Nest,
the National Employment Savings Trust

Corporation annual report and accounts 2022/23

HC 1889

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For the period 1 April 2022 to 31 March 2023

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HC 1889

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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Any enquiries regarding this publication should be sent to:

Nest Corporation
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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 2022/23 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 2022/23, including principal risks and our overall financial position.

Chair's statement

Brendan McCafferty, Chair, Nest Corporation

As households deal with inflation and the cost-of-living crisis, uncertainty and change have continued to affect the lives of UK citizens through 2022 and into 2023. Many are experiencing difficult choices between competing priorities. Hopefully, knowing they are saving with us to secure their financial future in retirement can provide some comfort and peace of mind for our members when thinking about their future.

The year in review

Nest was established to provide a pension scheme to those saving for retirement under the auto enrolment programme. Unlike any other pension, Nest has a Public Service Obligation (PSO) to accept any employer that wishes to use the Scheme to fulfil its pensions duties, regardless of whether they are profitable to the Scheme or not. Now with 12 million members and savings of nearly £30 billion under management, we are focused entirely on our purpose of helping millions enjoy a better retirement. We are a public body and any surplus we generate will be reinvested in the interests of our members. Nest brings all the advantages of world-class investment strategy combined with expertise, low costs, and member focus.

We aim to achieve returns for members' savings that beat inflation in the long-term. We recognise that our members are looking to us to help them grow their retirement savings enough to outpace the increasing cost of living year-on-year over the long-term.

In 2022 we saw adjustments in investment values – as did most pension and long-term savings funds. However, historical trends show that year-on-year fluctuations often iron out over time. If members commit to keep saving, then we will do our job and continue to work hard to deliver a bigger pension in a better world.

How we performed

As at 31 March 2023, we were investing pension savings for just over 12 million Scheme members – about 36.5% of people in employment in the UK[1], or around 40% of payrolled employees in the UK.[2] Every month we received on average £542 million in new contributions to members' pots. Some members have contributions going into their pot every pay period, some only now and then, and some have a pot from a previous employment in our safekeeping.

Economic research and historical data shows people achieve better retirement outcomes when they continue to save over many years.[3] We appreciate this can be challenging, but would remind members of the matching tax breaks, and where relevant, the employer contributions on offer. Both of which still make pensions the best way to save for retirement for most people. It should be remembered that pensions are a long-term commitment, with any short-term economic fluctuations usually balancing out in the long run.

The large majority of Scheme members remain in our 'default' investment approach known as 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. The 2040 fund's annualised returns over 10 years of 7.3% outperformed our objective of 5.8%. This is in line with our ambition for the Scheme – to deliver the advantages of world-class investment management and achieve consistent returns for our members, over the many years they'll be saving with us.

1 Labor market in the United Kingdom – Statistics & Facts **(statista.com)**

2 Labour market overview, UK – Office for National Statistics **(ons.gov.uk)**

3 **nestpensions.org.uk/schemeweb/nest/investing-your-pension/saving-for-your-future/advantage-saving-early.html**

Developing our investment strategy

As at 31 March 2023, we were managing £29.6 billion on behalf of the Scheme's members. We design our evolving investment strategy with an awareness that public stock markets can sometimes become volatile, as they are now.

We've continued to extend the range of asset types we have in the Scheme's investment portfolio, this includes just under £0.5 billion we've invested with our newly appointed private equity managers. These new mandates have allowed 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. We look to put a proportion of the Scheme's portfolio in illiquid investments offering additional diversification and alternative return opportunities for strong, steady risk-adjusted returns over the long term.

Investing responsibly

Addressing environmental issues like climate change across our members' investments is a key priority for us as is 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.

Some good examples of our commitment to stewardship, firstly was our challenge to BP's recent decision to scale back its decarbonisation pledges. We were disappointed that the company announced weaker medium-term emissions targets and that shareholders were not able to vote on the new targets. As a result, we escalated our engagement with BP by voting against the re-election of the Chair of the BP Board and we publicly announced our voting intentions ahead of BP's annual general meeting. Secondly, in 2022 we engaged with several food and drink companies requesting that they disclose the proportion of their UK food and drink sales derived from High in Fat, Salt or Sugar (HFSS) products and healthier products. Following our engagement, Nestlé announced commitments to report on the healthiness of the products it sells. Although a positive step, this still fell short of investor expectations and Nest co-signed a public statement ahead of Nestlé's AGM calling for Nestlé to set a target to increase the proportion of sales of healthier products.

We are also proud that our signatory status to the new Stewardship Code was reapproved by the Financial Reporting Council. In all these endeavours, our goal is to help our members achieve a bigger pension in a better world.

Serving our customers

Our commitment to delivering a reliable service has helped us to maintain good customer satisfaction in 2022/23, with 71% of members and 73% of employers saying we deliver good to excellent service.

Ensuring our services remain easy to use for members and employers is a vital part of what we do, as is engaging members through clear communication. We’ve continued to improve the help we provide to employers and intermediaries such as payroll providers and advisers, and we’ve run campaigns to provide valuable information to members to help them to make the most of their Nest account. This includes providing clear information about how we’re investing their money responsibly. We believe these campaigns can help to demystify pensions and build our members’ trust in saving.

One of the most fundamental ways we can help ensure our members realise better retirement outcomes is by protecting their assets and data. For this reason, we strongly support The Pensions Regulator (TPR) pledge to combat pension scams, to which we are a signatory. We have robust controls in place to ensure our processes and systems are secure and we continue to encourage all our members to remain vigilant against threats from scammers and fraudsters. Research has shown that in the last year online searches by those looking for support after falling victim to pension or investment scams has increased significantly. We recommend to our members that before transferring their pension, they should compare all the benefits, charges, and features, and consider the financial position and regulatory compliance of the scheme they are transferring to as well as recommending they seek independent advice if unsure.

Following a successful procurement process, in 2021 Atos BPS were awarded the future scheme administration contract with a programme of work to develop our service. In January 2023, after working together for two years, we took the decision, in agreement with Atos BPS, to end our partnership. The Board of Nest Corporation (the Board) had, at the forefront of its concerns, the potential impact on the continuity of a quality service to our members and whilst the work delivered in those two years has built a solid foundation for the future transformation of our service, we could not reach a point where an implementation plan could be agreed that met the strategic aims for the transformation in a way which was consistent with the commercial and risk appetite of both organisations. This decision, made in agreement with Atos BPS, followed a period of significant consideration, including external legal and professional advice, and was taken by the Board with the overarching interests of our members the priority.

To ensure the risk of service continuity was mitigated, we acted quickly to secure an extension to our current service, using clauses within the existing contract with Tata Consultancy Services (TCS). Following a reassessment of our procurement approach and risk appetite, with support from an objective, independent market review we started a new procurement exercise. Our commercial, technical and service requirements for our transformation had not changed since our original procurement process, although we adjusted our risk appetite requiring any future partner to have experience in operating within the UK defined contribution pensions market. We concluded our procurement exercise in June 2023, appointing TCS as our long-term scheme administrator and realising the strategic aims set out above.

Nest Corporation’s financial accounts, in 2022/23, reflect expenditure of £74 million for the 2-year programme of work undertaken. This work established a solid base for the next chapter in our digital transformation.

The transformation programme with our new partner, TCS, is in its early stages, and one of their first priorities is to understand how and when the work produced during the initial stages of the development of the Atos BPS design will bring the most benefit to our transformation programme, and ultimately to our customers.

We appointed an independent advisor to conduct a thorough lessons-learnt exercise to review the procurement and subsequent implementation programme with Atos BPS and have ensured that we have the necessary controls and mitigations in our contract with TCS to manage our principal risk of service delivery and to ensure we continue to deliver value for our members.

Working with Atos BPS helped develop the next steps for our digital transformation, and our new contract with TCS has significantly reduced the cost of scheme administration services when compared to the current service and has helped to reduce the forecasted date for our loan repayment compared to prior plans. While this programme of work has been significant for Nest, it has also ensured we are working in the long-term best interests of our members.

Looking forward

Among the things we continue to explore is how we can develop our services to members once they reach retirement age. This year we've particularly focused on how our retirement proposition can best serve our members in later life and expect to enhance what we offer to members in this respect over the coming years.

Nest Insight published the final findings from its ground-breaking sidecar savings research. The research showed that the idea of workplace emergency savings is popular with workers. Many believe they would benefit from using them, and for those who sign up there are very clear financial resilience and wellbeing benefits. Around 4% of those enrolled have also gone on to make additional pension contributions. So, the evidence on the effectiveness of these accounts is promising. But the research also showed that take-up remains stubbornly low when savings accounts are offered on an opt-in basis.

Nest Insight have now moved on to further research 'opt-out' versions of workplace emergency savings. Promising early findings suggest such approaches can increase participation in these accounts by around 50 percentage points – a dramatic result. This critical work continues to improve our understanding of how we can support pension savers' broader financial needs, and we are excited about the potential of Nest Insight's ongoing activity in this space.

Governance and stewardship

We continue to work hard to evaluate, challenge and improve our governance, with an eye to ensuring our practices are continually in line with our responsibility to act in member interests. Everything is underpinned by our accountability to members. We always aim to achieve high standards of corporate governance and to 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 of the audit committee, Clive Elphick, and the outgoing chair of the nominations and remuneration committee and a Senior Independent Director, Jill Youds, for their years of service and stewardship.

We would not be able to deliver on our purpose without our key business partners – our Scheme administrator, TCS and our fund administrator, State Street Bank and Trust Company (SSB). They have ensured our customers continue to have dependable access to the Scheme, day after day. Members can be assured that the continuity of service is in place through existing arrangements.

I am also continually grateful to the talented 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. With just over a year into my tenure as Chair, I continue to be impressed by the organisation's consciousness, candour, and hard work.

We care about how our work will shape the future for the pensions industry and, most importantly, for Scheme members. As the Scheme continues to grow, 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


Business Plan
20%
25%
30%
25%

CEO's statement

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

I am very proud of what Nest Corporation has achieved this year, often in difficult circumstances.

Despite a year of uncertainty and market volatility, our robust performance over 2022/23 highlights the value we work hard to offer our customers – our members, employers and third-party connectors. The hard work, dedication and focus demonstrated by our colleagues and our partner organisations ensures that we continue to provide a high-quality pension scheme for all those seeking a better retirement.

Our focus on members underpins everything we do. It gives us a strong sense of purpose. We regard it as our duty to deliver an excellent service and strong returns for our members. We continue to build our capabilities to support customer needs into the future and take all possible steps to protect their money and data from financial crime.

The last year was challenging for our customers and our colleagues. The repercussions of the cost-of-living crisis, high interest rates and stagnant real wages are felt by all. Our members, and the businesses they work for, continue to face financial uncertainty and I am proud that we have been there for them throughout this difficult period. In a small way, by ensuring that the administration of a pension scheme doesn't take up too much of their time we can help employers to focus on their business. That is why we have improved our website layout for intermediaries, such as advisors and payroll providers, and developed content aimed at small and micro employers.

Beyond the economy, our members face multiple uncertainties and challenges, including the global climate crisis. In this environment, it is essential that we are seen as an organisation that can be trusted. We have displayed our commitment to responsible investment, an approach which is aimed at boosting members' pots whilst improving the environment we all live and retire in. We also use our scale and position as investors to drive conversations on important issues such as climate change.

Our customers have always been at the centre of our thinking and this year we have spent time understanding the challenges they face. This insight will further strengthen our capability and capacity to support them. The year also brought challenges within Nest Corporation. As we progressed our programme of work to develop the scheme administration service along with our contracted partner, Atos BPS, challenges arose in achieving our strategic aims within the commercial and risk appetite of both parties. This meant we took the decision, in agreement with Atos BPS, to end our contractual arrangement two years into the initial 10-year term. Following this decision, and upon reflecting on our procurement approach and risk appetite, we appointed TCS as our partner to deliver our long-term ambition for the service.

Information on some of the initiatives and successes we've achieved as an organisation in 2022/23 are presented below. More detail can be found in 'Performance against strategic priorities' on **page 34**.

Building on our achievements

Against the challenges of the last year, we have continued to grow and now support more employers and members than ever before. Our scale enables members to save in a high-quality pension scheme at a low price point and we pride ourselves on our excellent investment strategy and approach to responsible investment. This includes taking a strong stance on important issues, including climate change, aimed at securing the best outcome for our members.

With investors facing challenges of higher inflation, higher interest rates and economic uncertainty, the performance of financial markets has been tough throughout 2022/23. Despite the backdrop of financial uncertainty, the long-term performance of the Scheme’s funds has remained positive. The performance of the fund containing the majority (99%) of Scheme members continues to exceed our investment objectives over the long-term.

As we continued to explore the needs of our customers, we developed initiatives to further understand the financial challenges they face and how we can better support them. This focus of work was further supported by Nest Insight’s emergency saving trial. The trial displayed very encouraging results indicating an effective and affordable approach to promoting financial resilience for workers.

Supporting our people

The commitment, flexibility and care demonstrated by colleagues at Nest Corporation over the course of 2022/23 has been instrumental in our success across the period. Our organisational capability is achieved through our people and development strategy, which is designed to drive the right culture and we have implemented several initiatives over the course of the year.

We launched our new strategy to support the health and wellbeing of our people. This strategy provides support, tools and focus to prominent issues around our physical and mental health. We’ve introduced trained mental first aiders to provide in-person support if needed and ran organisation-wide events on several health-related topics. In our 2023 staff survey, 76% of our people agreed that employee wellbeing is a priority at Nest.

In a challenging labour market, learning and development opportunities demonstrate our investment in our people. We introduced a new system to support people’s personal and professional development and provided access to online learning platforms. We encourage our people to take ownership of their development and utilise the resources provided. This investment in talent helps attract, develop, and retain diverse skills and experiences within the organisation. 75% of our people agreed that they have been given the opportunities to develop skills relevant to their development plan. We continue to progress our diversity and inclusion strategy and have joined the Business Disability Forum, as part of our commitment to support colleagues with disabilities, neurodiverse, mental health and long-term conditions.

Serving our customers

A key priority over the course of the year was ensuring we maintained our customary high standards of service.

The Scheme's service channels over 2022/23 were once again available 99% of the time with customer satisfaction ratings maintaining a score above 70%. The continued reliability of service achieved by our colleagues and partners at TCS is reflected in a small increase, up from 71% last year to 73% this year, among employers saying we are doing a good or excellent job of serving them. The number of members rating our service as good or excellent stood at 71%, slightly down from 76% last year. Through the work performed in 2022/23 to gain insight into our members needs we will continue to evolve our support to further improve our members' experience of our service.

Mindful of the impact of economic conditions on members short-term needs and priorities, we continue to improve our engagement with them. Throughout the year we have continued to develop the content offered to support members in understanding their saving journey with us. Campaigns championing the importance of online registration were successful, with 4 million or 33% of members having registered and activated their online accounts at the end of 2022/23, compared to 3.4 million or 31% last year.

Looking forward

Our colleagues are focused on driving better member outcomes. We achieve this by delivering our strategic objectives whilst operating within our risk appetite framework. As mentioned earlier, during the year, we took the decision, in agreement with Atos BPS, to end the partnership which would have seen them become our future scheme administrator. The two years spent working together established strong foundations for the next chapter in our digital transformation and our journey as a data-led organisation. However, an implementation plan could not be agreed that met the strategic aims for the transformation in a way which was consistent with the commercial and risk appetite of both organisations.

With the support of our Board, we took action to mitigate our concerns around the key delivery risks, initiating a two year extension of our current contract with TCS. This allowed us to ensure continuity of service for our customers whilst the long term scheme administration provider could be procured.

We have developed further controls and mitigations aimed at removing, as far as was practical, the significant risks associated with a transition and migration to any new partner in the future. We also began a thorough, independent lessons learnt exercise, from which we will implement all appropriate recommendations.

Following a reassessment of our procurement approach and risk appetite, with support from an objective, independent market review, we concluded our procurement exercise in June 2023. The appointment of TCS allowed us to achieve the transformation and commercial benefits of our original procurement process and we now look forward to starting a new journey with TCS. I am excited about the future of our service and the technological and service benefits we will bring to our customers together. Further details on the implementation of our next scheme administration services contract can be found on **page 26**.

We continue to meet our public service obligation to accept any employer who wants to use us to meet their auto enrolment duties and we are also available to any self-employed person who wishes to use our service. As we look forward, we will continue to work with the government following recent changes in auto enrolment policy and legislation.

As the world around us continually changes, so too do the expectations and experiences of our members. In response, we must adapt to their needs. With this in mind, our focus for the next 12-18 months is in developing a more purpose-led, customer centric organisation. In collaboration with our partners, including TCS, we will evolve our role and services to ensure the best possible outcomes for our members and we remain confident in our ability to deliver excellent value for our members in the years ahead.

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 The Pensions Regulator (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[4] 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 Department for Work and Pensions (DWP).

Our purpose

To help millions enjoy a better retirement.

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 58**.

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.

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 25**.

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 22 to 40 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 just under 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 over the course of the next 15 years 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 or Nest Connectors include advisers and payroll providers.

All three key groups collectively are referred to as our customers within this report.

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'll 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 our members.

A broader social purpose

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

An organisation that lives our values

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

Performance summary

This section summarises our performance during 2022/23

Scheme members

12.0m
total members

7.2m
are inactive*

4.8m
are active**

52%
male

48%
female

0.01% of Scheme membership did not have a gender listed on their Scheme enrolment

Scheme employers

1.1m
employers

17.0k
self-employed members***

32.0k
Nest Connectors****

98.0%
of employers using the scheme that have less than 50 employees

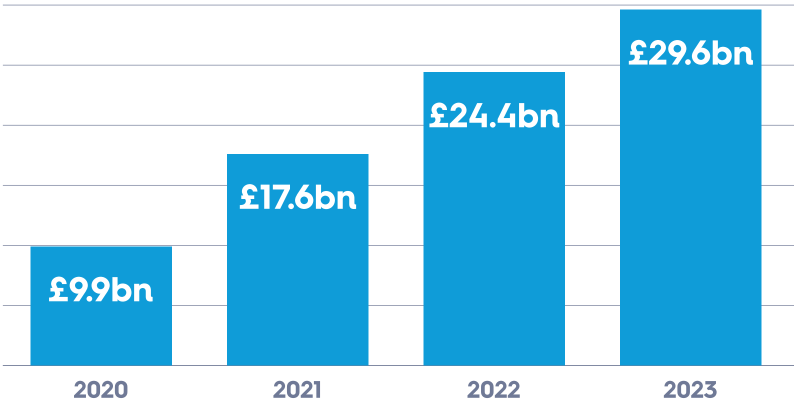
* Inactive members are members of the Scheme who have not retired, died, or opted out but have either left their employment or have chosen to stop contributing.

** 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).

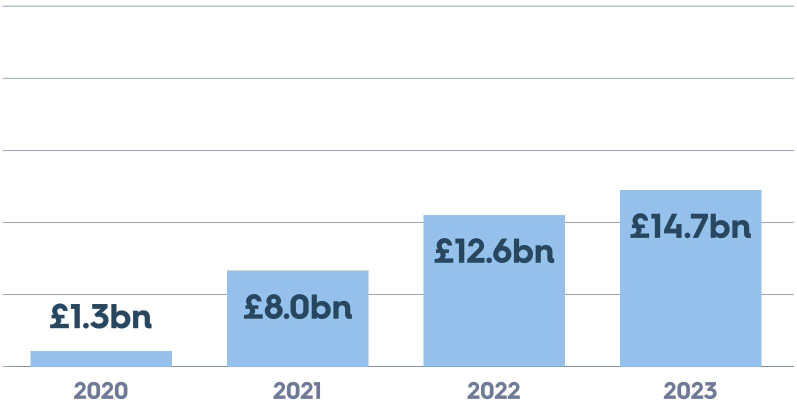
*** Where a member has been self-employed and has not since been enrolled by an employer. This will therefore not include members that have left all employers but still retain their self-employed enrolment.

**** 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

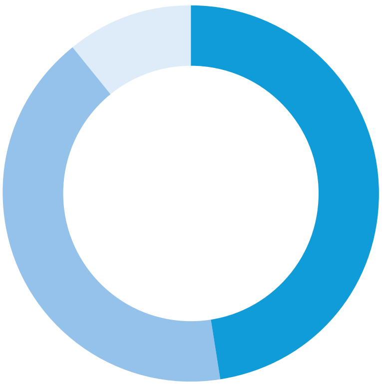


Total assets in climate-aware equities fund



49.8%
total assets in climate-aware equities fund

Annual contributions



£6.5bn
total annual contributions

£3.1bn
members

£2.7bn
employers

£0.7bn
tax relief

Maintain high-quality customer service

Deliver a targeted approach to member engagement

33.3%
of members who have registered for online account access

Grow the business in the right way

6.9k
net new employers joined nest each month

543m
new contributions per month

18%
scheme income growth

194m
scheme income growth total contributions

Deliver a good service to the Scheme's customers

99%
service channels were available more than 99% of the time in 2022/23

71%
member satisfaction†

(from the 'Voice of the customer' survey December 2022)

73%
employer satisfaction††

(from the 'Voice of the customer' survey March 2023)

† 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.

†† The annual employer survey in March 2023 was conducted using an online survey method. Before 2021 the survey was conducted by telephone.

Deliver on our investment objectives

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

7.3%

ten-year rolling annualised returns in the 2040 Nest Retirement Date Fund††† after annual management charges to 31 March 2023

Continue to build our organisational skills and culture

45.1%

director-level roles and above held by women

27.3%

of staff are from an ethnic minority background

††† The Scheme's default fund series, the Nest Retirement Date Funds, is 'lifestyled' where members' assets are managed according to their age as well as how markets are performing. See 'Why do we refer to the 2040 fund?' on **page 35**.

Principal risks

This section summarises the principal risks in our business environment during 2022/23.

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 which were approved by the Board in May 2022 following a zero-based review exercise:

- **Scheme administration** – the risk that the implementation of our next scheme administration service fails to deliver an effective transition of our services. Please see **page 26** for more information.
- **Service delivery** – the risk of significant service failure.
- **Cybercrime and information security** – the risk of significant loss, unavailability or compromise of data, information or assets.
- **Data and information management** – the risk that data quality is insufficient to enable decision making.
- **Legal and regulatory compliance** – the risk that the organisation and/or its service providers fail to comply with relevant legal and regulatory requirements for pensions and investments.
- **Financial management and performance** – the risk that the Corporation fails to meet its financial objectives, including to remain self-funding within legislative income and cost caps, and compliant with applicable regulatory funding requirements.
- **Investment performance** – the risk that the Scheme investments fail to perform to long term targets.
- **People** – the risk that the organisation does not develop and maintain the right people capabilities, capacity and culture to meet the requirements of the organisation.
- **Customer proposition** – the risk the Corporation fails to maintain or develop the proposition to meet the needs of our customers and stakeholders and remain competitively positioned.
- **Strategy** – the risk that the organisation's business model and/or strategy is not aligned with its legal purpose to provide pensions and other benefits to members.

These principal risks applied over the year since they were approved and further detail in relation to their performance and our approach to principal risks is discussed in more detail in the 'Corporate risk statement' on **page 66**.

Going concern statement

As part of the preparation of the 'Corporation annual report and accounts', we need to be satisfied that the Corporation remains a going concern, that is, we have both the intention and the means to continue into the future.

We have assessed three key areas as part of our going concern considerations: income from the Scheme, funding from the DWP and the wider auto enrolment pensions policy landscape. Following the assessment, we believe although risks remain with regards to market and economic volatility, the Corporation is in a strong financial position. Therefore, it is appropriate to adopt a going concern basis for Nest Corporation for the reasons set out below.

Income from the Scheme

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

We have assessed the resilience of our income from the Scheme with respect to uncertainties in the future economy. The Scheme has a very broad range of participating employers, therefore our income from the Scheme is not concentrated in any one sector. Behaviours towards pension savings have remained relatively stable over uncertain times for our members, and the Corporation continues to perform competitively within the auto enrolment market. For these reasons, the revenue from contribution charges has been deemed to be resilient.

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

Funding from the DWP

The 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 we will no longer require funding from the DWP from 2024 onwards, at which point the estimated borrowings will be £1,195 million. The plan also forecasts the loan to be repaid to the UK government by 2038.

Wider auto enrolment pensions policy landscape

There has been no cessation in, nor changes to, the UK's auto enrolment policy. Our public service obligation remains in place to provide a workplace pension scheme to any employer that requires one.

In March 2023, the DWP confirmed it will support proposals to expand auto enrolment. A private members bill has been introduced to Parliament to provide the secretary of state with the powers to remove the qualifying earnings threshold and extend auto enrolment to those under 22 years old. The implementation approach and timings are subject to consultation and confirmation.

This demonstrates that there is still a clear need for the Scheme as part of Government 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 2022/23. 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 2022/23. This year we were focused on supporting our growing customer base through developing our content, processes and journeys to benefit our members over the long term.

The Scheme is a multi-employer workplace pension scheme. We enable millions of members across the UK to build pension savings.

We operate a predominately outsourced business model and work closely with our partners to deliver our services. TCS administer the Scheme and State Street Bank and Trust Company (SSB) provide fund administration and custody services.

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. We also have a duty to accept any self-employed person who wishes to use the Scheme.

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 2022/23 our customer base continued to grow, with 82,692 net new employers choosing the Scheme for their workers and 914,257 net new members being enrolled.

Despite continued economic uncertainty, our analysis shows the percentage of our active members making contributions remained relatively stable. We currently forecast our membership to reach 18 million, with £96 billion of assets under management, by 2030.

Member

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 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 or stop contributions.

Of the 4.8 million active members as at March 2023, 78.5% (3.8 million) made a contribution, on a cash basis, during the financial year, this compares to 78.8% (3.6 million) last year.

We continue to be mindful of the impact of economic conditions on members short-term needs and priorities. Throughout the year we have continued to improve the content offered to support members in understanding the impact of decisions about their pension savings during periods of uncertainty and market volatility.

Each year we review how best we can serve our members' needs. In response to this year's review, we improved our guidance on bereavement journeys, enhanced messaging on retirement options and evolved our communication channels to include videos, helping members understand the basic principles of pensions and Nest.

In addition to the focus on content offered to members we have continued to develop our proposition, improving the service we offer. Process changes have enhanced the forgotten password, transfers and retirement journeys. We continue to implement data quality initiatives aimed at improving member experience and delivering value for money.

In our work with government, regulators and the wider pensions industry we have progressed on a wide range of topics including the development of the pensions dashboard and the issue of small and forgotten pots.

Employers and intermediaries

Since our inception, we have operated the Scheme on a digital-first basis. Much of our support for our customers is delivered through our website and web services.

Employers using the Scheme total 1.1 million as at March 2023, an increase from 975,000 as at March 2022. The majority of these employers are small and micro enterprises with more than 50% using the services of one of the 32,000 Nest Connectors, such as advisers and payroll providers.

We have expanded some areas of our website and help centre over the course of the year, improving navigation for intermediaries such as advisers and payroll providers. We have also developed our content aimed at helping small and micro employers, whilst aiding those employers wishing to set up salary sacrifice/exchange. Invitations to our biannual webinars have been extended. These events cover topics including general investment principles, our responsible investment approach and financial wellbeing.

Investment developments

Financial markets had a tough year in 2022, with investors facing the challenges of higher inflation, higher interest rates, and fears of recessions. A more optimistic start to 2023 was seen although volatility has persisted due to the continued uncertainty about the trajectory of inflation and interest rates.

Against this global backdrop of financial uncertainty, the long-term performance of the Scheme's funds has remained positive even if one-year performance has fallen.

Nearly 99% of Scheme members are invested in the Scheme's default investment strategy, the Nest Retirement Date Fund series. As at 31 March 2023, the 2040 Nest Retirement Date Fund, which currently represents the growth phase of the default strategy (see **page 35**), had annualised returns after charges of – 5.4% over one year, 9.8% over three years, 6.1% over five years, and 7.3% over 10 years.

The Corporation's long-term performance objective for the Nest Retirement Date Funds during the growth phase is to outpace inflation, as measured by the consumer price index (CPI), by 3% after charges. With inflation rising rapidly throughout 2022, this created a more challenging environment for investors.

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 2040 fund's one-year annualised returns of – 5.4% was not greater than CPI plus 3%, which was 13.4%. However, the 2040 fund continues to exceed the objective over the longer term, with 10-year annualised returns of 7.3% outperforming CPI plus 3%, which was 5.8% over the same time horizon.

For more information on the Scheme's investments, refer to the 'Scheme annual report and accounts 2022/23': **nestpensions.org.uk/schemeweb/nest/nestcorporation/library.html**

Other key initiatives

We continue to work towards our business priorities, set out on **page 32** and in our 'Corporate plan 2022–2025'.[5] Our performance against these priorities is described on **page 34**.

Key initiatives during 2022/23 included:

Implementing our next scheme administration services contract

Ensuring we continually evolve our service to customers remains central to our customer strategy and ensures we deliver the best outcomes for our members. We are required to keep pace with customer needs, advances in technology and with the ever-evolving threats from fraud and cybercrime.

In 2021, Atos BPS were appointed as our long-term scheme administration service partner over an initial 10-year term, with options to extend to a maximum 18 years at our discretion. Over the following two years, we worked closely together to design a refreshed customer-centric platform, which would use data and insight to drive our service.

This work with Atos BPS has provided a foundation for the transformation of our future service, however, in January 2023, the Board, in agreement with Atos BPS, took the decision to end our partnership.

5 **nestpensions.org.uk/schemeweb/dam/nestlibrary/corporate-plan-22.pdf**

Managing the risks for our customers was always at the forefront of our decisions. Despite the continual efforts of the programme teams, we could not reach a point where an implementation plan could be agreed that met the strategic aims for the transformation in a way which was consistent with the commercial and risk appetite of both organisations.

In deciding how to secure the right long-term partner we reassessed our objectives and undertook a review of the market. Focusing on those able to deliver the required commercial, technological and experiential transformation within our risk appetite. An overview of the scheme administration risk is provided on **page 68**.

As a result of that work, supported by external legal and professional advisors, we appointed TCS as our long-term partner, with a contract for an initial 10-year period and the potential for subsequent extensions, at our discretion, up to a total of 18 years.

This appointment secures continuity of service for all our customers and will also ensure that we are able to deliver on the strategic aims of our transformed service through a modern, componentised architecture that has data and insight at its heart. The service will be supported by a commercial framework that focusses on the quality of the experience our customers receive. Our contract with TCS provides additional controls and mitigations to address risks associated with any future transition to a new partner.

As outlined in the financial review (**page 29**) we incurred one-off expenditure related to the programme of work with Atos BPS. At this stage, we have taken the decision to impair the assets developed with Atos BPS in full on the basis that we cannot provide certainty on their future economic benefit. However, as part of the transformation programme with TCS, which commenced following contract award in June 2023, we intend to review each impaired asset and re-utilise where it is beneficial to do so.

We are acutely aware that our expenditure is ultimately borne by our members. The contract agreed with TCS maintains the commercial benefits of the original procurement, reducing the cost of scheme administration services to our members when compared to the current service. In line with HM Treasury guidance, outlined within The Green Book, for the financing of large scale projects such as this, our financial plan contained contingency to be able to manage delays or impacts to the programme. Accordingly, that contingency was utilised to finalise the exit of our arrangement with Atos BPS.

In doing so, we have been able to maintain our current financial plan and the commercial benefits of the original procurement.

Reviewing our corporate and customer strategies

In the last year we have been running a review of our corporate and customer strategy. 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 2022/23, as part of this initiative, has been on work to further our understanding of the challenges our customers face. 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 to deliver competitive, high-quality services to our customers. In 2022/23 we focused on updating our Diversity, Equity and Inclusion (D,E&I) and wellbeing strategy and making further progress towards our employee proposition commitments.

We continue to support staff through our family friendly and flexible working policies and our confidential employee assistance programme (EAP), which includes an online health portal and a 24/7 information service and helpline. Our people have continued to take advantage of these offerings in 2022/23.

In March 2023 we launched the new learning management system, 'Futurefit'. It showcases our commitment to employees' career and personal development allowing employees to take ownership of their professional and personal development.

We want our people to be fully engaged in supporting our customers. To support this, our staff forum, 'Your Voice', has continued to provide ideas and feedback from across the organisation to our executive committee.

In 2022/23 we re-structured our working groups and moved from our senior leaders acting as chairs to giving the opportunity to selected members of our working groups. Our senior leaders now act as champions. Current active working groups include:

- Disability and neurodiversity working group
- Gender working group
- Interfaith working group
- LGBTQ+ working group
- Mental health working group
- Race and social diversity working group

Our working groups have identified new priorities and have started to engage with the business. Overall, the D,E&I working groups have four objectives:

— Assist with embedding and fostering an inclusive work culture at Nest.
— Act as a critical friend and both challenge and support the business to make real change.
— Own diversity, equity and inclusion business policies and initiatives such as our development programmes.
— Organise and facilitate engagement activities such as presentations from external speakers, lunch and learn, publish internal communications and organise webinars to educate colleagues.

For more information on our diversity and inclusion strategy and progress, see **page 41**.

Supporting research and innovation in pensions

Nest Insight is our public-benefit research and innovation centre. Nest Insight's mission is to find ways to support people to be financially secure, both today and into retirement. The team conducts rigorous, cutting-edge research, working collaboratively with industry and academic partners to understand the financial challenges facing low – and moderate-income households. These data-driven insights are then used 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.

In 2022/23 Nest Insight advanced this mission by:

— Building on its workplace emergency savings programme with the launch of an additional research pilot, exploring the employee financial resilience and wellbeing impacts of different nudges to support employees to get started with saving. This is the third trial in the research programme, building on the initial 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. Our emergency savings programme has been supported by BlackRock, JP Morgan Chase, and the Money and Pensions Service (MaPS).
— Publishing the results of ground-breaking savings pilots testing new forms of flexible saving designed to fit with self-employed people's needs and contexts. This was part of a summary report on Nest Insight's research to date aimed at finding ways to support self-employed people in saving for retirement, supported by the DWP.
— Expanding its programme with new research projects and partnerships, looking at topics such as employer pension contributions, day-to-day financial uncertainty, interactions between auto enrolment and other types of savings, and pensions adequacy.

Financial review

This section contains an overview of our financial performance, including our income and expenditure and other key developments during 2022/23.

Overview of financial performance

During 2022/23 we continued to show strong financial performance in our underlying business activities. Our continued focus on cost control and robust performance in attracting and retaining customers allowed the Scheme to perform favourably to our three-year business plan.

The Scheme's membership grew from 11.1 million as at March 2022 to 12.0 million as at March 2023. Growth in the membership alongside high salary inflation within the UK labour market enabled contributions to out-perform expectation. Income from higher contributions was partially offset by lower investment returns and consequently lower than anticipated annual management charges, this was due to market performance in light of economic and geopolitical uncertainty.

Despite the strong Scheme performance, overall net expenditure for 2022/23 totalled £110.2 million (compared to £35.1 million in 2021/22). The increase in expenditure was primarily due to one-off expenses associated with the completion of the active programme of work between Nest and Atos BPS in January 2023, see **page 26** for further details. Excluding these one-off items, expenditure increased by 13% year on year compared to a growth rate in total income, which comprises of scheme income plus grant and other income, of 15% over the same period.

Looking ahead to 2023/24, we expect to see further increases in Scheme income as assets under management grow. Expenditure relating to investment fund management and scheme administration costs will also increase due to higher member numbers and assets under management. However, total expenditure will fall with no expected repeat of the one-off costs experienced within 2022/23.

Performance summary

The following table provides historical information on income and expenditure.

	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m
Income					
Scheme income	61.4	107.3	127.8	164.5	194.4
Grant income	22.4	24.9	25.4	20.4	15.8
Other income	0.5	0.8	0.7	1.1	3.8
Total income	**84.3**	**133.0**	**153.9**	**186.0**	**214.0**
Expenditure					
Staff costs	(24.7)	(26.0)	(29.5)	(29.8)	(31.5)
Depreciation and amortisation	(12.1)	(12.3)	(15.7)	(21.3)	(18.3)
Scheme investment and administration costs	(74.4)	(95.8)	(106.6)	(123.3)	(156.4)
One-off scheme administration costs	–	–	–	–	(74.0)
Other expenditure	(16.7)	(20.2)	(23.4)	(17.3)	(17.9)
Interest payable	(35.4)	(38.6)	(38.0)	(29.4)	(26.0)
Total expenditure	**(163.3)**	**(192.9)**	**(213.2)**	**(221.1)**	**(324.2)**
Net expenditure after interest	**(79.0)**	**(59.9)**	**(59.3)**	**(35.1)**	**(110.2)**

Income

Total net assets under management of the Scheme grew from £24.4 billion as at March 2022 to £29.6 billion as at March 2023. This movement was largely due to growth in contributions, partially offset by a negative change in market value of investments. Like all investors we faced difficult financial markets, however, our analysis shows that the Scheme remained an attractive proposition for new and existing employers, particularly small and micro enterprises, which alongside strong salary growth performance within the UK labour market helped increase contributions from £5.7 billion to £6.5 billion year on year.

This growth in Scheme contributions and assets under management generated an 18% increase in Scheme income for Nest Corporation up from £164.5 million in 2021/22 to £194.4 million in 2022/23. Total income was £214.0 million for 2022/23, an increase of 15% from 2021/22 income of £186.0 million.

Expenditure

We make spending decisions carefully and with full awareness that expenditure is ultimately borne by members of the Scheme.

Increase in Scheme membership as well as higher assets under management impacted Scheme investment and administration costs. This expenditure rose from £123.3 million in 2021/22 to £156.4 million in 2022/23.

Interest payable decreased year on year by £3.4 million in 2022/23 to £26.0 million. Expiry of government loans drawn down between 2013/15 and the subsequent rollover of these loan amounts into a new agreement at a lower interest rate helped reduce the interest payable in 2022/23. Depreciation and amortisation cost decreased by £3.0 million, from £21.3 million in 2021/22 to £18.3 million in 2022/23. The decrease was driven by an increase in the useful life of assets associated with the extension to the current scheme administration service.

2022/23 saw £74 million in one-off expenditure relating to the service transformation programme over the 2-year period with Atos BPS as our partner. During our programme of work, we jointly developed assets related to the transformation of our scheme administration and the planned migration and transition of data and services. Assets totalling £59.4 million previously held on our statement of financial position (SoFP) have subsequently been impaired, with a further £14.6 million expensed directly to our statement of comprehensive net income (SoCNI). We have taken the decision to impair the assets developed with Atos BPS in full on the basis that we cannot provide certainty on the future economic benefits of these assets. However, as part of the transformation programme with TCS, which commenced following contract award in June 2023, we intend to review each impaired asset and re-utilise where it is beneficial to do so.

The one-off expenditure of £74 million is inclusive of a £28 million final payment to Atos BPS. The payment includes £18 million to satisfy an outstanding payable for assets already developed and therefore included within the £59.4 million impairment loss, and £10 million in relation to partially developed assets yet to be capitalised and therefore expensed directly to the SoCNI.

The impairment loss of £59.4 million includes the £18 million as described above, plus £41.4 million for work conducted, with Atos BPS and TCS, to develop assets relating to the scheme administration service over the course of the two years working together. The £14.6 million expensed directly to our SoCNI includes the £10 million outlined above with the remaining £4.6 million relating to activity, with Atos BPS and TCS, committed to prior to the decision to exit our agreement and activity required to conclude our programme of work together.

Business priorities

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

We have four business priorities. These describe what we will do to fulfil our purpose of helping millions enjoy a better retirement.

We share more information about our forward-looking plans in our corporate plan, which is updated annually and made available on our website.[6]

During the last financial year our business priorities were:

- Deliver on our investment objectives.
- Maintain high-quality customer service and protect our customers' assets and data.
- Review our corporate and customer strategies.
- Continue to build our organisational skills and culture.

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

Performance against priorities

This section describes how we progressed towards our priorities in 2022/23, including how the current economic and business environment affected our performance.

Deliver on our investment objectives

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

Our overall investment objective, as set out by the Board, is to target long-term investment returns in excess of inflation, as measured by CPI, after charges. One part of our default strategy is the growth phase where we expect younger members to spend up to 30 years of their saving's journey. The long term performance of this phase we measure using one of the target date funds in the middle of this part of a member journey (the 2040 Nest Retirement Date Fund). The long term investment performance of a fund in this phase is to outperform inflation plus 3% after charges.

Annualised returns net of members' annual management charge were 6.1% over the five years to 31 March 2023. CPI plus 3.0% for the same period was 7.3%. The 2040 fund's 10-year annualised return to 31 March 2023 was 7.3%, compared with CPI plus 3% of 5.8%. 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).[7]

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

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.

Key activities over 2022/23 included:

Asset allocation

- Throughout the year, the organisation made a series of changes to the strategic asset allocation to better reflect the greater risks facing the global economy. In particular, a greater proportion (15% as at 31 March 2023 compared to 10% as at 31 March 2022) of the Scheme's portfolio is now in illiquid investments which offer additional diversification and alternative return opportunities for strong, steady risk-adjusted returns for our members over the long term.
- A new type of illiquid asset – private equity – has been added to the default growth and default foundation portfolios. We undertook a procurement exercise to seek out suitable fund managers and appointed HarbourVest and Schroders Capital. Both mandates are now live and investing on behalf of members. The aim of illiquid assets, although more difficult to sell in the short term, is to achieve higher returns, or a premium, compared to equivalent public markets, especially when the investments are held for a significant period of time.
- During the year, the Corporation decided to increase the allocation to UK direct property, another illiquid asset. This was based on the resilience of demand for properties and expectations that the Scheme's tenants would be able to ride out economic challenges.
- The organisation also increased the allocation to investment grade bonds. Investment grade bond yields had significantly risen, meaning income generation had improved.

- The Corporation reduced the Scheme's allocation to commodities. Commodity prices were driven significantly higher because of the war in Ukraine. Europe has adapted relatively well, and the risks of severe shortages have reduced in the short-term. Demand for commodities also typically reduce when economies are slowing.
- Amundi were appointed to help manage the Scheme's asset allocation more efficiently through the use of derivatives. The new Efficient Portfolio Management (EPM) fund is using short-term contracts to rebalance the Scheme's portfolio. By introducing this EPM, all members' money is put to work rather than sitting idle in a fund waiting for deployment. We have tested the fund to ensure it works smoothly, ready for when it's needed.

Responsible investment

- Over the last year, the Corporation has escalated its engagement with some of the oil and gas holdings. One such action was the support of ClientEarth's landmark case against Shell's Board of Directors over their management of material and foreseeable risks posed to the company by climate change. This involvement should send a signal to the energy sector that investors expect to see action on climate risk to ensure their own long-term sustainability, and we will challenge those who are not doing enough to transition their business and mitigate risks for our members.
- The organisation joined new investor initiatives over the last year that help deliver on their responsible investment priorities and contribute to new industry investor frameworks. We continued to be vocal with a range of standard setters on issues of transition planning as part of its role on the HM Treasury's Transition Pathway Taskforce and sustainability labelling endeavouring to help raise standards on a range of areas in the industry in which it operates.
- The Corporation is delighted to have its signatory status to the new Stewardship Code reapproved by the Financial Reporting Council. The new Stewardship Code continues to set a high bar for stewardship, and by remaining a signatory the Trustee can reassure Scheme members that it is fulfilling a key part of its stewardship responsibilities.

For more information on developments in our investment strategy, see 'Investment developments' on **page 26**.

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.

Maintain high-quality customer service and protect our customers' assets and data

Deliver a targeted approach to member engagement, including at retirement

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

We measure our performance in this area against the percentage of our members who have registered for online account access. As at 31 March 2023, 33.3% of our members had registered their account (compared with 30.9% as at 31 March 2022).

Throughout 2022/23 we have continued to improve member engagement. Developing content aimed at improving members understanding of their pension through this period of uncertainty and market volatility. Campaigns have promoted the importance of online registration, the benefits of pot consolidation and how to interpret your annual benefit statement. We have also expanded guidance and support in relation to retirement and other key journeys members may need to take with us. A news and views section on our website has been developed bringing thought leadership articles to readers focussing on topics such as investment, scam awareness and the industry's pension attention campaign.

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 in 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. Our controls are also designed to ensure we meet, or exceed, regulatory and legislative obligations.

In 2022/23 we did this by:

- Continuing to enhance and mature the Corporation's and the Scheme's cybersecurity capabilities and controls, and aligning these capabilities and controls to the US National Institute of Standards and Technology (NIST) Cybersecurity Framework. These controls have been independently audited and we were found to be operating to a good degree of maturity across all NIST cybersecurity framework domains. The organisation achieved the year end targets set by the risk committee and will continue to measure its cybersecurity controls against a benchmark of Financial Services. Nest's risk committee continues to monitor this and the CEO has set new targets for the year ahead.
- Receiving independent audits of the information security management systems operated by us, as well as by our IT managed services provider, and scheme administrator. These continue to be externally validated and certified to the International Organisation for Standardisation (ISO) 27001 standard.
- We continue to fight fraud and improve our processes to protect our members' savings against the evolving threat.
- Receiving and reviewing an AAF 01/20 assurance report from the scheme administrator 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 the Scheme's Tech 05/20 AAF report performed by Grant Thornton. This report provides guidance on the governance control procedures established by trustees of Master Trusts. This report showed three minor findings, none of which constituted a control failure or qualification of the audit opinion, giving us reasonable assurance regarding our governance control procedures.
- 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, ensuring all audit matters raised in relation to fund managers controls were appropriately addressed and delivered a report on them to the audit committee.

During 2022/23 the Scheme notified the Information Commissioner's Office of two Personal Data related incidents. Both were 'unauthorised access', with the ICO taking no further action for the incidents reported.

	Number of breaches reported to the ICO		
Category	**2022/23**	**2021/22**	**2020/21**
Brute force	–	1	–
Other non-cyber incident	–	1	–
Unauthorised access	2	–	1
Total	**2**	**2**	**1**

Research and policy work to support members' needs

We carry out a range of public affairs work and research to the benefit of our 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 customers – whether our Scheme members, employers using the Nest Scheme for their workers or 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 2022/23 included:

- Representing the views of Scheme members to the Pensions and Lifetime Savings Association (PLSA). Our Director of Strategy and Corporate Affairs 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 MaPS to support the pensions dashboards programme.
- Responding to government and regulatory consultations on subjects such as decumulation, illiquid investments, and the pensions dashboard.

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 (see **page 28**).

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

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, TCS, we delivered a good quality service to all three groups in 2022/23, as measured by our key performance indicators:

- Service channels remained available and accessible to members, employers and intermediaries more than 99% of the time.
- We have set clear standards for service levels for our online and telephone services. Service level agreements were met more than 98% of the time. Customer service calls were answered in 44 seconds on average.

We also measure the quality of our service through our 'Voice of the customer' annual customer satisfaction surveys:[8]

- 71% member satisfaction (December 2022, compared with 76% in December 2021).
- 73% employer satisfaction (March 2023, compared with 71% in March 2022).
- 75% Nest Connector satisfaction (March 2023 survey, compared with 75% in March 2022). 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 2022/23 as follows:

- Over 1.1 million employers were registered with the Scheme as at 31 March 2023, an 8% increase over the previous year.
- On average 6,900 net new employers registered with the Scheme each month. New employers enrolled workers from across all income groups.

During 2022/23 we have continued to work closely with all our employers with our account management teams actively engaging with large employers and intermediaries on a regular basis. Bi-annual employer webinars have been expanded allowing more medium and smaller employers to benefit. Support for small and micro employers has been enhanced to educate and inform on a range of topics from 'top tips to running your account' to utilising our employer toolkit.

We have also improved our website to allow for easier navigation for third parties and improved the service for insolvency practitioners.

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

Review 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 2022/23 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. We will finalise and agree the recommendations of the project in 2023/24 and subsequently move into implementing these through an agreed programme of action, alongside the development of our platform functionality with our administrator.

Continue to build our organisational skills and 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 2022/23 we have focused on several initiatives to:

Support our people's health

- We launched our new wellbeing strategy to continue supporting the health and wellbeing of our staff over the next few years.
- We continued to support the physical, mental, social and financial wellbeing of our people. Some highlights include organisation-wide events that covered understanding and managing stress, financial wellbeing workshop and the introduction of our menopause and menstruation policy.
- We have new mental health first aiders who have been through training to ensure we have a diverse mix of colleagues on hand to support our workforce.
- We launched our face-to-face mental health first aider drop-in sessions, ensuring that we are able to support our colleagues in person should they need it.
- We launched our wellbeing hub on our intranet which focuses on all areas of health and wellbeing and is available to support staff.
- We held virtual sessions with Health Assured to raise awareness of our employee assistance programme to ensure that colleagues are aware of the support that is on offer.
- We have continued to offer a free biennial health check, which showcases our investment in our people and serves to enable us to attract talent in a competitive labour market. The health check also helps to promote staff wellbeing.
- We have continued to support our people in returning to the office by encouraging them to experiment with hybrid working patterns. We have supported our line managers to make use of the flexible working policy to accommodate different work hours and workflow.

Help our people develop

- Introduced a new Learning Management System called 'Futurefit'. The new learning portal will be used for staff to access compliance training and wider business training to support their personal and professional development journey at Nest.
- Carried out talent and succession reviews across the organisation. We have identified any succession gaps and shared these with the executive committee so they can work with directors and managers in their business units on addressing these gaps.
- Staff have continued to make use of their personal learning accounts giving 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

- Our applicant tracking system, Eploy, allows us to collect data and to understand the outcomes of different groups across the organisation during the recruitment process, for example the social diversity of our applicants. We use this data to understand whether there are any barriers faced by specific groups and take the necessary action to ensure we recruit the best diverse talent.
- We changed the structure of our six diversity and inclusion working groups, with our executive committee becoming the champions and colleagues taking on the role as chairs. 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, equity and inclusion targets and play a key role on our journey towards better understanding our diverse membership. For more information on our diversity, equity and inclusion strategy and progress, see **page 41**.
- We recognise the benefits that diversity brings, however we recognise that we need to focus on having diversity across all grades within the business. To ensure we have diversity in key decision-making forums we are focused on supporting and developing the talent of our diverse groups within the organisations.

Support an engaged workforce and manage change

- We have worked collaboratively with our staff forum, 'Your Voice' to gather employee insights and shape policy. Made up of staff representatives from across the organisation, the forum provides feedback into organisation-wide initiatives. In 2022/23 the forum met several times and held regular meetings with the CEO and Director of People and Engagement. In addition, wider meetings covered topics such as pay, contractual changes and career and personal development pathways.
- 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 regular live video executive updates that allows two-way open dialogue between our leadership team and our people.

Our people

Health and wellbeing

- 79% of our staff say that people here maintain a healthy blend between work and personal life.
- 76% 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.
- 79% of our staff say Nest is committed to ensuring an inclusive workplace for its employees.

Engagement and change management

- 58% of our staff think Nest keeps people informed about what is happening.
- 56% 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 'Responsible investment' section (see **page 35**) and the 'Scheme annual report and accounts'.[9]

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.

9 **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. The most recent TCFD report is made available to Scheme members and other stakeholders on our website.[10]

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 70% of the building's waste is recycled or reused (2021/22: 80% recycled or reused). The remainder is sent to an energy-from-waste facility for incineration. Our carbon dioxide equivalent (CO_2e) emissions from business travel totalled 27.1 tonnes for 2022/23 (2021/22: 2.1 tonnes of CO_2e). The level of business travel remains low compared to pre-Covid pandemic levels, with 2022/23 emissions equivalent to 11% of emissions produced from our 2018/19 travels. As we have exited the pandemic, our people have undertaken an increased level of necessary journeys to support our customers and partners when compared to recent years.

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

For further details, see Appendix 2 on **page 124**.

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

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.

We are constantly reviewing our recruitment processes and have made several changes to ensure that we attract and recruit diverse candidates:

- We've taken a targeted approach to attract diverse candidates and now advertise on several diverse job boards such as, Black Minority Jobs, Disability Jobs, EvenBreak, LGBT jobs and Working Mums.
- We reviewed our careers webpage and updated the content on the diversity, equity and inclusion pages to reiterate our commitment in this area, including diversity and inclusion logos and promoting paternity leave within Nest.
- We amended our job descriptions to ensure that we used gender neutral language. We updated our diversity, equity and inclusion statement to encourage diverse candidates to apply for roles within Nest, including those from different socio-economic backgrounds and parents and carers.
- We amended our equal opportunities form to encourage candidates to declare their diversity data (including their socio-economic background) to understand the experiences of applicants from different backgrounds.
- We focused on making the application process more accessible. We built in an assistive toolbar to support applicants who may have a disability or neurodiverse condition or may not speak English as a first language. This will help us to improve the applicants' experience and encourage more diverse candidates to apply for roles at Nest.

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

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 13.6% (compared with 8% in 2021/22). 67% of staff who left voluntarily in 2022/23 after less than one year of service resigned due to personal reasons and 33% cited career progression. We continue to review our new starter induction processes and exit interview data with the aim of reducing this turnover. We acknowledge there has been an increase compared to last year and have set up several initiatives under the career development working group to look at how we support and progress our employees. Nest continues to have a focus on our diversity and inclusion and wider people data at each stage of the employee lifecycle.

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 76**. 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.

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.

We have continued to invest in the learning and development for all our people by providing staff with secondment opportunities, mentorships, work shadowing, volunteering leave and personal learning accounts. We have taken a targeted approach to raise awareness of the learning and development offer available at Nest and this includes liaising with our six diversity and inclusion working groups (see **page 27**) to make staff aware of the opportunities available and the launching of our sponsorship programme for staff from ethnically diverse backgrounds. Our diversity, equity and inclusion strategy outlines how we will continue to support our staff from underrepresented groups.

Our commitments to learning and development for our people are outlined on **page 39**.

Ensuring inclusivity in everything we do

We understand the value of a diverse workforce. We are committed to ensuring strong representation in our staff, with people from all different backgrounds, including those from ethnically diverse backgrounds, people with disabilities and women. This extends from entry-level positions to director and executive positions and includes support for career development. 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, and these are published in our diversity, equity and inclusion strategy, so that we are held to account.

We have continued to 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 Diversity Project's Asset Owner Diversity charter, the UK Boardroom Apprenticeship programme and have continued to work with the 10,000 Black Interns programme (#10000blackinterns).

Data and insight

We recognise the importance of data in improving diversity, equity and inclusion. As part of our work to understand the make-up of our workforce and address the barriers faced by underrepresented groups, we have continued with our data declaration campaigns. To be a truly inclusive organisation we must collect, monitor and evaluate data to ensure that we have the right interventions in place to remove any barriers. We have reviewed the questions asked on our equal opportunities form during the recruitment process, staff surveys, exit interviews and listened to the feedback from Your Voice and our six diversity and inclusion working groups to ensure that we can identify and address key issues. Gaining insight through data, will help us to take the right steps to attract and retain the best diverse talent and deliver the best outcomes for our employees and members.

Our Workforce

27.3%

of our workforce are from an ethnic minority background

Disability Confident (level 2) employer

59%

of our new starters in the last year were directly hired from external sources, saving us £428,217 in recruitment fees (inc VAT)

An accredited Living Wage employer

51%

of our workforce are women

45.1%

Director-level roles and above held by women

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

Figures as at 31 March 2023. See **page 82** 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 344 hours of service to charities or other not-for-profit organisations during 2022/23 through our volunteer leave programme.

During 2022/23 several teams organised larger volunteering events such as helping at food banks in their local areas, which brought people together to support local communities.

Helping Nest's immediate community

Nest's charity of the year

In the summer of 2022, we ran a charity of the year nomination process and Alzheimer's Society was voted for by staff. The charity was nominated by two employees who formed a working group, and six other colleagues voluntarily joined. Since September 2022, the working group have run various events and fundraising activities, including a bake sale, quiz, karaoke event and 'Quit for a bit', where they each gave up something for a month. Nest's annual fundraising target is £6,000 and we're over halfway there. Other staff members have chosen to raise money for the charity individually by undertaking charity runs.

The process to elect the next charity of the year will begin in July.

Anti-discrimination, anti-bribery and human rights statement

We respect human rights for all our employees, 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 72** for details of how we adhere to the MSA.

Preparation of the financial statements

Statutory background

The financial statements for 2022/23 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

10 October 2023

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 123.

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 2022/23.

The Scheme is a trust-based occupational pension scheme. 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.

Nest Corporation comprises between nine and fifteen 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.

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 59**). In addition, the CEO has been given a broad delegated authority.

Under the National Employment Savings Trust Order 2010 (the Nest Order)[11] the Board receives assistance and advice from a panel that represents members' perspectives of the Scheme (the Members' Panel) (see **page 65**) and a panel that represents participating employers (the Employers' Panel) (see **page 65**).

The Board consults these panels on matters to do with the operation, development or amendment of the Scheme. It also consults them when making changes to the Nest Rules, the document which sets out how the Scheme is designed and operates.

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

The Board

As at 31 March 2023, there were nine Board members, including the Chair. During 2022/23, there were also two other Board members who were no longer on the Board at the end of the financial year.

Biographies of Board members are available online at **nestpensions.org.uk/schemeweb/nest/nestcorporation/who-runs-nest/trustee-members.html**

1. 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 (Intermediated and Direct) at AXA Insurance UK plc. He was also the founding CEO of Flood Re Ltd, an innovative Public Body venture between the government and the insurance industry. He is a non-executive director of NPA Insurance Limited.

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

2. Myfanwy Barrett, CB

Board Member from 1 July 2021

Chair, Audit Committee from 1 February 2023

Myfanwy has served as a non-executive director at The Pensions Ombudsman (TPO) since 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 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 Director of Plumbing Pensions (UK) Administration Ltd, Senior Independent Board Member at Ocean Housing Group, Trustee/Treasurer of Morrab Library and Newlyn Art Gallery & The Exchange, and a member of two Tate Committees.

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

3. Karen Cham

Board Member from 1 July 2019

Karen is Professor of Augmented Intelligence, Digital Transformation Design at Kingston Business School. Her previous role at the University of Brighton was professorial lead for Connected Futures research and enterprise, which included digital economy, digital health, complex systems and immersive, simulation and virtualisation. As part of this, she was also academic lead of the Digital Catapult Centre Brighton and the 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.

4. 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 trustee director of the debt charity StepChange, a member of HM Treasury's Asset Management Taskforce and a governor of the Pensions Policy Institute.

5 Clive Elphick

Board Member from 1 June 2018 to 31 January 2023

Chair, Audit Committee from 29 January 2019 to 31 January 2023

Clive previously served as an independent director of National Grid Gas plc and National Grid Electricity Transmission plc, as well as 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 Northwest 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.

6. Chris Hitchen

Board Member from 1 June 2018 (reappointed for second term from 1 June 2023)

Chair, Investment Committee from 28 May 2019

Chris re-joined 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 11 Local Government Pension Scheme (LGPS) pension funds with assets under management totalling £60 billion, as well as Chair of the Nuclear Liabilities Fund, investing to pay the 100-year costs of safely decommissioning nuclear power stations. For twenty years, Chris was Chief Investment Officer and then CEO of the 350,000-member UK Railways Pension Scheme.

Chris 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. He has also served as 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.

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

7. Sarah Laessig

Board Member from 1 September 2021

Senior Independent Director from 28 July 2022

Chair, Nominations and Remuneration Committee from 28 July 2022

Sarah is a seasoned non-executive director who brings experience in financial services, pensions, government, and 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. Sarah 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 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. Sarah was previously an executive at Citigroup, managing businesses across developed and developing markets. She is an Ambassador of Women on Boards UK.

8. 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. Over time, 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.

9. Mutaz Qubbaj

Board Member from 1 June 2018

Mutaz is an accomplished entrepreneur and financial expert with a passion for empowering individuals to take control of their finances and has deep understanding of both technology and finance. He is currently the UK Head of Business Development & Sales for NowCM and is committed to making financial services more accessible and transparent for all. More recently, he was the Commercial Lead at Nivaura, a primary debt issuance digitisation FinTech, and was part of the exit team in a sale to NowCM, a leading European FinTech helping the transition of debt capital markets to digital platforms.

He previously spent several years developing cutting-edge technology at MIT's Media Lab and working as a trader and strategist at Morgan Stanley, Credit Suisse, and PIMCO. After which he founded Squirrel Ltd, a Barclays Techstars company, to find a solution to the problem of predatory lending practices. Squirrel has gained industry recognition for its innovative approach and has won awards at the WIRED Startup and Pitch@Palace competition, which is sponsored by the British Royal Family. He is a leading voice within the FinTech industry with features in FT, Bloomberg, CNBC, CNN, City AM, and WIRED.

10. Martin Turner

Board Member from 1 June 2018 (reappointed for second term from 1 June 2023)

Chair, Risk Committee from 21 February 2019

Martin has 37 years' experience working within the financial services industry in companies such as 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.

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.

11. Jill Youds

Board Member from 1 April 2015 (reappointed for second term from 1 July 2019) to 24 June 2022

Senior Independent Director from 25 July 2017 to 24 June 2022

Chair, Nominations and Remuneration Committee from 1 July 2021 to 24 June 2022

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.[12]

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.

12 **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 123**). 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.

As the accounting officer, I have taken all the steps that I ought to take to make myself aware of any relevant audit information and to establish that our auditors are aware of that information. So far as I am aware, there is no relevant audit information of which the entity's auditor is unaware.

Helen Dean, CBE
CEO, Nest Corporation

10 October 2023

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 the 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 completed by OE Cam LLP in 2020/21 and the next externally-led review will be conducted in 2023/24 by an external facilitator that is yet to be determined. In addition, the Board and its committees conducted an annual internal effectiveness review in the last quarter of 2022/23. No material recommendations were made but the key governance themes identified as part of this review will form part of the scope for the external effectiveness review in 2023/24.

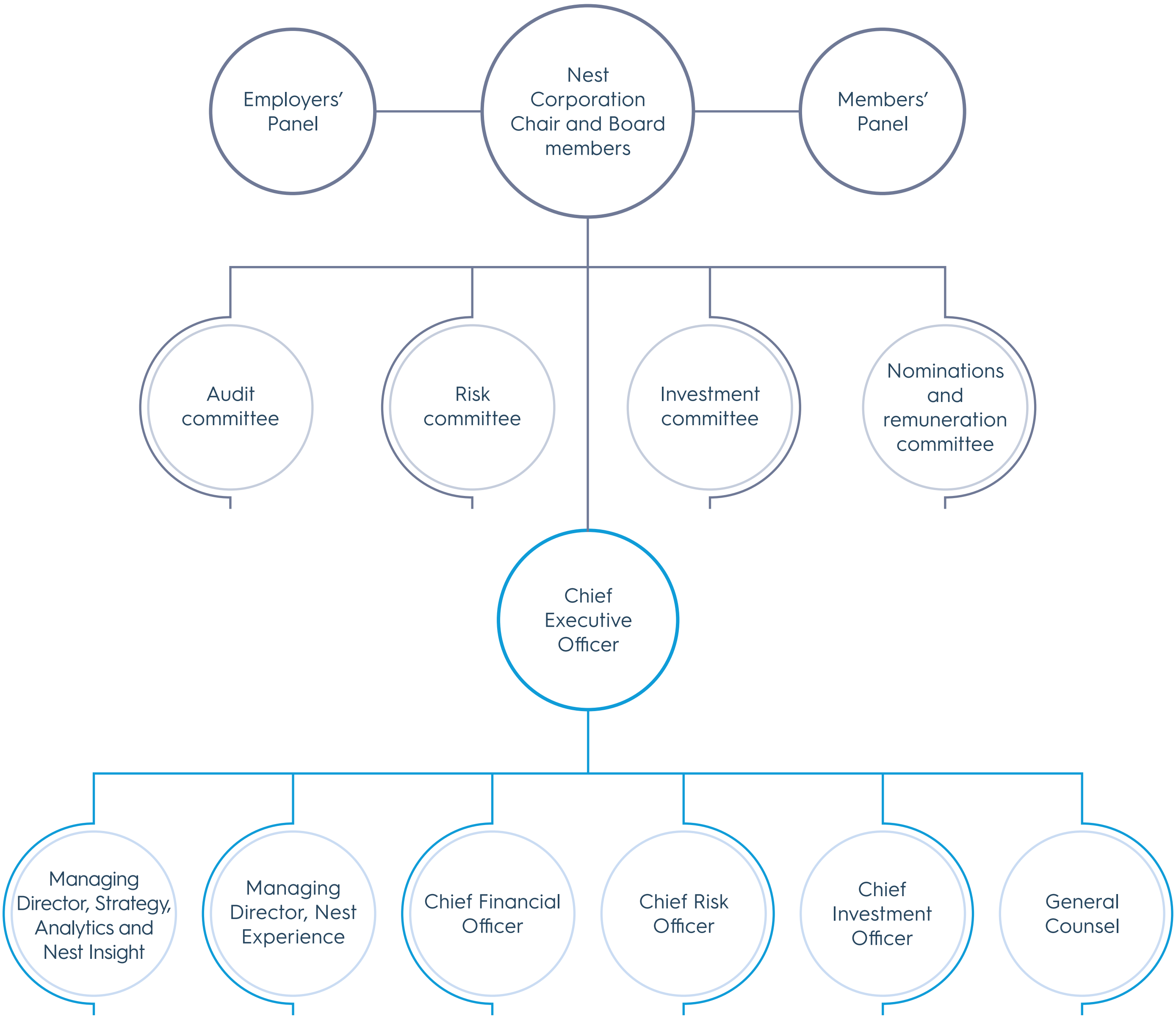
Risk management

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

Organisational structure as at 31 March 2023



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 2023, the Board had nine members, consisting of the Chair of Nest Corporation and eight 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, supply, digital transformation, governance and business management. Biographies of all individuals who were Board members at any point during 2022/23 can be found on **page 52**.

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 2023, all Board members had completed the trustee toolkit.

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 2022/23, Board members received briefings or training on a number of topics including Board members' legal duties and responsibilities, Managing Public Money and our scheme administration contract and outsourced provisions (see **page 26**).

To support effective and robust decision-making, the Board had four committees as at 31 March 2023 (see **page 60**). 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.[13]

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 65**.

A scheme of reserved matters and delegations outlines the matters reserved to the Board as well as delegations to each of the four committees. 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 the day-to-day operations and management of the Corporation and 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.

13 **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 2022/23, members of the audit committee met seven times and had one additional training session. 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.
- Reappointing 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.
- Recommending and approving changes to the committee's Terms of Reference.

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 2022/23, members of 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 increasingly sophisticated cyber threats.
- Providing oversight of the principal 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 26**).
- 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.
- Recommending and approving changes to the committee's Terms of Reference.

Investment committee

During 2022/23, members of the investment committee met seven times. It also met for three workshops and a training session. 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 new investment objectives.
- Reviewing the statutory money purchase illustration (SMPI) rates for all Scheme fund options.
- Approving amendments to the investment management agreement between Nest Corporation and Nest Invest Ltd, the FCA-regulated subsidiary of Nest Corporation.
- Approving the Section 36 advice provided by Nest Invest.
- Approving updates to our climate change policy.
- Approving changes to the UK voting and engagement policy.
- Approving the responsible investment annual report.
- Reviewing the 'Statement of investment principles' (SIP) and approving revisions to our responsible investment beliefs.
- Reviewing and recommending the annual Taskforce on Climate-Related Financial Disclosures (TCFD) report and the SIP implementation statement.

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 2022/23, members of the nominations and remuneration committee met seven times. The committee's work included:

- Reviewing the scope and results of the annual skills and experience analysis of Board members, approving recommendations with respect to Board training requirements, succession planning and implications for recruitment of new Board members.
- Reviewing the scope and results of the internal Board and committee effectiveness review, and approving recommendations arising from the review.
- Approving the appointment and remuneration of new Panel and investment committee members.
- Recommending to the Board the appointment of Board members and chairs of committees.
- Receiving regular reports from the Director of People and Development on people and remuneration matters, including the results of the annual staff survey and progress towards our diversity and inclusion strategy.
- Reviewing the performance and remuneration of our executive committee (including the CEO) and approving changes in remuneration for three members of the executive.
- Reviewing the scope, timeline, and objectives of the review of the Members' and Employers' Panels, due to be undertaken following a recommendation within the independent report by David Bennett, published in December 2021.
- Approving amendments to the external appointments policy which applies to members of the executive.
- Approving two external appointments in relation to one member of the executive.
- Approving the CEO's recommended approach to the internal secondment pay award policy and changes to the parental leave policy. Approving employee remuneration including pay awards, pay ranges and bonuses.
- Recommending to the Board certain changes to the Scheme of Reserved Matters and Delegations.

Committee membership as at 31 March 2023

Audit committee

Myfanwy Barrett	Chair (from 1 February 2023)
Brendan McCafferty	Member (from 1 February 2023)
Martin Turner	Member

Risk committee

Martin Turner	Chair
Myfanwy Barrett	Member (from 1 February 2023)
Karen Cham	Member (from 1 July 2022)
Chris Hitchen	Member
Mutaz Qubbaj	Member

Investment committee

Chris Hitchen	Chair
Sarah Laessig	Member (from 26 May 2022)
Jaap van Dam	Member
Jennie Austin	Member

Nominations and remuneration committee

Sarah Laessig	Chair (from 28 July 2022)
Brendan McCafferty	Member
Karen Cham	Member

Details of meetings attended by Board and committee members

	The Board	Audit committee	Risk committee	Investment committee	Nominations and remuneration committee
No. of meetings					
Brendan McCafferty	9/9	1/1	–	–	7/7
Myfanwy Barrett	9/9	7/7	1/1	–	–
Karen Cham	9/9	–	3/3	–	7/7
Helen Dean	9/9	–	–	–	–
Clive Elphick	8/8	6/6	3/3	4/4	–
Chris Hitchen	9/9	–	3/4	7/7	–
Sarah Laessig	9/9	–	–	5/6	6/6
Richard Lockwood	9/9	–	–	–	–
Mutaz Qubbaj	7/9	–	4/4	–	–
Martin Turner	8/9	7/7	4/4	–	–
Jill Youds	2/2	–	–	1/1	2/2
Jennie Austin	–	–	–	7/7	–
Jaap van Dam	–	–	–	7/7	–

Notes

The Board

Jill Youds resigned as a Board member with effect from 24 June 2022.

Clive Elphick resigned as a Board member with effect from 31 January 2023.

Audit committee

Clive Elphick stepped down from the committee on 31 January 2023, following his resignation as a Board member.

Myfanwy Barrett was appointed chair of the committee with effect from 1 February 2023.

Brendan McCafferty joined the committee with effect from 1 February 2023.

Risk committee

Clive Elphick stepped down from the committee on 31 January 2023, following his resignation as a Board member.

Karen Cham joined the committee with effect from 1 July 2022.

Myfanwy Barrett joined the committee with effect from 1 February 2023.

Investment committee

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

Jill Youds stepped down from the committee with effect from 24 June 2022, following her resignation as a Board member.

Clive Elphick stepped down from the committee on 31 January 2023, following his resignation as a Board member.

Sarah Laessig joined the committee with effect from 26 May 2022.

Nominations and remuneration committee

Jill Youds stepped down from the committee with effect from 24 June 2022, following her resignation as a Board member.

Sarah Laessig was appointed chair of the committee with effect from 28 July 2022.

Board meetings

The Board met nine times during 2022/23. Members of the Board also convened for a number of workshops on a range of topics, including 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 63**. Committee membership as at 31 March 2023 is set out on **page 62**.

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 2022/23, members of 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 2022–2025'.
- Reviewed and approved our Modern Slavery Act (MSA) statement.
- Reviewed the annual reports of the Members' Panel and the Employers' Panel.

In addition, during 2022/23 the Board's work included:

- Approving changes to our governance framework and approving the updated scheme of reserved matters and delegations.
- Providing governance and oversight of the planned transition in scheme administrator (see **page 26**) and, subsequently, approving the conclusion of the scheme administration agreement with Atos BPS signed in February 2021.
- Approving new investment objectives, changes to the 'Statement of investment principles' (SIP) and the SIP implementation statement.
- Approving the Task Force for Climate-related Financial Disclosures (TCFD) report for the Scheme.
- Approving the annual assessment of the Scheme's value for members and the conclusions of this report.
- Reviewing the impact of the cost-of-living crisis on Nest's members.
- Approving changes to Nest's business priorities.
- Reviewing and approving plans in relation to implementation of the Pensions Dashboard.
- Approving changes to committee membership, including the appointment of the new chair of the nominations and remuneration committee and the new chair of the audit committee.

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 2023.

During 2022/23 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 the Trustee in developing the Scheme's services. For example, this year's programme focused on late payments, the service experience of newly enrolled employers with Nest, the new customer and financial wellbeing strategies of Nest.
- Providing input on proposed changes to the 'Statement of investment principles'.
- Attending a joint meeting with members of the Members' Panel, the Board and the executive committee. The meeting explored the current developments regarding Nest's contract with Atos BPS, new retirement solutions and the impact of the cost-of-living crisis on members.

Members' Panel

(Chair – Nigel Stanley from 1 August 2016 to 30 September 2022

Chair – Catherine Walker from 1 October 2022)

The Members' Panel was set up in accordance with the Pensions Act 2008 and Nest Order 2010 to represent the Scheme members and allow them to provide advice on the operation, development and amendment of the Scheme. The panel had 11 members as at 31 March 2023.

During 2022/23 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.
- Providing a response to the call for evidence on 'Helping savers understand their pension choices' conducted by the DWP and the consultation on the Pensions Dashboard Programme Design Standards.
- Considering issues relevant to members in order to provide advice and feedback to the Board and the executive team, including Nest's customer beliefs, fund naming research, new customer and financial wellbeing strategies.
- 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 2022/23 the executive considered 30 cases (compared with 23 cases which were considered in 2021/22).

- 8 cases were upheld (2 cases in 2021/22).
- 9 cases were partially upheld (12 cases in 2021/22).
- 13 cases were not upheld (9 cases in 2021/22).

In 2022/23, the executive received information on 2 cases which had been withdrawn by the complainant before consideration (compared with 1 case in 2021/22).

The Pensions Ombudsman reported to us that 1 case reviewed during the year had been escalated to it after stage 2 (compared with no cases in 2021/22).

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 2023. For further details see the compliance and assurance section of the Corporate governance report on **page 73**.

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, the Corporation 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 60**). 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 2022.

Principal risks

We take a 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 22**, are reviewed every year to ensure that they remain appropriate and include newly identified potential and emerging risks. In addition, every three years the 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

Executive team

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

Risk appetite

Expresses the level and type of risk Nest Corporation is willing to accept in delivering our strategic objectives.

Documented in a risk appetite table and accompanying appetite statements.

Policy framework

Outlines the structures and approval levels of Nest Corporation's polices and the supporting governance.

Three lines of defence model

Ensures lines 1, 2 and 3 are aware of their risk responsibilities to the business.

Risk identification, measurement and control

Categorisation and assessment of risks.

Risk monitoring and reporting

A suite of risk metrics and information to support effective decision-making at all levels.

Culture

Embedded within Nest staff, promoting a risk-aware culture by considering actions and behaviours.

Resources and capabilities

Skilled, motivated resources able to support risk management responsibilities.

Key controls and mitigating actions

For each of our principal risks in 2022/23, 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.

Scheme administration risk

One of our key outsourced contracts, the scheme administration services contract with Tata Consultancy Services (TCS), was due to end in 2023. In 2021, Atos BPS were successful in the procurement exercise to appoint our long-term scheme administration service partner. Over the following two years, we worked together on designing a refreshed customer-centric platform, supporting the next step on how we use data and insight to drive our service.

This work with Atos BPS has provided a foundation for the transformation of our future service, however, in January 2023, we took the decision, in agreement with Atos BPS, to end our arrangement.

Managing the risks for our customers was always at the forefront of our decisions. Despite the continual efforts of the programme teams, it became clear that it would not be possible jointly to agree an implementation plan that would meet the strategic aims for the transformation in a way which was consistent with the commercial and risk appetite of both organisations. Following a thorough analysis of the situation, including external review, the Board of Nest Corporation, after significant consideration over a number of sessions, took the decision, in agreement with Atos BPS, to end our partnership.

To mitigate any service continuity risk to our customers, we maintained options to extend our existing scheme administration contract with TCS throughout our programme of work with Atos BPS. On the decision to end our partnership, we utilised the clauses maintained in the current contract to implement a 2-year extension to continue the existing service out to June 2025.

In order to procure our long-term scheme administration service partner, we utilised our experience with Atos BPS to inform both our procurement approach and risk appetite. Our commercial, technical and service requirements for our transformation have not changed. We will continue to deliver the transformation to our service and maintain the commercial benefits of the original procurement exercise, building on the foundations created by Atos BPS while they were working on our transformation.

To develop competition, our original procurement considered bidders with experience in the broader financial services market, and those with experience supporting smaller entities than ourselves. The benefits of this approach were reflected in the commercial terms agreed in the future scheme administration contract.

However, it would have been imprudent to maintain the same level of risk appetite into a second procurement exercise as it was important the supplier that subsequently took Atos BPS's place would deliver our strategic aims. Whilst the commercial, technical and service requirements for our transformation remained the same, we reviewed the criteria that any potential future partner(s) should be able to meet in order to be considered within the procurement.

In reconsidering our risk appetite, we refined our qualifying criteria for potential bidders. We decided it necessary for any future partner to have experience in operating within the UK defined contribution pensions (DC pensions) market, to be able to evidence a digital first service in a DC pensions environment and to show experience in delivering both a service transition and data migration. In assessing the market against our original procurement approach and updated risk appetite, including an objective, independent market review, we concluded our procurement exercise in June 2023, appointing TCS as our long-term scheme administrator. This appointment, with a partner who can evidence their delivery of a digital first service within the UK DC market, secures continuity of service for all our customers. It will also ensure that we are able to deliver on the strategic aims of our transformed service through a modern, componentised architecture that has data and insight at its heart. The service will be supported by a commercial framework that focusses on the quality of the experience our customers receive, whilst delivering the commercial benefits required to allow us to maintain our financial plan.

The future scheme administration services programme has an enhanced level of controls and mitigations compared to the current contract with TCS. This addresses the risks associated with any future transition to a new partner. This includes the items listed below.

Our controls and mitigating actions:

- Appointment of independent advisors to conduct a thorough lessons learnt exercise covering the procurement process and the 2-year project with Atos BPS. We will build in recommendations from the review into our future ways of working where appropriate.

- Mechanisms within the TCS contract provide us with greater flexibility to rethink our preferred supplier model in the future. A modern technical solution built around a flexible modular architecture, and supported by appropriate commercial terms, allows rapid implementation of change and enables us to support a multi-provider solution.
- Ability to extend services beyond the initial 10-year term to a maximum of 18 years, providing options to achieve continuity of service during any future transition.

Service delivery risk

We deliver the Scheme through an outsourced business model.

There is a risk of significant service failure which may prevent us from delivering timely services to our customers at a quality standard to fulfil the expectations of our customers and regulatory requirements.

The exit from Atos BPS administration contract reduced the potential risk associated with any migration of data or services and our ability to provide a service to our customers.

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, 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.

Cybercrime and information security 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.

During 2022/23 the Scheme notified the Information Commissioner's Office of two Personal Data related incidents. Both were 'unauthorised access'. The Scheme suffered a financial crime incident that came to light during the year. This incident has been thoroughly investigated and a number of additional controls have been implemented, which have so far proved successful in preventing any further incidents.

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.

Data and information management risk

Data and information underpin all our work and ensuring it is appropriately managed results in improved and trusted data quality. It also guarantees that the data is consistent, doesn't get misused, and that we drive better insights and outcomes from its use. These are important factors in effective decision-making and critical in ensuring data is appropriately handled.

The two years spent working together with Atos BPS established strong foundations for the next chapter in our digital transformation and our journey as a data-led organisation, using data and insight at the heart of our decision making.

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.

- The roles and responsibilities for data owners have been clearly set out in the data governance framework which sets out clear accountability and processes.
- A number of learning and development opportunities have taken place over the year to improve data literacy across the whole of the organisation.

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.

Further information in relation to the performance of this principal risk is included in the 'Compliance and assurance' section on **page 73**.

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 management and performance risk

We are funded in part by a loan from government. This will be repaid through our future income. We will over the course of the next 15 years 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.

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.

Further detail of our financial management and performance over the year is included within the 'Overview of financial performance' section on **page 29**.

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.
- Our strategic plan, rolling three-year business plan and annual budgets are reviewed and challenged by members of the Board, which then approves the year's funding requirement for submission to the DWP. The DWP subjects our plans to additional scrutiny before making any funding decisions.
- Senior members of our management team meet regularly with the 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.

Further information on how the investments performed over the year is discussed in the 'Deliver on our investment objectives' section on **page 34**. For more information on the Scheme's investments, refer to the 'Scheme annual report and accounts 2022/23': **nestpensions.org.uk/schemeweb/nest/nestcorporation/library.html**

Our controls and mitigating actions:

- The investment committee oversees the Scheme's investment risks.
- Our SIP is reviewed annually by the investment committee and at least every three years by the Board, or whenever we make a change to our overall investment strategy. The most recent review was conducted in July 2023.
- 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.[14]

People 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 member experience and quality of service.

Further detail of performance in relation to our People risk is available in the 'Remuneration and staff report' on **page 74** and 'Continue to build our organisational skills and culture' section on **page 38**.

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.
- Our diversity and inclusion strategy includes ambitious targets for increasing the diversity of our staff. These were published in our 'Corporate plan 2021–2024'.[15] 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.

Customer proposition risk

Our public service obligation requires us to accept all employers that wish to use the Scheme to meet their auto enrolment obligations. We could fail to keep our proposition and service aligned to regulatory requirements, or to the changing needs or expectations of our customers. Product innovations have allowed us to create a simple and accessible service that matches the Scheme's processes to the way people work.

Further information relating to the performance of this risk over the year is available in the 'Maintain high-quality customer service and protect our customers' assets and data' on **page 35**.

Our controls and mitigating actions:

- 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 our six diversity and inclusion 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 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.

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

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

- We seek feedback from the Employers' Panel and the Members' Panel on our customer services, including our approaches to supporting and engaging with customers.
- 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.

Strategy risk

This is the risk in relation to our strategy that the objectives of our sponsoring department, the DWP, or the Government are in conflict with our business strategy or fiduciary duty. Additionally there is the risk that our strategy, business model or business priorities are insufficiently responsive to evolving member needs or to broader external change.

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.

Further details relating to this risk are available in the 'Review our corporate and customer strategies' section on **page 38**.

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.

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.

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.

During 2022/23, two whistleblowing events were raised, this compares to one in 2021/22.

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.[16]

16 **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 2022/23.

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 2022 to 31 March 2023 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.

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

Complaints to the Parliamentary Ombudsman

There have been no (0) complaints to the Parliamentary Ombudsman in 2022/23 (also no complaints in 2021/22).

Helen Dean, CBE
CEO, Nest Corporation

10 October 2023

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 Board 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, 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[17]

Our pay and reward policy was reviewed in January 2023 in line with civil service guidelines and a review of current market data supplied by external providers Mercer LLC and McLagan Data & Analytics. Our pay and reward proposition includes how we approach our annual pay awards and bonuses, our performance reviews and staff benefits and recognition.

We continue to evolve our reward and pay proposition with a focus on how we support career progression. In June 2022 we moved to a new approach for recognition of our staff aligned to our values allowing peer to peer recognition through the use of a voucher scheme. The pay and reward policy does not apply to Board directors.

The disclosures in this section relate to Board directors. 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.
- Most other non-executive Board directors are required to commit to working for us for 30 days a year. Board directors 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 directors 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 61** of the 'Governance statement'.

17 **nestpensions.org.uk/schemeweb/nest/careers/benefits/**

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 2022/23 the civil service and arm's-length bodies were offered a pay increase of 2% with departments having flexibility to pay up to 3% in certain circumstances. In line with our pay policy, Nest choose to pay a CPI increase (5.5%) as of January 2022 to all staff. Nest provided a clear business rationale supported by evidence to the DWP.

In line with our pay policy, a flat rate bonus was paid to all staff below the CEO. This bonus was £4,000 for executive team members and senior leaders and £1,750 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)

No compensation payments have been made during the year.

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

Internal comparisons (subject to audit)

Reporting bodies are required to disclose the relationship between the remuneration of the highest paid Board directors in their organisation and the lower quartile, median and upper quartile remuneration of the organisation's workforce.

The remuneration of the highest paid Board director was 4.5 times (compared to 4.4 times in 2021/22) the median remuneration of the workforce.

In 2022/23 one employee received remuneration in excess of the highest-paid Board director (also one in 2021/22). Remuneration ranged from £23,000 to £359,000 (compared with £29,000 to £337,000 in 2021/22).

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[18]

	Mean			Median		
	2023	**2022**	**2021**	**2023**	**2022**	**2021**
Hourly pay gap	14.8%	13.9%	14.5%	11%	9.5%	10.9%
Bonus gap	11.0%	7.4%	-4.5%	0%	0%	0%

Gender pay gap

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

Our average hourly gender pay gap has increased by 0.9% in comparison to last year. There has been a decrease in the number of women overall and the proportion of women in senior leadership roles, which has contributed to the pay gap increase. 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.

The mean bonus gap has also increased by 3.6% in 2023 compared to 2022. The number of women who are part-time or were not eligible for a full bonus due to their length of service equates to 23%. This would also have an impact on the bonus gap.

18 Reported on compensation received from 1 January to 31 December.

Ethnicity pay gap

We voluntarily publish our ethnicity pay gaps as we feel it is important to be transparent about our performance and show our commitment to addressing any disparity. These reports are necessary to identify the scope of work needed, take action, measure progress and drive forward meaningful change.

Our diversity and inclusion strategy aims to reduce our ethnicity pay gaps. However, unfortunately we did not achieve the targets we set. Employees from an ethnically diverse background still earn considerably less than white employees and we recognise that 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 to longer term. We are determined to increase the number of people from ethnically diverse backgrounds in higher salary roles and our senior leadership. In February 2023 we updated our diversity and inclusion strategy, and our targets remain unchanged. We know these are ambitious targets, but we believe they are achievable and will help us to address our ethnicity pay gap. We will work closely with our race working group, our diversity and inclusion business partner and the senior leaders to ensure that we deliver on our targets.

Compensation[19] of employees from ethnic minority background[20]

	Mean			Median		
	2023	2022	2021	2023	2022	2021
Hourly pay gap	23.8%	19.2%	18.3%	18%	11.9%	13.2%
Bonus gap	21.9%	21.4%	27.1%	0%	0%	0%

Sickness absence

The average amount of time lost to sickness per employee in 2022/23 was 3.5 days (compared with 4 days in 2021/22), including Covid-related absences.

The number of sickness absences have decreased this year and Covid-related absences have decreased by 40% when compared to 2021/22.

19 Reported on compensation received from 1 January to 31 December.

20 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.

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.

Name and Position	Contract details: Contract start date	Unexpired term as at 31 March 2023	2022/23: Full-year equivalent salary and allowances (£000)	Salary and allowances paid (£000)[1]	Performance related payments (£000)[2]	Pension benefits (to nearest £100)[3]	Taxable expenses (to nearest £100)	Total (£000)
Brendan McCafferty Chair	1 February 2022	46 months	90-95	90-95	–	–	33,500	120-125
Myfanwy Barrett Board Member	1 July 2021	39 months	25-30	25-30	–	–	2,000	30-35
Karen Cham Board Member	1 July 2019	15 months	25-30	25-30[5]	–	–	1,400	25-30
Clive Elphick Board Member	1 June 2018	Left Nest on 31/01/2023	15-20	15-20	–	–	1,700	15-20
Chris Hitchen Board Member	1 June 2018	2 months	15-20	15-20	–	–	1,900	20-25
Sarah Laessig Board Member	1 September 2021	41 months	25-30	25-30	–	–	–	25-30
Mutaz Qubbaj Board Member	1 June 2018	2 months	10-15	10-15	–	–	–	10-15
Martin Turner Board Member	1 June 2018	2 months	25-30	25-30[5]	–	–	300	25-30
Jill Youds (Mackenzie) Board Member	1 April 2015	Left Nest on 24/06/2022	15-20	5-10	–	–	1,700	5-10
Helen Dean Chief Executive Officer[4]	1 June 2018	2 months	265-270	260-265	10-15	21,100	1,300	295-300
Richard Lockwood Chief Financial Officer[4]	1 September 2018	5 months	240-245	240-245	0-5	–	3,700	245-250

Notes

1. Board directors' terms of engagement allows them to claim for time in excess of their contractual obligation. The 2022/23 figures include overtime worked in 2022/23 that was paid after year end.
2. With the exception of the Chief Executive Officer and Chief Financial Officer, Board directors do not receive any performance related payments.
3. Pension benefits comprise employer contributions into the Scheme.
4. Helen Dean and Richard Lockwood were both Board directors as at 31 March 2023. The remuneration disclosed is mainly in respect of their positions as Chief Executive Officer and Chief Financial Officer.
5. Figures include overtime worked in 2021/22 which was paid in 2022/23.

2021/22

Full-year equivalent salary and allowances (£000)	Salary and allowances paid (£000)[1]	Perform-ance related payments (£000)[2]	Pension benefits (to nearest £100)[3]	Taxable expenses (to nearest £100)	Total (£000)
90-95	15-20	–	–	3,700	15-20
15-20	10-15	–	–	900	15-20
15-20	15-20	–	–	1,100	20-25
15-20	15-20	–	–	1,900	20-25
15-20	15-20	–	–	1,000	20-25
15-20	10-15	–	–	–	10-15
10-15	10-15	–	–	–	10-15
25-30	25-30	–	–	–	25-30
15-20	15-20	–	–	2,000	20-25
245-250	245-250	15-20	19,900	–	285-290
235-240	235-240	5-10	–	2,500	245-250

Staff report

Summary of staff costs for 2022/23

The information in this table has been audited.

	Year ended 31 March 2023 £000	Year ended 31 March 2022 £000
Directly employed staff		
Wages and salaries	25,051	24,008
Social security costs	3,203	3,004
Pension costs	2,025	1,944
Subtotal	**30,279**	**28,996**
Secondees	–	27
Interim staff	1,260	815
Total staff costs	**31,539**	**29,838**

Included within staff costs for 2022/23 is a provision of £744,000 for restructuring costs related to the early conclusion of the Scheme transformation programme with Atos BPS (see **page 116**).

We were staffed in 2022/23 by a combination of direct employees and interim staff employed through third-party organisations. Staff consultancy expenditure for 2022/23 was £65,322 (2021/22: £74,448). Consultancy services were utilised to provide specialised support for enhancement projects to systems, risk assessments and product development.

The information in the table below has been audited.

	Average FTE over 2022/23	Average FTE over 2021/22
Directly employed staff	347	349
Secondees	–	1
Interim staff	7	4
Average number of FTE	**354**	**354**

The information in the table below has not been audited.

Senior Civil Service Equivalent pay band	Senior Civil Service Equivalent pay ranges	Headcount
1	£73,000 – £117,800	68
2	£95,000 – £162,000	28
3*	£125,000 – £208,100	22

* Includes five members of staff whose 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 2023.

Title	Men	Women	Total
Board director (ex CEO and CFO)	4	3	7
Executive team (inc CEO and CFO)	6	1	7
All other staff	171	178	349
Total	**181**	**182**	**363**

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' hub 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 and offers a broad representation across all directorates within the business. Members are elected each year and commit to at least one year of service. A significant effort has been made this year to ensure that the group is visible across the organisation, and acts as a sounding board for all staff. In 2022/23 the forum has held two formal meetings with our CEO as well as regular meetings with the Director of People and Engagement. They provided input on matters such as our pay and bonus principles, approach to returning to the office and wellbeing initiatives. The group were also appointed staff representatives for the collective consultation activity as a result of the closure of the administration service implementation programme following our exit from the Atos BPS contract.

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. Our flexible working policy supports 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 enables our people to work in an agile way which supports our hybrid working model.

Diversity and inclusion

Our updated diversity, equity and inclusion strategy was published in February 2023. It outlines our plans for 2023 onwards, including what we will do to attract, recruit, develop and retain diverse talent and future potential.

We have started to progress by amending the structure of our six diversity and inclusion working groups. Our working groups are now championed by our senior leaders, and we have empowered our staff to be chairs of the working groups. This is important as this change not only allows us to hear the voices of the working group members, but it is an opportunity to develop our future leaders. Each group has a programme of initiatives to help them engage with the business (see **page 27**).

We have a diversity and inclusion central working group which involves the chairs of all of our diversity and inclusion working groups and is championed by two members of our executive committee, including the CEO. The working group has an important role as it has oversight of our efforts to make Nest a more inclusive place to work.

The central working group is an opportunity for the chairs of our diversity and inclusion working groups to collaborate, share ideas and discuss diversity, equity and inclusion around the organisation.

We need to take more steps to retain and develop diverse talent from more junior roles into leadership and our diversity, equity and inclusion strategy and pay gap reports outline the steps we will take to achieve this (see **page 76**).

Our diversity, equity 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 directors in our targets as appointments to the Board are made by the Secretary of State for Work and Pensions.

The executive committee comprises our executive team. See the organisational chart on **page 58** 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 one of our executive team to identify as being from an ethnically diverse background.
- A minimum of one of our Board directors to identify as black or black mixed heritage.
- A minimum of three of our executive team to be women or gender non-conforming.
- A minimum of 50% of our executive and senior leadership roles to be women or gender non-conforming.
- At least four of our 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.

During 2022/23 there were no individuals from an ethnically diverse background on our executive team, with no Board directors identifying as black or black mixed heritage. As at 31 September 2022 the proportion of women in our executive and senior leadership roles was 44%, with one member of the executive committee a women.

We remain committed to improving the diversity of our senior leadership teams and our diversity, equity and inclusion strategy will support us in achieving that.

Disability Confident Employer

In 2022 we renewed our status as a Disability Confident (level 2) employer in the DWP scheme and we have strong ambitions to become a Disability Confident Leader. We recognise the benefits that people with disabilities bring to the workplace, and we will continue to support applicants and employees with disabilities to thrive at Nest.

We advertise on job boards aimed specifically at people with disabilities and guarantee those that apply and 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 made one of its priorities to foster an environment where staff feel comfortable declaring that they have a long-term disability or health condition and to understand why this data will help us to better support them in their work.

This recognises our drive to be an inclusive employer.

Off-payroll engagements

For all off-payroll engagements as at 31 March 2023, amounting to more than £250 per day and that last for longer than six months:

Number of existing engagements as at 31 March 2023	**4**
of which	
Number that have existed for less than one year at time of reporting	1
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	2
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 2022 and 31 March 2023, 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 2022 and 31 March 2023	**10**
of which	
Not subject to off-payroll legislation	0
Subject to off-payroll legislation and determined as in-scope of IR35	8
Subject to off-payroll legislation and determined as out-of-scope of IR35	2
Number of engagements reassessed for compliance or assurance purposes during the year	1
of which	
number of engagements that saw a change to IR35 status following review.	0

For any off-payroll engagements of board members with significant financial responsibility between 1 April 2022 and 31 March 2023:

Number of off-payroll engagement of board members	
Number of off-payroll engagements of board members, and/or, senior officials with significant financial responsibility, during the financial year	0
Total no. of individuals on payroll and off-payroll that have been deemed 'board members, and/or, senior officials with significant financial responsibility', during the financial year	11

Exit packages (subject to audit)

Exit packages paid during 2022/23 totalled £89,960. This includes redundancy pay in line with our policy and, where applicable, payment in lieu of notice as per the clause in our employment contracts. In total there were five involuntary and two voluntary leavers during the year. This included two compulsory redundancies and five other departures. Other departures consisted of three involuntary departures due to one failed probation, two terminations. There were also two voluntary leavers who were paid in lieu of notice (PILON).

Redundancy and other departure costs are paid in accordance with our redundancy policy. 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.

Exit package cost band	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band	
	2022/23	2021/22	2022/23	2021/22	2022/23	2021/22
<£10,000	1	1	2	1	3	2
£10,000 – £25,000	–	–	3	–	3	–
£25,000 – £50,000	1	2	–	1	1	3
£50,000 – £100,000	–	–	–	–	–	–
£100,000 – £150,000	–	–	–	–	–	–
£150,000 – £200,000	–	–	–	–	–	–
Total number of exit packages	**2**	**3**	**5**	**2**	**7**	**5**
Total cost	**£33,775**		**£56,185**		**£89,960**	**£125,803**

The table above refers to exit packages paid out during 2022/23. During the financial year a collective redundancy consultation process concluded with 28 roles made redundant. Redundancy packages agreed in line with our policy for all 28 roles were yet to be paid as at 31 March 2023, although they are accrued within our financial statements.

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

	25th percentile ratio	50th percentile ratio	75th percentile ratio
Year ended March 2023	5.8:1	4.5:1	3.5:1
Year ended March 2022	5.7:1	4.4:1	3.5:1

The percentile ratios have increased primarily due to the highest paid Board director's remuneration increasing faster than the median remuneration as a result of pay policy.

In 2022/23, one (2021/22: one) employee received remuneration in excess of the highest-paid Board director in the above remuneration table. Remuneration ranged from £23,367 to £359,053 (2021/22: £29,000 to £337,000).

Pay data (subject to audit)

	Salary £000	Year ended 31 March 2023 Total Pay and Benefits £000	Salary £000	Year ended 31 March 2022 Total Pay and Benefits £000
Highest paid directors remuneration	269	280	249	266
25th Percentile	47	49	45	47
50th Percentile	61	63	59	61
75th Percentile	79	81	76	77

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 remuneration of staff to keep in line with the external market.

	Percentage change 2021/22 to 2022/23	
	Salary	Performance related pay
Highest paid director	8%	(33%)
Year on year increase/(decrease) of mean salary and performance related pay*	4%	(16%)

* Excludes highest paid director.

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' (MPM) prescribes any losses or special payments in excess of £300,000 should be disclosed.

During 2022/23, we recognised one-off expenditure totalling £74 million related to the completion of the active programme of work between Nest and Atos BPS in transforming the future scheme administration service. An impairment loss totalling £59.4 million was recognised in relation to non-current assets developed over our programme of work with Atos BPS. At this stage, we have taken the decision to impair the assets developed with Atos BPS in full on the basis that we cannot provide certainty on their future economic benefits. However, we intend to review each asset, with TCS, and re-utilise where it is beneficial to do so. A further £14.6 million expense was recognised following our exit from the agreement in January 2023. Appropriate approvals for all special payments and impairment losses on assets were gained from the DWP and HM Treasury.

The one-off expenditure of £74 million is inclusive of a £28 million final payment to Atos BPS. The payment includes £18 million to satisfy an outstanding payable for assets already developed and therefore included within the £59.4 million impairment loss, and £10 million in relation to partially developed assets yet to be capitalised and therefore expensed directly to the statement of comprehensive net income (SoCNI) , included within the £14.6 million expense outlined above. The remaining £4.6 million of the £14.6 million expensed directly to our SoCNI relates to activity, with Atos BPS and TCS, committed to prior to the decision to exit our agreement and activity required to conclude our programme of work together.

Over 2022/23, we made a provision for redundancy payments to employees in line with our redundancy policy. Under MPM, these payments are classified as fruitless payments. A Provision of £0.7 million recognised as of the 31 March 2023 for 28 employees has subsequently been settled. The maximum payment was £73,000, minimum was £116 with a median value of all payments of £19,000.

During 2021/22, we made special payments of £70,000. There have been no gifts exceeding £300,000 in 2022/23 (2021/22: none).

For further details visit the compliance and assurance section of the 'Corporate governance report' on **page 73**.

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 29**.

Helen Dean, CBE
CEO, Nest Corporation

10 October 2023

THE CERTIFICATE AND REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO THE HOUSES OF PARLIAMENT

Opinion on financial statements

I certify that I have audited the financial statements of the National Employment Savings Trust Corporation for the year ended 31 March 2023 under the Pensions Act 2008.

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

- Statement of Financial Position as at 31 March 2023;
- 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 2023 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.

Opinion on regularity

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

Basis 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 (2022)*. 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 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 the information included in the Annual Report, but does not include the financial statements nor my auditor's certificate. 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.

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 Reports.

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

- Adequate accounting records have not been kept 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
- I have not received all of the information and explanations I require for my audit; 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 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 Chief Executive Officer's Responsibilities, the Chief Executive Officer on behalf of the Trustee Corporation is responsible for:

- maintaining proper accounting records;
- providing the C&AG with access to all information of which management is aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
- providing the C&AG with additional information and explanations needed for his audit;
- providing the C&AG with unrestricted access to persons within the National Employment Savings Trust Corporation from whom the auditor determines it necessary to obtain audit evidence;
- ensuring such internal controls are in place as deemed necessary to enable the preparation of financial statement to be free from material misstatement, whether due to fraud or error;
- ensuring that the financial statements give a true and fair view and are prepared in accordance with Secretary of State directions made under the Pensions Act 2008;
- ensuring that the annual report, which includes the Remuneration and Staff Report, is prepared in accordance with Secretary of State directions made under the Pensions Act 2008; 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, I:

- considered 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.
- inquired 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 on:
  - identifying, evaluating and complying with laws and regulations;
  - detecting and responding to the risks of 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;
- inquired of management, the National Employment Savings Trust Corporation's head of internal audit and those charged with governance whether:
  - they were aware of any instances of non-compliance with laws and regulations;
  - they had knowledge of any actual, suspected, or alleged fraud;
- discussed with 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.

I obtained an understanding of the National Employment Savings Trust Corporation's framework of authority and other legal and regulatory frameworks in which the National Employment Savings Trust Corporation operates. I focused 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, pensions legislation and tax Legislation.

Audit response to identified risk

To respond to the identified risks resulting from the above procedures:

- I reviewed 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;
- I enquired of management and the Audit Committee concerning actual and potential litigation and claims;
- I reviewed minutes of meetings of those charged with governance and the Board and internal audit reports; and
- in addressing the risk of fraud through management override of controls, I tested the appropriateness of journal entries and other adjustments; assessed whether the judgements on estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

I communicated relevant identified laws and regulations and potential risks of fraud 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 expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

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 I identify during my audit.

Report

I have no observations to make on these financial statements.

Gareth Davies, 13 October 2023

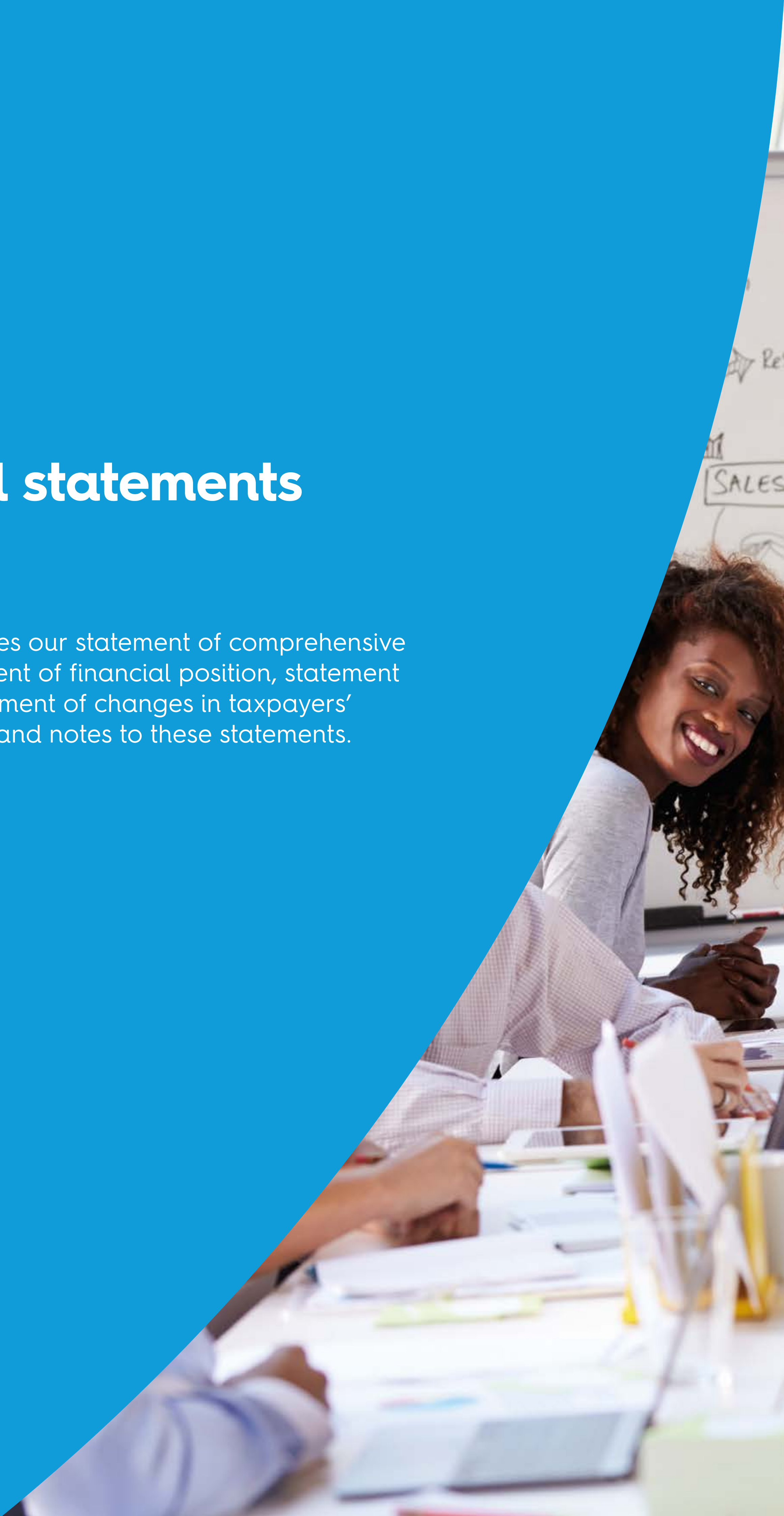
Comptroller and Auditor General

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 2022/23 and notes to these statements.




45% Sales
Tech

Nest Corporation financial statements

Statement of comprehensive net income (SOCNI)

for the year ended 31 March 2023

	Note	Year ended 31 March 2023 £000	Year ended 31 March 2022 £000
Income			
Members' contribution and annual management charge	2	194,384	164,511
Grant income	3	15,779	20,434
Other income	4	3,835	1,058
Total operating income		**213,998**	**186,003**
Expenditure			
Staff costs	5a	(31,539)	(29,838)
Scheme investment and administration costs	6b	(230,405)	(123,331)
Depreciation and amortisation	6a	(18,324)	(21,272)
Other expenditure	6c	(17,890)	(17,240)
Total operating expenditure		**(298,158)**	**(191,681)**
Net financing expenditure			
Interest payable	7	(26,024)	(29,429)
Total financing expenditure		**(26,024)**	**(29,429)**
Net comprehensive income for the year		**(110,184)**	**(35,107)**
Other comprehensive net income			
Net gain on revaluation of non-current intangible assets	9	173	180
Total comprehensive income for the period		**(110,011)**	**(34,927)**

Statement of financial position (SOFP)

as at 31 March 2023

	Note	As at 31 March 2023 £000	As at 31 March 2022 £000
Non-current assets			
Property, plant and equipment	8	3,529	7,698
Intangible assets	9	7,319	17,062
Intangible assets in development	9	–	53,889
Right-of-use – property	8	15,777	–
PPE assets under construction	8	604	–
Prepayment amounts falling due over one year	10a	439	3,458
Total non-current assets		**27,668**	**82,107**
Current assets			
Trade and other receivables	10b	16,020	16,122
Other current assets	10c	12	6
Cash and cash equivalents	11	228,452	129,719
Total current assets		**244,484**	**145,847**
Total assets		**272,152**	**227,954**
Current liabilities			
Interest payable	12	(12,022)	(12,115)
Trade and other payables	13	(29,870)	(26,567)
Lease liabilities <1yr	14a	(1,924)	(971)
Other liabilities	15a	(1,232)	(1,269)
Provisions for liabilities and charges	16	(744)	–
Total current liabilities		**(45,792)**	**(40,922)**
Total assets less current liabilities		**226,360**	**187,032**
Non-current liabilities			
Lease liabilities >1yr	14b	(11,518)	(246)
DWP loan	15b	(1,132,047)	(994,047)
Provisions for liabilities and charges	16	(1,183)	(1,099)
Total non-current liabilities		**(1,144,748)**	**(995,392)**
Total assets less total liabilities		**(918,388)**	**(808,360)**
Taxpayers' equity and other reserves			
General reserve		(922,517)	(812,316)
Revaluation reserve		4,129	3,956
Total equity		**(918,388)**	**(808,360)**

The accounting policies and notes, on **page 98** to **page 121** form part of these financial statements. The financial statements, including the accounting policies and notes on **page 98** to **page 121**, were approved by the Board on 21 September 2023.

Helen Dean, CBE
CEO, Nest Corporation

10 October 2023

Statement of cash flows (SoCF)

for the year ended 31 March 2023

	Note	Year ended 31 March 2023 £000	Year ended 31 March 2022 £000
Cash flows from operating activities			
Total operating expenditure	5a,6	(298,158)	(191,681)
Members' contribution and annual management charge	2	194,384	164,511
Other Income	4	3,835	1,058
Grant Income for non-chargeable costs	3	472	475
Adjustment for non-cash items	22	71,458	18,001
(Increase)/decrease in trade and other receivables	10	(531)	979
(Decrease) in current liabilities	12	(93)	–
Increase in trade and other payables	13,15a	3,266	4,095
Increase/(decrease) in redundancy provisions	16	744	–
Increase/(decrease) in dilapidations provisions	16	84	(82)
Net cash outflow from operating activities		**(24,539)**	**(2,644)**
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets	22	(606)	(69)
Payments towards TCS service concession arrangement assets	22	(2,180)	(4,002)
Payments towards intangible assets in development	22	–	(53,889)
Net cash outflow from investing activities		**(2,786)**	**(57,960)**
Cash flows from financing activities			
Loan interest	7	(26,024)	(29,429)
Public service obligation offset	3	15,307	19,959
Repayment of leasing liabilities		(1,225)	–
Loan received from the DWP	15b	138,000	110,400
Net cash inflow from financing activities		**126,058**	**100,930**
Net Increase in cash and cash equivalents in the period	11	**98,733**	**40,326**
Cash and cash equivalents at the beginning of the period	11	129,719	89,393
Cash and cash equivalents at the end of the period		**228,452**	**129,719**

The accounting policies and notes on **page 98** to **page 121** form part of these financial statements.

Statement of changes in taxpayers’ equity (SoCTE)

for the year ended 31 March 2023

	Revaluation reserve £000	General fund £000	Total reserves £000
Total taxpayers’ equity as at 31 March 2022	**3,956**	**(812,316)**	**(808,360)**
Changes in accounting policy		(17)	(17)
Total taxpayers’ equity as at 1 April 2022	**3,956**	**(812,333)**	**(808,377)**
Changes in taxpayers’ equity 2022/23			
Net gain on revaluation of non-current assets	173	–	173
Net expenditure after interest	–	(110,184)	(110,184)
Total changes for 2022/23	**173**	**(110,184)**	**(110,011)**
Total taxpayers’ equity as at 31 March 2023	**4,129**	**(922,517)**	**(918,388)**
Total taxpayers’ equity as at 1 April 2021	**3,776**	**(777,209)**	**(773,433)**
Changes in taxpayers’ equity 2021/22			
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 98** to **page 121** 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 2022/23 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 2023, 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 23**.

1.3 Changes in accounting policy and disclosures

a) Changes in accounting policies and standards

From 1 April 2022 we have adopted International Financial Reporting Standard (IFRS) 16, replacing International Accounting Standard (IAS) 17 and International Financial Reporting Interpretations Committee (IFRIC) 4. The adoption of the standard has resulted in the recognition of a right-of-use asset and related lease liability in connection with a former operating lease. No low-value or short-term (less than 12-month) leases have been considered in the standard adoption for 2022/23.

We have not applied IFRS 16 to arrangements previously identified as a service concessions contract under IFRIC 12. An overview of all leases and service concession agreements are presented in note 14.

The contract for the rent of our office at 10 South Colonnade is the only operating lease captured by the new standard. 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. In adopting the standard we have elected the following practical expedients:

- The applied discount rate is equivalent to the incremental cost of borrowing as at 1 April 2022;
- An assessment of whether leases are onerous, applying IAS37, were applied immediately before 1st April 2022 as an alternative to performing 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 initial recognition of the associated right-of-use asset and lease liability from adoption of IFRS 16 is outlined in note 14.

There have been no further changes to accounting policies and no other standards have been adopted during the financial year 2022/23.

b) New standards, amendments and interpretations issued but not effective for the financial year 2022/23 and not adopted early

No new accounting standards have been adopted early during 2022/23. We will monitor for any new accounting standards or interpretations and apply these when they are effective.

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 contract supporting the administration of the Scheme includes options to extend the agreement. We, in considering all facts and circumstances in determining the term, have included all extension options in recognising the associated finance lease.

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 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 2025) 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 earnt and 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 automatically 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 2022/23 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) and we pay a commercial rate of interest on these loans.

We also receive a grant from the DWP to reduce the interest payable on those 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 income.

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. For 2022/23 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. Loan funding from the DWP is initially recognised at fair value and subsequently measured at amortised cost.

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.

The above treatment doesn't apply to the Right of Use Assets (see section 1.17).

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.

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 or end of lease agreement.
- 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.
- Building leases: end of the lease agreement.

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.

For any lease recognised under IFRS 16, the right-of-use asset is depreciated on a straight-line basis from the lease commencement date to the earlier of the useful economic life or the end of the lease term.

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 or until the end of the contract term.
- 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.

For any lease recognised under IFRS 16, the right-of-use asset is amortised on a straight-line basis from the lease commencement date to the earlier of the useful economic life or the end of the lease term.

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.

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

For any new contracts entered we consider whether a contract is, or contains, a lease. Where IFRS 16 is to be applied, a right-of-use asset is recognised on the lease commencement date. The right-of-use asset is measured at cost, which is made up of:

- the initial measurement of the lease liability.
- any initial direct costs incurred.
- an estimate of costs to dismantle and remove the asset at the end of the lease.
- any lease payments made in advance of the lease commencement date (net of any incentives received).

The lease liability is measured at the present value of the lease payments that are not paid. The discount rate used will be the interest rate implicit in the lease. If the rate cannot be readily determined our incremental borrowing rate is used.

IFRS 16 is not applied to one pre-existing finance lease as set out under service concession arrangements in note 1.18.

1.18 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.

An IFRIC 12 liability is also recognised reflecting the shortfall between the scheme administration assets we recognise as grantor and cash payments made to TCS.

1.19 Operating segments

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

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 2023 £000	Year ended 31 March 2022 £000
Members' annual management charge	77,098	62,519
Members' contribution charge	117,286	101,992
Total	**194,384**	**164,511**

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 2023 £000	Year ended 31 March 2022 £000
Grant income for non-chargeable costs	472	475
Public service obligation offset payment	15,307	19,959
Total	**15,779**	**20,434**

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 2023 £000	Year ended 31 March 2022 £000
Interest received and receivable	2,671	53
Sponsorship and research revenue	1,052	888
Sponsorship and research revenue from the DWP	112	117
Total	**3,835**	**1,058**

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 £112k in 2022/23 (compared with £117k in 2021/22) from the DWP. The grant is not classified as state aid.

5 Staff numbers and related costs

a) Staff costs

In 2022/23 we were staffed by a combination of direct employees and interim staff employed through third-party organisations.

Included within staff costs for 2022/23 is a provision of £744k related to restructuring costs. Due to the conclusion of the implementation programme for the new scheme administration service the business has undertaken a restructuring process.

	Year ended 31 March 2023 £000	Year ended 31 March 2022 £000
Directly employed Staff		
Wages and salaries	25,051	24,008
Social security costs	3,203	3,044
Pension costs	2,025	1,944
Subtotal	**30,279**	**28,996**
Secondees	–	27
Interim staff	1,260	815
Total staff costs	**31,539**	**29,838**

b) Pension arrangements

We operate one active defined contribution (DC) workplace pension scheme for our directly employed staff. There were 358 workers in this scheme as at 31 March 2023 (compared with 366 as at 31 March 2022).

We recognise the employer's costs in the period to which they relate. At 31 March 2023 there was one month's contributions outstanding amounting to £440k (compared with £257k as at 31 March 2022).

6 Depreciation, amortisation and other expenditure

	Note	Year ended 31 March 2023 £000	Year ended 31 March 2022 £000
a) Depreciation and amortisation			
Depreciation and amortisation	8,9	18,324	21,272
Total		**18,324**	**21,272**
b) Scheme investment and administration costs			
Scheme administration expenses		124,794	102,350
Scheme investment costs		31,574	20,981
Scheme administration development		14,624	–
Impairment loss on intangible assets in development		59,413	–
Total		**230,405**	**123,331**
c) Other Expenditure			
Professional fees and advice		5,900	4,414
Information technology and telecoms equipment		3,454	3,163
Legal fees and expenses		2,116	1,644
Accommodation		1,984	3,669
Research, marketing and communications		1,189	1,402
Recruitment and training		940	1,006
Movements in property repair provisions in the year	16	84	(82)
Insurance		792	720
Loss on disposal of non-current assets	8,9	138	570
Industry engagement		282	251
Travel and subsistence		178	45
Auditor’s remuneration – corporation		126	96
Auditor’s remuneration – scheme		195	180
Interest paid on leasing liabilities		223	–
Other running costs		289	162
Total		**17,890**	**17,240**

Scheme administration expenses shown here are exclusive of £715k (compared with £530k in 2021/22) set aside for asset refresh prepayment in 2022/23.

Auditors remuneration – corporation includes £16k of fees relating to the audit of the 2021-22 financial statements.

7 Interest payable

	Year ended 31 March 2023 £000	Year ended 31 March 2022 £000
Loan interest paid and payable	26,024	29,429
Total	**26,024**	**29,429**

Interest payable relates to interest charged on balances outstanding on the loan from the DWP (see note 15b). 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 2023, net of the grant, is 2.95% (compared with 2.77% at 31 March 2022).

8 Property, plant and equipment

Our property, plant and equipment assets comprise of furniture and fittings, information technology and information technology assets under construction. These are used directly by our employees. Purchased scheme hardware is used by TCS for scheme administration.

2022/23	Note	Information technology assets under construction £000	Office building (right-of-use asset) £000	Furniture and fittings £000	Information technology £000	Scheme hardware £000	Total £000
Cost							
As at 1 April 2022		–	–	513	917	20,978	22,408
Opening balance adjustment		–	17,483	(9)	32	–	17,506
Additions		604	–	–	2	987	1,593
Disposals		–	–	–	–	(940)	(940)
As at 31 March 2023		**604**	**17,483**	**504**	**951**	**21,025**	**40,567**
Depreciation							
As at 1 April 2022		–	–	(281)	(713)	(13,716)	(14,710)
Opening balance adjustment		–	–	9	(34)	–	(25)
Charged in period		–	(1,706)	(70)	(91)	(4,919)	(6,786)
Disposals		–	–	–	–	864	864
As at 31 March 2023		**–**	**(1,706)**	**(342)**	**(838)**	**(17,771)**	**(20,657)**
Net book value at 31 March 2023		**604**	**15,777**	**162**	**113**	**3,254**	**19,910**
Net book value at 31 March 2022		**–**	**–**	**232**	**204**	**7,262**	**7,698**
Asset financing:							
Owned		604	15,777	162	113	3,254	19,910
Net book value at 31 March 2023		**604**	**15,777**	**162**	**113**	**3,254**	**19,910**

As at 31 March 2023, IT equipment totalling £604k was held as an asset under construction on the statement of financial position. This expenditure has been incurred in preparing the asset for use.

2021/22	Note	Information technology assets under construction £000	Office building (right-of-use asset) £000	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**

9 Intangible assets

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

2022/23	Note	Intangible assets in development £000	Corporation software licenses £000	Scheme software licenses £000	Scheme developed software £000	Total £000
Cost						
As at 1 April 2022		53,889	724	30,373	77,425	162,411
Opening balance adjustment		–	(42)	4	–	(38)
Additions		5,524	–	1,682	–	7,206
Impairments		(59,413)	–	–	–	(59,413)
Disposals		–	–	(706)	–	(706)
Revaluation	a	–	9	845	2,168	3,022
As at 31 March 2023		**–**	**691**	**32,198**	**79,593**	**112,482**
Amortisation						
As at 1 April 2022		–	(704)	(25,579)	(65,177)	(91,460)
Opening balance adjustment		–	41	(3)	–	38
Charged in period		–	(6)	(3,916)	(7,616)	(11,538)
Disposals		–	–	644	–	644
Revaluation	a	–	(8)	(800)	(2,039)	(2,847)
As at 31 March 2023		**–**	**(677)**	**(29,654)**	**(74,832)**	**(105,163)**
Net book value at 31 March 2023		**–**	**14**	**2,544**	**4,761**	**7,319**
Net book value at 31 March 2022		**53,889**	**20**	**4,794**	**12,248**	**70,951**

2021/22	Note	Intangible assets in development £000	Corporation software licenses £000	Scheme software licenses £000	Scheme developed software £000	Total £000
Cost						
As at 1 April 2021		–	697	29,632	76,863	107,192
Additions		53,889	16	1,211	–	55,116
Disposals		–	–	(737)	–	(737)
Revaluation	a	–	11	267	562	840
As at 31 March 2022		**53,889**	**724**	**30,373**	**77,425**	**162,411**
Amortisation						
As at 1 April 2021		–	(696)	(21,236)	(54,252)	(76,184)
Charged in period		–	(6)	(4,802)	(10,452)	(15,260)
Disposals		–	–	644	–	644
Revaluation	a	–	(2)	(185)	(473)	(660)
As at 31 March 2022		**–**	**(704)**	**(25,579)**	**(65,177)**	**(91,460)**
Net book value at 31 March 2022		**53,889**	**20**	**4,794**	**12,248**	**70,951**

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 2022. Revaluation reserve movement in the Statement of Comprehensive Net Income of £173k to prior year is inclusive of the intangible asset revaluation applied in 2022/23, £175k, less an opening balance adjustment, £2k.

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

	As at 31 March 2023 £000	As at 31 March 2022 £000
a) Amounts falling due over one year		
Lease premium London property	–	3,458
Prepayments in respect of asset refresh	439	–
	439	**3,458**
b) Amounts falling due within one year		
Accrued income public sector obligation offset payment	6,388	8,106
Accrued grant income for non-chargeable costs	232	227
Lease premium London property <1 year	–	374
Prepayments in respect of asset refresh <1 year	277	530
Other trade receivables	424	106
Other prepayments and accrued income	8,699	6,779
	16,020	**16,122**
c) Other current assets		
Staff loans	6	6
Other receivables	6	–
	12	6
Total	**16,471**	**19,586**

Included in the prepayments is £0.7 million (compared with £0.5 million in 2021/22) for amounts set aside from service charges to fund future scheme asset replacement. It is estimated that part of the £0.7 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 2023 and June 2025. 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.

Following the implementation of IFRS16 (see note 1) the lease premium recognised in prior years for advanced payments made to the landlord has now been incorporated within the right-of-use asset for the London office.

Included in other prepayments and accrued income is £7.3 million of accrued annual management charges.

11 Cash

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

	Year ended 31 March 2023 £000	Year ended 31 March 2022 £000
Opening balance	129,719	89,393
Net change in cash balances	98,733	40,326
Balance at end of year	**228,452**	**129,719**

12 Interest Payable

	As at 31 March 2023 £000	As at 31 March 2022 £000
Interest payable		
Accrued interest payable to the DWP	12,022	12,115
	12,022	**12,115**

13 Trade and other payables

	As at 31 March 2023 £000	Year ended 31 March 2022 £000
Trade and other payables		
Trade payables	183	1,247
Accruals	29,642	24,949
Deferred Revenue	45	371
	29,870	**26,567**

14 Leases

From 1 April 2022, we adopted IFRS 16 replacing the operating lease previously held for the office facility, 10 South Colonnade, under IAS 17.

The lease liability for the office facility was initially measured as the present value of future lease payments, with the right-of-use asset additionally including advanced payments made to the landlord.

The lease liability is measured at the present value of the lease payments that are not paid. The Corporation has elected the following practical expedients:

— The discount rate applied is the incremental borrowing rate of 1.63%, based on the 5 year National Loans Fund rate as at the 1 April 2022.

— The Corporation has relied on its assessment of whether the lease is onerous through applying IAS37 immediately before the date of initial application.

	£000
Operating commitments reported at 31/03/2022	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 01/04/2022	**13,668**
Other initial direct costs	3,832
Rent accruals	(17)
Right of use asset – property as at 01/04/2022	**17,483**

We hold one lease for our office facility described above. With the exception of any short-term or low-value leases, each lease is reflected on the balance sheet as a right-of-use asset and a lease liability. Variable lease payments are excluded from the initial measurement of the lease liability and asset.

Information on the associated right-of-use assets can be found in notes 8 and 9.

No short-term leases or leases of low-value are currently in operation. Expenses relating to payments not included within the measurement of the lease can be found within note 6 (accommodation). Variable lease payments not recognised in the related lease liability are expensed as incurred and include costs associated with usage such as utilities.

Restrictions imposed on leases held include:

— Leases are either non-cancellable or may only be cancelled by incurring a substantive termination fee.

— Some leases contain a clause allowing the purchase of the underlying asset outright at the end of the lease.

— For leases relating to office buildings, the property must be kept in a good state of repair and returned to its original state at the end of the lease.

The lease liabilities reflect the full term available under current contract terms, no further extension options exist for any recognised leases.

No commitments to leases yet to commence have been made.

Minimum payment obligations under finance leases. £000s	Not later than one year	Later than one year and not later than five years	Later than five years
As at 31 March 2023			
Principal	1,925	5,573	5,945
Interest	218	610	254
Minimum payment obligation	**2,143**	**6,183**	**6,199**
Present value of payment	**2,143**	**5,941**	**5,568**
As at 31 March 2022			
Principal	220	998	–
Interest	18	23	–
Minimum payment obligation	**238**	**1,021**	**–**
Present value of payment	**238**	**1,010**	**–**

14a) Current lease liability

	As at 31 March 2023 £000	As at 31 March 2022 £000
Lease liabilities – property <1yr	1,267	–
Imputed IFRIC 12 liability relating to TCS assets <1yr	657	971
Total	**1,924**	**971**

14b) Non-current lease liability

	As at 31 March 2023 £000	As at 31 March 2022 £000
Lease liabilities – property >1yr	11,177	–
Imputed IFRIC 12 liability relating to TCS assets >1yr	341	246
Total	**11,518**	**246**

In total, an imputed IFRIC 12 liability of £1.0 million (compared with £1.2 million in 2021/22) has been recognised, mainly reflecting the shortfall between the scheme administration assets recognised and cash payments made to TCS.

The accounting treatment for the IFRIC 12 liability is similar to that of a finance lease, so is disclosed within this note to provide a complete picture of lease-like liabilities.

15 Other liabilities

15a) Current other liabilities

	As at 31 March 2023 £000	Year ended 31 March 2022 £000
Other taxation and social security	964	1,012
Pension costs liability	268	257
	1,232	**1,269**

15b) Non-current other liabilities

	As at 31 March 2023 £000	As at 31 March 2022 £000
DWP Loan	1,132,047	994,047
Total	**1,132,047**	**994,047**

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 2023, the weighted cost of capital on loan funding was 2.95% (compared with 2.77% as at 31 March 2022) (see note 7). Interest on loans is payable in April and October each year.

16 Provisions for liabilities and charges

	Note	Year ended 31 March 2023 £000	Year ended 31 March 2022 £000
Balance at 1 April		**1,099**	**1,181**
(Released)/Provided in the year due within one year	5	744	–
(Released)/Provided in the year due over one year	6	84	(82)
Balance as at 31 March		**1,927**	**1,099**
Classified as:			
Amounts falling due within one year		744	–
Amounts falling due over one year		1,183	1,099
		1,927	**1,099**

A provision of £1,183k, compared with £1,099k in 2021/22, 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.

A provision of £744k (compared to nil in 2021/22) relates to redundancy costs remaining unpaid following a restructuring programme which concluded within financial year 2022/23.

17 Capital and other financial commitments

a) Capital and other financial commitments

	As at 31 March 2023 £000	Year ended 31 March 2022 £000
< 1 Year	53	60,127
1-5 Years	47	233,672
> 5 Years	–	213,791
Balance as at 31 March 2023	**100**	**507,590**

The contracted commitment relates to a contract for banking services ending in December 2024 with no further options to extend.

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.

The obligations under service concession arrangements presented in this note relate to the current scheme administration contract expiring in June 2025.

The long-term contract in relation to the provision of future scheme administration services is not considered, see note 24.

Total obligations under service concession arrangements reflected in the SoFP for the following periods comprise:	As at 31 March 2023 £000	As at 31 March 2022 £000
Not later than one year	98,311	102,784
Later than one year and not later than five years	117,195	27,417
Later than five years	–	–
Total gross obligation	**215,506**	**130,201**
Less interest element discount	(4,012)	(738)
Present value of obligations	**211,494**	**129,463**

Present value of obligations under service concession arrangements reflected in the SOFP for the following periods comprise:	As at 31 March 2023 £000	As at 31 March 2022 £000
Not later than one year	98,311	102,784
Later than one year and not later than five years	113,183	26,679
Total present value of obligations	**211,494**	**129,463**

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

The total amount charged to the statement of comprehensive net income in 2022/23 in respect of the service element of this service concession was £124.8 million (compared with £102.4 million in 2021/22) 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 2023 £000	As at 31 March 2022 £000
Not later than one year	92,244	95,563
Later than one year and not later than five years	113,108	27,041
Total	**205,352**	**122,604**

18 Financial instruments

	Note	As at 31 March 2023 £000	Year ended 31 March 2022 £000
Financial Assets			
Cash and cash equivalents	11	228,452	129,719
Staff loans	10c	6	6
Total		**228,458**	**129,725**

The above figures exclude statutory receivables and prepayments and imputed IFRIC 12 liability elements.

	Note	As at 31 March 2023 £000	Year ended 31 March 2022 £000
Financial liabilities			
DWP loan	15b	1,132,047	994,047
Trade payables	13	228	1,618
Accruals	12,13	41,664	37,064
Total		**1,173,939**	**1,032,729**

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 2023 and 31 March 2022 are not materially different from their fair values.

19 Contingent liabilities disclosed under IAS 37

There are no contingent liabilities to disclose for 2022/23 or 2021/22.

20 Contingent assets disclosed under IAS 37

There are no contingent assets to disclose for 2022/23 or 2021/22.

21 Related-party transactions

We are accountable to the Secretary of State for Work and Pensions and classified as a public corporation. The 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 the DWP. These are detailed in the table below:

		Year ended 31 March 2023		Year ended 31 March 2022	
	Notes	**£000**	**£000**	**£000**	**£000**
		Income	**Expenditure**	**Income**	**Expenditure**
Loan funding and repayment	15b	138,000	–	110,400	–
Sponsorship and research revenue	4	112	–	117	–
Loan interest	7	–	26,024	–	29,429
Other transactions	3	15,779	330	20,434	330
Total		**153,891**	**26,354**	**130,951**	**29,759**

As at 31 March 2023, excluding the liability to repay the loan which does not come into effect for more than 12 months, we had £12.0 million outstanding liability with the DWP (compared with £12.1 million in 2021/22).

This relationship with the DWP includes the provision of:

- Loan funding
- Public service obligation offset payments and grant income
- Premium on letter of credit
- Secondees
- Grant to fund pension research (through our in-house research and innovation centre, Nest Insight)

During 2022/23 we received income from the Scheme of £194.4 million (compared with £164.5 million in 2021/22). See **page 104** for details.

Nest Corporation is a participating employer in the Scheme. Contributions of £3.2 million (compared with £3.1 million in 2021/22) 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 directors have undertaken any material transactions with Nest Corporation during the period. Board directors pay into the Nest Pension Scheme on general terms.

Disclosure of compensation paid to Board directors, 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 2023 £000	Year ended 31 March 2022 £000
Non Cash items			
Depreciation and Amortisation incl. non-TCS	6a	18,324	21,272
Expenditure related to conclusion of future scheme administration contract	6b	74,037	–
Net cash movement in relation to conclusion of future scheme administration contract		(20,113)	–
Loss on disposal of non-current assets	6c	138	570
Prepayment Asset refresh		(199)	(240)
Offset for Lease Liability		(711)	(3,746)
Finance credit charge		(18)	145
Total Non Cash Items		**71,458**	**18,001**
Purchase of Intangible Assets			
Purchase of software licences	9	–	(17)
Purchase of IT	8	(606)	(52)
Total of Intangible Assets		**(606)**	**(69)**
Payments towards imputed IFRIC 12 liability of TCS assets			
Total IFRIC 12 liability payments made in the year		**(2,180)**	**(4,002)**
Prepayments towards intangible assets in development		**–**	**(53,889)**

23 Political and charitable donations

We made no political or charitable donations in 2022/23 or 2021/22.

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. 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.

Since the end of the reporting period, the Corporation has entered into two significant commitments in respect to the provision of scheme administration services.

During June 2023, the Corporation extended the current contract for the provision of scheme administration services with the incumbent provider. The 2-year extension term aligns to management expectations and no amounts presented within the financial statements have been adjusted as a result.

In addition, in June 2023, the Corporation awarded a long-term contract in relation to the provision of future scheme administration services. The commitment totals a maximum value of £1.5 billion over the total 18-year term from end of 2023 to end of 2041. An implementation programme will be conducted ahead of an expected operational commencement in July 2025.

Appendices

Appendix 1

(not subject to audit)

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

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

1. In exercise of the powers conferred by paragraphs 17(2)(b) and 20(2) of Schedule 1 to the Pensions Act 2008 (c.30), the Secretary of State hereby directs the National Employment Savings Trust Corporation (Nest Corporation), as follows:
2. Nest Corporation shall prepare accounts for the 12 month Year ended 31 March 2012, and subsequent financial years, in compliance with the accounting principles and disclosure requirements of the edition of the Government Financial Reporting Manual issued by HM Treasury (FReM) which is in force for the financial year for which the accounts are being prepared.
3. These accounts shall be prepared so as to:
    a. give a true and fair view of the state of affairs of Nest Corporation at 31 March 2012 and subsequent financial year-ends, and of the income and expenditure, changes in taxpayers' equity and cash flows for the financial year then ended, and
    b. provide disclosure of any material expenditure or income that has not been applied to the purposes intended by Parliament or material transactions that have not conformed to the authorities which govern them.
4. Compliance with the requirements of the FReM will, in all but exceptional circumstances, be necessary for the accounts to give a true and fair view. If, in these exceptional circumstances, compliance with the requirements of the FReM is inconsistent with the requirement to give a true and fair view, the requirements of the FReM should be departed from only to the extent necessary to give a true and fair view. In such cases, informed and unbiased judgement should be used to devise an appropriate alternative treatment which should be consistent with both the economic characteristics of the circumstances concerned and the spirit of the FReM. Any material departure from the FReM should be agreed with the Department for Work and Pensions and HM Treasury.
5. Nest Corporation must disclose in its accounts:
    a. the loan from the DWP and any other loans for which Nest Corporation is responsible for and on behalf of Nest, together with interest charges related to those loans.
    b. contracts for scheme services, for example scheme administration, entered into for and on behalf of Nest.
    c. receipt of deductions made from members' accounts to contribute to the general costs of the setting up, administration and management of Nest.
6. Nest Corporation's accounts will not consolidate the accounts of the Nest pension scheme.
7. In its annual report, referred to in paragraph 17 of Schedule 1 to the Pensions Act 2008, Nest Corporation is to include the report on Nest Corporation's proceedings during the year.
8. In accordance with paragraph 20 of Schedule 1 to the Pensions Act 2008, Nest Corporation is to prepare an annual statement of accounts for Nest Corporation. The accounts will include the certificate and report of the Comptroller and Auditor General on the Nest Corporation Accounts.

    Nest Corporation came into force on 5 July 2010, and simultaneously its predecessor body, The Personal Accounts Delivery Authority (PADA), was wound up. For the financial year 1 April 2010 to 31 March 2011 only, the Annual Report and Accounts, referred to in paragraphs 7 and 8 above, will cover the full financial year, incorporating the period relating to PADA. The financial statements will also clearly show a separate wind-up account for PADA for the period 1 April 2010 to 4 July 2010. However, there is no need to prepare a separate SIC or management commentary as these items can be included in the overall accounts and report for Nest Corporation.
9. This Direction revokes and supersedes the Accounts direction issued to PADA on 29 April 2009. This Direction is signed by the authority of the Secretary of State for Work and Pensions.

Jos Joures
3 March 2011

Report and Accounts of the National Employment Savings Trust Corporation

Appendix 2

(not subject to audit)

Overview of environmental performance

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 and recycling. The management company employs a dedicated Lead Low Carbon & Sustainability Manager with responsibility for energy reduction and recycling and has a building-wide policy to support effective energy management.

Tenants are not provided with detailed energy data usage as part of the multi-tenant arrangement. The data captured is for the building as a whole, reducing the level of detail we can report on. Our scope 2 emissions are estimated based on the proportion of occupied space Nest Corporation is utilising. During 2022/23 this increased from 6.5% for the first 9-months of the year to 7.7% for the final 3-months. The rise in space occupied is a result of another tenant vacating their office space within the building. The prior year occupation comparison is 6.8% for first 9 months and 6.5% for the last 3 months. Energy data in this report is based on meter readings and the rates provided by the building management company.

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

Summary

Where possible we follow the Government Sustainability Reporting Guidance.

There has been a drop in scope 2 reported emissions compared to 2021/22 despite an increase in office attendance. The number of weekly visits to the office more than doubled this year compared to last. However, despite the increase in energy usage within the building, a higher proportion of electricity was supplied by wind, resulting in lower carbon emissions overall. Our scope 2 emissions have reduced by 30% compared to 2017/18. Although we do not have direct influence over the building's energy use, 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 reduces scope 2 emissions is currently not viable.

There has been an increase in scope 3 emissions due to higher levels of business related travel. Nest's travel policy requires staff to consider lower carbon options and we actively seek to reduce international business travel. Staff only undertake journeys when necessary and unavoidable. In collaborating closely with our partners the number of necessary rail and air travel journeys increased compared to prior year. However, overall business travel emissions remain significantly below pre-pandemic levels with emissions 90% lower than in 2017/18.

The total amount of waste produced has reduced by 10% when compared to prior year, despite an increase in office attendance. The reported reduction is the result of improved confidential paper waste reporting. Around 70% of total waste has been recycled, this is down from 80% in 2021/22. 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.

Other initiatives promoting sustainability implemented in 2022/23 have included:

Minimising waste

Signage improvements were introduced throughout the office to improve recycling. In January 2023, the waste contractor was changed and instead of estimated waste weights, we now have actual weights, generated at the time of collection. This new information will enable future awareness programmes to encourage staff within the building to divert more items from the general waste into the dry mixed recycling waste streams. This ability to know where we are now, monitor change programmes and provide feedback on success is an important precursor to enable future improvements in boosting recycling rate and minimising waste generation.

Consumer single use plastics

Building management introduced VegWare to the building restaurant with a communications campaign. VegWare are plant based, compostable utensils.

Sustainable procurement

Nest does not currently have a sustainable procurement policy but we do use the Government Framework for most contracts. For building wide procurement we are reliant on the building management procurement policies.

Climate change adaptions

Nest has provided a 2017/18 baseline data and continues to provide quarterly data to the DWP Central Assurance Greening Government Commitment team as we work towards Net Zero by 2050 and mitigating climate change.

Use of finite resources

Water use in 2022/23 was down by 43% from the 2017/18 levels. However, during 2022/23, water use has risen proportionately as office attendance increased year on year. Proposals have been put forward by the building's management for a water reduction assessment and strategy.

Scope 2 – Water consumption		2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Non-financial indicators (m^3)	Water consumption	2,722.0	2,214.5	2,360.1	600.6	856.1	1,539.5
Financial indicators (£)	Total water costs[1]	5,088.6	5,181.8	4,811.0	1,442.4	1,574.8	4,172.63

Our current water usage of 4.48m^3 per FTE represents a 94% increase compared to the prior year. This increase is driven mainly by an increase in office attendance.

Note

1. The utility 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.

Environmental Performance 2022/23

Area	Actual performance	Normalising data (per FTE)
Average annual full-time equivalent staffing figure: 363[1]		
Estate energy and emissions		
GHG emissions from offices	129 tonnes CO_2e	0.36 tonnes CO_2e
Total organisation energy consumption	615,554 kWh	1,696 kWh
Total energy expenditure	£157,418	£433.66
Travel emissions		
CO_2e emissions from business travel[2]	27.1 tonnes CO_2e	0 tonnes CO_2e
Total expenditure on business travel	£71,732	£197.61
Waste		
Total waste produced[3]	13.7 tonnes	0.04 tonnes
Total recycled/reused	9.6 tonnes	0.03 tonnes
Total incinerated[4]	4.1 tonnes	0.01 tonnes
Total to landfill	0.0 tonnes	0.00 tonnes
Total waste expenditure	£6,778	£18.67
Consumer Single Use Plastics (CSUP)	0.0 tonnes	0.00 tonnes
Paper		
Total paper usage	0 tonnes CO_2e	0 tonnes CO_2e
Total paper expenditure	£284	£0.78
Water		
Total water consumption	1,540 m^3	4 m^3
Total water expenditure	£4,172.63	£11.49

Notes

1. This figure includes employees, Board directors, 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.
4. Zero waste was incinerated without energy recovery.

Greenhouse gas emissions (GHG)

The data for scope 2 emissions for 2022/23 is taken as a percentage of overall data for the building based on our 6.5% occupancy (for nine months) and 7.7% (for 3 months) occupancy. This provides us with an indication of performance.

Greenhouse gas emissions		2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
	Scope 2 – Gas and electricity						
	Gas	54.3	32.7	4.0	3.7	3.6	3.0
	Electricity – total	241.9	336.9	218.2	199.7	154.1	126.0
	Electricity – brown[1]	181.4	n/a	n/a	n/a	n/a	n/a
	Electricity – green[1]	24.2	n/a	n/a	n/a	n/a	n/a
	Electricity – CHP	36.3	–	–	–	–	–
	Total scope 2	**296.2**	**369.6**	**222.2**	**203.4**	**157.7**	**129.0**
	Scope 3 – Business travel						
Non-financial indicators (tonnes CO_2e)	Private vehicle	16.9	13.2	11.5	0.6	1.2	2.9
	Car hire	0.0	0.1	0.1	–	–	–
	Taxis	0.9	0.4	0.8	–	0.2	0.0
	Air – international	243.2	221.7	174.2	–	–	12.2
	Air – domestic	–	–	7.1	1.4	0.3	6.1
	Rail	9.0	8.9	6.5	0.1	0.4	6.0
	Total scope 3	**270.0**	**244.3**	**200.3**	**2.1**	**2.1**	**27.2**
	Total emissions	**566.2**	**613.9**	**422.5**	**205.4**	**159.8**	**156.2**
	Scope 3 – Paper						
	Paper	2.2	1.6	1.9	0.1	0.0	0.4

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		2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
	Scope 2 – Gas and electricity[1]						
Related energy consumption in kilowatt hours (kWh)	Gas	294,854	178,001	21,599	20,054	19,535	18,532
	Electricity – total	586,885	1,096,666	786,762	788,580	725,656	597,022
	Electricity – brown[2]	440,165	n/a	n/a	n/a	n/a	n/a
	Electricity – green[2]	58,688	n/a	n/a	n/a	n/a	n/a
	Electricity – CHP	88,032	–	–	–	–	–
	Total scope 2	**881,739**	**1,274,667**	**808,361**	**808,634**	**745,191**	**615,554**
	Scope 2 – Gas and Electricity[1]						
Financial indicators (£)	Gas	8,311	13,172	368	802	1,515	1,070
	Electricity – total	76,691	208,367	112,331	95,416	113,671	156,347
	Electricity – brown[2]	57,518	n/a	n/a	n/a	n/a	n/a
	Electricity – green[2]	7,669	n/a	n/a	n/a	n/a	n/a
	Electricity – CHP	11,504	–	–	–	–	–
	Total scope 2	**85,002**	**221,539**	**112,699**	**96,219**	**115,187**	**157,417**
	Scope 3 – Business Travel						
	Private vehicle	29,075	20,776	20,342	1,103	2,243	6,909
	Car hire	85	146	142	–	–	–
	Taxis	7,962	2,597	6,894	5	960	272
	Air – International	109,252	168,800	149,430	–	–	33,509
	Air – Domestic	–	–	10,405	1,902	789	9,137
	Rail	81,501	100,031	54,124	944	5,518	28,814
	Total scope 3	**227,875**	**292,350**	**241,336**	**3,954**	**9,511**	**78,641**
	Scope 3 – Paper						
	Paper	3,483	1,664	2,047	67	25	284
	Scope 3 – Paper						
Volumes of paper in reams	A4	945	570	740	15	15	65
	A3	30	30	30	5	–	10

Notes

1. The utility 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.
2. 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.

Nest Corporation
10 South Colonnade
Canary Wharf
London, E14 4PU

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