gap which we have because of their under-representation at these levels. We have started using a new recruitment tool designed to help identify and address biases that can arise in the early stages of candidate screening and interviews.

We've progressed our diversity and inclusion strategy in other ways too. Our six diversity and inclusion working groups each have an executive champion, but their priorities and programme are staff-led. We also launched a campaign to engage our people in how they can be a meaningful ally to colleagues and customers unlike themselves. Our staff survey found that 82% of our people feel the organisation values diversity.

Building on our achievements

I would like to welcome the new Chair of Nest Corporation, Brendan McCafferty, and two new Board members, Myfanwy Barrett and Sarah Laessig. They bring a range of skills, experience and knowledge as they join the other members of the Board in steering our next phase. I'm deeply grateful to our previous Chair, Otto Thoresen, and former Board members Ian Armfield and Ron Jarman, for their years of service to Scheme members.

In January 2022 the Department for Work and Pensions (DWP) published **an independent review** on how we've delivered against our objectives over the past 10 years, including our value for money for Scheme members and taxpayers. Commissioned by the Secretary of State for Work and Pensions and the Minister for Pensions and Financial Inclusion, the review found that we have successfully delivered on our objectives and supported the success of the UK's auto enrolment policy. The review noted that we provide 'high standards of governance / administration' and that we have 'acted as a spur' in the pensions market through our history of innovation in four areas: digital service delivery, fund management, responsible investment and user-led insight. It also made thoughtful recommendations for the future, which we're considering and taking forward appropriately.

Our decision-making is informed by evidence which we gather and use to determine what is in the best interest of our members. In 2021/22 we began a three-year initiative to explore how our customers' needs may change in the future. We've also developed our business intelligence capabilities, bringing together customer insights and delivery data from different parts of the organisation.

Our next scheme administrator is digital transformation firm Atos BPS Ltd. Over the last year we've been collaborating closely with our colleagues at Atos to design the platform and thoroughly plan the roll-out of the changes we'll be making. The delivery plan is guided by our commitment to consistent, high-quality customer-centred service. We're also looking forward to making it easier for our members to get a view of all their retirement savings. This will come with the launch of the DWP pensions dashboards initiative, and we've been working on preparations for linking our next scheme administration platform with this crucial project.

We'll also continue to develop our investment strategy. By diversifying the Scheme's portfolio, we've sought to ensure that our members' pots have weathered recent market volatility well. By being a leader in responsible investment, we're helping to ensure that the Scheme's investment managers seek opportunities to support the transition to a low-carbon economy and our members' pots are positioned to benefit materially from it.

Looking to the future

We're very well positioned to face the changes that lie ahead, both for us and the wider world. We've shown, year after year, that we can be trusted to safeguard our members' savings and data. Our people and our partners are determined to help Scheme members secure better retirement outcomes. We put priority on stability of service and reliability of returns.

We were set up by the government to help workers in the UK save more for retirement. Against the challenges of the past two years, the auto enrolment system has proved to be robust. We're looking forward to working with the government on what comes next, including how people access their retirement savings and making pensions and saving more accessible to everyone.

Helen Dean, CBE
CEO, Nest Corporation

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 refer to it in this report, is authorised as a master trust by TPR. A master trust is used by two or more employers to provide benefits in retirement based on the members' contributions into the Scheme and the returns after charges[1] on the investment of that money.

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 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 64**.

1 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.

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 23**.

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%. The majority of Scheme members are aged 16 to 39 and will be saving into their pension pot for an extended period, these two charges together broadly equate to an effective 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 retirement 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 payroll providers and advisers. We will use technology and best-in-class communication techniques to engage our customers in a timely, relevant and personal way.

Excellence in investments 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 those already auto enrolled as well as anyone who could benefit from saving for retirement but currently falls outside of auto enrolment legislation.

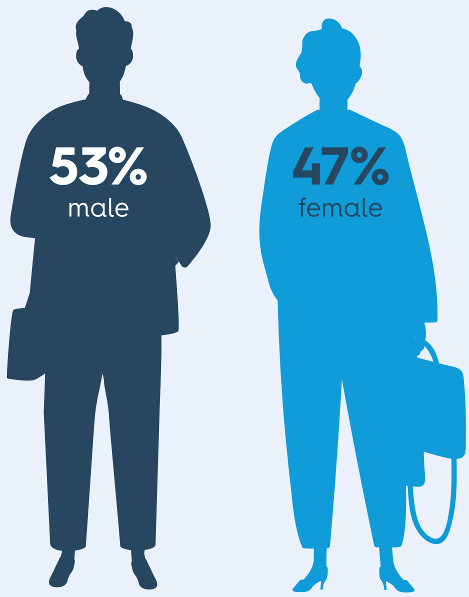
An organisation that lives our values

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

Performance summary

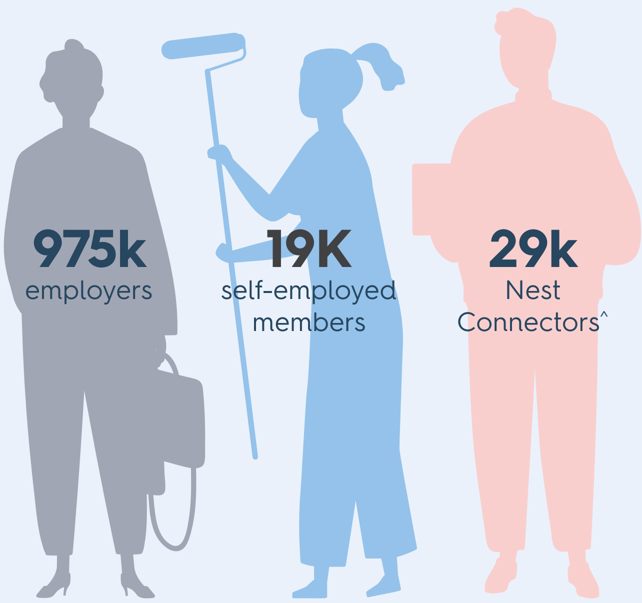
This section summarises our performance during 2021/22

Scheme members

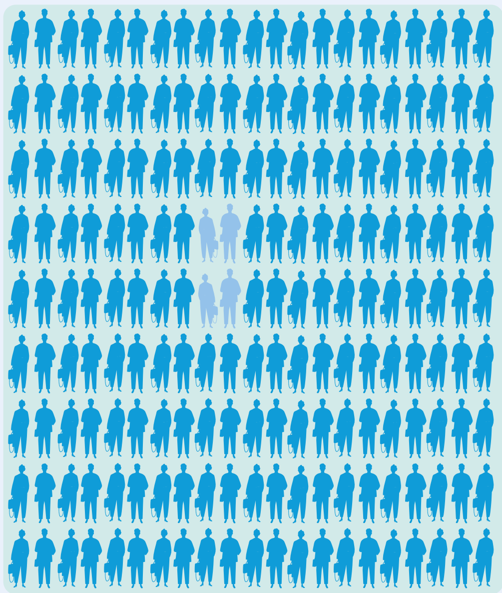


0.12% of the Scheme membership did not have a gender listed on their enrolment.

Scheme employers



98%
of employers
using Nest
have less than
50 employees

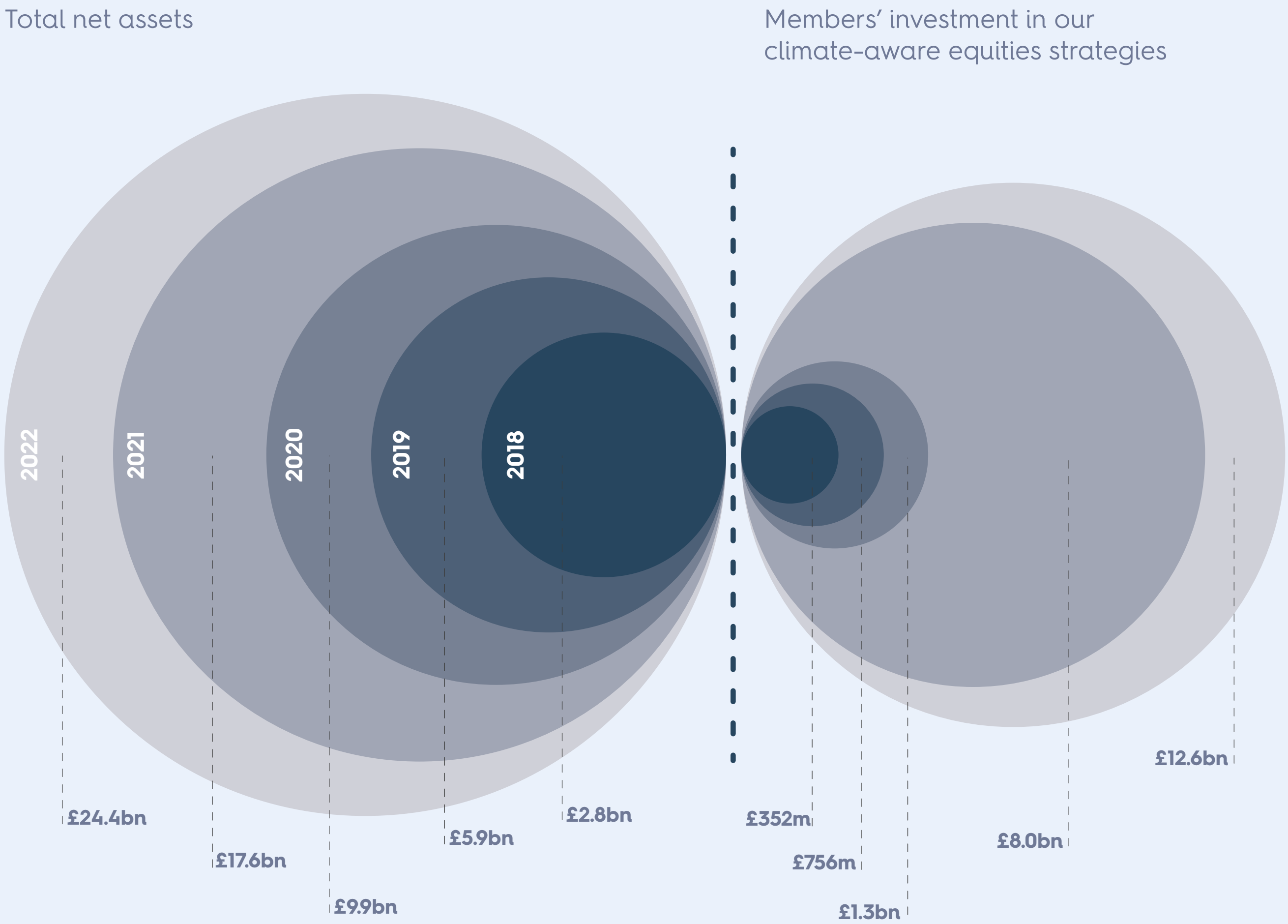


* Inactive members are members of the Scheme who have not retired, died or opted out but have either left their employment or have chosen to stop contributing.

** Active members are members that have contributed into the Scheme, and the Scheme has not been notified by either the employer or the member that they no longer wish to pay in contributions in the future, have opted out or have exited the Scheme (retired, died or transferred out).

^ 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 equities strategies



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

Our climate-aware strategies help to manage climate-related risk by reducing investment in the biggest greenhouse gas and carbon emitters and investing more in green technology like solar and wind farms. In 2018 we had £352 million or 12.6% invested in our climate-aware equities strategies. As at 31 March 2022, we had £12.6 billion or 51.6% invested in this way.

Outcomes

Support strong member outcomes

7.5%

Five-year rolling annualised returns in the 2040 Nest Retirement Date Fund after annual management charges to 31 March 2022

31%

Account registration

% of members who have registered for online account access

Service

Deliver a good service to our customers

76%

Member satisfaction^

from the 'Voice of the customer' survey December 2021

71%

Employer satisfaction^+

from the 'Voice of the customer' survey March 2022

Sustainable business model

Deliver a sustainable future business model

£5.7bn

Total annual contributions

29%

Scheme income growth to £165m

^ Satisfaction scores are based on those giving a 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 many UK employers continuing to have their employees working from home (WFH) during periods of the pandemic, our annual employer survey in March 2022 was again conducted using an online survey method.

Growth

Grow the business, in the right way

£477m

Average per month in new contributions

7.8k

Net new employers joined Nest on average each month

Corporation

Deliver a corporation fit for the future

44%

of senior leadership roles are held by women

27%

of staff identify as being from an ethnic minority background

Awards and recognitions

We won a total of 10 awards and commendations for the Scheme and the design of our investment strategy in 2021/22.

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

Ultimate Default Fund

Best ESG Default Strategy

Best Investment Strategy

Best Investment Strategy

Innovation Award for investment

Best Innovation in Investments

DC Default Solution of the Year

Commendation for Newcomer

DC Mult-Asset Fund Manager of the Year

Infrastructure Finance Initiative award

Principal risks

This section summarises the principal risks in our business environment during 2021/22.

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 – the risk that our key outsourced providers may have a major service failure, or persistent low-level service failures.
- Customer data and assets – the risk that customer data or assets are lost.
- Legal and regulatory compliance – the risk that we do not meet legal and regulatory requirements.
- Financial performance – the risk that that we are unable to repay our loan from government or become self-funded.
- Investment performance – the risk that we are unable to generate required investment returns.
- Corporation culture, capability and capacity – the risk that we are unable to develop and maintain the right capabilities, capacity and culture to steer the organisation as it grows and evolves.
- Failure to deliver compliant and effective member and employer proposition – the risk that we fail to keep our proposition and service aligned to regulatory requirements or to the changing needs or expectations of our customers.
- Ensuring competitiveness – the risk that our competitiveness could be compromised either by an inability to complete effectively or by being perceived to abuse a position of market dominance.
- Future scheme administration service – the 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.
- Conflicts arising from our funding and sponsorship the risk of conflict between us as a public body and our sponsoring department, DWP, or the government, which provides funding through a loan facility.

No new principal risks were identified in 2021/22. Our approach to managing and mitigating risk has been resilient throughout the pandemic.

Our approach to principal risks is discussed in more detail in the 'Corporate risk statement' on **page 72**.

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, funding from the DWP and the wider auto enrolment policy as part of our going concern considerations. As a result of this, we believe that although there continues to be uncertainty in the future economy we are in a strong financial position. It is appropriate to adopt a going-concern basis for Nest Corporation for the reasons set out below.

Impact on scheme income

We have assessed the resilience of our trading income with respect to uncertainties in the future economy. The Scheme has a very broad range of participating employers, and its income is not concentrated in any one sector. For these reasons, the revenue from contribution charges has been deemed to be resilient.

Our remaining trading income comes from member charges on the Scheme's 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.

Impact on loan funding from government

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

We produce an updated business plan and long-range financial projections in February each year. The latest forecast estimates that Nest Corporation would be able to cover operating costs from Scheme member charges from 2024 onwards, at which point the estimated borrowings will be £1,195 million. The plan also forecasts Nest Corporation to have repaid the loan from the UK government within 2038/39.

Impact on the wider auto enrolment policy

There has been no cessation in or changes to the UK's auto enrolment policy. Our public service obligation, to provide a workplace pension scheme to any employer that requires one, remains in place. The TPR has also issued detailed guidance stating that employers' auto enrolment duties apply as normal. Together these demonstrate that there is still a clear need for the Scheme as part of the government's pensions policy.

Performance analysis

This section reviews our performance in more detail. It reports on our performance against each of our strategic priorities in the context of risks and uncertainties during 2021/22. 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 2021/22. This year we continued to focus on supporting our customers through the coronavirus pandemic. We did this while further developing our services, the Scheme's investment strategy and the next scheme administration services partnership, all to deliver value for members.

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 and custody services.

In February 2021 we appointed global digital transformation firm Atos BPS Ltd as our next scheme administrator. The new service will begin in 2023 (see **page 37**).

We have worked in partnership with all of our suppliers to ensure that our services continue to operate effectively and that the design and build of our next scheme administration service platform is mobilised. In particular, we have looked to manage and mitigate the continuing impact of the Covid-19 crisis on the Scheme's services, with more than 99% of service channels available in the year.

Business growth

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.

Employers need to agree to the employer terms and conditions of the Scheme and use the Scheme in line with those terms and conditions. Employer terms and conditions are reviewed at least once a year and as necessary following any changes to relevant legislation.

In 2021/22 our customer base continued to grow, with 94,000 net new employers choosing the Scheme for their workers and 1,191,900 net new members being enrolled.

Despite the continued disruption caused by Covid-19, our analysis shows the percentage of our active members making contributions remained relatively stable compared with the previous year.

Members

Of the 4.6m active members as at 31 March 2022, 3.6m (78.8%) made a contribution, on a cash basis, during March 2022. Although this is a slight decrease in percentage terms compared to last year (79.6%), it represented an actual increase from the 3.5m members who made a contribution in March 2021.

With the Coronavirus Job Retention Scheme (CJRS) closed and inflation much higher than it has been in recent years, we have been monitoring our members' attitudes towards pension saving and their ability to save.

We give Scheme members 'one pot for life' to reduce the number of pension pots they have and make account access simpler. A member can continue using the Scheme throughout their life, regardless of any change in employment or personal circumstances. Members 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.

We continue to improve the services we provide to Scheme members while remaining mindful that their short-term needs and priorities may be changing due to economic conditions.

Each year we review our retirement proposition to ensure that we are serving members' needs. In response to this year's review, we improved our retirement webpages and member communications and identified areas for improvement in our post-retirement funds. In light of potential changes in the market and pensions regulations, we researched how our retirement proposition might evolve over the next decade.

We have focused on encouraging Scheme members to think about their retirement needs, including how much they might need in the future. We made improvements to the user journey and content that our pensions calculator provides, leading to an improved experience for 26,000 users per month on average in 2021/22. We signposted the Retirement Living Standards created by the Pensions and Lifetime Savings Association (PLSA) as a resource for thinking about their needs in later life. We also launched a campaign targeted at members who are approaching their expected retirement date to encourage them to weigh their retirement options.

We welcomed the new requirements in the Pension Schemes Act 2021 aimed at protecting members from pension scams when transferring monies out, and we have made improvements to our communications accordingly. We also signed the TPR scams pledge, strengthening our commitment to many of the measures we already take. This includes regularly warning our members about scams, carrying out checks on transfers and reporting scams.

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

To help our members understand how their pension savings are invested, we refreshed the investment content on our website. We also ran engagement campaigns throughout the year. For more information see **page 71**.

Employers and intermediaries

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

Our continuous and stable service has helped to ensure that pensions administration remains easy for employers using the Scheme. In 2021/22 we published tips to help employers run their Nest account and communicated improvements we have made to benefit their workers.

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 222,893 in March 2021 to 249,755 in March 2022, which is 25.6% of all employers using the Scheme (compared with 25.0% of employers in 2020/21).

In June 2021, we launched a new service which allows employers to consolidate legacy pension arrangements with the Scheme more easily.

We have expanded some of our online offerings and adapted our communications to meet the needs of employers during the pandemic. We signposted information about government support programmes such as the CJRS along with employers' duties at each phase. We also delivered webinars in place of in-person events, enabling us to invite more employers. The webinars covered topics including general investment principles, our responsible investment approach and financial wellbeing.

In addition, we have provided support to those employers who may have faced financial difficulty due to the pandemic. We also improved our online services for employers and intermediaries, this included simplifying our processes for insolvent employers and their insolvency practitioners.

Investment developments

Against a global backdrop of geopolitical and financial uncertainty and volatility, performance of the Scheme's funds over the last year has been broadly positive. Nearly 99% of Scheme members are invested in the Nest Retirement Date Fund series. As at 31 March 2022, the 2040 Nest Retirement Date Fund, which currently represents the growth phase of the default investment strategy, had annualised returns after charges of 9.3% over one year, 9.6% over three years, 7.5% over five years and 9.2% over 10 years.

Our long-term performance objective for the growth phase is 3% above inflation, as measured by the consumer price index (CPI). With inflation rising rapidly at the end of 2021/22, this created a particular challenge for meeting the one-year objective. The 2040 fund's one-year annualised returns of 9.3% fell short of CPI plus 3%, which was 10.2% at year-end. However, the 2040 fund continues to exceed the objective over the longer term, with 10-year annualised returns of 9.2% outperforming CPI plus 3%, which was 5.1% over the same time horizon.

The much higher level of inflation compared with past years demonstrates the importance of the Trustee's goal to deliver real rather than relative investment returns for Scheme members.

This investment performance has also been achieved over a period of great change in financial markets. Many markets recovered from the significant pandemic-related volatility of early 2021. Then, in early 2022, a combination of high inflation, rising interest rates, the war in Ukraine and pandemic lockdowns in China contributed to renewed volatility and poor returns.

Our investment approach seeks to achieve sustainable growth and manage volatility over the long term because most Scheme members will be saving with us for many years. For this reason, we maintain a diversified portfolio, spread across a range of asset classes and territories, which has performed well in the context of recent events.

As part of our investment strategy, we seek opportunities to invest in assets that are more illiquid, or difficult to buy or sell in the short term, because we believe having these as part of our portfolio can provide better returns to our members over the long term.

During 2021/22 we began investing in infrastructure equity with our three new investment managers Octopus, CBRE and LPPI. As at 31 March 2022, 2.6% of the Scheme's portfolio was invested in private infrastructure equity, including multimillion-pound renewable energy projects like solar farms. We aim to increase our total exposure over time.

In August 2021 we began the process of procuring private equity investment managers. These mandates were awarded in the first quarter of 2022/23, making us one of the first defined contribution (DC) pension providers in the UK to invest directly into private equity.

We also continue to take meaningful steps towards having net-zero carbon emissions across the Scheme's portfolios by 2050 or sooner. In 2021/22 this included publishing a climate change roadmap which sets out our near-term commitments to cut emissions by 30% from listed equity and fixed-income asset class portfolios by 2025.

In May 2021 we completed moving the Scheme's emerging markets equities investments, which are managed by Northern Trust Global Investments, from a pooled fund to a climate-aware segregated account. This segregated account gives us greater control over investment policy and voting rights, and, when necessary, exclusion of companies that are not transitioning to meet the demands of a low-carbon economy.

For more information on the Scheme's investments, refer to the 'Scheme annual report and accounts 2021/22': **nestpensions.org.uk/schemeweb/nest/nestcorporation/library.html**

Other key initiatives

We continue to work towards our strategic priorities, set out on **page 30** and in our 'Corporate plan 2021–2024'.[2] Our performance against these strategic priorities is described on **page 32**.

Key initiatives during 2021/22 included:

Implementing our next scheme administration services contract

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

2 **nestpensions.org.uk/schemeweb/dam/nestlibrary/Corporate-plan-2021.pdf**

This contract was awarded following a robust, competitive tender and dialogue process run in line with the Public Contracts Regulations 2015. The contract 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 and agile solution for all processing and administrative IT.

Since the announcement, we have begun the process of transitioning to Atos. We are working to ensure a stable and secure transfer of operations in 2023. For more information see **page 37**.

Reviewing our corporate and customer strategies

In August 2021 we launched an initiative to review our corporate and customer strategies. This project will deliver a refreshed strategic framework and develop our approach to delivering services for our members, employers and intermediaries such as advisers and payroll providers. Our focus in 2021/22 has been on work to further our understanding of the challenges our customers face, and in particular the financial challenges for our members, and how we can better support them throughout their time using the Scheme.

Progressing our people and development strategy

Our people and development strategy aims to ensure that we have the organisational capability, leadership, 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 2021/22 we focused on launching our new employee benefits proposition, supporting our employees' wellbeing and making further progress towards our commitments to diversity and inclusion. We also participated in our 'build back better' initiative, which looks at opportunities for improving business practices after the pandemic.

In April 2021 we launched our new employee benefits proposition, 'Our people, our benefits'. It showcases all the varied and valuable benefits that we offer to our staff and encourages employees to take ownership of their professional development.

We continue to support staff through 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 were taking advantage of these offerings in 2021/22.

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, our staff forum, 'Your voice', has continued to provide ideas and feedback from across the organisation to our executive committee. This year employee representatives completed training with the Advisory, Conciliation, and Arbitration Service (Acas) to support them in their role. For more information about the forum's activities see **page 38**.

Delivery of our diversity and inclusion programme has also continued. In 2021/22 our six working groups identified priorities and started to engage with the business. Overall, these working groups have three objectives:

- Act as a critical friend and ensure our initiatives address our employees' lived experience.
- Own diversity and inclusion business initiatives such as delivery of internships and education campaigns.
- Organise and facilitate engagement activities such as presentations from external speakers, lunch and learn education sessions and seminars.

For more information on our diversity and inclusion strategy and progress, see **page 43**.

Following government guidance, our people mainly worked from home (WFH) for much of the 2021/22 financial year. We have provided a programme of wellbeing events and engagement activities which staff have been able to attend virtually or, when restrictions were lifted, in person. Our all-staff conference in November was a hybrid event.

To support staff with a return to the office, we have encouraged them to experiment with hybrid working patterns. Representatives on 'Your voice' also canvassed colleagues about effective ways of working once all pandemic restrictions eased.

Supporting research and innovation in pensions

Nest Insight is a public-benefit research and innovation centre. Its mission is to find ways to support people to be financially secure, both today and into retirement. The Nest Insight team conducts rigorous, cutting-edge research, working collaboratively with industry and academic partners to understand the financial challenges facing low- and moderate-income households. The team then uses these data-driven insights to identify and test practical, real-world solutions. The findings are shared widely and freely so that people around the world can benefit from this work.

Nest Insight celebrated its fifth anniversary in July 2021. For the first time, the sessions of its annual conference, held in October, were live-streamed. This allowed more policymakers, academics and financial industry leaders, from both the UK and elsewhere, to take part.

Nest Insight advanced its work in 2021/22 by:

- Strengthening support for its programme by adding BlackRock alongside Invesco as a strategic partner. Nest Insight's strategic partners provide core funding for the centre's wider programme of research and innovation in pensions.
- Starting a trial to test the effectiveness of an opt-out approach to workplace emergency saving. This is examining whether making payroll saving the default enables more workers who want to build up a savings buffer to get started. The trial grew out of learnings from Nest Insight's ongoing research on 'sidecar savings', where workers automatically enrolled into a pension have an option to add payroll contributions which are put into an accessible savings product. The sidecar savings research is supported by BlackRock, JP Morgan Chase, and the Money and Pensions Service.
- Launching research for two pilots to test new forms of flexible pension saving and nudges designed for self-employed people, who often have variable and uncertain income. For these trials, Nest Insight is collaborating with Penfold, a fintech pension provider, and Moneyhub, an open data and payments platform. The research is supported by the DWP as part of a multi-year programme to find ways to support self-employed people in saving for retirement.

Financial review

This section contains an overview of our financial performance, including our income and expenditure. It also outlines other key developments during 2021/22.

Overview of financial performance

During 2021/22 we achieved our operational targets, continued our focus on cost control and surpassed planned income growth stated in our three-year business plan.

Scheme income, made up of members' contribution and annual management charges, increased from £127.8 million in 2020/21 to £164.5 million in 2021/22. This represents a growth of 29% year on year.

The Scheme's membership grew from 9.9 million as at 31 March 2021 to 11.1 million as at 31 March 2022. Consequently, assets under management have also increased alongside costs of scheme administration and fund management. These costs rose, as expected, by £16.7 million from £106.6 million in 2020/21 to £123.3 million in 2021/22 (see note 6 of the 'Financial statements' on **page 112**).

Overall net comprehensive expenditure for 2021/22 totalled £35.1 million (compared with £59.3 million in 2020/21). This was primarily due to a 21% increase in total income year on year, which was partially offset by a 2% increase in expenditure.

Looking ahead to 2022/23, we expect to see further increases in Scheme income as the Scheme's assets under management grow. Total expenditure will also rise, primarily due to higher investment fund management and scheme administration costs due to increased member numbers.

Net expenditure will continue to be partly funded from the loan facility provided by government, until repaid from projected surpluses in future years. The latest forecast for the loan facility, drawn up in March 2022, projects a break-even date in 2024 and a repayment date in 2039. The loan liability with the DWP as at 31 March 2022 totalled £994 million, compared with £884 million as at March 2021.

A detailed analysis of historical financial performance is presented in the 'Performance summary' opposite.

Performance summary

The following table provides historical information on income and expenditure.

	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m
Income					
Scheme income	25.6	61.4	107.3	127.8	164.5
Grant income	20.0	22.4	24.9	25.4	20.4
Other income	17.1	0.5	0.8	0.7	1.1
Total income	**62.7**	**84.3**	**133.0**	**153.9**	**186.0**
Expenditure					
Staff costs	(20.8)	(24.7)	(26.0)	(29.5)	(29.8)
Depreciation and amortisation	(10.9)	(12.1)	(12.3)	(15.7)	(21.3)
Scheme investment and administration costs	(59.9)	(74.4)	(95.8)	(106.6)	(123.3)
Other expenditure	(15.4)	(16.7)	(20.2)	(23.4)	(17.3)
Interest payable	(32.2)	(35.4)	(38.6)	(38.0)	(29.4)
Total expenditure	**(139.2)**	**(163.3)**	**(192.9)**	**(213.2)**	**(221.1)**
Net expenditure after interest	**(76.5)**	**(79.0)**	**(59.9)**	**(59.3)**	**(35.1)**

Income

Total income was £186.0 million for 2021/22. This is an increase of 21% from 2020/21 income of £153.9 million. The increase in total income was driven by a 29% increase in Scheme income from £127.8 million in 2020/21 to £164.5 million in 2021/22. The increase in Scheme income was largely due to the growth in total net assets under management, which grew from £17.6 billion as at 31 March 2021 to £24.4 billion as at 31 March 2022. Our analysis also shows that growth in Scheme income in 2021/22 was supported by the UK labour market's strong recovery from the pandemic.

Expenditure

We make spending decisions carefully and with full awareness that expenditure is ultimately borne by members of the Scheme. The largest expenditure increase in 2021/22 was within Scheme investment and administration costs line. These costs increased by £16.7 million, from £106.6 million in 2020/21 to £123.3 million in 2021/22.

The increase was due to the rise in the Scheme's membership and higher investment fund management costs related to the growth in assets under management. Scheme administration and investment fund management costs as a proportion of assets under management fell in 2021/22 compared with 2020/21.

Interest payable decreased by £8.6 million in 2021/22 to £29.4 million. Expiry of government loans drawn down in 2011 and the subsequent rollover of the loan amount into a new agreement at a lower interest rate helped reduce the interest payable in 2021/22. Depreciation and amortisation costs increased by £5.6 million, from £15.7 million in 2021/22 to £21.3 million in 2021/22. The increase was driven by a reduction in the useful life of assets associated with the current scheme administration system, which is due for replacement in 2023.

Strategic priorities 2021–2024

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[3].

For the period 2021–2024 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.

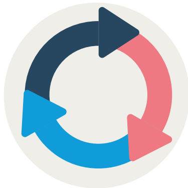
Deliver a good service to customers

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

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.

3 **nestpensions.org.uk/schemeweb/nest/nestcorporation/library.html**



Deliver a sustainable future business model

We will implement our sustainable approach to service delivery through the safe and secure transition to the new administration service partnership. We will maintain a cost-efficient business model to ensure we can repay our loan from government.

Deliver a corporation fit for the future

We will continue to ensure that we have the right skills and expertise to deliver for our members, supported by a diverse and inclusive culture.

Performance against strategic priorities

This section describes how we progressed towards our priorities in 2021/22, including how the current economic and business environment affected our performance.

In 2021/22 we made significant progress towards our strategic priorities despite the continuing challenges of operating through a pandemic.

We have continued to maintain a 'business as usual' footing, with no essential or substantive programmes of work related to delivery of the Scheme rescoped or delayed because of lockdown restrictions or social distancing guidance.

Our scheme administrator, Tata Consultancy Services (TCS), has continued to ably support our customers, providing robust services and meeting nearly all targets during their second year of WFH. Service channels were available to customers more than 97.5% of the time.

We have also been focused on forging our partnership with Atos BPS, which will be delivering our next scheme administration services when our current contract ends in 2023. This has included a breadth of preparations and planning while the changes to our platform are being designed and built.

Throughout, we have remained mindful that the pandemic has had, and may continue to have, a meaningful impact on our members, employers using the Scheme, staff at our partners and our own employees as well as the wider economy. Increased economic activity as countries continue to emerge from lockdowns, along with Russia's invasion of Ukraine and the economic sanctions declared in response, have contributed to high inflation in 2021/22. This has affected our investment funds' performance against our targets, which in many cases are linked to the consumer price index (CPI) (see **page 25**). Higher inflation may also affect business activity and members' capacity to save. We are monitoring this.

Our highest priority is to serve our members' needs and priorities, today and over the long term.

Support strong member outcomes

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

For the Scheme's 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 CPI, plus 3.0%, after any charges.[4]

- As measured by the performance of the 2040 Nest Retirement Date Fund, annualised returns net of members' annual management charge were 7.5% over the five years to 31 March 2022. CPI plus 3.0% for the same period was 5.8%. The 2040 fund's 10-year annualised return to 31 March 2022 was 9.2%, compared with CPI plus 3% of 5.1%.

4 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.

The Nest Retirement Date Funds and our other fund choices are expected to meet their investment objectives over the long term. These objectives can be found in our 'Statement of investment principles' (SIP).[5]

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 effectiveness is reviewed and approved by the investment committee on an annual basis.

The markets have seen ongoing volatility through the last year, triggered by the ongoing recovery from the coronavirus pandemic and the crisis in Ukraine. Nest Invest's advice has supported the evolution of our investment approach to serve our members' long-term interests, including across periods of market volatility.

Key activities over 2021/22 included:

- Developing our investment strategy to help us identify opportunities that may 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 Scheme members' money continues to be invested and managed efficiently and effectively.
- Further diversifying our investments to reduce risk and provide new opportunities for return for Scheme members. This included adding new asset classes such as infrastructure equity and private equity to the Scheme's portfolios. We appointed Local Pensions Partnership Investments and CBRE Caledon Capital Management to allow us to allocate a portion of the Scheme's portfolio towards direct infrastructure equity.
- Advancing our climate change policy towards our ambition to be net-zero carbon by 2050. Highlights this year include the purchase of a solar farm and two biomass plants with Octopus Investments.
- 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.
- 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 latest responsible investment report.[6] Details of our voting guidelines are available on our website.[7]
- Conducting research to ensure our investment approach meets members' needs.[8] In December 2021, we published recent evidence and learnings in 'Understanding our members' investment needs'. Based on this research, we closed the Nest Pre Retirement Fund in December 2021. The fund was originally designed to support members who planned to purchase an annuity in the near term, and after the Pensions Scheme Act 2015, there was a significant fall in demand for these products. As a result, the fund was no longer meeting member needs.

We won a total of 10 awards and commendations for the Scheme and the design of our investment strategy in 2021/22. See **page 19** for further details.

For more information on developments in our investment strategy, see 'Investment developments' on **page 25**.

Why do we refer to the 2040 fund?

About 99% of Scheme members have their pots invested in the Scheme's default strategy, 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.

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

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

7 **nestpensions.org.uk/schemeweb/nest/aboutnest/investment-approach/responsible-investment/how-we-voted**

8 **nestpensions.org.uk/schemeweb/dam/nestlibrary/member-evidence-research-report.pdf**

Deliver a targeted approach to member engagement, including at retirement

We are committed to helping Scheme 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. As at 31 March 2022, 30.9% of our members had registered their account (compared with 28.0% as at 31 March 2021).

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'.

Some of the ways in which we improved member communications in 2021/22 were:

- Expanding the resources available through the Scheme's website and making navigation improvements to our member help centre. This included creating new content to help members understand the basics of investing and how we try to grow their pension savings.
- Enhancing our operational retirement communications to improve member understanding. We reviewed the wording in all communications and assessed it against risks that could affect a member's retirement experience and made updates where necessary.
- Improving the journey and content that members experience when they use the pension calculator on our website. This includes directing members who have made a retirement income calculation towards additional information which might help them put their calculation into context.

Our member campaigns in 2021/22 included:

- Trialling online advertising that targets members visiting our website who have not activated their account to encourage them to do so. We are analysing the results of this pilot to see if this is an effective way to engage members.
- Contacting members who have not activated their accounts to encourage them to do so. The click-through rate for the campaign was 16% (compared with the 4% finance industry standard reported by Campaign Monitor).
- Continuing communications which explain our approach to responsible investing to our members. The campaigns achieved an average click-through rate of 10%. Nest Insight, our research and innovation centre, has found that communicating about environmental, social and governance (ESG) issues helps to engage some cohorts of members in understanding how defined contribution (DC) pensions work. It can also build trust in their pension.
- Raising awareness of the option of transferring pots into the Scheme to help members consolidate small pots, should they wish to do so. The campaign had a click-through rate of 6%.
- Contacting members whose address appears to be out of date. We highlighted the importance of members keeping track of their pension pots to ensure they have access to all their savings in retirement. We coupled this with new website messaging that appears when a member logs in to their account after being inactive for a length of time. This has helped to increase the percentage of members who update their personal details after they log in.

All member communications follow a quality assurance process to ensure information is accurately presented, easy to understand and conveyed in a consistent voice. We provide evidence of this for our annual controls assurance report. We also periodically test the effectiveness of the wording and design of key communications and campaigns through our Members' Panel.

Keep members' assets and data safe

It is essential 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 we meet regulatory and legislative obligations.

In 2021/22 we did this by:

- Working closely with TCS on monitoring data safeguarding controls while their staff have been WFH during the pandemic. In March 2020, 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 2021/22 and broadly remained in place for the entire financial year, although staff have started to return to office-based working on a limited scale.

- Continuing to align our controls to the US National Institute of Standards and Technology (NIST) Cybersecurity Framework and embedding a three-year plan to further enhance Nest Corporation's and the Scheme's cybersecurity capability maturity. The risk committee has set target levels for us to meet by 2023, or sooner. This is part of our ongoing programme to support our comprehensive cyber strategy.
- Receiving independent certification of the information security management systems operated by us, as well as by 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 internal audit report conducted by Ernst & Young LLP (EY) on the design and effectiveness of our controls in the second line of defence information security function. This audit gave us an overall rating of 'satisfactory', giving assurance about our information security management system.
- 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 EY in accordance with 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.

During 2021/22 the Scheme notified the Information Commissioner's Office of two Personal Data related incidents. The table below sets out the detail:

	Number of breaches reported to the ICO	
Category	**2021/22**	**2020/21**
Brute force	1	–
Other non-cyber incident	1	–
Unauthorised access	–	1
Total	**2**	**1**

Research and policy work to support members' needs

We carry out a range of public affairs work and research to benefit Scheme members.

We provide evidence to Parliament, government and industry to help inform pensions policy development.

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. This helps us to identify future directions for engagement based on our customers' priorities and needs. In addition, we invite members to provide feedback by participating in our online member community, 'Your way'.

Because we have a public service obligation, our research and policy work also has the aim of benefiting the wider population of people who are or will be reliant on defined contribution (DC) savings to fund their retirement.

Highlights of our policy work in 2021/22 included:

- Participating actively in HM Treasury's Asset Management Taskforce. Our CEO Helen Dean serves on the taskforce and acts as vice chair of the taskforce's stewardship stakeholder group, which submitted a set of proposals to raise stewardship standards in the UK.
- Representing the views of Scheme members to the Pensions and Lifetime Savings Association (PLSA). Our Director of Strategy and Corporate Affairs, Zoe Alexander, is 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 DWP and the Money and Pensions Service (MaPS) to support the pensions dashboards programme.
- Responding to government and regulatory consultations on subjects such as value for money, the stronger nudge to pensions guidance and permitted charge structures within the charge cap.

Separately, our research and innovation centre, Nest Insight, carries out a continuous work programme, collaborating with other pension and financial services providers and academics from around the world on ways to improve people's retirement saving and overall financial resilience. The centre and its programmes are supported by a range of funders, including strategic partners Invesco and BlackRock (see **page 27**).

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

Highlights of Nest Insight's research in 2021/22 include:

- Sharing insights into whether talking about responsible investment encourages greater member engagement in pension saving. This multi-year research is supported by Legal & General Investment Management.
- Sharing findings about what language can best motivate people in their 30s, 40s and 50s to take action around their retirement planning. The research, delivered in partnership with Invesco, saw that simple changes in messaging could make a real difference to people's retirement income in later life.
- Launching a new research project to explore opportunities for innovation in pension saving, such as the impact on workers' saving and retirement outcomes of voluntary increases in employer contributions and other financial workplace benefits. This research is supported by abrdn Financial Fairness Trust.
- Publishing 'Retirement saving in the UK 2021', the latest annual report on trends in auto enrolment through the Scheme. The 2021 report looked more closely at trends in member demographics, including gender, ethnicity, education and patterns in home ownership.

Deliver a good service to the Scheme's customers

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 2021/22, 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 2020/21). 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 (also more than 99% in 2020/21). Customer service calls were answered in 81 seconds on average.

We also measure the quality of our service through our 'Voice of the customer' annual customer satisfaction surveys:[9]

- 76% member satisfaction (December 2021, compared with 71% in December 2020).
- 71% employer satisfaction (March 2022, compared with 74% in March 2021).
- 75% Nest Connector satisfaction (March 2022 survey, compared with 77% in March 2021). 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.

Grow the business, in the right way

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 2021/22 as follows:

- Over 975k employers were registered with the Scheme as at 31 March 2022, an 11% increase over the previous year.
- On average 7.8k net new employers registered with the Scheme each month. New employers enrolled workers from across all income groups.

As part of our initiatives to retain employers and intermediaries, in 2021/22 we:

- Launched a new service in June 2021 which allows employers to transition all of their workers' assets from an existing legacy pension arrangement into the Scheme.

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

- Made it easier for employers to use our help centre and improved the support we offer. We changed how we index content so that our search engine ranks relevant content higher in results, making it quicker for users to find what they need. We identified the 20 articles most viewed by employers and ensured they included precise, easy-to-follow, step-by-step instructions.
- Redesigned and updated our content for employers on our website. The pages support newly registered employers and prospective employers considering the Scheme, helping them to understand auto enrolment duties and the benefits of using the Scheme. We believe that making this key information more accessible will help ensure employers are knowledgeable about and confident in fulfilling their duties and in running their account.
- Ran a communications programme focused on improving customer understanding and loyalty. This included attending or delivering webinars and round-table discussions, attending virtual trade events for employers and intermediaries and providing direct email communications where appropriate. We have improved the virtual platform for our events with the aim of attracting and accommodating more attendees.
- Continued to support employers with employee engagement. We redesigned our public website pages that contain communication templates to improve navigation. We promoted the pages through an email campaign to employers using the Scheme. We also produced new videos covering effective ways to talk about pensions in the workplace.
- Created web pages and a video describing the benefits of the Scheme with the aim of supporting retention of a diverse customer base over the long term.
- Worked with payroll software providers to continue to improve systems integration with our proprietary web services.

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 2021/22 strong financial performance was maintained. During 2021/22, we:

- Grew total net assets of the Scheme to £24.4 billion, with £5.7 billion in contributions received during the year. In 2020/21 total net assets stood at £17.6 billion and contributions received were £4.9 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 CEO, Chief Financial Officer (CFO) and the Board challenge the requirements before these plans are approved. A funding requirement is then submitted annually to the DWP, which provides further scrutiny.
- Kept within the operational and financial targets agreed with the DWP for the financial year. Scheme administration expenses were in line with expectations and the growth of the Scheme. Our costs were lower than expected due to continued focus on value for members.

Transition to our next scheme administration service

Following a robust, competitive procurement process, run in compliance with the Public Contracts Regulations 2015, we appointed global digital transformation firm Atos BPS 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 use these technological advances to improve customer experience and service while also driving down operational costs.

We are now working collaboratively with Atos BPS to design and build the future service in line with our identified critical success factors:

- 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.

The current scheme administrator, TCS, will continue to carry out the day-to-day operation of the Scheme's administration through the completion of its 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 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 2021/22 we also:

- Completed our annual effectiveness review of our governance. This review was conducted internally and showed that we continue to operate effectively.
- Continued to implement recommendations from the 2021/22 external review of the Board and our governance under the oversight of the nominations and remuneration committee.
- Provided oversight of the process to appoint the new Chair of Nest Corporation, who was appointed by the Secretary of State for Work and Pensions with effect from 1 February 2022.
- Provided a detailed induction programme for the new Chair, Brendan McCafferty, and two new Board members, Myfanwy Barrett and Sarah Laessig, following their appointment to the Board by the Secretary of State. For more information about the skills and experience these individuals bring to the Board, see **page 54**.
- Supported the independent review of our delivery on our objectives, including value for money for members and taxpayers, which was conducted in autumn 2021 and submitted to the Secretary of State and the Minister for Pensions and Financial Inclusion in January 2022.[10]

Ensure staff are engaged and have the right skills to deliver for our members, supported by a diverse and inclusive working culture

The goal of our people and development strategy is to ensure that we have the organisational capability, leadership, skills and agile operating models to drive the right culture and 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 and building an appropriate skills base through staff training and career 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 2021/22 we have focused on several initiatives to:

Support our people's health

- Continued to support the physical, mental and financial wellbeing of our people. Some highlights include organisation-wide events that covered psychological safety and wellbeing at work, the menopause and men's mental health.
- Launched our new employee benefits proposition, 'Our people, our benefits'. This involved rolling out some new benefits, including a free biennial health check, which underscores our investment in our people and may serve to attract talent in a competitive labour market. The health check also helps to promote staff wellbeing.
- Supported our people in returning to the office with the easing of pandemic restrictions by encouraging them to experiment with hybrid working patterns. We have also amplified our flexible working policy to accommodate different work hours and workflow.

10 **gov.uk/government/publications/independent-review-of-the-national-employment-savings-trust-nest**

Help our people develop

— Simplified our pay grade structure. We introduced broader grades that reduced the number of pay grades we have from thirteen to six. This pay grade structure is easier to manage and is clearer and more transparent for our employees.

— Carried out talent and succession reviews across the organisation. We have identified any succession gaps and shared these with our executive committee so they can work with directors and managers in their business units. This data ensures we can support our employees' development needs.

— Provided our employees with new training benefits. This includes personal learning accounts that give employees the control to identify and apply for specific training to support their professional development. We also gave our employees access to the LinkedIn Learning platform. The platform gives them access to thousands of online courses, giving them more ownership in developing skills related to their roles.

Support a diverse and inclusive environment

— Moved to a new applicant tracking system provided by Eploy. The system allows us to anonymise job applications, helping to mitigate against bias at the shortlisting stage and to reach diverse talent. The system has improved our data reporting, enabling us to analyse the profile of our candidates and identify any under-represented groups for recruitment.

— Embedded our six diversity and inclusion working groups. These groups challenge us to ensure our diversity and inclusion initiatives and overall programme reflect our employees' lived experiences. The groups have helped us make progress with our diversity and inclusion targets and play a key role on our journey towards better understanding our diverse membership. For more information on our diversity and inclusion strategy and progress, see **page 43**.

Support an engaged workforce and manage change

— Gathered employee insights through our staff forum, 'Your voice'. Made up of representatives selected from across our people, the forum provides feedback into organisation-wide initiatives. In 2021/22 the forum met several times and held quarterly meetings with the CEO. The meetings covered topics such as pay, contractual changes and career and personal development pathways. The forum has also fed into discussions around how we can 'build back better', including our future working patterns and where to integrate some of the working practices developed in response to the pandemic into business as usual.

— Continued to support change programmes in our newest business unit, Nest Experience. This includes a programme that aims to evolve the Nest Experience operating model, its ways of working and its culture as the directorate's business units continue to come together.

— Delivered a programme of events, policies and communications that drive engagement and pride in working at Nest. We have maintained and evolved our communications approach, including maintaining our weekly live video executive updates that allows two-way open dialogue between our leadership team and our people.

Our people

Health and wellbeing

78%

of our staff say that people here maintain a healthy blend between work and personal life

83%

of our staff believe that employee wellbeing is a priority at Nest

Diverse and inclusive environment

82%

of our staff believe that Nest values diversity

84%

of our staff say Nest is committed to ensuring an inclusive workplace for its employees

Engagement and change management

78%

of our staff think Nest keeps people informed about what is happening

74%

of our staff think the executive team at Nest demonstrate that people are important to the company's success

People development

79%

of our staff say they have access to the learning and development they need to do their job well

Operating responsibly

As a major financial services organisation, we recognise the broader impact we make – at a global, national and local community level. In this section we review how we promote sustainability, support diversity and inclusion, and engage with our wider community.

Our goal is to deliver a bigger pension in a better world. Many of our business decisions also have a broader positive impact that we are proud of.

Our commitment to responsible investment is part of this. Evidence shows that well-run organisations and markets with sound environmental, governance and social (ESG) practices have a better chance of long-term success and profitability. Responsible investment is the right thing to do for our members, financially.

Investing responsibly can also improve the places where our members live and work and the wider world around them. We engage with companies in which the Scheme is invested, asking them 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. In each of these areas we have considered how the Scheme's investments are shaping the world into which our members will retire. More information about how we invest responsibly can be found in the 'Investment developments' section (see **page 25**) and the 'Scheme annual report and accounts'.[11]

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.

11 **nestpensions.org.uk/schemeweb/nest/nestcorporation/library.html**

Sustainability

We respect the environment in which we operate and aim to make efficient use of natural resources. We continue to adopt more environmentally sustainable ways of working with the aim of reducing our carbon footprint.

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. Our next TCFD report will be published by 31 October 2022. Our latest available TCFD report can be found at **nestpensions.org.uk/schemeweb/nest/nestcorporation/library.html**

Our sustainability reporting for Nest Corporation follows the guidelines set out in the Greening Government Commitments.

Our office is in a modern, energy-efficient building which houses several government bodies. The building's management company controls energy use. The management company employs a dedicated technical manager with responsibility for energy reduction and has a building-wide policy to support effective energy management.

Over 80% of the buildings waste is recycled or reused. The remainder is sent to an enery-from-waste facility for incineration. Our carbon dioxide equivalent (CO_2e) emissions from business travel of 2.1 tonnes for 2021/22 remained at at level comparable to that seen in in prior year (2020/21: 2.1 tonnes of CO_2e). This is consistent with the low level of private vehicle, rail and air travel undertaken during the year due to the Covid pandemic.

Going forward, we will focus on maintaining environmentally sustainable working practices as par of our continuing commitment to reduce our carbon footprint.

For further details, see Appendix 2 on **page 126**.

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.

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.

This year we worked towards improving the application of our recruitment and promotion processes. We launched our new recruitment platform with Eploy, which allows us to anonymise job applications, helping to mitigate against bias at the shortlisting stage. In addition, the platform has also improved our reporting on our hiring and talent attraction strategies.

We continue to 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 also advertise roles that offer flexible working, such as part time and job sharing, to attract underrepresented groups.

Voluntary turnover for staff who have been with us for less than one year was 8% (compared with 16% in 2020/21). All staff who left voluntarily in 2021/22 after less than one year of service cited career progression. 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. We also voluntarily report on our ethnicity pay gap. For a summary of this year's reports see **page 82**. We believe that reporting our pay gaps will help us to address them. We have already seen this since we started reporting our gender pay gap in 2017.

Our new reward proposition, launched in April 2021, will allow us to continue to review and improve pay equity 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 under-represented groups develop their skills as well as investing in learning and development for all of our people. We support our people's development by providing staff with personal learning accounts, secondment opportunities, mentorships, work shadowing and volunteering leave.

Our commitments to learning and development for our people are outlined on **page 38**.

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 backgrounds, people with disabilities and women. This extends from entry-level positions to director and executive positions, and includes support for career progression. We are also focusing on allyship to help embed inclusivity and a sense of belonging throughout the organisation.

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 were published in our 'Corporate plan 2020–2023', so that they are publicly accountable.

We set up six working groups in 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.

We take part in accreditation schemes such as the DWP Disability Confident employer programme and HM Treasury's Women in Finance Charter.

We signed up to the 10,000 Black Interns programme (#10000blackinterns) in 2020 as part of our commitment to diversity and inclusion. The programme aims to offer 2,000 internships to eligible Black candidates over five consecutive years and partners with firms in 24 different sectors, including the financial industry. During 2021/22, we held interviews and awarded two eight-week internships in Nest Invest. The interns are due to start later in 2022.

Our workforce

27%

of our workforce are from an ethnic minority background

Disability Confident (level 2) employer

44%

of our new starters in the last year were directly hired from external sources, saving us £520,020 in recruitment fees (inc VAT)

An accredited Living Wage employer

52%

of our workforce are women

44%

of our senior leadership roles 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 2022. See **page 88** 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.

We provide our staff with up to four days' leave for volunteering each year. Our staff provided approximately 321 hours of service to charities or other not-for-profit organisations during 2021/22 through our volunteer leave programme.

Due to periods of disruption caused by the pandemic, we were not able to organise regular large-scale local volunteering events or activities in 2021/22. However, we engaged with communities in other ways, when and where possible.

Helping Nest's immediate community

Greenwich Foodbank

Staff volunteered in the depot of Greenwich Foodbank. The depot is the base of several foodbanks across the Royal Borough of Greenwich, which is near our Canary Wharf office. On two dates our staff helped to sort and pack food to get it ready for distribution to people in need.

> Having Nest give you four days a year to volunteer really makes a difference to me. I can actively help the charities that I support. This year, after a period of hiatus, we were able volunteer at a local foodbank. Not only did we make a real difference by supporting such a worthwhile cause, it also gave me the opportunity to connect with colleagues I would have never had a chance to.

Bhavesh Patel, Nest Corporation

Fundraising

The British Red Cross

Staff in Nest Experience raised £926.35 for the British Red Cross. The money was earmarked for the charity's Afghanistan Crisis Appeal, helping to pay for supplies and services for people who have been evacuated from the country.

Cancer Research UK

Instead of holding a festive party, staff in Change Programmes and Scheme Management arranged a virtual quiz and raised £290.00 for Cancer Research UK.

The Ukraine crisis

To assist our colleagues wanting to donate to people affected by the Ukraine crisis, we used our intranet to signpost to several charities working in the region.

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 77** for details of how we adhere to the MSA.

Preparation of the financial statements

Statutory background

The financial statements for 2021/22 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 CEO 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 CEO 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
CEO, Nest Corporation

8 July 2022

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' (MPM) annex 3.1. See also Appendix 1, 'Accounts direction' on **page 125**.

Corporate governance report

This section includes our directors' report, statement of our CEO's responsibilities and governance statement. Our CEO is our Accounting Officer for FReM purposes.

Directors' report

This section describes our Board, committee and panel structure, including the membership of the Board of Nest Corporation and the Board's activities during 2021/22.

The Scheme is a trust-based occupational pension scheme (OPS). It was set up as part of the government's workplace pension reforms so that all employers had a pension provider they could use to meet their duties under the auto enrolment system. It was designed for workers who had not previously had access to a high-quality, low-cost pension scheme through their work.

The Scheme is a master trust scheme as defined by the Pension Schemes Act 2017. It is subject to TPR's authorisation and supervisory regime and obtained master trust authorisation from TPR in 2019.

The Scheme has one trustee: Nest Corporation. The Trustee is a public corporation.

The Board has responsibility for the overall direction of the Trustee. The Board can have between nine and 15 members, including the Chair. They are the directors of the Trustee.

Given the complexity of running Nest Corporation and the Scheme, the Trustee has established various committees with clearly defined remits and delegated authorities (see **page 65**). In addition, the CEO has been given a broad delegated authority.

Under the National Employment Savings Trust Order 2010 (the Nest Order)[12] the Board receives assistance and advice from a panel that represents members' perspectives of the Scheme (the Members' Panel) (see **page 71**) and a panel that represents participating employers (the Employers' Panel) (see **page 70**). 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.

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

The Board

Nest Corporation comprises of between 9 and 15 Board members, including the Chair, and the employees of Nest Corporation. The Board members are the directors of the Trustee and are collectively referred to as the Board of Nest Corporation, or simply the Board. The Board has responsibility for the overall direction of the Trustee.

As at 31 March 2022, there were 11 Board members. During 2021/22, there were also three other Board members who were no longer on the Board at the end of the financial year.

Brendan McCafferty

Chair, Nest Corporation from 1 February 2022

Brendan was appointed Chair of the Board of Nest Corporation by the Secretary of State for Work and Pensions effective 1 February 2022.

He has been at the forefront of public body collaborations between industry and government. He has also successfully led major transformational strategic change in regulated financial institutions deploying new digital technologies and data analytics. Most recently, he led the transformation and sale of an insurance business for a private equity shareholder, and was CEO at AXA Insurance UK plc. He was also the founding CEO of Flood Re Ltd, an innovative venture between the government and the insurance industry that was set up to help households at risk of flooding.

A qualified accountant, Brendan has also been a trustee of two registered charities – Blueprint for Better Business, which encourages companies to be a force for good in society, and the Catholic dioceses of Salford – for many years.

Otto Thoresen

Chair, Nest Corporation from 1 February 2015 to 31 January 2022

Otto stepped 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 CEO of Aegon UK. He is Chair of the BT Pension Scheme and abrdn Life and Pensions Ltd as well as Chair of the Board at Aviva International Insurance. He is a governor of the Pensions Policy Institute.

Ian Armfield

Board Member from 1 April 2014 to 30 June 2021

Ian left the 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 has expertise in FCA-regulated asset management, financial accounting and audit, responsible investment, independent assurance reporting and internal audit and controls.

Myfanwy Barrett, CB

Board Member from 1 July 2021

In addition to her role on the Board, Myfanwy was appointed as a non-executive director at The Pensions Ombudsman (TPO) in May 2021.

She is a qualified accountant (CPFA) and her executive career was in public finance. She was Corporate Director of Finance at Harrow Council and, more recently, Managing Director of Corporate Services at the House of Commons. She has experience leading a wide range of services, including the MPs' pension scheme and the Local Government Pension Scheme (LGPS), as well as strategic planning, people and portfolio management.

Myfanwy is currently also a board member of Ocean Housing, Chair of the Tate St Ives Members Committee and Treasurer of Morrab Library and Newlyn Art Gallery & The Exchange.

In 2018 she was awarded the Most Honourable Order of the Bath, Companion (CB).

Karen Cham

Board Member from 1 July 2019

Karen is Professor of Digital Transformation Design at the University of Brighton and professorial lead for the Connected Futures research and enterprise programme, which includes digital economy, digital health, complex systems and immersive, simulation and virtualisation. As part of this, she is also academic lead of the Digital Catapult Centre 5G Brighton project, part of the government's 5G strategy.

Karen is an internationally recognised expert in user experience design and engineering behaviour change. Her research concerns designing for persuasion, emotion and trust, and she specialises in the digital transformation of values and ethical practice. She has worked in e-commerce, fintech, health and care, arts and heritage, games, e-learning, military and defence. In her 25-year career in human-centred design and build her clients have included PlayStation, Diesel, ITV, Topshop, Which?, Ernst & Young (EY) and ?What If! Innovation.

She is a fellow of the RSA, the royal society for arts, manufactures and commerce.

Helen Dean, CBE

Board Member from 1 June 2018

CEO, Nest Corporation

Helen has been a leading player in delivering pension reform, having worked at the 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 policy maker.

She led the product marketing and operations arms of Nest Corporation before becoming CEO 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 Nest Corporation's 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. Previously, he was an independent director of National Grid Electricity Transmission plc, a member of the Competition Appeal Tribunal and a board member of the Environment Agency, where he chaired their pension fund. He is a past Chair of the Confederation of British Industry for the North West of England, and is a former board member of a UK department of state, a regional development Agency, a utility regulator and the National Museums Liverpool.

From 1991 to 2009 Clive worked for United Utilities Group plc, most recently as Managing Director of Asset Management and Regulation. Prior to joining United Utilities, he qualified as an accountant with ICI and then worked as a management consultant with Deloitte.

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. He has over 30 years' experience in investment and pensions.

He is Chair of the Border to Coast Pensions Partnership, investing money for 12 Local Government Pension Scheme (LGPS) pension funds with assets under management totalling £43 billion, as well as Chair of Scheme Committees for The Pensions Trust's industry-wide housing association pension schemes with assets totalling £5 billion. Previously, he was Chief Investment Officer and then CEO of the 350,000-member UK Railways Pension Scheme.

Chris is a board member for the Toronto-based International Centre for Pensions Management and for the UK's Investor Forum, which promotes strategic dialogue between companies and investors. He chaired the Pensions and Lifetime Savings Association (PLSA) from 2007 to 2009 and was the inaugural Chair of the Pensions Quality Mark, raising standards in defined contribution (DC) pensions.

Chris is an actuary and an honorary fellow of the CFA Society of the UK.

Ron Jarman

Board Member from 1 July 2016 to 30 June 2021

Chair, Nominations and Remuneration Committee from 28 May 2019 to 30 June 2021

Ron left the Board on 30 June 2021 after serving for five 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 contributed his knowledge of oversight, public procurement, change management, stakeholder engagement and managing conflicts of interest to the Board.

Sarah Laessig

Board Member from 1 September 2021

Sarah is a seasoned non-executive director who brings experience in financial services, government, higher education, international development and technology, data and digital to her role on the Board.

She serves as a non-executive director of United Trust Bank and Local Pensions Partnership Investments. She is a member of the Board of Advisors of data.world, a cloud-native enterprise data company, and a past director of CG Pension Trustees Ltd, the trustee for Citi (UK) Pension Plans. She is also Ambassador for Women on Boards UK.

Sarah was previously an executive at Citigroup, managing businesses across developed and developing markets. She also served a five-year term as a Civil Service Commissioner, chairing open recruitment competitions for senior posts in the civil service for HM Government. She was previously a non-executive director of Valoot Technologies, a fintech company specialising in payments.

Richard Lockwood

Board Member from 1 September 2018

CFO and Deputy CEO, Nest Corporation

Richard has been part of Nest Corporation's executive team since 2014. From the controls environment to the culture, he has been involved in helping us to mature from a start-up to one of the UK's biggest workplace pension providers. He initially managed the finance and procurement teams. More recently, he has added people and development, IT and facilities, internal communications and central change into his remit, while also becoming Deputy CEO.

As executive champion for diversity and inclusion, Richard has led a programme of work that is helping to increase staff awareness of, and openly discuss and tackle, biases and barriers. He is a member of the Advisory Board of the Diversity Project, a cross-company initiative working to create a more inclusive culture in the financial sector.

Richard is a chartered management accountant. His career over the last 30 years includes roles in a number of blue-chip UK retail and consumer product companies including Home Retail Group plc, BAA plc, Kingfisher plc, Whitbread plc and BP plc.

Mutaz Qubbaj

Board Member from 1 June 2018

Mutaz is a technology entrepreneur, most recently as CEO of Squirrel, a money management fintech start-up of which he was a founder. He has extensive financial services experience as an investment banker in both the US and the 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 has 37 years' experience working in financial services across Barclays plc and Lloyds Banking Group plc. He has had a broad range of roles, both in the UK and overseas, ranging from front-line customer service and relationship management through to strategy and transformation and IT and operational service delivery. More recently, he has had group-level accountabilities in the second-line risk function including operational risk, regulatory compliance, internal risk reporting and external risk disclosures. This has included overseeing significant structural reform programmes driven by regulatory and legislative requirements and state aid commitments.

Martin retired from full-time executive roles at the end of 2016. He is currently a non-executive director and trustee with AQA Education, where he chairs the audit, risk and compliance committee.

Jill Youds

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

Senior Independent Director from 25 July 2017

Chair, Nominations and Remuneration Committee from 1 July 2021

After a successful senior leadership career focusing on transformation, operations, finance and culture in the commercial sector, Jill decided to devote her time to her main interest – the importance of pensions in supporting financial wellbeing.

She is Chair of the pension trustee boards for the Bank of Ireland Group UK, Senedd Cymru/Welsh Parliament, Dŵr Cymru/Welsh Water and the Legal Services Commission. Previously she chaired the pension boards for the Ministry of Justice and the Northern Ireland Department of Justice and was a non-executive director for the Local Pensions Partnership. She chairs or is a member of the investment committee for all the pension schemes she works with.

Jill champions the importance of effective operational delivery and the quality of customer experience. She is strongly focused on governance and oversight to ensure that the right things are done in the right way to serve members' long-term interests.

She is a professionally accredited pensions trustee and has achieved the diploma in pension trusteeship from the Pensions Management Institute.

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.[13]

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.

13 **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 us 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 125**). 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 CEO is required to comply with the requirements of the 'Government financial reporting manual' (FReM) 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 CEO 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 CEO confirms that as far as she is aware, there is no relevant audit information of which the entity's auditors are unaware.
- The CEO 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 DWP has designated the CEO as having responsibility for the propriety and regularity of the public finances for which the CEO is answerable for keeping proper records and for safeguarding our assets, as set out in 'Managing public money' published by HM Treasury.

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' within our governance framework. In respect of those principles of the code which apply to us, there have been no departures.

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 CEO to the Principal Accounting Officer in the DWP. The CEO 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.

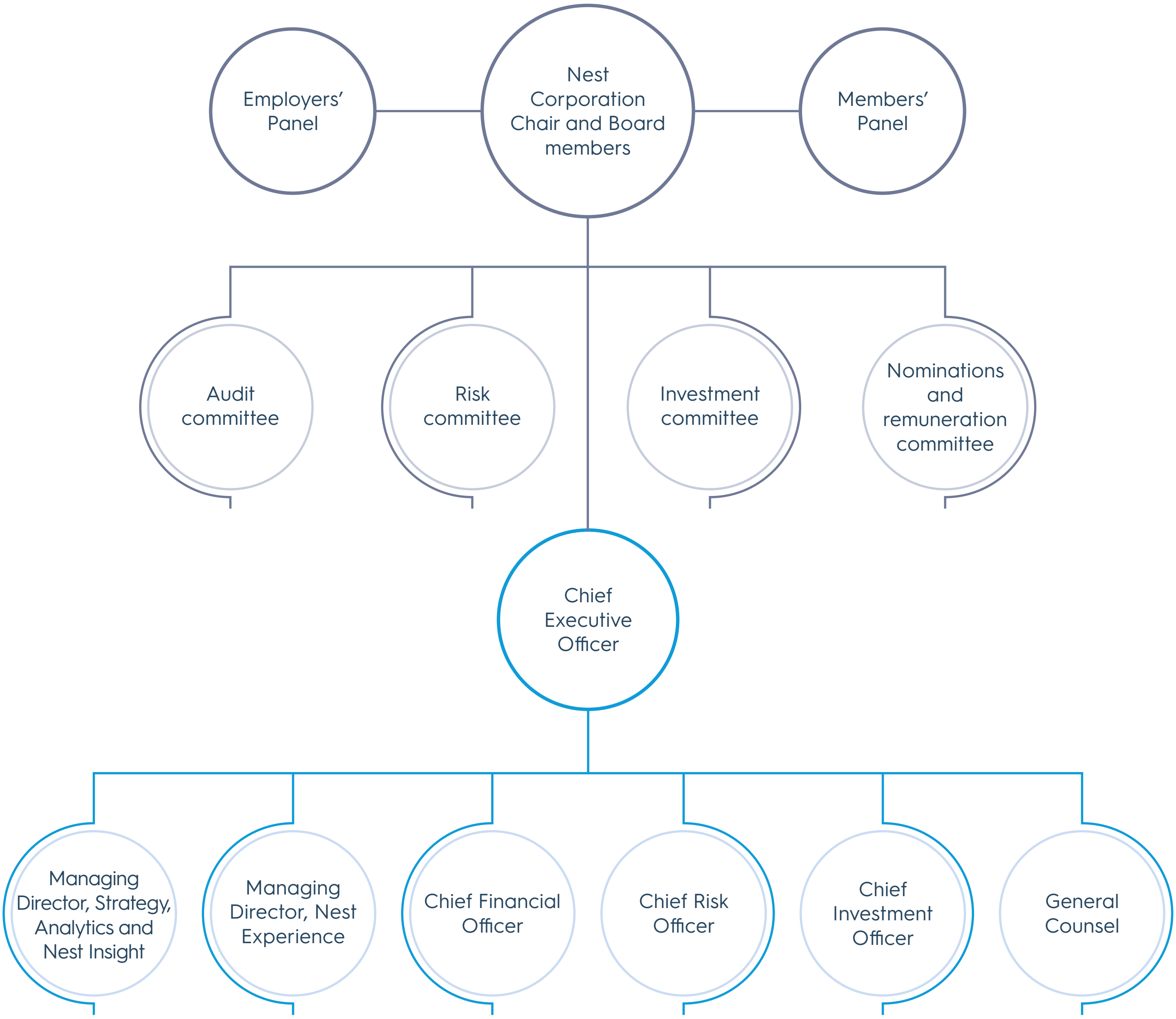
The last externally-led review was conducted by OE Cam LLP in 2020/21. Over the course of the year since this review, the nominations and remuneration committee has implemented certain OE Cam's recommendations. Following on from this, the Board and its committees conducted an annual internal effectiveness review in the last quarter of 2021/22. No material recommendations were made.

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 chart



Executive team

Biographies of Nest Corporation's 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 2022 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. The Board is responsible for setting the strategic direction and objectives for Nest Corporation as Trustee of the Scheme and for 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' 'Principles of public appointments' and Cabinet Office guidance.

All Board members, including the Chair, were non-affiliated at the time of appointment. This means they have had no current or previous material relationship with Nest Corporation 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 CEO and CFO, who are employees, and Chris Hitchen, who previously served as a Board member from 2010 until 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 of all individuals who were Board members at any point during 2021/22 can be found on **page 54**.

Every Board member completes TPR's trustee toolkit, an online learning programme. New Board members must complete this within their first six months in addition to a detailed induction programme tailored to their requirements, skills, qualifications and experience. As at 31 March 2022 all Board members with the exception of the new Chair had completed the trustee toolkit. The new Chair was appointed with effect from 1 February 2022 and is on track to complete the trustee toolkit within the six month time frame.

Each year we carry out a full 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 briefing sessions and individual commitment to ongoing education and training. During 2021/22, Board members received briefings or training on a number of topics including Board members' legal duties and responsibilities, the transition in scheme administrator from Tata Consultancy Services (TCS) to Atos BPS in 2023, and governance of this transition (see **page 37**).

To support effective and robust decision-making, the Board had four committees as at 31 March 2022 (see **page 66**). 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.[14]

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 **page 70**.

A scheme of reserved matters and delegations outlines the matters reserved to the Board as well as delegations to the committees in the form of committee terms of reference. 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. Decisions which are not reserved to the Board or a committee are within the authority of the CEO, who is responsible for our day-to-day operations and management as well as that of the Scheme.

The CEO delegates authority to each member of our 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 CEO on key issues within the CEO's delegated authority, the executive committee meets at least monthly and the CEO provides formal reports at Board meetings.

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

Audit committee

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

During 2021/22 the audit committee met eight times. The committee's work included:

- Reviewing the annual report and accounts for both Nest Corporation and the 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.
- Reappointing Ernst & Young (EY) as internal auditors for Nest Corporation and the Scheme.
- Reappointing KPMG as the external auditor for the Scheme.
- Appointing Grant Thornton as auditors for the Scheme's Tech 05/20 AAF report.
- Approving the annual compliance plan and receiving regular updates on delivery and findings.
- Approving the compliance assurance plan.
- Reviewing both Nest Corporation's and the Scheme's system of internal controls via our controls report following the Audit and Assurance Faculty's guidance for assurance reporting on master trusts, TECH 05/20 AAF, and recommending their approval to the Board.
- Recommending approval of the compliance process for Nest Corporation's obligations under the Modern Slavery Act (MSA) to the Board.
- Providing oversight of our arrangements for raising concerns relating to possible wrongdoing in the organisation, including protecting against fraud, approving our breach reporting policy and approving our whistleblowing policy and procedure.
- Reviewing the 2020/21 Task Force for Climate-related Financial Disclosures (TCFD) report and recommending its approval to the Board (although going forward this will sit with the investment committee).

Risk committee

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

During 2021/22 the risk committee met four times and had one additional training session. The committee's work included:

- Reviewing and challenging key areas of risk with respect to our activities, including the impact of the ongoing pandemic on the organisation.
- Providing oversight of the principle risks and risk appetite levels and recommending both the principal risks and risk appetite levels to the Board for approval.
- Providing oversight of our risks in relation to the programme to deliver the next scheme administration platform (see **page 76**).
- Reviewing our risk management and policy frameworks and recommending their approval to the Board.
- Approving policies with respect to financial crime and anti-money laundering, anti-bribery and corruption, information security, data protection, records management and business continuity.

Investment committee

The investment committee is responsible for overseeing the 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 2021/22 the investment committee met seven times. It also met for several workshops during the financial year and also made one decision by means of written resolution. 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 allocations as required.
- Providing oversight of and making recommendations to the Board on the development of the Scheme's overall investment strategy, including changes to the funds available to Scheme members.
- Approving the divestment from listed securities of Russian companies as well as Russian government debt following the Russian invasion of Ukraine.
- Reviewing the statutory money purchase illustration (SMPI) rates for all Scheme fund options.
- Recommending a number of changes in the 'Statement of investment principles' (SIP) and that the updated SIP continues to meet member needs to the Board.
- Approving some amendments to the investment management agreement between Nest Corporation and Nest Invest Ltd, the FCA-regulated subsidiary of Nest Corporation.
- Approving some of the Section 36 advice provided by Nest Invest.
- Making decisions regarding investments in a number of unlisted debt securities.
- Approving a securities class actions policy.
- Approving updates to our climate change policy.
- Approving revisions to our responsible investment objectives.
- Recommending a number of changes to the committee's terms of reference.

Nominations and remuneration committee

The nominations and remuneration committee is responsible for overseeing our remuneration strategies and organisational culture to enable us 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 2021/22 the nominations and remuneration committee met six times. The committee's work included:

- Reviewing the results of the annual skills and experience analysis of Board members, and approving recommendations with respect to Board training requirements, succession planning and implications for recruitment of new Board members.
- Approving the scope and objectives, and providing oversight of, the processes relating to the internally conducted Board and committee effectiveness review. The committee also reviewed the implementation of recommendations from the externally-led review conducted in 2020/21.
- Agreeing the requirements for the skills and experience of new Board members and providing oversight of the process to appoint the next Chair of Nest Corporation in anticipation of the then current Chair's tenure coming to an end on 31 January 2022.
- Approving the induction programmes for the new Chair of Nest Corporation and two new Board members.
- Recommending to the Board the appointment of Jill Youds as the new Chair of the committee after the previous Chair stepped down from the Board at the end of his tenure.
- Recommending to the Board the designation of a Board member to serve as a communication channel to the Members' Panel and the Employers' Panel.
- Receiving regular reports from the Director of HR Transformation on people and remuneration matters, including senior executive remuneration, the results of the annual staff survey and progress towards our diversity and inclusion strategy.
- Reviewing the performance and remuneration of our executive committee and approving changes in remuneration for one member of the executive.
- Approving remuneration proposals for certain roles within the senior leadership team.

- Reviewing the CEO and executive committee succession plans.
- Reviewing the succession plan for Nest Invest.
- Approving a new fit and proper policy to better ensure maintenance of compliance with TPR standards.
- Reviewing the terms of reference for the committees, Members' Panel and Employers' Panel, and approving them and, where relevant, recommending their approval to the Board.
- Approving amendments to the external appointments policy which apply to members of the executive.
- Approving an amended memorandum of understanding regarding the relationship between Nest Corporation, the Members' Panel, the Employers' Panel and the CEO.
- Receiving further guidance and training on the principles of MPM to enhance their understanding of our authorities and powers around remuneration topics.
- Approving employee remuneration including pay and bonus.

Committee membership as at 31 March 2022

Audit committee	
Clive Elphick	Chair
Myfanwy Barrett	Member (from 1 July 2021)
Martin Turner	Member
Risk committee	
Martin Turner	Chair
Clive Elphick	Member
Chris Hitchen	Member
Mutaz Qubbaj	Member (from 1 July 2021)
Investment committee	
Chris Hitchen	Chair
Clive Elphick	Member
Jill Youds	Member
Jennie Austin	Member
Jaap van Dam	Member
Nominations and remuneration committee	
Jill Youds	Chair (from 1 July 2021)
Karen Cham	Member (from 1 July 2021)
Sarah Laessig	Member (from 1 September 2021)
Brendan McCafferty	Member (from 1 February 2022)

Details of meetings attended by Board members

	The Board	Audit committee	Risk committee	Investment committee	Nominations and remuneration committee
No. of meetings					
Brendan McCafferty, Chair (from 1 February 2022)	1/1	–	–	–	2/2
Otto Thoresen, Chair (up to 31 January 2022)	6/6	–	–	–	4/4
Ian Armfield	2/2	3/3	–	–	2/2
Myfanwy Barrett	3/5	5/5	–	–	–
Karen Cham	7/7	–	–	–	3/4
Helen Dean	7/7	–	–	–	–
Clive Elphick	7/7	8/8	5/5	7/7	–
Chris Hitchen	6/7	–	5/5	7/7	–
Ron Jarman	2/2	–	1/1	–	2/2
Sarah Laessig	3/4	–	–	–	4/4
Richard Lockwood	7/7	–	–	–	–
Mutaz Qubbaj	7/7	–	4/4	–	–
Martin Turner	6/7	8/8	5/5	–	–
Jill Youds	7/7	–	–	7/7	6/6
Jennie Austin	–	–	–	7/7	–
Jaap van Dam	–	–	–	7/7	–

Notes

The Board

Brendan McCafferty was appointed Chair of Nest Corporation with effect from 1 February 2022.

Otto Thoresen completed his term as Chair on 31 January 2021.

Ian Armfield completed his term as a Board member on 30 June 2021.

Myfanwy Barrett joined the Board with effect from 1 July 2021.

Ron Jarman completed his term as a Board member on 30 June 2021.

Sarah Laessig joined the Board with effect from 1 September 2021.

Audit committee

Ian Armfield stepped down from the audit committee with the completion of his Board term on 30 June 2021.

Myfanwy Barrett joined the committee from 1 July 2021.

Risk committee

Ron Jarman stepped down from the risk committee with the completion of his Board term on 30 June 2021.

Mutaz Qubbaj joined the committee from 1 July 2021.

Investment committee

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

Nominations and remuneration committee

Ian Armfield stepped down from nominations and remuneration committee with the completion of his Board term on 30 June 2021.

Ron Jarman resigned as Chair of the committee with the completion of his Board term on 30 June 2021.

Sarah Laessig joined the committee from 1 September 2021.

Brendan McCafferty joined the committee from 1 February 2022.

Otto Thoresen stepped down from committee with the completion of his term as Chair of Nest Corporation on 31 January 2022.

Jill Youds was appointed Chair of the committee with effect from 1 July 2021.

Board meetings

The Board met seven times during 2021/22. The Board also convened for a number of workshops on a range of topics which included a strategy day.

At each Board meeting the chair of the audit, risk, investment and nominations and remuneration 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 69**. Committee membership as at 31 March 2022 is set out on **page 68**.

The Board is responsible for agreeing our strategy. It holds the CEO to account for the implementation of our 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 CEO 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 Nest 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 2021/22, 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 Scheme.

— Approved the master trust controls assurance report, TECH 05/20 AAF, for the Scheme.

— Approved the risk appetite, principal risks and risk management framework.

— Approved the 'Corporate plan 2021–2024'.

— Reviewed and approved our Modern Slavery Act (MSA) statement.

— Reviewed the annual reports of the Members' Panel and the Employers' Panel.

In addition, during 2021/22 the Board's work included:

— Approving changes to our governance framework and approving the updated terms of reference[15] for the Board and the nominations and remuneration, audit and risk committees.

— Providing oversight of the transition in scheme administrator which will take place in 2023 (see **page 37**) and approving the Board's governance of the transition process.

— Approving the Task Force for Climate-related Financial Disclosures (TCFD) report for the Scheme as well as amendments to our climate change policy.

— Approving the annual assessment of the Scheme's value for members and the conclusions of this report.

— Approving changes to the board of Nest Corporation's FCA-regulated subsidiary Nest Invest.

— Approving the appointment of the new chair of the nominations and remuneration committee, new committee members and new corporate secretary.

Employers' Panel

(Chair - Ron Jarman)

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 Scheme. The panel had 11 members as at 31 March 2022.

During 2021/22 the panel met four times. Its 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 bulk transfers, web services, employers new to the Scheme and the Scheme's retirement offer.

— Providing input on proposed changes to the 'Statement of investment principles' (SIP).

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

- Attending a training session, held jointly with the Members' Panel, on the Scheme's investment objectives.
- Attending a joint meeting with members of the Members' Panel, the Board and the executive team. The meeting explored the current and future potential impact of the pandemic on the Scheme and Scheme members and early findings from Nest Insight's 'sidecar savings research' (see **page 27**).

Members' Panel

(Chair - Nigel Stanley)

The Members' Panel was set up in accordance with the Pensions Act 2008 and Nest Order 2010 to provide advice on the operation, development and amendment of the Scheme. The panel had 12 members as at 31 March 2022.

During 2021/22 the panel met four times. Its work included:

- Fulfilling its formal governance functions through consultation on changes to the 'Statement of investment principles' and by submitting its annual report to the Board and the Secretary of State for Work and Pensions.
- Considering issues relevant to member interest in order to provide advice and feedback to the Board and the executive committee, including pension adequacy, retirement provision, the closure of the Nest Pre Retirement Fund, the work of our member community and findings from the 'Voice of the customer' research surveys.
- Attending a training session, held jointly with the Employers' Panel, on the Scheme's investment objectives.
- Attending a joint meeting with members of the Employers' Panel, the Board and the executive committee.

Determination of disputes

The executive is responsible for adjudicating disputes related to the Scheme that have reached stage 2 of the internal dispute resolution (IDR) procedure. Stage 2 is the final stage of the complaints process for Scheme members.

During 2021/22 the executive considered 23 cases (compared with 20 cases which were considered in 2020/21).

- 2 cases were upheld (no cases in 2020/21).
- 12 cases were partially upheld (6 cases in 2020/21).
- 9 cases were not upheld (14 cases in 2020/21).

In 2021/22, the executive received information on one case which had been withdrawn by the complainant before consideration (compared with 2 cases in 2020/21).

The Pensions Ombudsman reported to us that no cases reviewed during the year had been escalated to it after stage 2 (compared with no cases in 2020/21).

Significant control issues

There were no significant internal control issues for inclusion in this 'Corporation annual report and accounts' for the year ended 31 March 2022 apart from the issue relating to special payments that were made without approval from HM Treasury. For further details see the compliance and assurance section of the Corporate governance report on **page 78**.

Our internal audit and compliance assurance functions prepare reports for the audit committee and the Board which provide evidence of this. We do this in line with annual internal audit and assurance plans approved by the audit committee.

Where any control weaknesses are identified by our reporting activities, appropriate actions are assigned and tracked to ensure they are closed within the appropriate timescale. If closure is not achieved the actions are escalated to the audit committee.

By following these processes, we ensure that 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 risks and uncertainties to ensure that we can deliver our strategic priorities each year. We have an agreed risk appetite statement and 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 DWP, 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. Our 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 November 2021.

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 Nest Corporation or the Scheme.

Our principal risks, detailed on **page 20**, 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 2021/22 annual review.

In addition, every three years the risk review takes the form of a comprehensive zero-based review. Our most recent zero-based review completed in May 2022 with the approval of the Board.

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 polices and supporting governance.

Three lines of defence model

Our first line of defence comprises the teams delegated with specific business activities. 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 Nest Corporation and the 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 in 2021/22, we have put in place key controls and mitigating actions. These have been in place for the year and up to the date of approval of the annual report and accounts.

Service failure risk

We deliver the 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 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 review independent assurance reports on the controls our key providers have in place to assure delivery of our customer services.
- We have put in place a framework and an approach to limit transition and migration risk as we move to delivering the 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.

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

Further, a loss of data or assets would damage our reputation in the market and could be subject to fines or sanctions from regulators.

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 risk, 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 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:

- 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.
- Our compliance management team continuously monitors government pensions legislation, and regulation from TPR and the FCA.
- All our staff are required to complete annual e-learning modules relating to financial crime and competition law as well as risk, 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 Scheme to meet their auto enrolment duties. This means we may sometimes accept business where, at a member level, the cost of servicing exceeds the income generated.

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 the contracts for both our existing and our next scheme administrator.
- 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 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. Our current and potential customers decide whether to have their pension with the Scheme or another provider based on several factors. Among the key factors are 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 2020 we announced our new climate change policy and our ambition and approach to halving emissions across our portfolio by 2030 and being net zero by 2050.[16]

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 continues to be developed to support our people. Mental health first aiders are trained from among our staff. They are available as a resource to colleagues.

16 **nestpensions.org.uk/schemeweb/nest/nestcorporation/library.html**

- Our diversity and inclusion strategy includes ambitious targets for increasing the diversity of our staff. These were published in our 'Corporate plan 2020–2023'.[17] All staff are required to attend training about diversity and inclusion.
- All our staff are required to complete annual e-learning modules relating to risk, financial crime, competition law, information security, data protection and health, safety and wellbeing. We also encourage and support our people to receive training for professional and leadership development.

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 our approaches 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 research and innovation centre, Nest Insight. We have workstreams dedicated to identifying and prioritising improvements we can make to our operations, processes and products.
- We monitor the ongoing roll-out of new or recently launched 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.

17 **nestpensions.org.uk/schemeweb/nest/nestcorporation/library.html**

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 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 and simple to use.
- We assign account managers to employers using the Scheme for a significant number of employees as well as to 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 2020/21 we completed a multi-year programme to procure future scheme administration requirements for the Scheme. Our next scheme administrator is Atos BPS (see **page 37**).

Our next 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 Managing Director of Nest Experience 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 Atos.

Conflicts arising from our government funding and sponsorship risk

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

The DWP has a wide pensions policy agenda and the government has an even broader interest in promoting the general health of the UK economy. In contrast, 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 Scheme members' interests.

Our controls and mitigating actions:

- We maintain key relationships at a strategic level with central government and the DWP.
- We have an agreement with the 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 Scheme members' interests.
- We agree critical success factors for delivery of the new service.

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 CFO 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 2021/22.

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.

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.[18]

18 **nestpensions.org.uk**

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.

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 2021/22.

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 Pension Schemes Act 2017 and the supporting Master Trust Regulations 2018 introduced significant changes to the regulation of master trust pension schemes. TPR supervises authorised master trusts through an annual supervisory meeting, the review of regular data submissions and the provision of an annual supervisory return.

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.

Our compliance assurance team is responsible for monitoring compliance against relevant legislative and regulatory requirements. It provides ongoing assurance to the CEO and the Board that Nest Corporation as Trustee of the Scheme, as well as our FCA-authorised occupational pension scheme (OPS) firm subsidiary, Nest Invest, are compliant with our documented internal controls and statutory and regulatory requirements for pension schemes, and that we maintain 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 2021 to 31 March 2022 has been completed. This framework, established in 2020 by TPR and the Audit and Assurance Faculty (AAF) of the Institute of Chartered Accountants in England and Wales (ICAEW), sets out 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.

Our control owners provide a quarterly attestation to the design and operating effectiveness of the key controls 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 in 2020/21, 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 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 had not granted approval for these payments and, as a result, these payments led to a qualification of the regularity opinion in the audit certificate for our 'Corporation annual report and accounts' for 2020/21 and 2021/22.

In 2021/22, we 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 Board committees are only asked to approve payments in line with MPM guidelines.
— The nominations and remuneration committee has been given further guidance and training on the principles of MPM to enhance their understanding of our authorities and powers around remuneration topics.
— We have created an attestation report detailing any potential MPM issues highlighted during the period. This is reviewed and signed by all executive committee members on a quarterly basis.
— Our company secretariat team have reviewed the templates used to ensure MPM considerations are factored into all relevant Board and committee papers.

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

Complaints to the Parliamentary Ombudsman

There have been no (0) complaints to the Parliamentary Ombudsman in 2021/22 (also no complaints in 2020/21).

Helen Dean, CBE
CEO, Nest Corporation

8 July 2022

Remuneration and staff report

The remuneration and staff report sets out the pay and reward 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 and reward policy
- Pension arrangements
- Other benefits

Our pay and reward 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.

We have further developed our policy to support a new people and development strategy approved by the Board in 2019/20. Our new pay and 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 launched in April 2021.

This new pay and reward 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.

- Brendan McCafferty was appointed Chair of Nest Corporation by the Secretary of State for Work and Pensions. His appointment began on 1 February 2022. Under his terms of appointment, he is required to commit to work two days a week for us.
- Otto Thoresen was the previously appointed Chair of Nest Corporation. His appointment began on 1 February 2015 and ended on 31 January 2022. Under his terms of appointment, he was 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 CEO. A report on the activities of the committee can be found on **page 67** of the 'Governance statement'.

Performance-related pay

The CEO oversees a balanced approach to reward. Every year we aim, subject to affordability, to run a pay review and a discretionary bonus scheme to reflect cost-of-living increases and organisational performance. Alongside this, line managers have the freedom to put employees forward for a one-off pay increase based on factors such as performance, growth in role or to reflect market movements in pay.

In 2020/21 the civil service and arm's-length bodies paused cost-of-living pay rises. As we are an arm's length body sponsored by the DWP, we also paused cost-of-living pay rises.

In line with our pay policy, a flat rate bonus was paid to all staff below the CEO. This bonus was £5,000 for executive committee members and directors and £2,000 for all other staff. The CEO is subject to a separate bonus scheme. Additional caps in line with the DWP's approach to senior civil service pay bands or equivalents were applied.

Compensation (subject to audit)

There has been one compensation payment made in respect of loss of office to a former manager within the organisation. This payment for £18,000 was made through the appropriate approvals from the DWP and HM Treasury.

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 lower quartile, median and upper quartile remuneration of the organisation's workforce.

The remuneration of the highest-paid director in 2021/22 was £266,000 (compared to £266,000 in 2020/21). This was 4.4 times (compared to 4.6 times in 2020/21) the median remuneration of the workforce, which was £61,000 (compared to £59,000 in 2020/21). The 2020/21 comparator has been restated to remove pension contributions from total remuneration.

In 2021/22 one employee received remuneration in excess of the highest-paid director (also one in 2020/21). Remuneration ranged from £29,000 to £337,000 (compared with £28,000 to £309,000 in 2020/21).

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.

Women's compensation*

	Mean			Median		
	2022	2021	2020	2022	2021	2020
Hourly pay gap	13.9%	14.5%	17.3%	9.5%	10.9%	8.6%
Bonus gap	7.4%	-4.5%	11.4%	0%	0%	30.0%

*Reported on compensation received from 1 January to 31 December

Gender pay gap

We voluntarily report on hourly and bonus gender pay gaps. You can find the latest full report at **nestpensions.org.uk/schemeweb/nest/careers/about-us/responsible-business.html**. A summary of our most recent report can be found in the table above.

Our average hourly gender pay gap continues to fall as we recruit and promote more women to senior leadership roles. For our pay gap reporting we define senior leadership roles as members of our executive committee and roles in our top two pay bands, encompassing director-level roles as well as '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 44 new starters who were women and 38 new starters who were men. Some of the women new starters started after the bonus cut-off date and as a result they were ineligible to receive a bonus. The timing of these new starters accounts for some of the mean bonus gap.

Ethnicity pay gap

Starting in 2020/21, we voluntarily publish our ethnicity pay gaps. You can find the full report at **nestpensions.org.uk/schemeweb/nest/careers/about-us/responsible-business.html**. We disclose this data because we feel it is important to be transparent about these pay gaps and show our commitment to addressing them. These reports are necessary to identify the scope of work needed, take action, measure progress and drive forward meaningful change.

Throughout 2021/22 we progressed our diversity and inclusion strategy with an aim of reducing our ethnicity pay gaps. Unfortunately, we did not achieve the targets we set. Employees from an ethnic minority background still earn considerably less than white employees. We recognise we need to do more.

We are an ambitious organisation and optimistic about our ability to take action to close these pay gaps. We have started by identifying areas to focus on in the near term. We are determined to increase the number of people from ethnic minority backgrounds in higher salary roles and our senior leadership. We have set ambitious but achievable targets to address our ethnicity pay gap and we will work closely with our race working group to ensure that we deliver the actions set out in our race action plan.

Compensation* of employees from ethnic minority backgrounds**

	Mean			Median		
	2022	**2021**	**2020**	**2022**	**2021**	**2020**
Hourly pay gap	19.2%	18.3%	18.5%	11.9%	13.2%	14.2%
Bonus gap	21.4%	27.1%	39.5%	0%	0%	50.0%

* Reported on compensation received from 1 January to 31 December

** The Office for National Statistics (ONS) includes White minority populations in its reports on ethnic minority 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 and understand the experiences of people of colour.

Sickness absence

The average amount of time lost to sickness per employee in 2021/22 was 4 days (compared with 2.2 days in 2020/21), including Covid-related absences.

The number of sickness absences has increased this year due to Covid restrictions easing. This has resulted in more of our employees not isolating and being more prone to be exposed to the coronavirus and other infectious illnesses.

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 CEO and CFO are the only individuals included in the remuneration disclosures who are members of the Scheme.

Remuneration tables

The information in the table below has been audited.

	Contract details		2021/22			
Name and position	**Contract start date**	**Unexpired term as at 31 March 2022**	**Full-year equivalent salary and allowances (£000)**	**Salary and allowances paid (£000)[1]**	**Performance related payments (£000)[2]**	**Pension benefits (£000)[4]**
Otto Thoresen Chair	1 February 2015	Contract expired 31 January 2022	90-95	75-80	-	-
Brendan McCafferty Chair	1 February 2022	58 months	90-95	15-20	-	-
Ian Armfield Board Member	1 April 2014	Contract expired 30 June 2021	30-35	15-20	-	-
Myfanwy Barrett Board Member	1 July 2021	51 months	15-20	10-15	-	-
Karen Cham Board Member	1 July 2019	27 months	15-20	15-20	-	-
Clive Elphick Board Member	1 June 2018	14 months	15-20	15-20	-	-
Chris Hitchen Board Member	1 June 2018	14 months	15-20	15-20	-	-
Ron Jarman Board Member	1 July 2016	Contract expired 30 June 2021	15-20	0-5	-	-
Sarah Laessig Board Member	1 September 2021	53 months	15-20	10-15	-	-
Mutaz Qubbaj Board Member	1 April 2015	27 months	10-15	10-15	-	-
Martin Turner Board Member	1 June 2018	14 months	25-30	25-30	-	-
Jill Youds Board Member	1 June 2018	14 months	15-20	15-20	-	-
Helen Dean[5] CEO	1 June 2018	14 months	245-250	245-250	15-20	20
Richard Lockwood[5] CFO	1 September 2018	17 months	235-240	235-240	5-10	-

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 CEO and CFO, Board Members do not receive any performance related payments.
3. Taxable expenses relate to travel and subsistence.

		2020/21					
Taxable expenses (to nearest £100)[3]	Total (£000)	Full-year equivalent salary and allowances (£000)	Salary and allowances paid (£000)[1]	Performance related payments (£000)[2]	Pension benefits (£000)[4]	Taxable expenses (to nearest £100)[3]	Total (£000)
1300	75-80	90-95	90-95	-	-	3,300	90-95
3,700	15-20	-	-	-	-	-	-
-	15-20	25-30	25-30	-	-	-	25-30
900	15-20	-	-	-	-	-	-
1,100	20-25	15-20	15-20	-	-	-	15-20
1,900	20-25	15-20	15-20	-	-	-	15-20
1,000	20-25	15-20	15-20	-	-	8,100	25-30
-	0-5	25-30	25-30	-	-	200	25-30
-	10-15	-	-	-	-	-	-
-	10-15	10-15	10-15	-	-	-	10-15
-	25-30	25-30	25-30	-	-	-	25-30
2,000	20-25	15-20	15-20	-	-	1,600	20-25
-	285-290	245-250	245-250	15-20	20	400	280-285
2,500	245-250	235-240	235-240	5-10	14	400	260-265

4. Pension benefits comprise employer contributions into the Scheme.

5. Helen Dean and Richard Lockwood were both Board Members as at 31 March 2022. The remuneration disclosed is mainly in respect of their positions as CEO and CFO.

Staff report

Summary of staff costs for 2021/22

The information in this table has been audited.

	Year ended 31 March 2022 £000	Year ended 31 March 2021 £000
Directly employed staff		
Wages and salaries	24,008	22,240
Social security costs	3,044	2,851
Pension costs	1,944	1,733
Subtotal	**28,996**	**26,824**
Secondees	27	384
Interim staff	815	2,297
Total staff costs	**29,838**	**29,505**

We were staffed in 2021/22 by a combination of direct employees, staff seconded from other bodies and interim staff employed through third-party organisations. Staff consultancy expenditure for 2021/22 was £74,448 (2020/21: £nil).

The information in these tables has been audited.

	Headcount at year ended 31 March 2022	Headcount at year ended 31 March 2021
Directly employed staff	366	359
Secondees	1	2
Interim staff	4	10
Total number of staff	**371**	**371**

Senior Civil Service Equivalent pay band	Senior Civil Service Equivalent pay ranges	Headcount
1	£71,000 – £117,800	63
2	£93,000 – £162,500	26
3*	£120,000 – £208,100	23

*Includes five members of staff who’s pay is in excess of £208,100.

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 2022.

Title	Men	Women	Total
Board members (ex CEO and CFO)	5	4	9
Executive committee (inc CEO and CFO)	6	1	7
All other staff	170	185	355
Total	**181**	**190**	**371**

Other

Staff policies

Staff policies are available to all staff via our intranet and, during the onboarding period, through our applicant tracking system.

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 policies and line managers’ toolkit document our approach to employment issues including recruitment practices, employee participation and consultation with staff. We have several policies that provide 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 onboarding 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, in 2020/21 we established our workforce advisory forum, 'Your voice'. The forum is comprised of staff representatives from across the organisation. During 2021/22 the forum held three formal meetings with our CEO and Director of HR Transformation. It has provided input on matters such as our approach to returning to the office, our wellbeing initiatives and bonus pay principles.

Flexible working

We recognise that flexible working can provide benefits to both members of staff and the organisation, so we aim to support our employees where possible to manage the balance between work and home life. We amended our flexible working policy to further support employees' needs, taking into account that they may need to work flexible hours or days on an ad hoc, temporary basis or a regular, formal basis.

Our ability to accommodate flexible working practices enabled our people to work successfully throughout the pandemic.

Diversity and inclusion

Our diversity and inclusion strategy is progressing. We have established six diversity and inclusion working groups. Each group has a programme of initiatives to help them engage with the business (see **page 26**).

Our working group on gender is championed by a member of our executive committee. It has oversight of our efforts to improve gender diversity across leadership levels.

Our working group on race and socioeconomic diversity is championed by two members of our executive committee, including the CEO. It has oversight of our efforts to improve ethnic diversity across leadership levels.

We recognise that we have some significant gaps in recruitment, retention and remuneration, which we are committed to addressing.

Our new reward proposition, launched in April 2021, has been designed to ensure all our people are rewarded fairly and to support career development pathways for everyone. We are monitoring its impact on pay gaps, training uptake and promotions.

We have integrated more diversity metrics across our talent data to help us analyse where gender and ethnicity may be a factor in recruitment, development and progression paths. Our new applicant tracking system, provided by Eploy, was chosen partly because it has tracking tools to help us improve our diversity and inclusion data and our reporting around recruitment.

We need to take more steps to retain and develop talent from more junior roles into leadership. To support this, we report on and monitor ethnicity and gender pay gaps (see **page 82**).

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 64** for details of the roles in this committee. Our executive committee members do not sit within our pay grades. Our top pay grade encompasses director-level roles. Senior leadership roles are those in our top two 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 an ethnic minority background 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 2022 the proportion of people from an ethnic minority background in senior leadership roles was 17% and in director-level roles 11%. During 2021/22 there were no individuals from an ethnic minority background on our executive committee. As at 31 March 2022 the proportion of women in senior leadership roles was 44%, in director-level roles it was 55% and in executive roles it was 14%.

We remain committed to HM Treasury's Women in Finance Charter, which aims to improve gender balance across financial services, particularly at the director level. We exceeded our target of 30% of director-level roles being held by women in September 2019 and have since set a more ambitious target of 50% 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.

Disability Confident Employer

In 2021/22 we maintained our status as a Disability Confident (level 2) employer in the DWP scheme. 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 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.

Our working group on disability and neurodiversity had made one of its priorities fostering an environment where staff feel comfortable declaring that they have a long-term disability or health condition and understand why this data will help us to better support them in their working.

Off-payroll engagements

For all off-payroll engagements as at 31 March 2022, amounting to more than £250 per day and that last for longer than six months:

Number of existing engagements as at 31 March 2022	**6**
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	1
Number that have existed for between two years and three years at time of reporting	0
Number that have existed for between three years and four years at time of reporting	0
Number that have existed for four or more years at time of reporting	0

For all new off-payroll engagements, or those that reached six months in duration, between 1 April 2021 and 31 March 2022, amounting to more than £250 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 2021 and 31 March 2022	**3**
of which	
Number assessed as caught by IR35 (taxed as similar to employment)	0
Number assessed as not caught by IR35	3
of which	
Number engaged directly (via PCS contracted to department) and are on the departmental payroll	0
Number of engagements reassessed for consistency or assurance purposes during the year	0
Number of engagements that saw a change in IR35 status following consistency review	0

In 2021/22 we had two other contractors who would be included in this table. However, as they are not based in the UK, IR35 regulations do not apply to them.

Exit packages (subject to audit)

Exit packages for 2021/22 totalled £125,803. This includes contractual redundancy pay in line with our policy and, where applicable, payment in lieu of notice. In total there were four involuntary leavers during the year. This included three redundancies and one failed probation. There was also one voluntary leaver who had a contractual exit package payment of £33,375.

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	
	2021/22	2020/21	2021/22	2020/21	2021/22	2020/21
<£10,000	1	2	1	–	2	2
£10,000 – £25,000	–	6	–	–	–	6
£25,000 – £50,000	2	1	1	–	3	1
£50,000 – £100,000	–	1	–	1	–	2
£100,000 – £150,000	–	–	–	–	–	–
£150,000 – £200,000	–	–	–	–	–	–
Total number of exit packages	**3**	**10**	**2**	**1**	**5**	**11**
Total cost					**£125,803**	**£247,563**

Percentage change in remuneration (subject to audit)

Percentage change 2020/21 to 2021/22	Salary	Performance related pay
Highest paid director	0.0%	0.0%
Employee average	3.6%	15.0%

Highest pay director's pay ratio (subject to audit)

	25th percentile ratio	50th percentile ratio	75th percentile ratio
Year ended 31 March 2022	5.7 : 1	4.4 : 1	3.5 : 1
Year ended 31 March 2021	6.2 : 1	4.6 : 1	3.5 : 1

The percentile ratios have decreased primarily due to the highest paid director's remuneration not changing but with an increase in the median remuneration due to staff turnover.

In 2021/22, 1 (2020/21, 1) employee received remuneration in excess of the highest-paid director in the above remuneration table. Remuneration ranged from £29,000 to £337,000 (2020/21, £28,000 to £309,000).

Pay data (subject to audit)

	Salary £000	Year ended 31 March 2022 Total pay and benefits £000	Salary £000 (restated)	Year ended 31 March 2021 Total pay and benefits £000 (restated)
Highest pay directors remuneration	249	266	249	266
25th percentile	45	47	41	43
50th percentile	59	61	58	59
75th percentile	76	77	74	76

We believe that pay ratios are consistent with the pay, reward and progression policy that we have in place. The external climate has meant an increase in staff turnover and in some instances we have had to review the renumeration of staff to keep in line with the external market. The 2020/21 comparator has been restated to remove pension contributions from total remuneration.

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:

1. Regularity of expenditure
2. Remote contingent liabilities
3. Fees and charges
4. 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' 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 2021/22 (2020/21: none).

Total losses and special payments did not exceed £300,000 in 2021/2022 or 2020/21. 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 78**.

There have been no gifts exceeding £300,000 in 2021/22 (2020/21: none).

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 **page 28**.

Helen Dean, CBE
CEO, Nest Corporation
8 July 2022

The certificate 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 2022 under the Pensions Act 2008.

The financial statements comprise the National Employment Savings Trust Corporation's

– Statement of Financial Position as at 31 March 2022;
– Statement of Comprehensive Net Income, Statement of Cash Flows and Statement of Changes in Taxpayers' Equity for the year then ended; and
– the related notes including the significant accounting policies.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and UK adopted international accounting standards.

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 2022 and its net comprehensive income for the year then ended; and
– have been properly prepared in accordance with the Pensions Act 2008 and Secretary of State directions issued thereunder.

Qualified opinion on regularity

In my opinion, except for the effects of the matter described in the Basis for qualified opinion on regularity section 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 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 £70,000 in 2021/22. I consider the actions carried out by NESTC indicate 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 (UK) (ISAs UK), applicable law and Practice Note 10 Audit of Financial Statements and Regularity of Public Sector Bodies 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 the 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 Chief Executive Officer with respect to going concern are described in the relevant sections of this certificate.

Other Information

The other information comprises information included in the Annual Report, but does not include the financial statements nor my auditor's certificate and report. 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 the part of the Remuneration and Staff Report to be audited has been properly prepared in accordance with Secretary of State directions issued under the Pensions Act 2008.

In my opinion, based on the work undertaken in the course of the audit:

- the parts of the Accountability Report subject to audit have been properly prepared in accordance with Secretary of State directions made under the Pensions Act 2008; and
- the information given in the Performance and Accountability Reports for the financial year for which the financial statements are prepared is consistent with the financial statements and is in accordance with the applicable legal requirements.

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 and Accountability Report.

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

- I have not received all of the information and explanations I require for my audit; or
- adequate accounting records have not been kept by the National Employment Savings Trust Corporation 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 subject to audit are not in agreement with the accounting records and returns; or
- certain disclosures of remuneration specified by HM Treasury's Government Financial Reporting Manual have not been made or the parts of the Remuneration and Staff Report to be audited is not in agreement with the accounting records and returns; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

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

As explained more fully in the Statement of CEO's Responsibilities, the Chief Executive Officer on behalf of the Trustee Corporation is responsible for:

- maintaining proper accounting records;
- the preparation of the financial statements and Annual Report in accordance with the applicable financial reporting framework and for being satisfied that they give a true and fair view;
- ensuring that the Annual Report and accounts as a whole is fair, balanced and understandable;
- 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; and
- 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 either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.

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.

Extent to which the audit was considered capable of detecting non-compliance with laws and regulations including fraud

I design procedures in line with my responsibilities, outlined above, to detect material misstatements in respect of non-compliance with laws and regulations, including fraud. The extent to which my procedures are capable of detecting non-compliance with laws and regulations, including fraud is detailed below.

Identifying and assessing potential risks related to non-compliance with laws and regulations, including fraud

In identifying and assessing risks of material misstatement in respect of non-compliance with laws and regulations, including fraud, we considered the following:

- the nature of the sector, control environment and operational performance including the design of the National Employment Savings Trust Corporation's accounting policies, key performance indicators and performance incentives.
- inquiring of management, the National Employment Savings Trust Corporation's head of 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 National Employment Savings Trust Corporation's compliance with 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 a result of these procedures, I considered the opportunities and incentives that may exist within the National Employment Savings Trust Corporation for fraud and identified the greatest potential for fraud in the following areas: revenue recognition, posting of unusual journals, complex transactions, and bias in management estimates. In common with all audits under ISAs (UK), I am also required to perform specific procedures to respond to the risk of management override of controls.

I also obtained an understanding of the National Employment Savings Trust Corporation's framework of authority as well as other legal and regulatory frameworks in which the National Employment Savings Trust Corporation operates, focusing on those laws and regulations that had a direct effect on material amounts and disclosures in 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 and pensions legislation.

In addition, I considered the risks around regularity of special payments similar to the irregular payments discussed in the Basis for qualified opinion on regularity section above and my following Report.

Audit response to identified risk

As a result of performing the above, the procedures I implemented to respond to identified risks included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described above as having direct effect on the financial statements;
- enquiring of management and the Audit Committee concerning actual and potential litigation and claims;
- reading and reviewing minutes of meetings of those charged with governance and the Board and internal audit reports;
- 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
- review of controls around special payments.

I also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members 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.

Other auditor's responsibilities

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 11 July 2022
Comptroller and Auditor General

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

The 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 2021-22 financial statements of NESTC.

Qualified audit opinion arising from irregular expenditure on retention payments

During 2020-21, NESTC management disclosed to the National Audit Office (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, with £30,000 paid in financial year 2020-21 and £70,000 paid at the start of financial year 2021-22.

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 in 2020-21. NESTC submitted a business case to HM Treasury requesting retrospective approval for the payments which they had already committed to and made. Managing Public Money (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. HM Treasury considered 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.

For the same reasons set out in my Report on the 2020-21 NESTC accounts, as a result of this rejection, I consider the payments made in 2021-22 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. 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 2021-22 accounts.

As set out on **page 79**, NESTC have taken actions to strengthen controls around special payments, including revising the terms of the Nominations and Remuneration Committee, providing training on Managing Public Money for key members of NESTC staff and the Board and maintaining a Managing Public Money payment risk log.

Gareth Davies 11 July 2022
Comptroller and Auditor General

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 2021/22 and notes to these statements.

Nest Corporation financial statements

Statement of comprehensive net income

for the year ended 31 March 2022

	Note	Year ended 31 March 2022 £000	Year ended 31 March 2021 £000
Income			
Members' contribution and annual management charge	2	164,511	127,774
Grant income	3	20,434	25,435
Other income	4	1,058	648
Total operating income		**186,003**	**153,857**
Expenditure			
Staff costs	5a	(29,838)	(29,505)
Scheme investment and administration costs	6b	(123,331)	(106,589)
Depreciation and amortisation	6a	(21,272)	(15,676)
Other expenditure	6c	(17,240)	(23,400)
Total operating expenditure		**(191,681)**	**(175,170)**
Net financing expenditure			
Interest payable	7	(29,429)	(38,039)
Total financing expenditure		**(29,429)**	**(38,039)**
Net comprehensive income for the year		**(35,107)**	**(59,352)**
Other comprehensive net income			
Net gain on revaluation of non-current intangible assets		180	546
Total comprehensive income for the period		**(34,927)**	**(58,806)**

All income and expenditure is derived from continuing operations.

The accounting policies and notes on **page 104** to **page 123** form part of these financial statements.

Statement of financial position

as at 31 March 2022

	Note	As at 31 March 2022 £000	As at 31 March 2021 £000
Non-current assets			
Property, plant and equipment	8	7,698	11,808
Intangible assets	9	17,062	31,008
Intangible assets in development	9	53,889	-
Prepayment amounts falling due over one year	10a	3,458	4,538
Total non-current assets		**82,107**	**47,354**
Current assets			
Trade and other receivables	10b	16,122	16,991
Other current assets	10c	6	12
Cash and cash equivalents	11	129,719	89,393
Total current assets		**145,847**	**106,396**
Total assets		**227,954**	**153,750**
Current liabilities			
Interest payable	12a	(12,115)	(15,512)
Trade and other payables	12b	(26,567)	(19,225)
Other liabilities	12c	(2,240)	(3,972)
Provisions for liabilities and charges falling due in less than one year	14	-	-
Total current liabilities		**(40,922)**	**(38,709)**
Total assets less current liabilities		**187,032**	**115,041**
Non-current liabilities			
DWP loan	13	(994,047)	(883,647)
Other liabilities	13	(246)	(3,646)
Provisions for liabilities and charges falling due in more than one year	14	(1,099)	(1,181)
Total non-current liabilities		**(995,392)**	**(888,474)**
Total assets less total liabilities		**(808,360)**	**(773,433)**
Taxpayers' equity and other reserves			
General reserve		(812,316)	(777,209)
Revaluation reserve		3,956	3,776
Lease incentive reserve		-	-
Total equity		**(808,360)**	**(773,433)**

The accounting policies and notes, on **page 104** to **page 123** form part of these financial statements. The financial statements, including the accounting policies and notes on **page 104** to **page 123** , were approved by the Board on 30 June 2022.

Helen Dean, CBE
CEO, Nest Corporation

8 July 2022

Statement of cash flows

for the year ended 31 March 2022

	Note	Year ended 31 March 2022 £000	Year ended 31 March 2021 £000
Cash flows from operating activities			
Expenditure	5a,6	(191,681)	(175,170)
Members' contribution and annual management charge	2	164,511	127,774
Other Income	4	1,058	648
Grant Income for non-chargeable costs	3	475	495
Adjustment for non-cash items	22	18,001	14,440
Decrease/(increase) in trade and other receivables		979	(801)
Increase in trade and other payables		4,095	266
(Decrease)/Increase in provisions	14	(82)	8
Net cash outflow from operating activities		**(2,644)**	**(32,340)**
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets	22	(69)	(123)
Payments towards imputed lease liability of TCS assets	22	(4,002)	(5,224)
Payments towards Atos assets under construction	22	(53,889)	–
Net cash outflow from investing activities		**(57,960)**	**(5,347)**
Cash flows from financing activities			
Loan interest	7	(29,429)	(38,039)
Public service obligation offset	3	19,959	24,940
Loan received from DWP	13	110,400	106,000
Net cash inflow from financing activities		**100,930**	**92,901**
Net Increase in cash in the period	11	**40,326**	**55,214**
Cash at the beginning of the period	11	89,393	34,179
Cash at the end of the period		**129,719**	**89,393**

The accounting policies and notes on **page 104 to page 123** form part of these financial statements.

Statement of changes in taxpayers' equity

for the year ended 31 March 2022

	Revaluation reserve £000	General fund £000	Total reserves £000
Total taxpayers' equity as at 1 April 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)**
Changes in taxpayers' equity 2021/22			
Release of reserves to the statement of comprehensive net income	–	–	–
Net gain on revaluation of non-current assets	180	–	180
Net expenditure after interest	–	(35,107)	(35,107)
Total changes for 2021/22	**180**	**(35,107)**	**(34,927)**
Total taxpayers' equity as at 31 March 2022	**3,956**	**(812,316)**	**(808,360)**

The accounting policies and notes on **page 104** to **page 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 2021/22 Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector. Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of Nest Corporation for the purpose of giving a true and fair view has been selected. The particular policies adopted by 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 its accounts for the year ended 31 March 2022, 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 Trustee of the Scheme. The Scheme's accounts are prepared separately.

1.1 Basis of preparation

These financial statements have been prepared on an accrual basis under the historical cost convention, modified to account for the revaluation of non-current assets where material. Figures are presented in pounds sterling and are rounded to the nearest £1,000.

1.2 Going concern

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 DWP, which is approved annually by Parliament. 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 21**.

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 2021/22.

The build and implementation costs of the new scheme administration contract with Atos BPS Ltd will be accounted for under International Accounting Standard (IAS) 38: intangible assets. An intangible asset in respect of this is included in the 'Statement of financial position'.

b) New standards, amendments and interpretations issued but not effective for the financial year 2021/22 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

Under the FReM, IFRS 16: leases is not due for adoption until 1 April 2022. Our financial statements for 2021/22 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. See note 25.

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 the services and any significant residual interest. The contract assets are reflected in the 'Statement of financial position' as we control both elements.

The new scheme administration contract with Atos involves judgements to determine the most suitable accounting treatment. We will account for the contract under IAS 38: intangible assets, capitalising the build cost of the new platform as an intangible asset and amortising this asset over the life of the contract.

1.4 b) Critical accounting estimates and assumptions

Revaluation of intangible assets

The FReM interpretation of IAS 38: revaluation of intangible assets requires us to revalue its intangible assets to a 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. The most suitable proxy for our software licences and software development is EWJS: Computers and peripheral equipment.

Software development, Scheme software and software licences

Management's conclusion is that the most appropriate index to use for software development is also EWJS as the best available 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 to June 2023) is an estimate, based on the latest available, reliable information provided by TCS.

1.5 Employee benefits

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

1.6 Pension costs

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

We recognise the employer costs for the Scheme in the period in which they are incurred.

1.7 Value added tax (VAT)

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

The revenue and expenses related to pension's research carried out by Nest Insight, are vatable. However, the rest of 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' (SoCNI) 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 2021/22 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 the 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' (SoFP).

We also receive a commercial rate of interest on loans to the DWP. We also receive a grant from the 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 the performance obligation(s) has been satisfied. With general funding that is not linked to a specific event or deliverable, the revenue will be recognised on a straight-line basis over the period that it has been provided for. Any payment received in advance of the recognition criteria is held as deferred revenue.

All significant contract balances for 2021/22 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 the DWP.

1.9 Loan funding from the DWP

Loan funding is provided by the 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 do not meet either criteria, then expenditure is recognised in the SoCNI.

Internally generated software development costs are capitalised when they meet the criteria for recognition set out in IAS 38: intangible assets. We also capitalise software development costs incurred by both the current scheme administration services provider, TCS, and the future scheme administration services provider, ATOS.

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 or to the end of the current administration contract if shorter

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 SoCNI 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 SoNCI 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. Downwards revaluations of revalued assets that do not result from a clear consumption of economic benefits are debited to the revaluation reserve up to the level of depreciated historical cost. Any excess downwards revaluation is charged to the SoCNI.

Impairment losses that result from a clear consumption of economic benefit are taken directly to the SoCNI. 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 SoCNI.

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: financial instruments. 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 SoCNI.

1.16 Provisions for liabilities and charges

In accordance with IAS 37: provisions, we provide for legal or constructive obligations where the transfer of economic benefit is probable but the timing or amount of the transfer 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 in note 1.19.

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 SoCNI.

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 the FReM. Where we control the services provided and retain a significant residual interest in the asset, the asset is recognised in our 'Statement of financial position' SoFP.

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 2022 £000	Year ended 31 March 2021 £000
Members' contribution and annual management charges	164,511	127,774
Total	**164,511**	**127,774**

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 investments under management.

3 Grant income

	Year ended 31 March 2022 £000	Year ended 31 March 2021 £000
Grant income for non-chargeable costs	475	495
Public service obligation offset payment	19,959	24,940
Total	**20,434**	**25,435**

Costs associated with the functions of government are not chargeable to Scheme members and are met through grant income funding from the 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 the 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 2022 £000	Year ended 31 March 2021 £000
Interest received and receivable	53	8
Sponsorship and research revenue	888	540
Sponsorship and research revenue from the DWP	117	100
Total	**1,058**	**648**

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

The sponsorship and research revenue is to fund our in-house research and innovation centre, Nest Insight. Additionally, Nest Insight received a research grant of £117k in 2021/22 (compared with £100k in 2020/21) from the DWP. The grant is not classified as state aid.

5 Staff numbers and related costs

a) Staff costs

In 2021/22 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 2022 £000	Year ended 31 March 2021 £000
Directly employed staff		
Wages and salaries	24,008	22,240
Social security costs	3,044	2,851
Pension costs	1,944	1,733
Subtotal	**28,996**	**26,824**
Secondees	27	384
Interim staff	815	2,297
Total staff costs	**29,838**	**29,505**

b) Pension arrangements

We operate one active defined contribution (DC) workplace pension scheme for our directly employed staff. There were 366 workers in this scheme as at 31 March 2022 (compared with 359 as at 31 March 2021).

We recognise the employer's costs in the period to which they relate. At 31 March 2022 there was one month's contributions outstanding amounting to £257k (compared with £248k as at 31 March 2021).

6 Depreciation, amortisation and other expenditure

	Note	Year ended 31 March 2022 £000	Year ended 31 March 2021 £000
a) Depreciation and amortisation			
Depreciation and amortisation	8,9	21,272	15,676
Total		**21,272**	**15,676**
b) Scheme investment and administration costs			
Scheme administration expenses		102,350	93,187
Scheme investment costs		20,981	13,402
Total		**123,331**	**106,589**
c) Other expenditure			
Professional fees and advice		4,414	6,557
Information technology and telecoms equipment		3,163	3,679
Legal fees and expenses		1,644	3,514
Accommodation		3,669	3,529
Research, marketing and communications		1,402	2,097
Recruitment and training		1,006	879
Movements in property repair provisions in the year	14	(82)	8
Insurance		720	965
Loss on disposal of non-current assets		570	1,561
Industry engagement		251	243
Travel and subsistence		45	–
Auditor’s remuneration – Nest Corporation		96	96
Auditor’s remuneration – Scheme		180	100
Other running costs		162	172
Total		**17,240**	**23,400**

Scheme administration expenses shown here are exclusive of £530k (compared with £800k in 2020/21) set aside for asset refresh prepayment in 2021/22.

7 Interest payable

	Year ended 31 March 2022 £000	Year ended 31 March 2021 £000
Loan interest paid and payable	29,429	38,039
Total	**29,429**	**38,039**

Interest payable relates to interest charged on balances outstanding on the loan from the DWP (see note 13). Our weighted average cost of capital (WACC) is the effective cumulative interest rate on the loan from the DWP. Under the terms of the loan agreement, we borrow at a fixed commercial rate of interest prevailing at the time of each drawdown. We receive a grant from the DWP (public service obligation offset payment) which effectively reduces the commercial rate to the government borrowing rate. The cumulative WACC at 31 March 2022, net of the grant, is 2.77% (compared with 2.08% in 2020/21).

8 Property, plant and equipment

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 and Atos for scheme administration.

2021/22	Furniture and fittings £000	Information technology £000	Scheme hardware £000	Total £000
Cost				
As at 1 April 2021	510	865	20,253	21,628
Additions	3	52	2,324	2,379
Disposals	–	–	(1,599)	(1,599)
As at 31 March 2022	**513**	**917**	**20,978**	**22,408**
Depreciation				
As at 1 April 2021	(208)	(541)	(9,071)	(9,820)
Charged in period	(73)	(172)	(5,767)	(6,012)
Disposals	–	–	1,122	1,122
As at 31 March 2022	**(281)**	**(713)**	**(13,716)**	**(14,710)**
Net book value at 31 March 2022	**232**	**204**	**7,262**	**7,698**
Asset financing:				
Owned	232	204	7,262	7,698
Net book value at 31 March 2022	**232**	**204**	**7,262**	**7,698**

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
Impairments	–	–	–	–
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)
Impairments	–	–	–	–
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**

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 and Atos for scheme administration.

2021/22	Note	Scheme software in development £000	Scheme and Corporation software licences £000	Scheme developed software £000	Total £000
Cost					
As at 1 April 2021		–	30,329	76,863	107,192
Additions		53,889	1,227	-	55,116
Disposals		–	(737)	–	(737)
Revaluation	a	–	278	562	840
As at 31 March 2022		**53,889**	**31,097**	**77,425**	**162,411**
Amortisation					
As at 1 April 2021		–	(21,932)	(54,252)	(76,184)
Charged in period		–	(4,808)	(10,452)	(15,260)
Disposals		–	644	–	644
Revaluation	a	–	(187)	(473)	(660)
As at 31 March 2022		**-**	**(26,283)**	**(65,177)**	**(91,460)**
Net book value at 31 March 2022	b	**53,889**	**4,814**	**12,248**	**70,951**

2020/21	Note	Scheme software in development £000	Scheme and Corporation software licences £000	Scheme developed software £000	Total £000
Cost					
As at 1 April 2020		–	29,294	71,915	101,209
Additions		–	2,777	3,384	6,161
Disposals		–	(2,250)	–	(2,250)
Revaluation	a	–	508	1,564	2,072
As at 31 March 2021		**-**	**30,329**	**76,863**	**107,192**
Amortisation					
As at 1 April 2020		–	(19,496)	(43,737)	(63,233)
Charged in period		–	(3,444)	(9,361)	(12,805)
Disposals		–	1,380	–	1,380
Revaluation	a	–	(372)	(1,154)	(1,526)
As at 31 March 2021		**-**	**(21,932)**	**(54,252)**	**(76,184)**
Net book value at 31 March 2021	b	**-**	**8,397**	**22,611**	**31,008**

a) Intangible assets were revalued to fair value by applying an appropriate Office of National Statistics index. The revaluation or devaluation gain or charge reflects movements in the index since 1 April 2021.

b) Net book value of Corporation software as at 31 March 2022 was £20k (compared with £nil in 2020/21).

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

	As at 31 March 2022 £000	As at 31 March 2021 £000
a) Amounts falling due over 1 year		
Lease premium on property	3,458	3,832
Prepayments in respect of asset refresh	–	706
	3,458	**4,538**
b) Amounts falling due within 1 year		
Accrued income public sector obligation offset payment	8,106	10,433
Accrued grant income for non-chargeable costs	227	257
Lease premium on London property less than 1 year	374	374
Prepayments in respect of asset refresh less than 1 year	530	800
Other trade receivables	106	9
Other prepayments and accrued income	6,779	5,118
	16,122	**16,991**
c) Other current assets		
Staff loans	6	12
Total	**19,586**	**21,541**

Included in the prepayments is £0.5 million (compared with £1.5 million in 2020/21) for amounts set aside from service charges to fund future scheme asset replacement. It is estimated that part of the £0.5 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 £3.8 million (compared with £4.2 million in 2020/21) has been recognised for advanced payments made to the landlord.

Included in other prepayments and accrued income is £5.9 million of accrued annual management charges.

11 Cash

Cash consists of cash held within a Government Banking Service bank account.

	As at 31 March 2022 £000	As at 31 March 2021 £000
Opening balance	89,393	34,179
Net change in cash balances	40,326	55,214
Balance at end of year	**129,719**	**89,393**

12 Current liabilities

	As at 31 March 2022 £000	As at 31 March 2021 £000
a) Interest payable		
Accrued interest payable to the DWP	12,115	15,512
	12,115	**15,512**
b) Trade and other payables		
Trade payables	1,618	755
Accruals	24,949	18,470
	26,567	**19,225**
c) Other liabilities		
Other taxation and social security	1,012	875
Pension costs liability	257	248
Imputed finance lease element of TCS assets	971	2,849
	2,240	**3,972**
Total	**40,922**	**38,709**

13 Non-current liabilities

	As at 31 March 2022 £000	As at 31 March 2021 £000
DWP loan	994,047	883,647
Imputed finance lease element of TCS assets	246	3,646
Total	**994,293**	**887,293**

Loan funding from the DWP is provided to meet the Scheme's implementation and running costs and will subsequently be repaid from charges levied on Scheme members. The interest rate on each loan drawdown is determined by the interest rate prevailing at the time of taking out the loan. At 31 March 2022, the weighted cost of capital on loan funding was 2.77% (compared with 2.08% as at 31 March 2021) (see note 7). Interest on loans is payable in April and October each year.

In total, an imputed finance lease of £1.2 million (compared with £6.5 million in 2020/21) has been recognised, mainly reflectingthe shortfall between the scheme administration assets recognised and cash payments made to TCS.

14 Provisions for liabilities and charges

	Note	Year ended 31 March 2022 £000	Year ended 31 March 2021 £000
Balance at 1 April 2021		1,181	1,173
(Released)/Provided in the year	6	(82)	8
Balance as at 31 March 2022		**1,099**	**1,181**
Classified as:			
Amounts falling due within 1 year		–	–
Amounts falling due over 1 year		1,099	1,181
		1,099	**1,181**

The provision of £1,099k compared with £1.181k in 2020/21 relates to a dilapidation liability for 10 South Colonnade. This is based upon our share of the dilapidation costs which are due at the end of the tenancy in 2032/2033.

15 Capital and other financial commitments

a) Capital and other financial commitments

	As at 31 March 2022 £000	As at 31 March 2021 £000
Contracted financial commitments not included elsewhere in these financial statements		
< 1 Year	60,127	63,112
1-5 Years	233,672	210,872
> 5 Years	213,791	248,105
Balance as at 31 March 2022	**507,590**	**522,089**

The contracted commitments relate to the next scheme administration contact with ATOS BPS Limited (£507,552k) and banking services (£38k).

The next scheme administration contracted commitments relates the new contract with ATOS BPS Limited 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 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:	As at 31 March 2022 £000	As at 31 March 2021 £000
Not later than 1 year	102,784	93,973
Later than 1 year and not later than 5 years	27,417	132,513
Total gross obligation	**130,201**	**226,486**
Less interest element discount	(738)	(3,257)
Present value of obligations	**129,463**	**223,229**

Present value of obligations under service concession arrangements reflected in the statement of financial position for the following periods comprise:	As at 31 March 2022 £000	As at 31 March 2021 £000
Not later than 1 year	102,784	93,973
Later than 1 year and not later than 5 years	26,679	129,256
Total present value of obligations	**129,463**	**223,229**

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

The total amount charged to the statement of comprehensive net income in 2021/22 in respect of the service element of this service concession was £102.4 million (compared with £93.2 million in 2020/21) and the payments to which we are committed (subject to the conditions of the contract, particularly volume levels) are as follows:

	As at 31 March 2022 £000	As at 31 March 2021 £000
Not later than 1 year	95,563	84,920
Later than 1 year and not later than 5 years	27,041	120,112
Total	**122,604**	**205,032**

16 Commitments under leases

Operating leases

Future minimum lease payments comprise:	As at 31 March 2022 £000	As at 31 March 2021 £000
Buildings:		
Within 1 year	3,180	2,942
Between 1 year and 5 years	13,581	12,673
Over 5 years	19,900	23,055
	36,661	**38,670**

The future minimum lease payments represent a lease for our offices at South Colonnade from 1 April 2022 to 27 June 2032.

17 Financial instruments

Financial assets	Note	As at 31 March 2022 £000	As at 31 March 2021 £000
Cash and cash equivalents	11	129,719	89,393
Staff loans	10c	6	12
Total		**129,725**	**89,405**

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

Financial liabilities	Note	As at 31 March 2022 £000	As at 31 March 2021 £000
DWP loan	13	994,047	883,647
Trade payables	12b	1,618	755
Accruals	12	37,064	33,982
Total		**1,032,729**	**918,384**

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 5 years.

The book value of our financial assets and liabilities as at 31 March 2022 and 31 March 2021 are not materially different from their fair values.

18 Contingent liabilities disclosed under IAS 37

There are no contingent liabilities to disclose for 2021/22 or 2020/21.

19 Contingent assets disclosed under IAS 37

There are no contingent assets to disclose for 2021/22 or 2020/21.

20 Losses and special payments

There are neither losses nor special payments over £300k to disclose for 2021/22 nor 2020/21.

21 Related-party transactions

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

	Note		Year ended 31 March 2022 £000		Year ended 31 March 2021 £000
		Income	Expenditure	Income	Expenditure
Loan funding and repayment	13	110,400	–	106,000	–
Sponsorship and research revenue	4	117	–	100	–
Loan interest	7	–	29,429	–	38,039
Other transactions	3	20,434	330	25,435	362
Total		**130,951**	**29,759**	**131,535**	**38,401**

As at 31 March 2022, excluding the liability to repay the loan which does not come into effect for more than 12 months, we had £12.1 million outstanding liability with DWP (compared with £15.5 million in 2020/21).

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 and innovation centre, Nest Insight)

During 2021/22 we received income from the Scheme of £164.5 million (compared with £127.8 million in 2020/21). See **page 110** for details.

Nest Corporation is a participating employer in the Scheme. Contributions of £3.1 million (compared with £2.7 million in 2020/21) were payable by us to the Scheme during the period.

Nest Invest is a wholly owned subsidiary of Nest Corporation. The Corporation is exempt under the terms given in Section 33. 1A of FRS 102 from disclosing related party transactions with Nest Invest.

No Board members have undertaken any material transactions with Nest Corporation during the period. Board members pay into the Nest Pension Scheme on general terms.

Disclosure of compensation paid to Board members, expense allowances and similar items paid in the ordinary course of operations are presented within the Remuneration and staff report.

22 Cashflow analysis

	Note	Year ended 31 March 2022 £000	Year ended 31 March 2021 £000
Non-cash items			
Depreciation and amortisation	6a	21,272	15,676
Loss on disposal of assets	6c	570	1,561
Prepayment asset refresh		(240)	(619)
Offset for lease liability		(3,746)	(2,312)
Finance credit charge		145	134
Total non-cash items		**18,001**	**14,440**
Purchase of property, plant and equipment and intangible assets			
Purchase of software licenses		(17)	–
Purchase of IT	8	(52)	(123)
Total of property, plant and equipment and intangible assets		**(69)**	**(123)**
Payments towards imputed lease liability of TCS assets			
Total lease liability payments made in the year		**(4,002)**	**(5,224)**
Prepayment towards Atos assets under construction		**(53,889)**	**–**

23 Political and charitable donations

We made no political or chariable donations in 2021/22 or 2020/21.

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 CEO for issue on the date of the Comptroller and Auditor General's audit certificate.

25 IFRS16 disclosure

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 2021/22 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.

IFRS 16 eliminates the operating/finance lease distinction and imposes a single model geared towards the recognition of all except low-value or short term (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 and lease liability.

Our office contract for 10 South Colonnade is our only operating lease. Under the FReM, this lease is required to be transitioned to IFRS 16 from 1 April 2022.

The lease liability will be measured at initial recognition as the present value of future lease payments, with the right-of-use asset additionally including the estimate of any dismantling/restoration costs.

Table 1: Lease liability and right-of-use asset recognised on 1 April 2022

	£000
Operating commitments reported at 31 March 2022	36,661
Expenses relating to service and facility charges	(21,711)
Effect of discounting at incremental borrowing rate	(1,282)
Lease liability – property as at 1 April 2022	**13,668**
Other initial direct costs	3,832
Rent accruals	(17)
Right-of-use asset – property as at 1 April 2022	**17, 483**

The Corporation has elected the following practical expedients:

- has applied a discount rate equivilant to the incremental cost of borrowing as at 1 April 2022;
- relied on its assessment of whether leases are onerous applying IAS37 immediately before

1st April 2022 as an alternative to peforming an impairment analysis. The analysis of the onerous contracts as at 31 March 2022 has not resulted in a need to recognise an impairment allowance. The right-of-use assets as at 1 April 2022 is therefore not adjusted for any impairment;

The following line items were affected by the adjustments and reclassifications made with respect to the amounts recognised at the date of initial application – 1 April 2022:

Table 2: Reclassification impact

	Position at 31 March 2022 under IAS17 £000	IFRS 16 adjustments £000	Position at 1 April 2022 under IFRS16 £000
Non-current assets			
Plant, property and equipment	7,698	(7,262)	436
Intangible assets	17,062	(17,042)	20
Lease premium on property falling due over 1 year	3,458	(3,458)	-
Other non-current assets	53,889	-	53,889
Total non-current assets	**82,107**	**(27,762)**	**54,345**
Right-of-use assets			
TCS assets - Scheme hardware	-	7,262	7,262
TCS assets - Scheme software licences	-	4,794	4,794
TCS assets - Scheme developed software	-	12,248	12,248
Right-of-use - Property	-	17,483	17,483
Total right-of-use assets	**-**	**41,787**	**41,787**
Lease premium on property falling due within 1 year	374	(374)	-
Other current assets	145,473	-	145,473
Current assets	**145,847**	**(374)**	**145,473**
Total assets	**227,954**	**13,651**	**241,605**
Total equity	**(808,360)**	**(17)**	**(808,377)**
Imputed finance lease element of TCS assets >1yr	971	-	971
Lease liabilities - property	-	12,432	12,432
Other non-current liabilities	994,421	-	994,421
Non-current liabiities	**995,392**	**12,432**	**1,007,824**
Imputed finance lease element of TCS assets <1yr	246	-	246
Lease liabilities - property	-	1,236	1,236
Other current liabilities	40,676	-	40,676
Current liabilities	**40,922**	**1,236**	**42,158**
Total equity and liabilities	**227,954**	**13,651**	**241,605**

Subsequent measurement of both asset and liability will need to respond to any changes in lease terms, and the accounting for the asset will be on a revaluation (fair value) model.

Our Scheme administration contract with TCS is a finance lease recognised in the 'Statement of financial position'. In 2022/23 this will be presented separately from other non-lease assets and liabilities as a right-of-use asset and lease liability.

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 DWP 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 was 6.8% for nine months of the year and then reduced to 6.5% for the last three months of the year (6.8% in prior years).

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

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

There has been a drop in scope 2 reported emissions compared to 2020/21, which is mainly ascribed to the reduction in occupancy rate used by the landlord to allocate emissions as from the beginning of January 2022 where typically the majority of scope 2 emissions peak during the coldest winter months. This was further compounded by a reduction in staff working in the office in the winter months with most working from home due the concerns around the spike in the omicron variant.

There has been an increase in Scope 3 emissions as business-related travel has resumed following the relaxation of the government guidance on WFH measures. This has resulted in a significant increase in the usage of private vehicles, taxis, and rail journeys. Air travel emissions have, however, continued to decrease due to continuing pressure to use cheaper and less polluting transport. We do expect to see a further increase in Scope 3 emissions in future years as staff move to a more hybrid way of working, but these are not expected to rise to pre-pandemic levels.

The total amount of waste we have produced has increased by 76% compared to 2020/21. Once again, a higher proportion of waste disposed of has been recycled in comparison to 2020/21, with around 84% of total waste being recycled. The building management company has confirmed that the waste incinerated was sent to an energy-from-waste facility to produce refuse-derived fuel and therefore had an element of energy recovery.

Measurement of the environmental impact of ICT is within scope of our net zero strategy project. During 2021/22 we procured a specialist consultancy service to work with us in developing a net zero strategy for the corporation, with work starting in June 2022.

Our paper usage has remained static compared to last year. Although the number of staff attending the office during the year increased compared to 2020/21, they have continued with a decreased reliance on printing and paper copies.

Environmental performance 2021/22

Area	Actual performance	Normalising data (per headcount)
Employee count		370[1]
Estate energy and emissions		
GHG emissions from offices	158 tonnes CO_2e	0.43 tonnes CO_2e
Total organisation energy consumption	745,191 kWh	2,014 kWh
Total energy expenditure	£115,187	£311.32
Travel emissions		
CO_2e emissions from business travel[2]	2 tonnes CO_2e	0 tonnes CO_2e
Total expenditure on business travel	£9,511	£25.70
Waste		
Total waste produced[3]	15.3 tonnes	0.04 tonnes
Total recycled/reused	12.8 tonnes	0.03 tonnes
Total incinerated[4]	2.5 tonnes	0.01 tonnes
Total to landfill	0.0 tonnes	0.00 tonnes
Total waste expenditure	£6,599	£17.84
Paper		
Total paper usage	0 tonnes CO_2e	0 tonnes CO_2e
Total paper expenditure	£25	£0.07
Water		
Total water consumption	856m^3	2m^3
Total water expenditure	£1,575	£4.26

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.

3 Zero waste associated with ICT and Consumer Single Use Plastics in 2021/22.

4 Zero waste was incinerated without energy recovery and zero waste composted or sent to anaerobic digestion in 2021/22.

Greenhouse gas emissions (GHG)

The data for scope 2 emissions for 2021/22 is taken as a percentage of the overall data for the building based on our 6.8% occupancy (for nine months) and 6.5% (for 3 months) occupancy (6.8% in prior years). This provides us with an indication of performance.

Greenhouse gas emissions		2019/20	2020/21	2021/22
Non-financial indicators (tonnes CO_2e)	**Scope 2 - Gas and electricity**			
	Gas	4.0	3.7	3.6
	Electricity – total	218.2	199.7	154.1
	Electricity – brown[1]	n/a	n/a	n/a
	Electricity – green[1]	n/a	n/a	n/a
	Electricity – CHP	-	-	-
	Total scope 2	**222.2**	**203.4**	**157.7**
	Scope 3 - Business travel			
	Private vehicle	11.5	0.6	1.2
	Car hire	0.1	0.0	0.0
	Taxis	0.8	0.0	0.2
	Air	181.4	1.4	0.3
	Rail	6.5	0.1	0.4
	Total scope 3	**200.3**	**2.1**	**2.1**
	Total emissions	**422.5**	**205.4**	**159.8**
	Scope 3 - Paper			
	Paper	1.9	0.1	0.0

Notes

1. The building management company is unable to allocate the electricity costs and usage to green and brown electricity based on the information supplied to them from the electricity suppliers.

Greenhouse gas emissions		2019/20	2020/21	2021/22
Related energy consumption in kilowatt hours (kWh)	**Scope 2 - Gas and electricity[2]**			
	Gas	21,599	20,054	19,535
	Electricity – total	786,762	788,580	725,656
	Electricity – brown[1]	n/a	n/a	n/a
	Electricity – green[1]	n/a	n/a	n/a
	Electricity – CHP	-	-	-
	Total scope	**808,361**	**808,634**	**745,191**
Financial indicators (£)	**Scope 2 - Gas and electricity[2]**			
	Gas	368	802	1,515
	Electricity – total	112,331	95,416	113,671
	Electricity – brown	n/a	n/a	n/a
	Electricity – green	n/a	n/a	n/a
	Electricity – CHP	-	-	-
	Total scope 2	**112,699**	**96,219**	**115,187**
	Scope 3 - Business travel			
	Private vehicle	20,342	1,103	2,243
	Car hire	142	-	-
	Taxis	6,894	5	960
	Air	159,834	1,902	789
	Rail	54,124	944	5,518
	Total scope 3	**241,336**	**3,954**	**9,511**
	Scope 3 - Paper			
	Paper	2,047	67	25
Volume of paper in reams	**Scope 3 - Paper**			
	A4	740	15	15
	A3	30	5	0

Notes

1. The building management company is unable to allocate the electricity costs and usage to green and brown electricity based on the information supplied to them from the electricity suppliers.
2. The utilites 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.

Business travel emissions

Tonnes CO_2e

	Private vehicle	Car hire	Taxi	Air	Rail
2020/21	0.6	0.0	0.0	1.4	0.1
2021/22	0.6	0.0	0.2	0.3	0.4

Greenhouse gas emissions

Tonnes CO_2e

	Gas and electricity (scope 2)	Business travel (scope 3)
2020/21	203.4	2.1
2021/22	157.7	2.1

GHG performance commentary including target

We are 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.

Use of finite resources

Scope 2 – Water consumption		2019/20	2020/21	2021/22
Non-financial indicators (m^3)	Water consumption	2,360.1	600.6	856.1
Financial indicators (£)	Total water costs[1]	4,811.0	1,442.4	1,574.8

Performance commentary

Our current water usage is 2.31m^3 per person which represents a 50% increase compared with the previous year. This increase is driven mainly by an increase in the headcount being in the office following the relaxation of the government guidance on WFH measures. This increase has, however, been slightly mitigated by a 5% fall in headcount to 370 compared to the prior year of 390, and also a reduction in the total building space which we occupy down from 6.8% in prior years to 6.8% (for nine months) and 6.5% (for three months) in 2021/22.

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		2019/20	2020/21	2021/22
Non-financial indicators (tonnes)	Waste to landfill	0.0	0.0	0.0
	Waste recycled/ reused	5.2	7.0	12.8
	Waste incinerated[1]	9.1	1.8	2.5
	Total waste	14.3	8.7	15.3
Financial indicators (£)	Total waste costs[2]	6,272	6,272	6,599

Performance commentary

All of the waste produced by us 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% (for nine months) and 6.5% (for three months) occupancy building (6.8% in prior years) and total waste figures supplied by the building management company. The increase in waste costs is is driven mainly by an increase in the headcount being in the office following the relaxation of the government guidance on WFH measures.

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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