National Employment Savings Trust Corporation

Annual report and accounts
2019/20



HC492

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Annual report and accounts
2019/20

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

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Covid-19 statement

People around the world are facing uncertainty as the coronavirus pandemic continues to develop. Nest Corporation has ensured that its services continue to be available in these challenging times.

On 11 March 2020 the World Health Organization declared the spread of the novel coronavirus causing Covid-19 disease to be a global pandemic. Many people have lost their lives, or lost loved ones, during the pandemic. Many have been furloughed from or lost their jobs, or seen reduced working hours. The pandemic has had significant impact on the world's economies, markets and organisations, including Nest Corporation as Trustee of the Nest pension scheme.

This statement summarises Nest Corporation's ongoing response to the Covid-19 crisis in support of its members and the employers using the scheme for their workers.

How we were prepared

Nest Corporation has a duty to run the scheme in the best interests of its members. This includes planning ahead for a crisis like the coronavirus pandemic.

As a result of comprehensive business continuity and disaster recovery (BCDR) risk management and mitigation plans, Nest Corporation was well prepared for the challenges of operating during this pandemic. See the Corporate risk statement overview on page 74.

Starting on 24 February the executive team met daily to review the latest information from governments, health authorities and the markets about the effects of the virus, and to consider Nest Corporation's evolving approach to the highly dynamic situation.

BCDR plans were reviewed and assessed against likely scenarios, such as the possibility of organisation-wide work from home (WFH) for both Nest Corporation and its outsourced service providers and suppliers. The executive team identified areas where further contingencies were needed, for example in procuring additional IT servers.

How we adapted to deliver services

The impact of the pandemic has required several changes to the way Nest Corporation delivers its services. Following the government's guidance, Nest closed its head office and implemented corporation-wide WFH on 17 March.

Nest Corporation has worked closely with its scheme administrator, Tata Consulting Services (TCS), to ensure TCS could deliver services to customers during an emergency. However, Nest Corporation's BCDR plans had not envisaged a situation where all scheme administration service locations were simultaneously unavailable and additional action was required. During the week of 16 March, Nest Corporation approved TCS's plan to carry out all contact centre and back office services on an entirely remote basis. This allowed Nest and TCS to continue services for the scheme's customers without disruption, even as the pandemic closed businesses and limited public transport around the world.

Nest Corporation also ensured continuation of investment activities with its third-party providers.

The Nest scheme's diversified investment strategy continues to help reduce the impact of market volatility on members' money. However, the scheme has still seen significant reductions in the value of members' retirement pots over the pandemic period (see Investment developments on page 32).

Market shocks can be very worrying to scheme members and employers using the scheme for their workers. Nest Corporation moved to quickly identify the questions and concerns its customers would have in the wake of market turmoil and business closures, and created customer communications to address them.

Nest Corporation also liaised with the Department for Work and Pensions (DWP) and The Pensions Regulator (TPR) to understand how government support schemes, such as the Coronavirus Job Retention Scheme (CJRS), might affect auto enrolment pensions, including employer payments, member contributions and opt-out rates. It is closely monitoring how these compare to previous levels and pre-pandemic projections.

Throughout these challenges, Nest Corporation has been focused on the health and wellbeing of its people. Staff morale has remained high. The organisation has reiterated its flexible working policy to accommodate different hours and workflow when staff have extra care responsibilities for children and vulnerable individuals. The executive team has provided regular operations updates, and staff have been provided with WFH advice, mental health support and remote team-building activities.

How we are managing ongoing effects

The pandemic has introduced a number of uncertainties that may over time challenge some of the expectations and projections set out in this Annual report and accounts. Those published in this report when it was finalised for publication are based on pre-pandemic plans and projections. Nest Corporation will review and update forecasts in future publications if necessary.

Nest Corporation's risk appetite has not changed in response to the pandemic or its effects.

Service failure risk is significantly increased, particularly if lockdowns, or a series of lockdowns, are needed over an extended period to control the spread of the virus. Nest Corporation is closely monitoring its key controls and taking mitigating actions to help ensure services are delivered to its customers in time, to the required quality and in compliance with legislation and regulations.

Nest Corporation's financial projections will be adversely affected by a prolonged reduction in stock market values, a reduction in the number of employers using the scheme or a reduction in member contributions.

As this Annual report and accounts goes to press in late June the extent of such negative impacts is unknown, but assessments have been made on the impact of the pandemic on Nest Corporation's long-range financial forecasts. For more detail, see the Going concern statement on page 28.

Nest Corporation has planned for a number of stages, from the current situation through to a post Covid-19 stabilisation of economies.

Nest Corporation will continue to support our customers through this crisis, helping our members to build savings for the future. Never has it been more important for the UK to have a scheme like Nest to guarantee the provision of high quality, low-cost pensions for all.

Cautionary statement

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

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

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

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

Nothing in this document should be regarded as a forecast of future financial performance or position.



Key phrases

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

Who are Nest's customers?

Nest has three types of customer:

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

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

What are Nest Connectors?

A Nest Connector is an intermediary, such as an accountant or payroll provider, using the Nest Connect service, and delegated by an employer to perform some or all of their Nest account management on their behalf.

What are staging and phasing?

Staging was the process of requiring all employers to fulfil their auto enrolment duties. It was completed in February 2018. As part of the auto enrolment legislation, mandatory minimum pension contributions for employers and employees have increased twice, as shown in the table below. These increases are referred to as phasing.

About Nest's charges

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

The return figures are net of costs and charges including the annual management charge (AUM) and transaction costs but not the contribution charge. The transaction costs include both explicit and implicit costs, where applicable. Explicit costs are directly observable, such as broker costs. Implicit costs, such as market impact, are not as clearly visible.

What is Nest Invest?

Nest Invest Limited (referred to as Nest Invest) is Nest's investment subsidiary, which was authorised by the Financial Conduct Authority (FCA) as an occupational pension scheme firm in January 2020. It can act on behalf of its client, Nest Corporation, to provide regulated advice, arrange deals and provide instructions to fund managers with regards to the investments in the scheme's portfolio.

Why do we refer to the 2040 fund?

Nest Corporation's investment approach has four phases: foundation, growth, consolidation and post retirement.

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

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

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

Chapter 1

Performance report

Overview

This section explains how Nest Corporation serves as Trustee of the Nest pension scheme. It describes the Trustee's vision and objectives and how it works towards fulfilling them.





Our shift in scale has required us to evolve our investment approach. We have done this while ensuring our portfolios have a level of risk appropriate for our membership's need for long-term savings growth.

Otto Thoresen
Chair, Nest Corporation

1.1
Chair's statement

Nest's scale increased significantly over the last 12 months. As we face the challenges of the Covid-19 crisis we must ensure that we continue to manage our members' investments effectively and evolve our governance and control structures appropriately.

Late January 2020 marked the arrival of the novel coronavirus and the Covid-19 disease to the UK. By March the world was facing a pandemic and an economic crisis.

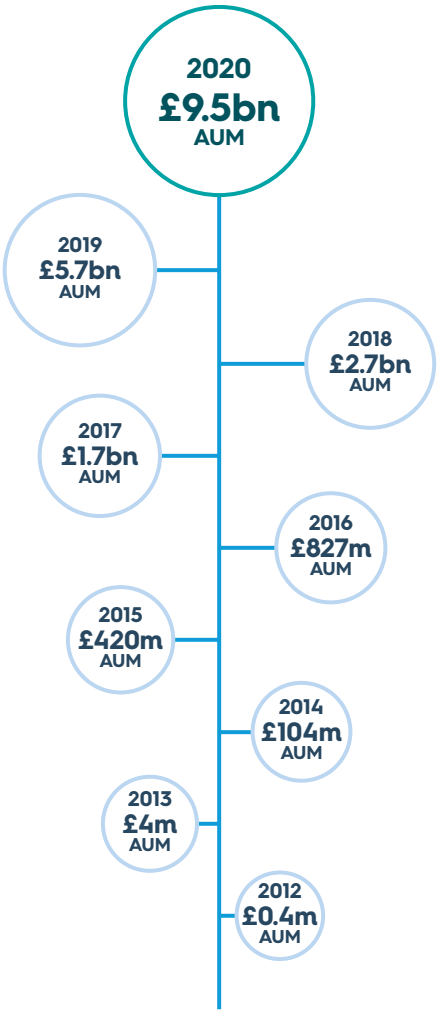
Across Nest, we set into action our business continuity and disaster recovery (BCDR) plans. Working closely with our partners we have been able to maintain service levels for our customers. Our diversified investment approach has helped to mitigate the impact of market volatility on our members' funds. A summary of our ongoing response to the crisis is set out in more detail in the Covid-19 statement on page 6.

We'd accomplished a great deal before the onset of the Covid-19 crisis, during a period of considerable growth for us. The Nest scheme is now managing £9.5 billion of assets on behalf of our members, compared to £5.7 billion on 31 March 2019.

The diagram opposite shows how our assets have grown since the scheme's launch in 2011. This is primarily due to the phased increases in auto enrolment minimum contributions. Minimum aggregate contribution levels are now 8 per cent of band earnings, and as at 31 March 2020 Nest is receiving around £400 million a month in new contributions.

Our shift in scale has required us to evolve our investment approach. We have done this while ensuring our investments remain diversified and aligned with our responsible investment principles, and that our portfolios have a level of risk appropriate for our membership's need for long-term savings growth.

Nest's assets under management since launch



In response to our growth in membership and assets, we formed Nest Invest, which was authorised as our investment subsidiary by the Financial Conduct Authority (FCA) in January 2020. Nest Invest will provide regulated investment advice to Nest Corporation as the Trustee of the Nest pension scheme, giving us greater capacity to support the future evolution of Nest's investment strategy. Our Statement of investment principles (SIP)[1] was updated to describe the role of Nest Invest.

Nest Invest will also support our ambition of further diversifying Nest's portfolio, enabling members to achieve good long-term returns without excessive volatility. We have already taken a step on this journey by diversifying into private credit.

As long-term investors we believe there are opportunities for members to benefit from the additional returns available from 'illiquid' – that is, less easily bought or sold – assets. Our allocation to private credit, such as infrastructure debt, is consistent with that. This year we appointed three investment managers, Amundi, BlackRock and BNP Paribas, to manage private credit mandates for us. Nest Invest will help us continue to seek out further appropriate investment opportunities in private markets. See Investment developments on page 32 for more information about our allocations.

Our responsible investment principles continue to underpin all of our investment decision-making, including the new asset classes that we have added to our portfolio. For example, the decision to appoint our chosen private credit fund managers was due in large part to the strength of their approach to integrating and reporting on environmental, social and governance (ESG) considerations.

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

In June 2019 we announced our decision to remove tobacco investments from the scheme's funds. This was based on careful research which led us to conclude that the tobacco industry is unlikely to be a sustainable investment in the future. Being tobacco-free is now part of our selection criteria for any future mandates and we will work with existing fund managers to find the most cost-effective ways of removing tobacco from our funds. Our aim is to make our entire portfolio tobacco-free by summer 2021 at the latest.

Nest's commitment to responsible investment has resonated with members. Our survey on responsible investment showed that 73 per cent of Nest members who responded want their pensions invested responsibly.[2]

As our investment strategy becomes more complex, and as we manage the ongoing effects of, and recovery from, the pandemic, we must continue to maintain high standards of investment governance.

In December 2019, Nest Corporation for the first time appointed two independent experts from outside the Trustee Board to the investment committee: Jennie Austin and Jaap van Dam. They bring additional experience and expertise to deepen Nest's investment governance and oversight.

Strengthening our support for members who are approaching retirement has become a higher priority as our membership has grown. By 2025 Nest will have more than 1.75 million members aged 55 or over.

2 nestpensions.org.uk/schemeweb/nest/nestcorporation/news-press-and-policy/press-releases/New-research-finds-savers-want-pensions-with-strong-environmental-and-social-credentials.html

We have refreshed the communications that we send to members before retirement and introduced a new retirement hub on our website that provides information and videos to help members better understand their options, think ahead for retirement and start to plan early. In March 2020, as part of a planned programme, we also introduced access to a new investment choice, the Nest Guided Retirement Fund, that can keep members' money appropriately invested should they choose not to withdraw it all immediately on their retirement date.

In September 2019 Nest Corporation received master trust authorisation from The Pensions Regulator (TPR). This is now a requirement for all master trust pension schemes operating in the UK and an important part of ensuring high standards across the master trust market. The process of applying for and receiving authorisation, as well as ongoing supervision by TPR, provides assurance that Nest meets these rigorous standards.

We have also completed our annual Audit and Assurance Faculty (AAF) 02/07 controls assurance report, measured against the master trust assurance framework established by TPR and the Institute of Chartered Accountants in England and Wales (ICAEW). This provides us with a further independent evaluation of the design and operation of our internal controls.

We regularly review the Board's skills and experience needs. One of the key outputs of this is to assess whether any further expertise should be added to the Board. As a result of the 2018/19 review, Karen Cham was appointed to the Board in July 2019. Karen is an internationally recognised expert in user experience design and behaviour change who, along with the rest of the Board, will support Nest as we explore ways to better engage our members.

Our Board members, as well as the Employers' Panel and the Members' Panel, have continued to contribute enthusiastically through the year. Iraj Amiri, Graham Berville, Sally Bridgeland and Caroline Rookes all completed their terms as Board members on 30 June 2019, and Tomas Carruthers left the Board later in the year. I wish them well for the future and am grateful to all our Board members, past and present, for the expertise and personal commitment they have shown during a period of continued development at Nest.

Nest has progressed well over the last year. The continued growth and development of the scheme, coupled with the effects of the pandemic, demand further strengthening of our capabilities across the organisation. As I write this the full impact of Covid-19 on the UK is unclear. In the months ahead the Board, the executive team and Nest's staff will continue to focus on the interests of our members and the wide range of employers who use our scheme for their workers.

Otto Thoresen
Chair, Nest Corporation





From our first member contribution of £19 in 2011 through to managing the pension savings of just over 9 million members at the end of March 2020, I have seen Nest transform from a start-up into one of the largest defined contribution master trust pension schemes in the UK.

Helen Dean
Chief Executive Officer, Nest Corporation

1.2
CEO's report

With auto enrolment fully established, in 2019/20 Nest turned its attention to further strengthening the quality of service that we provide for our members and building the organisation for the long term. Our strong foundations were vital in our response to the emerging Covid-19 crisis.

The impact of the global Covid-19 crisis on our members, employers and the wider economy will be felt for many months. We have taken steps to ensure Nest continues to support all our customers, in these challenging times and the years ahead.

From our first member contribution of £19 in 2011 through to managing the pension savings of just over 9 million members at the end of March 2020, I have seen Nest transform from a start-up into one of the largest defined contribution master trust pension schemes in the UK. Enabling that growth and delivering a scheme that meets the needs of a wide spectrum of pension savers and their employers has been a remarkable achievement.

We have delivered on our public service obligation to accept any employer who wants to use us for auto enrolment, and built and maintained a high-quality product. We have set up over 800,000 employers and just over 9 million members and maintained service availability levels of over 99 per cent.

We have won several awards for our scheme and investment proposition. Our investment strategy is designed to help grow our members' savings over the long term and protect them from potential market downturns.

Shorter term investment performance in 2019/20 suffered due to the pandemic-related market volatility in March 2020. Although we fell short of our goal of outperforming inflation by 3 per cent after all charges in the growth phase of our default funds, returns on these funds over five years have continued to outperform inflation after all charges. This is a testament to the resilience of our investment strategy.

The legislative timetable for staging employers and phasing contributions was completed in April 2019. This gave us the opportunity in the first half of the financial year to further improve our customer services and build on our investment strategy, ensuring that we remain a sustainable, high-quality and robust master trust.

We evaluate key customer metrics associated with different processes such as call volumes, transaction times, system drop-off rates and customer queries, satisfaction levels and complaints, enabling us to identify areas for improvement. We have used that information to develop better practices and continue to deliver high-quality customer service at acceptable cost.

Of special note, during 2019/20 we introduced dedicated teams to support members who are retiring or transferring in or out of Nest, and the relatives and loved ones of members who have died. These are areas in which members and others need significant and sensitive individual support, and I am pleased that we have been able to improve the service we offer to these customers. This is shown by increased customer satisfaction with our transfer processes and encouraging initial satisfaction results with our retirements claim processes. Customer complaint levels associated with these important areas are at very low levels.

We also responded to members' needs relating to death benefits by providing a choice between nominating a beneficiary or opting in to discretionary decision-making using an expression of wish. A future priority for us will be to urge more members to indicate how any money in their pension pot should be handled when they die.

Nest's focus on providing a quality service that evolves with the needs of our customers is central to the procurement of our future scheme administration service to begin after our current contract ends (see page 38). The procurement process has continued across 2019/20, and we expect to be able to announce the outcome later in the 2020/21 financial year. This new contract, when awarded, will deliver Nest's customer experience for the next decade. Of course, moving to a new arrangement also introduces risks. We have identified these and will continue to review how we mitigate them as the procurement progresses, to ensure continuity of service and data integrity during any transition.

Our research unit, Nest Insight, is a major source of intelligence that helps us and others in the industry better understand UK savers and plan for the future. For example, the unit's sidecar savings trial will give us invaluable insights into how emergency savings and pensions could be combined to improve people's short-term financial resilience alongside their long-term saving. Three employers are now participating, with a further three in the process of joining the trial. We will start to share early findings later in 2020.

This research now feels more relevant than ever. The coronavirus pandemic has given us a firsthand view of how important it is to find new ways to help people build more financial security. This includes having access to liquid savings that can be tapped when needed.

Our priority in responding to the crisis has been to ensure we continue to provide services to our customers, who rely on us, at a high standard. To do this, we have monitored developments closely and worked to keep our people safe and well. A fuller account of our activities during the crisis can be found in the Covid-19 statement on page 6.

At Nest, flexible working and remote working were already a normal part of our business. That meant we were able to respond immediately to the government's advice to work from home if possible. However, like many organisations we had to learn new skills for collaborating remotely at scale across the whole company and with our delivery partners. I am incredibly proud of the ways in which Nest's people and partners have stepped up to maintain the quality of our services, and of their dedication, ingenuity and spirit of fellowship during this period.

To ensure that Nest can maintain its high standards and address future challenges, we must continue to build an appropriate skills base by employing the right number and calibre of staff. A new people and development strategy has given us the opportunity to think in depth about what the expanding scale of Nest means for our people and the skills we need for the next phase of our evolution as we emerge from the current crisis.

Building a diverse, inclusive workforce is essential to this and I am very pleased that 40 per cent of our director-level roles and above are held by women, exceeding our Women in Finance Charter[3] target of 30 per cent. We must continue to make Nest an even better place to work, ensure that our staff feel empowered in their day-to-day work and continue to grow as a responsible business.

This helps to deliver the best value and quality of service for our membership. Our 2020 staff survey results show an overall engagement score of 76 per cent, which is consistent with 2019, and I am especially pleased to see a continued positive response to our working environment, flexible working options and commitment to diversity and inclusion.

The sheer scope of what we need to achieve in the coming years is exciting, but we have to recognise the limits of our own capabilities and set achievable goals. Our work programme must continue to be ambitious but also balanced against our employees' capacity and wellbeing. Overwork harms individuals and, by association, the organisations they work for.

The next year will see an extraordinary amount of change for Nest, as the pandemic continues to impact how we do business and the future shape of our scheme administration partnership becomes clearer.

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

Clearly our financial position will be affected by any changes in contribution volumes and ongoing investment volatility. It is still too early at this stage to make formal adjustments to our longer-term projections. However, assessments have been made on three key areas that impact these long-range financial forecasts and concluded that it is appropriate to adopt a going concern basis for the Nest Corporation. For more detail, see the Going concern statement on page 28.

While we can reflect positively on our progress so far, including the enormous success we have experienced throughout auto enrolment, our next priorities must be delivering customer outcomes and services that support our members effectively and efficiently, both through the Covid-19 crisis and over the long term.

Doing so will ensure we continue to achieve our vision of helping millions have a better retirement.

Helen Dean,
Chief Executive Officer,
Nest Corporation



1.3
About Nest

This section details what Nest is, how it is structured and what it aims to achieve.

What is Nest?

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

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

It is a master trust, which means it is used by two or more employers to provide benefits on retirement based on the members' contributions into the scheme and the returns after charges on the investment of that money. Nest Corporation has received master trust authorisation from The Pensions Regulator (TPR).

Nest Corporation is funded by a loan from government which will be repaid through member charges. It will eventually become self-financing as assets under management grow while providing consistently low charges, high-quality investment practices and expert governance to members.

Nest Corporation's vision

To help millions enjoy a better retirement.

What Nest does

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

Nest Corporation enables its members to save into a high-quality pension scheme at a low cost. Due to Nest's scale, it is able to offer members a sophisticated investment strategy and easy-to-use services while keeping charges low.

Nest's structure

Nest is a trust-based workplace pension scheme run by a Trustee, the Nest Corporation. The Trustee is comprised of up to 15 Board members and the employees of Nest Corporation. The Board members are collectively referred to as the Board of Nest Corporation, or simply the Board.

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

Further details about Nest Corporation's structure are on page 67.

Risk and uncertainties

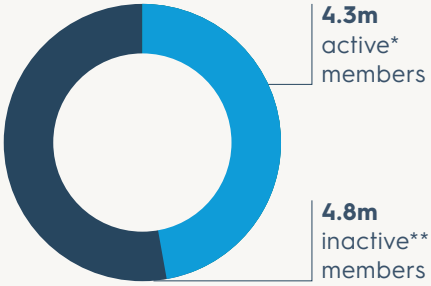
The culture and processes at Nest Corporation are designed to manage risk in line with the risk appetite agreed by the Board, which has a legal responsibility to act in the interests of the members of the Nest scheme.

Nest Corporation must take risks to deliver its strategic priorities. It takes an holistic approach – across the scheme, the corporation and key suppliers – to understand the risks and uncertainties it faces, and the mitigations and controls to operate within its risk appetite.

For more information about Nest Corporation's approach to risk, see page 74.


CHICAGO

1.4
Key figures



9.1m

Total members



53%

Male



47%

Female

0.007% of our membership have not been assigned a gender by their employer.



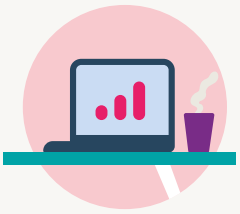
803k

Employers using Nest



98%

of employers using Nest have less than 50 employees



£9.5bn

Assets under management as at 31 March 2020, up from £5.7bn the previous year

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

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

Outcomes



Support strong member outcomes



4.6%

Five-year rolling annualised returns in the Nest 2040 fund after annual management charges to 31 March 2020

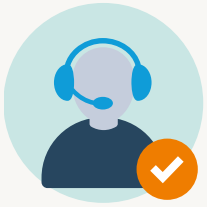


23.5%

Account registration

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

Service



Deliver a good service to customers



71%

Employer satisfaction*

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



61%

Member satisfaction*

(from the 'Voice of the customer' survey November 2019)

*Satisfaction scores are based on those giving an 8-10 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.

Sustainable business model



Deliver a sustainable future business model



£4.8bn

Total annual contributions



75%

Scheme income growth to £107m

Growth



Grow the business, in the right way



£400m

per month in new contributions



7,000

net new employers joined Nest on average each month

Corporation



Deliver a corporation fit for the future



40%

of director-level roles and above are held by women, exceeding the Women in Finance Charter target of 30%



26%

Black, Asian and Minority Ethnic (BAME) staff

Climate Aware Fund

In 2017, Nest Corporation set up the Climate Aware Fund to help manage climate change risk by reducing investment in the biggest greenhouse gas and carbon emitters and investing more in green technology.

Money in the Climate Aware Fund

£600m
September 2018

>>

£1.3bn
March 2020

Our members' investments in the Climate Aware Fund have avoided global carbon emissions equivalent to:



Taking 53,902 cars off the road each year



Planting 82,486 trees



Powering 12,363 homes

Awards and recognitions

Nest Corporation won four awards this year, along with receiving recognition for its efforts to boost female leadership. Nest was also awarded a Defaqto 5-star rating.

PENSIONSAge AWARDS 2020 WINNER
BEST INVESTMENT STRATEGY AWARD

corporate adviser awards 19
WINNER
ULTIMATE DEFAULT FUND

PROFESSIONAL PENSIONS INVESTMENT AWARDS 2019
WINNER
Target Date Fund Manager of the Year
NEST

CIO Magazine, DC Innovation Award 2019

Global Women 4 Wellbeing

defaqto
2017 – 2020
★★★★★
Workplace Pension

1.5

Principal risks and uncertainties

The principal risks and uncertainties are included as part of Nest Corporation's risk statement. See the Corporate risk statement overview on page 74.



1.6

Going concern statement

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

Nest Corporation has assessed three key areas: scheme income, funding from the Department for Work and Pensions (DWP) and wider automatic enrolment pensions policy as part of its going concern considerations. As a result of this, Nest Corporation believes that although there continues to be global economic uncertainty due to the coronavirus pandemic, it is in a strong financial position and it is appropriate to adopt a going concern basis for the Nest Corporation for the reasons set out below.

Nest Corporation produces an updated business plan and long-range financial projections in February each year. For the financial years 2020/21 and onwards, this process was completed before the coronavirus outbreak in the UK, and before the pandemic started to have a wide impact around the globe.

This forecast estimates that Nest Corporation would be able to cover its operating costs from scheme member charges from 2026 onwards, at which point the estimated borrowings will be £1,180 million. The plan also forecasts Nest Corporation to have repaid its loan from the UK government by 2039.

Nest Corporation's financial position will be affected by any changes in contribution volumes and ongoing investment volatility that occur as a result of the pandemic. It is still too early at this stage to make adjustments reflecting the impact of the Covid-19 crisis on longer-term projections. However, assessments have been made on the three key areas that impact these long-range financial forecasts. These assessments concluded that Nest Corporation remains in a strong financial position.

"Assessments have been made on three key areas that impact these long-range financial forecasts. These assessments concluded that Nest Corporation remains in a strong financial position."

Impact on scheme income

Nest Corporation has assessed the resilience of its trading income with respect to the economic impacts of the Covid-19 crisis. Nest Corporation has a very broad customer base, with just over 60 per cent of revenue coming from employers with fewer than 250 workers auto enrolled in the scheme. Contribution income is not concentrated into any particular business sector, so there is no disproportionate exposure to companies which are expected to be adversely impacted by the pandemic.

The remaining trading income comes from member charges on assets under management. These will be impacted by falls in global asset values. However, Nest Corporation has a diversified asset base and has so far seen asset values perform relatively better compared to the headline falls in pure equities, such as those seen in the FTSE 100. In addition, any fall in member charges income is partly offset by costs of investment, which are also proportionate to asset values.

Impact on loan funding from government

Nest Corporation is financed in part through a loan agreement with 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.

Impact on the wider automatic enrolment policy

The measures taken by the UK government during the early months of the pandemic have been designed to preserve as many employers and employees as possible. The Coronavirus Job Retention Scheme (CJRS) allows employers to claim for their National Insurance contributions and minimum auto enrolment pension contributions on allowable wages.

The Pensions Regulator (TPR) has announced that it still expects employers to comply with their auto enrolment duties, but that it will take a reasonable approach to enforcement at this time. For example, TPR has relaxed the threshold for when schemes report an employer as being late in making its payments from 90 to 150 days.

Nest Corporation's public service obligation remains in place to provide a workplace pension scheme to any employer that requires one.

Performance analysis



1.7

Principal activities

This section details Nest Corporation's principal activities during 2019/20, which were focused on business growth and investment developments.

Nest Corporation is the Trustee for Nest, a multi-employer workplace pension scheme. It enables millions of members from employers across the UK to build pension savings and has a public service obligation to accept any employer who wishes to use the Nest scheme to meet their auto enrolment duties. Nest Corporation also has a duty to accept any self-employed person, or director and sole employee of a company, who wishes to use the scheme, though they are not subject to auto enrolment.

Nest Corporation operates a predominantly outsourced business model and works closely with its outsourcing partners to deliver its services. It is currently in the process of procuring its future scheme administration service, with an announcement expected later in the 2020/21 financial year. See page 44 for further information.

In 2019/20 Nest Corporation continued to make progress towards its strategic priorities, which are detailed in the Business review on page 36.

Business growth

In 2019/20 a key event for Nest and other master trust pension schemes was the second increase in minimum pension contributions, known as phasing (see page 9). This has been a major factor in the growth of Nest's assets under management from £5.7 billion in 2018/19 to £9.5 billion in 2019/20. Nest's customer base also continued to grow in 2019/20, with 1.2 million net new members and over 83,000 net new employers joining the scheme during the year.

Nest Corporation continues to conduct regular research across its three key customer groups – members, employers and intermediaries – to better understand their priorities and needs, and to inform and influence Nest's programme of work. For a description of these groups, see Who are Nest's customers? on page 9.

Employers and intermediaries

Support and improvements for web services is a key part of Nest Corporation's offering to help employers. Nest's web services allow employers of all sizes as well as their intermediaries to send and collect data from Nest electronically via their payroll software. The number of employers using Nest's proprietary web services to process data increased from 161,618 in March 2019 to 186,089 in March 2020.

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

Members

Nest Corporation continues to develop its services for members. During 2019/20 it tested new approaches to communications, including targeted information campaigns and greater use of video. It launched further improvements to the process for transferring money in and out of the scheme, including the introduction of a dedicated service team, to help enhance members' experiences. This approach will also be used for retirement claims.

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

"The Nest scheme's credit portfolios have been carefully constructed to focus on investing in companies with strong cash flows to service debt and, where possible, with strong asset backing."

Investment developments

The end of the 2019/20 financial year was characterised by widespread market disruptions caused by the coronavirus pandemic. With governments enforcing increasingly severe measures to halt the spread of the virus through the first three months of 2020, lives and livelihoods were affected around the world. Markets fell significantly and a global recession became increasingly likely.

The pace of recovery from these economic shocks will be determined by the speed with which lockdowns are unwound. If countries reopen in stages, recovery may well be gradual. In the immediate face of the crisis, cash flow for companies and individuals was a main concern. In response the UK and US governments took steps in early March 2020 to shore up credit markets.

The Nest scheme's credit portfolios have been carefully constructed to focus on investing in companies with strong cash flows to service debt and, where possible, with strong asset backing. The portfolios are also constructed to balance investments in more liquid markets with those in less liquid markets. Nest is also strongly cash-flow positive, with strong annual inflows. The Trustee therefore has no current concerns about liquidity.

Equity markets have also experienced dramatic falls and continuing volatility. The Nest scheme has a strategic equity weighting of 55 per cent for the growth phase of its default fund, with the capacity to have this weighting be higher within the scheme's reference portfolio framework when appropriate. This is relatively low among UK defined contribution (DC) schemes, many of which are 70 to 100 per cent equity weighted in their default funds.

This put Nest members' funds in a stronger position going into the crisis. It also provides the Trustee with an opportunity to seek value by increasing its funds' equity allocation while markets are down. The Trustee believes this will help Nest's members to benefit once there is a return to growth.

Before the Covid-19 crisis, Nest Corporation had made several strategic decisions to position its members' investment portfolios for the future. It set up and gained Financial Conduct Authority (FCA) authorisation for a wholly-owned subsidiary, Nest Invest, to support the evolution of its investment approach into more sophisticated areas. This move will ensure the oversight and governance of Nest's investment strategy remains robust as its assets under management, and consequently the opportunities available to it, continue to grow.

Strategic asset allocation is a key driver of returns. As Nest Invest continues to evolve the scheme's investment strategy this will be an important area for analysis and development. Nest Corporation has conducted comprehensive research on international best practice in this area and will be acting on lessons learnt. These include, but are not limited to, strengthening the decision-making processes and structures of the Nest Invest team and enhancing its in-house capabilities in strategic asset allocation.

This will be vital as Nest Corporation moves into more asset classes. For example, in 2019/20 Nest Corporation brought private credit into its asset mix. This move is designed to exploit new investment opportunities in a low-growth environment and align members' investments to appropriate long-term horizons.

A significant portion of the allocation to private credit will be targeted at positive impact sectors including renewable energy projects such as wind power, solar power and smart meter development.

Nest Corporation is in the process of seeking managers for new private infrastructure equity mandates as well, including direct allocations to green energy and UK infrastructure assets. It believes these investments can offer stable, long-term returns even in difficult market conditions, gaining from the economic shift away from fossil fuels and contributing positively to global efforts to tackle climate change.

It has also added global investment-grade bonds to its portfolio to build on the success of its UK corporate bond mandate. The environmental, social and governance (ESG) credentials of the fund manager Nest Corporation chose were a key part of its selection decision. Evidence shows that companies with good ESG practices are more likely to sustain long-term value, and so Nest Corporation believes these are vital factors in assessing creditworthiness. Nest Corporation has instructed its fund manager to actively consider attractive opportunities in green bonds. It believes the growing green bond market could provide new sources of return for scheme members while helping position their funds ahead of the global energy transition.

Nest Corporation's approach to responsible investment is part of its fiduciary duty to members. For example, in June 2019 Nest announced it would be going tobacco-free across its investments within two years. This decision was based on its analysis of the increasingly unsustainable financial futures of tobacco companies. Nest Corporation also announced it would be testing ways to align its equity allocation further and faster with global climate change efforts, including whether its Climate Aware Fund – an underlying fund that makes up part of the scheme's default strategy – can meet a 1.5C global warming target.

Nest Corporation published its latest responsible investment report, *Paving the way*, in December 2019.[4] The report details the actions Nest has taken across its portfolio to manage ESG risks and opportunities.

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

As measured by the performance of the 2040 fund, annualised total returns net of annual management charge over the year to March 2020 were minus 5.8 per cent. The benchmark returns of the consumer price index (CPI) plus 3 per cent was 4.5 per cent in the same period. Over a five-year period, annualised returns to 31 March 2020 were 4.6 per cent compared to the benchmark returns of 4.8 per cent. (See Why do we refer to the 2040 fund? on page 9.)

Periods of volatility are to be expected in pension saving. While equity markets have predominately experienced growth in the last decade, Nest Corporation's investment approach has always anticipated that this growth would eventually be interrupted, as is currently being experienced around the world.

Significant short-term events such as those seen over the course of the fourth quarter of 2019/20 are clearly concerning for members, and Nest Corporation has taken steps to reassure them (see Covid-19 statement on page 6). While the Trustee has kept a close eye on the unfolding developments, its focus has remained on the long term.

Nest Corporation will therefore continue to diversify the scheme's portfolio to help members achieve good long-term performance and help reduce the level of volatility within their investments.

For more information on the scheme's investments please refer to the scheme's Annual report and accounts 2019/20:
nestpensions.org.uk/schemeweb/dam/nestlibrary/Nest-SARA-2019-20.pdf

1.8

Nest Corporation's strategy 2019-2022

This section describes the strategy that Nest Corporation uses to achieve its vision of helping millions to enjoy a better retirement.

Nest Corporation's focus on members underpins everything it does – from the way it invests, to its approach to customer service, to the way it operates as a business. It has defined six organisational principles which together describe how it always works for its members' benefit. These are called 'the things that make Nest, Nest'.

The things that make Nest, Nest

Built around customers' needs and behaviours

Nest Corporation builds and delivers a product based on research and an expert understanding of the needs and behaviours of our customers – members, employers and intermediaries such as advisers and payroll providers. (For a description of these customer groups see page 9.) It uses technology and best-in-class communication techniques to engage its customers in a timely, relevant and personal way.

Excellence in investment practice and governance

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

Low charges, and open to all employers

It uses its scale to keep charges to members as low as possible. It ensures the Nest scheme is available for any employer that wants to use it.

Not-for-profit

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

A broader social purpose

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

An organisation that lives its values

It shows the same level of care to its employees as it does to its customers. It champions the scheme's values inside the organisation, making it a great place to work.

The strategic priorities

Nest Corporation has five strategic objectives that describe what it will do over the next three years to fulfil its vision. Further information is available in Nest Corporation's Corporate plan, which is updated annually and made available on Nest's website.[5]

For the period 2019–22 these strategic priorities are:



Support strong member outcomes

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



Deliver a sustainable future business model

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



Deliver a good service to customers

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



Deliver a corporation fit for the future

It will develop the corporation as an organisation to ensure it is well governed and ready to manage the scheme at growing scale.



Grow the business, in the right way

It will ensure the Nest scheme has a broad customer base while also remaining fully focused on the needs of its target membership of people on a low to moderate income.

> **"Nest Corporation's focus on members underpins everything it does – from the way it invests, to its approach to customer service, to the way it operates as a business."**

5 nestpensions.org.uk/schemeweb/dam/nestlibrary/Corporate-plan-2019.pdf

1.9
Business review

This section contains an overview of Nest's financial performance, including its income and expenditure. It also outlines other key developments during 2019/20.

Overview of financial performance

During 2019/20 Nest Corporation achieved income growth aligned to its three-year business plan, met its operational targets and continued its focus on cost control. Both corporation costs and associated funding for the financial year have been below the annual projections and the funding limit agreed with the Department for Work and Pensions (DWP).

Scheme income, made up of income from members' contribution and annual management charges, increased as planned from £61.4 million in 2018/19 to £107.3 million this year. This represents an income growth of 75 per cent. This growth was driven by increases in assets under management and average contributions due to the second phasing rise in April 2019 (see Business growth on page 31). More specifically:

- Nest's assets under management grew from £5.7 billion in 2018/19 to £9.5 billion in 2019/20.
- The total minimum contribution rate increased from 5 per cent to 8 per cent of band earnings.

Nest's membership grew from 7.9 million members in March 2019 to 9.1 million members in March 2020. Given the growth in scheme membership and assets under management, the costs of scheme administration and fund management have increased, as expected, by 29 per cent, rising from £74.4 million in 2018/19 to £95.8 million in 2019/20 (see note 6 of the Financial statements on page 114).

Overall, Nest Corporation has incurred net expenditure after interest for 2019/20 of £59.9 million, compared to £79.0 million in 2018/19. The decrease was mainly as a result of the rate of growth of scheme income, after taking account of grant income, Nest Corporation staff costs, depreciation and amortisation.

Looking ahead to 2020/21, Nest Corporation expects to see further increases to scheme income as the scheme's assets under management grow.

Total expenditure will also increase, primarily due to increased fund management costs associated with the growth of the scheme's assets under management and the cost of the procurement programme for a new scheme administration contract.

The net expenditure will continue to be funded from the government loan facility until repaid from the projected surpluses in future years. Nest Corporation is well placed to repay its loan facility. The latest forecast, drawn up before the pandemic, has it breaking even in 2026 and repaying its loan facility by 2039. Nest Corporation's loan liabity to the DWP as at 31 March 2020 is £778 million, compared to £714 million on 31 March 2019.

The Department for Work and Pensions (DWP) and the Board are satisfied with Nest Corporation's forecast three-year business plan and long-term projections. A detailed analysis of historical financial performance is presented in the Performance summary on opposite. For detail on the assessments that have been made on the impact of the pandemic on Nest Corporation's long-range financial forecasts see the Going concern statement on page 28.

Performance summary

The following table provides historical information on income and expenditure.

	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
Income					
Scheme income	9.0	15.2	25.6	61.4	107.3
Grant income	15.1	17.7	20.0	22.4	24.9
Other income	0.0	0.0	17.1	0.5	0.8
Total income	**24.1**	**32.9**	**62.7**	**84.3**	**133.0**
Expenditure					
Staff costs	(18.9)	(18.5)	(20.8)	(24.7)	(26.0)
Depreciation and amortisation	(14.2)	(10.9)	(10.9)	(12.1)	(12.3)
Other expenditure	(45.1)	(61.4)	(75.3)	(91.1)	(116.0)
Interest payable	(25.6)	(29.1)	(32.2)	(35.4)	(38.6)
Total expenditure	**(103.8)**	**(119.9)**	**(139.2)**	**(163.3)**	**(192.9)**
Net expenditure after interest	**(79.7)**	**(87.0)**	**(76.5)**	**(79.0)**	**(59.9)**

Income

Total income was £133.0 million for 2019/20. This is an increase of 58 per cent from 2018/19 income of £84.3 million. The increase in total income was driven by a 75 per cent increase in scheme income from £61.4 million in 2018/19 to £107.3 million in 2019/20.

The increase in scheme income was largely due to the second phased rise in minimum statutory contribution rates in April 2019, as well as growth of assets under management from £5.7 billion in 2018/19 to £9.5 billion in 2019/20.

Expenditure

Nest Corporation's spending decisions are made carefully and with the awareness that its expenditure is ultimately borne by scheme members. The largest expenditure increase in 2019/20 was within the 'other expenditure' line, which includes scheme administration expenses and scheme investment costs. The investment and administration costs increased by £21.4 million, from £74.4 million in 2018/19 to £95.8 million in 2019/20. The increase was due to the rise in scheme membership and higher fund manager fees related to the growth in assets under management.

In 2019/20 staff costs increased by £1.3 million to £26.0 million, mainly due to a natural increase in headcount attributable to the increase in size and complexity of the corporation and underlying scheme. Depreciation and amortisation costs between 2018/19 (£12.1 million) and 2019/20 (£12.3 million) increased marginally by £0.2 million, as although Nest Corporation acquired additional assets to run the scheme, this was offset by changes to its depreciation policy from 5 years to 7 years.

Developments during 2019/20

Nest Corporation continued to work towards the strategic priorities described in its Corporate plan 2019–22 (see page 35).[6]

Nest's performance against its strategic priorities in 2019/20 is detailed on pages 40 to 45.

Key developments during 2019/20 include:

Nest Invest

As the scheme's assets under management grow, Nest Corporation's investment strategy must evolve so that it continues to be diversified, risk-adjusted, suitable for its membership and aligned with Nest's responsible investment principles.

Nest Corporation has addressed this by establishing Nest Invest, a wholly owned subsidiary of Nest Corporation. Nest Invest received Financial Conduct Authority (FCA) authorisation as an occupational pension scheme firm in January 2020.

Nest Invest primarily provides regulated investment advice in line with an investment management agreement between Nest Invest and Nest Corporation.

The Board updated Nest's Statement of investment principles (SIP)[7] in January 2020 to describe the role of Nest Invest.

Nest's future scheme administration service

As detailed on page 44, Nest Corporation is engaged in the procurement of its future scheme administration service.

Nest Corporation placed a contract notice in the *Official Journal of the European Union* in May 2019 setting out the procurement framework and inviting potential bidders to respond to a first stage selection questionnaire. Shortlisted bidders were subsequently invited to participate in a competitive dialogue process designed to ensure that suppliers fully understand Nest's requirements and are able to deliver a service that meets the needs of the scheme's customers.

This competitive dialogue has been held in two phases, starting in September 2019 and ending in the summer of 2020. The evaluation of final tenders is planned for mid-2020 with the contract expected to be awarded later in the 2020/21 financial year.

Throughout this phase the programme has continued to secure input from subject matter experts in Nest Corporation, independent advisers and the government. It has undergone scrutiny with four internal audits to ensure robust governance and processes.

The procurement process is managed by a programme board chaired by the Chief Executive Officer and governed by the Board.

People and development strategy

Nest Corporation launched a new people and development strategy in December 2019. This has been developed to ensure that Nest Corporation has the organisational capability, leadership and culture, skills and agile operating models it needs to continue to deliver competitive, high-quality services to its customers in the master trust market.

The strategy is built around four key streams:

- Attracting, recruiting and developing diverse talent.
- Creating a workforce that is supported and rewarded.
- Fostering a workforce that reaches its full and future potential.
- Ensuring inclusivity in everything it does.

Nest Corporation is measuring the impact of the strategy by monitoring staff survey results, turnover figures, company demographics and overall business performance. Its 2020 staff survey shows good progress. For example, 81 per cent of employees said diversity is a strength at Nest (2019: 67 per cent) and 89 per cent said they are able to strike the right balance between their work and home life (2019: 83 per cent).

6 nestpensions.org.uk/schemeweb/dam/nestlibrary/Corporate-plan-2019.pdf
7 nestpensions.org.uk/schemeweb/nest/aboutnest/investment-approach/statement-of-investment-principles.html

Master trust authorisation and supervision

Nest Corporation submitted its application for master trust authorisation to The Pensions Regulator (TPR) in March 2019 and received approval in September 2019.

Master trust authorisation and master trust supervision were introduced as part of the Pension Schemes Act 2017. Authorisation requires all master trust pension schemes operating in the UK to meet standards of governance and administration specified by TPR in five key areas:

- Governance
- Operations
- Planning
- Funding
- Future sustainability

Nest will work with TPR to ensure it continues to meet the requirements set out in the ongoing master trust supervision regime.

Risk and assurance

During 2019/20 Nest Corporation produced a refreshed risk appetite statement. This details the risk parameters within which Nest Corporation operates as part of its risk management framework (see page 74) and is used to inform its decision-making.

The annual Audit and Assurance Faculty (AAF) 02/07 controls assurance report has been published in parallel with this Annual report and accounts. The AAF 02/07 gives independent assurance that Nest Corporation's controls are effective and that it is well governed.



Performance against strategic priorities

> **Nest Corporation is committed to helping members engage with their pension pot and understand how to save adequately for retirement.**



Support strong member outcomes

Grow assets in a way fit for Nest's membership

As measured by the performance of the 2040 fund, annualised total returns net of annual management charge were 4.6 per cent over the five years to 31 March 2020. The benchmark return of the consumer price index (CPI) plus 3 per cent was 4.8 per cent. (See Why do we refer to the 2040 fund? on page 9.) Nest funds' performance was affected by unprecedented market volatility in response to the coronavirus pandemic. The investment strategy for Nest's default funds and the other fund choices is expected to meet investment objectives over the long term.

In 2019/20 Nest Corporation:

- Set up and gained Financial Conduct Authority (FCA) authorisation for its wholly owned subsidiary Nest Invest to support the evolution of its investment approach.
- Continued to diversify its investments to reduce risk and provide new opportunities for return, adding new asset classes including private markets to members' portfolios.
- Continued to act as a responsible steward of members' money by working with its fund managers and other institutional investors to encourage the companies in which it invests to adopt best governance practices, including on tackling climate change. Further details are available in Nest's annual responsible investment report[8] and details of its voting guidelines[9] are available online.
- Developed its investment strategy for members reaching their retirement date and beyond, recognising that most members take no action when their target date fund reaches maturity.
- Conducted research on international best practice in strategic asset allocation with a view to further developing its approach.

Nest Corporation won four awards for its investment strategy in 2019/20. See page 25 for further details.

For more information on developments in Nest's investment strategy see Investment developments on page 32.

Communications to members are easy to understand and accessible

Nest Corporation is committed to helping members engage with their pension pot and understand how to save adequately for retirement.

It realises that as Nest's membership grows, it must address and fulfil a wider range of communication needs. It measures and analyses members' needs, behaviours and actions and uses these insights to tailor communications and drive engagement.

8 nestpensions.org.uk/schemeweb/dam/nestlibrary/paving-the-way-2019.pdf
9 nestpensions.org.uk/schemeweb/NestWeb/includes/public/docs/voting-policy,PDF.pdf

During 2019/20 Nest Corporation:

- Continued to update Nest's public website with straightforward, engaging content to support members with complex tasks. New additions in 2019/20 included videos on how to transfer pensions in and out of Nest, stay safe online from phishing and set up nominated beneficiaries or expressions of wish.
- Commenced an upgrade of the transactional area of the scheme website, where members log in to access their account, to optimise the platform for mobile devices. Currently over 50 per cent of members use mobile devices to access Nest. This work was completed in June 2020.
- Delivered a range of test-and-learn personalised email and video campaigns to encourage members to activate their online account and engage more effectively with their pension pot. Testing differing levels of personalisation across different demographics has enabled better understanding of how members respond to communications. This is helping to inform future communications strategy.
- Established and worked with a new member research tool called 'Your way' that provides long-term access to the thoughts, behaviours, needs and feelings of scheme members. It also builds deeper insights with members through collaboration and dialogue.
- Created an email campaign using video to raise awareness of its responsible investment activities. Nest research had found that 45 per cent of members said it matters a lot to them that their pension scheme holds companies to account, compared to 28 per cent of a representative sample of the general working population who said the same.

Members' assets and data are kept safe

Nest Corporation keeps members' assets and data safe by operating an appropriate internal control framework that allows it to meet its regulatory and legislative obligations. In 2019/20:

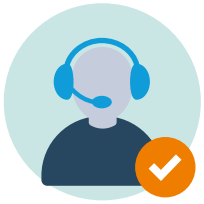
- The information security management systems operated by Nest Corporation, its scheme administrator and its IT managed services provider were independently certified to the International Organization for Standardization (ISO) 27001: 2017 standard.
- The scheme administrator, Tata Consultancy Services Ltd (TCS) commissioned Ernst & Young LLP to carry out its annual review of TCS's design of and compliance with key controls. This enabled TCS to deliver an assurance report to Nest in accordance with the Audit and Assurance Faculty (AAF) 01/06.
- TCS commenced a review of controls across Nest's scheme administration service. This will identify opportunities to further improve its processes and will be an ongoing area of focus in 2020/21.
- Key suppliers of fund management and fund administration services provided independently tested control reports in accordance with either the AAF 01/06 standard or the ISAE 3402 standard. The fund administration team reviewed these control reports and delivered its annual report on them to the audit committee.
- In mid March 2020, after businesses in the UK and abroad were advised to close offices to control the spread of the novel coronavirus, Nest Corporation approved a plan with TCS for delivery of customer service via work from home (WFH). This included review of data safeguarding controls.

Research and policy work supports members' needs

Nest Corporation carries out research and public affairs work to benefit its members and the wider group who are or will be reliant on defined contribution (DC) savings to fund their retirement. It does this by providing evidence to Parliament, government and industry to help inform policy development. Highlights this year included work with the Money and Pension Service (MaPS) to develop their national strategy, involvement in cross-industry work to improve women's savings outcomes through the Insuring Women's Futures Programme and close working with the Department for Work and Pensions (DWP) to help it consider the impacts of coronavirus on auto enrolled members and their pension saving.

Nest Corporation works closely with international academics and industry participants through its research arm, Nest Insight, which carries out a continuous programme of research, funded by a range of partners including Vanguard and Invesco. Nest Insight's research findings are publicly available. See **nestinsight.org.uk**

Nest Corporation runs a 'Voice of the customer' research programme that analyses scheme management information to identify future directions for customer engagement. It also carries out research directly with scheme members through its new online member community, 'Your way'.



Deliver a good service to Nest's customers

Deliver a good quality service

Nest Corporation has three key customer groups: employers, members and intermediaries such as advisers and payroll providers (see Who are Nest's customers? on page 9). During 2019/20 Nest Corporation delivered a good quality service to all three groups.

- Nest Corporation continued to provide stable core services. Nest's service channels remained available and accessible to members, employers and intermediaries more than 99 per cent of the time, even during the first month of the lockdown.
- It provided consistent core service levels, with 99 per cent of service levels met within the year.
- It maintained customer satisfaction levels:
  - Member satisfaction at 61 per cent ('Voice of the customer' survey November 2019).
  - Employer satisfaction at 71 per cent ('Voice of the customer' survey March 2020).

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

As the Nest scheme matures further, the volume of member interactions will continue to grow. Nest Corporation has put in place a service improvement programme to identify opportunities to improve its service to members while transaction volumes are low so that the member experience is improved before transaction volumes become high. As a consequence, in 2019/20 it:

- Improved retirement and bereavement processes to better support members and their beneficiaries.
- Implemented dedicated support teams for key and complex processes which have previously caused difficulties for some of Nest's customers, such as transfers of retirement pots in and out of the scheme.
- Improved the way the performance of customer services agents is assessed and managed, with an increased emphasis on the quality of the services delivered to customers.

Drive value for members

Each year Nest Corporation is legally required to look at the costs and charges paid by the scheme's members and assess whether these represent good value compared to similar options available in the master trust market. The explanation of the assessment is provided in the Report on governance on page 53 of the scheme's Annual report and accounts at **nestpensions.org.uk/schemeweb/dam/nestlibrary/Nest-SARA-2019-20.pdf**

Nest's pricing structure is set out by the Secretary of State for Work and Pensions. The Board has set a contribution charge of 1.8 per cent and an annual management charge of 0.3 per cent. Nest Corporation has modelled these charges. They broadly equate to an annual management charge of 0.5 per cent over the long term.

Nest Corporation believes this strikes a fair balance, as the majority of Nest's members are aged 16 to 39 and will be saving into their pension for a long time.

In 2019/20 Nest Corporation:

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



Grow the business, in the right way

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

In 2019/20, around 9,000 new employers a month joined the Nest scheme. These employers enrolled workers from across all income groups.

Nest Corporation continued to work directly with employers as well as with intermediaries such as advisers and payroll providers who support them.

During 2019/20 it:

- Ran a programme of communications and attended key trade events for large employers and intermediaries to inform them of the Nest scheme.
- Worked with payroll software providers to improve systems integration.
- Continued to improve payroll and contribution services for employers.

> **By 2025 the Nest scheme is expected to have more than 1.75 million members aged 55 or older.**

Members have access to appropriate retirement income solutions

By 2025 the Nest scheme is expected to have more than 1.75 million members aged 55 or older. In 2019/20 Nest Corporation carried out research to better understand these members' challenges with retirement decision-making. It showed that members find retirement confusing and they are unsure which of the choices available to them best suits their needs. To address these challenges, Nest Corporation:

- Launched the Nest Guided Retirement Fund (NGRF), designed to enable members to invest appropriately through retirement if they choose not to withdraw all of their pot from Nest immediately.
- Created age-targeted communications encouraging members to think earlier about their retirement. These help members better understand their retirement income options, find resources for advice and planning and make more informed decisions.
- Provided greater flexibility for members who reach their retirement date. Nest Corporation built on its existing uncrystallised funds pension lump sum retirement proposition, so that members can also make more frequent cash withdrawals in stages from their Nest pot.
- Conducted ongoing research into members' retirement decision-making. This is to ensure the scheme continues to meet members' needs in the future and provides retirement options that are fit for purpose.
- Continued to work with government, regulators and the wider pensions and savings industry through consultation responses and dialogue aimed at ensuring good outcomes for scheme members.



Deliver a sustainable future business model

Maintain strong financial performance

Nest Corporation's financial performance is influenced by the scheme's level of assets under management, total annual contributions from members and the corporation's annual costs. In 2019/20 it maintained strong financial performance.
Nest Corporation:

- Grew assets under management to £9.5 billion, with £4.8 billion in contributions received during the year. In 2018/19 assets under management stood at £5.7 billion and contributions received were £2.8 billion.
- Ensured a high level of efficiency with a three-year business plan and annual budget. Funding and resources are determined in line with strategic priorities. The Chief Executive Officer, the Chief Financial Officer and the Board challenge the requirements before these plans are approved. A funding requirement is then submitted annually to the DWP, which provides further scrutiny.
- Kept within the operational and financial targets agreed with the DWP for the financial year. Scheme administration expenses were in line with expectations and the growth of the scheme. Nest Corporation's costs were lower than expected due to continued focus on value for money for members (see Drive value for members on page 42).

Procure future scheme administration service

Since 2010 Nest Corporation has had a contract with Tata Consultancy Services (TCS) to carry out the day-to-day operation of its scheme administration. This contract is due to end in 2023. A programme to procure the future scheme administration service is underway, run by a team that incorporates senior expertise from across Nest Corporation as well as subject matter experts from central government and professional organisations. Key activities in the procurement process included:

- In May 2019 Nest Corporation issued a contract notice in the *Official Journal of the European Union* for future services, starting the formal procurement process. The contract award is planned for later in the 2020/21 financial year.
- Following the contract notice being issued, a number of organisations completed the first-stage selection questionnaire, with six being taken into the competitive dialogue phase of the procurement.
- Dialogue started in September 2019 and will continue through the summer of 2020.
- During the process Nest Corporation carried out four internal audits to ensure robust governance of the procurement process.

Over the past decade, technology and customer interaction expectations have changed significantly. Nest Corporation aims to take advantage of the efficiencies that these technological advances offer through its next scheme administration contract, to better serve its customers and drive down operational costs.



Deliver a corporation fit for the future

Maintain strong standards of governance

Nest Corporation continuously reviews the skills and experience mix of Board members to support succession planning, training and induction processes, and to identify future recruitment requirements. During 2019/20 it:

- Appointed Karen Cham as a Board member, following analysis of the Board's skills and experience needs. Karen brings additional experience to the Board as an internationally recognised expert on user experience design and behaviour change. For more information on Karen's skills and experience, see page 61.
- Approved the establishment of Nest Invest to support the evolution of Nest's investment strategy. Nest Invest is Nest's investment subsidiary, which was authorised by the Financial Conduct Authority (FCA) as an occupational pension scheme firm in January 2020.
- Reviewed governance arrangements for Nest's investments and its decision-making to ensure they continue to be robust and effective. As a result, two additional committee members, Jennie Austin and Jaap van Dam, were appointed to the investment committee (but not the Nest Board) in January 2020 (see Investment committee on page 69).
- Carried out an internal review of Nest Corporation's governance, which showed that it continues to operate effectively. The nominations and remuneration committee (see page 70) will oversee the implementation of the recommendations. These recommendations include:
  - A continued focus on the diversity of the Board as a key component in any upcoming recruitment of Board members.
  - A review of Board engagement with Nest Corporation employees as key stakeholders.
  - A focus on training at committee level.
  - More informal discussion on relevant external developments.

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

Nest Corporation must be able to drive the future development of the scheme by employing the right number of staff and building an appropriate skills base through staff training and development, supplemented by external recruitment where required. It continues to develop a positive working culture where its employees are motivated, empowered and treated with respect. During 2019/20 Nest Corporation:

- Launched a new people and development strategy aligned to its overall strategic priorities. This aims to ensure Nest Corporation has the organisational capability, leadership, culture, employee skills and operating models it needs to be successful in the long term. The strategy will be supported by initiatives including a new total reward proposition, a wellbeing strategy and a talent and retention strategy.

Nest Corporation put an implementation roadmap in place in September 2019 and continues to deliver initiatives in line with this plan. The launch of some initiatives had to be moved from April 2020 to April 2021 because of changes required by the government lockdown and work from home (WFH).

- Created a set of behavioural statements to support its values – transparency, respect, ease and empowerment – and continued to focus on embedding these into employees' and leaders' day-to-day activities and language. The January 2020 staff survey showed positive change against questions measuring respect and transparency, as well as staff wellbeing. For example, 89 per cent of staff said they are able to strike the right balance between work and home life. This is 6 per cent up from last year.
- Communicated and supported Nest's purpose. In the 2020 staff survey, 86 per cent of staff said that Nest's purpose makes them feel good about their work, consistent with 2019 scores.
- Progressed its diversity and inclusion strategy. This included setting up a diversity steering group and meeting diversity targets (see page 93). In the 2020 staff survey, 81 per cent of staff said that diversity is a strength at Nest and 86 per cent of staff said that Nest respects the individual differences of its employees. This is 5 per cent up from last year.
- Developed future corporate capabilities through Nest Corporation's bespoke Leadership Academy and through Future Nest, a long-term programme of organisational change which will review key skills required across the organisation.

Effective risk management and controls

Nest Corporation's principal risks are reviewed every year. This ensures that the risks it has identified as having a significant potential impact on Nest's business model remain current, relevant and appropriate for the organisation. In addition, every three years this takes the form of a comprehensive zero-based review, which last took place during 2018/19. Further detail on Nest Corporation's principal risks and its ongoing approach to risk management is on page 76.

During 2019/20 Nest Corporation:

- Developed a refreshed risk appetite statement that details the risk parameters within which Nest operates. The statements form part of Nest Corporation's risk management framework (see page 74) and are used to inform decision-making within the organisation. The Board is responsible for setting Nest's risk appetite annually, expressed as a series of risk appetite statements that are linked to key risk indicators.
- Completed Nest Corporation's annual Audit and Assurance Faculty (AAF) 02/07 controls assurance report against the master trust assurance framework. This gives an independent third-party assessment of the design and operation of Nest's internal controls. The report confirms that all the control objectives set out in the AAF guidance were met for the reporting period.
- Approved an annual risk-based assurance plan for second- and third-line assurance activity with oversight from Nest Corporation's audit committee. Progress against this plan and any material findings are reported to the committee at each quarterly meeting.

Respond effectively to regulatory change

Nest Corporation's principal risks are monitored on a continuous basis and formally reviewed every year. It has processes in place to ensure that relevant regulatory change is identified, assessed and implemented. In 2019/20 it:

- Received master trust authorisation from 6 September 2019 (see page 39 for more information). Since achieving authorisation, Nest has been working with The Pensions Regulator (TPR) to implement the regime's new supervisory requirements.
- Obtained Financial Conduct Authority (FCA) authorisation for Nest Invest to enable the evolution of the investment strategy.
- Updated the Statement of investment principles (SIP) to describe how the Board takes into account financially material considerations and stewardship as required by the Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2019. Financially material considerations which the Board must consider when making their investment decisions include, but are not limited to environmental, social and governance (ESG) factors, such as climate change.



1.10

Nest is a responsible business

Operating as a major financial services organisation, Nest Corporation is very aware of the broader impact it makes – at a global, national and community level.

Nest Corporation respects the environment in which it operates and aims to make efficient use of natural resources. Its sustainability reporting aims to conform to the Greening Government Commitments.[10] It reports on the scheme's performance against the Task Force for Climate-related Financial Disclosures (TCFD). The TCFD recommends that organisations, including those in the financial sector, provide climate-related financial disclosures in their mainstream annual report and accounts. More information can be found in the scheme's Annual report and accounts at **nestpensions.org.uk/schemeweb/dam/nestlibrary/Nest-SARA-2019-20.pdf**

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

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

About 36 per cent of the building's waste is recycled or reused. Waste incinerated (about 64 per cent) is sent to an energy-from-waste facility. Carbon dioxide equivalent (CO_2e), the widely accepted standard for measuring emissions from all greenhouse gases, is also monitored with respect to business travel. In 2019/20 Nest Corporation saw a sharp fall in emissions from private vehicle, rail and air travel, to 199.4 tonnes of CO_2e (2018/19: 243.8). Some of the decline in business travel emissions was due to travel restrictions as the novel coronavirus spread globally. Nest Corporation also actively seeks to reduce international travel.

Nest Corporation uses electronic reviews of working papers and documentation where possible to reduce paper use. This helped to support the shift to working from home (WFH) due to the pandemic in March 2020.

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

Nest's broader impact

All of Nest Corporation's decisions aim to deliver the best value for its scheme members. Many of those decisions have a broader positive impact that Nest's people are proud of.

That impact is first and foremost a function of its core business activities: the value delivered to members through strong risk-adjusted investment returns, and the impact of its responsible investment approach[11] and voting guidelines on business practices.[12]

This section focuses on how Nest Corporation creates value in other ways: as an employer, and through its corporate social responsibility (CSR) agenda. In 2019/20 Nest Corporation started to consider in more detail where it can continue to show leadership, going beyond legal requirements, in responsible business practices relating to its people, its carbon footprint and its supply chain.

11 nestpensions.org.uk/schemeweb/dam/nestlibrary/paving-the-way-2019.pdf
12 nestpensions.org.uk/schemeweb/NestWeb/includes/public/docs/voting-policy,PDF.pdf

Helping Nest's employees achieve their full potential

As Nest Corporation grows and evolves, it wants to foster an accessible, inclusive workplace with the right culture, capability and capacity to run and steer the scheme as it grows in the future.

"Nest Corporation aims to be flexible and inclusive by instinct and create a culture where everyone can thrive. It wants people to feel they can bring their authentic selves to work."

Attracting, recruiting and retaining diverse talent

To be a high-performing organisation, Nest Corporation must attract the very best employees based on talent alone, then support and reward them proportionately in line with their role. Everyone who applies to work at Nest Corporation has the opportunity to demonstrate their skills and abilities on a level playing field. Recruitment and selection processes are designed to eliminate bias and barriers to the recruitment of less-represented groups as far as they can.

There is more work to do within Nest Corporation to improve its recruitment and promotion processes. The January 2020 staff survey showed that 61 per cent of staff agreed that recruitment processes are fair and 38 per cent agreed that promotion processes are fair. Voluntary turnover for staff who have been at Nest less than a year is 16 per cent. Nest Corporation is reviewing and improving its new employee induction processes with the aim of reducing this.

Nest's workforce



26%

of Nest's workforce are from a Black, Asian and Minority Ethnic (BAME) background



56%

of Nest hires in the last year have been directly sourced, saving the organisation £518k (inc VAT)

Figures as at March 2020

See page 93 for further information on Nest Corporation's disability policies.

The 2020 staff survey also showed that 81 per cent of employees believe that Nest Corporation's diversity is a strength, and 89 per cent say that they can strike the right balance between work and home life. Inclusivity will help Nest Corporation show that it is a great place to work and help attract a broad range of candidates and retain diverse talent.

Nest Corporation engages with local communities to identify talent and a broad range of skill sets. It does this through partnerships with the London Borough of Tower Hamlets' WorkPath service, Queen Mary University of London and others.

Developing a workforce for the future

Nest Corporation aims to empower its people and encourages them to reach their full and future potential, while upholding its values and behaviours.

That includes helping staff from underrepresented groups strive and develop their skills, as well as investing in learning and development for all of its people. This is combined with secondment opportunities, mentorships, work shadowing and volunteering time.

Inclusivity in everything Nest does

Nest Corporation aims to be flexible and inclusive by instinct and create a culture where everyone can thrive. It wants its people to feel they can bring their authentic selves to work.

It understands the value of a diverse workforce. In 2019/20 it has delivered greater gender balance, improved the representation of staff from ethnic minorities and increased the number of people with disabilities in its workforce.



50%

of Nest's workforce are women



Disability Confident Employer (level 2)

Nest fosters an environment where staff feel able to declare their disability status



An accredited Living Wage employer



40%

of Nest's director-level roles and above are held by women, exceeding the 2019 HM Treasury Women In Finance Charter target of 30 per cent



Nest worked with Ambitious About Autism piloting work placements for people with autism

Corporate social responsibility

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

In 2019/20 employees spent approximately 330 hours volunteering for charities or other not-for-profit organisations, including:

Using personal expertise to resolve pension issues

Pensions Ombudsmen

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

'A case can be as simple as explaining something about pensions the person didn't know or ensuring the provider engages properly. Other matters can be more complex and can arise from unfortunate personal circumstances. Whatever the issue I enjoy being able to bring understanding even if the outcome is not what the person was hoping for.'

Paul Terry,
Nest Corporation

Helping Nest's immediate community

Whitechapel homeless shelter

Staff volunteered at a homeless shelter in Whitechapel, helping to prepare, cook and serve breakfast for around 300 people, many of whom would have slept on the streets that night.

Queen Mary University WorkPath programme

A group of colleagues spent the day with local students and graduates to help them with job readiness, developing their soft skills and improving their understanding of interview etiquette, through the London Borough of Tower Hamlets' WorkPath programme and Queen Mary University of London.

'Our Chief Operating Officer, Nick Sex, and I interviewed a pleasant young man who was reading economics. We were impressed by his quiet confidence and earnest desire to make the most of the opportunity. Nick and I prepared questions for him like a real interview and although we'd chosen subjects relating to university as well as work, in case he'd had no work experience, it turned out that he was a very industrious individual. He worked hard to put himself through university, being the first of his family to do so.'

Helen Dean,
Nest Corporation

Fundraising

This year staff chose Macmillan Cancer Support as their nominated charity. Through a series of events including a quiz night, charity raffle, karaoke evening and coffee morning, staff raised a total of £1,676.01. Nest staff also supported Save the Children's Christmas Jumper Day and donated to First Love Foundation.



£1,947.68

Total amount Nest staff raised for charity this year



Wow - never has cleaning and serving other people breakfast felt so right! Simple tasks like handing someone a clean towel and toothbrush can give them the dignity they are denied on a daily basis. And seeing your actions have a direct and positive impact is incredibly rewarding.

Guineviere Nicholas, Nest Corporation,
volunteering at Whitechapel foodbank

1.11
Key business relationships

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

It has worked in partnership with all of its suppliers throughout the year, and particularly throughout the Covid-19 crisis, to ensure that the scheme operates effectively.

Its initial 10-year scheme administration contract with TCS was due to finish in 2020, but in 2015 this was extended to 2023. Nest Corporation is currently in the process of procuring future scheme administration services (see page 44).



1.12

Anti-discrimation, anti-bribery and human rights

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

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

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

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

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

Nest Corporation also requires suppliers and their subcontractors to notify it in writing of any actual or suspected breaches of the anti-slavery requirements within seven days of becoming aware of the breach.

See page 84 for details of Nest Corporation's adherence to the MSA.

1.13

Preparation of the financial statements

Statutory background

The financial statements for 2019/20 for Nest Corporation are prepared in accordance with the requirements of schedule 1, part 3, paragraph 20 to the Pensions Act 2008, and in the form set out in the Accounts direction issued by the Secretary of State for Work and Pensions. The Accounts direction is presented in Appendix 1.

Statutory auditors

The Comptroller and Auditor General is the statutory appointed auditor for Nest Corporation under the provisions of schedule 1, part 3, paragraph 20 to the Pensions Act 2008.

The Chief Executive Officer has taken all the steps that she ought to take to make herself aware of any relevant audit information and to establish that Nest Corporation's auditors are aware of that information. So far as the Chief Executive Officer is aware, there is no relevant audit information of which the entity's auditor is unaware. During the year Nest Corporation did not make any payments to its external auditors for non-audit work.

Helen Dean
Chief Executive Officer
Nest Corporation
25 June 2020



Chapter 2

Accountability report



2.1 Corporate governance report

This accountability report, including the Directors' report, the Statement of Chief Executive Officer's responsibilities, Governance statement, Remuneration and staff report and Parliamentary accountability and audit report, has been prepared in accordance with the provisions of the Government Financial Reporting Manual (FReM) and HM Treasury's Managing public money Annex 3.1. See also Appendix 1, Accounts direction on page 126.

2.1.1 Directors' report

About Nest Corporation

Nest is a trust-based occupational master trust pension scheme set up in 2010 by statute to support the government's pension reforms. Designed to make auto enrolment easier for employers and their workers, Nest offers easy online access, clear communications, high-quality governance and an award-winning investment strategy.

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

The Trustee is comprised of up to 15 Board members and the employees of Nest Corporation. The Board members are collectively referred to as the Board of Nest Corporation, or simply the Board.

Under the National Employment Savings Trust Order 2010 (the Nest Order)[13] the Board receives assistance and advice from a panel that represents members' perspectives of the scheme (the Members' Panel) and a panel that represents participating employers (the Employers' Panel). The Board consults these panels on matters to do with the operation, development or amendment of the scheme. It also consults them when specifically required to do so by legislation, for example when making changes to the Nest Rules.

13 nestpensions.org.uk/schemeweb/dam/nestlibrary/NEST-Order-and-Rules.pdf

Unlike any other occupational pension scheme trustee, Nest Corporation has a public service obligation to accept any employer who wishes to use the Nest scheme to meet its employer duties. Such an employer needs to agree to the employer terms and conditions of the scheme and use the scheme in line with these terms and conditions. Employer terms and conditions are reviewed at least once a year and as necessary following a change to relevant legislation.

Members enrolled into the scheme have access to their own individual, secure online member account. Once logged in, they can review their personal details, make additional contributions, change their investment fund and stop contributions. A member can continue using the Nest scheme throughout their life, regardless of a change of employment or personal circumstances.

Organisational structure

The organisational structure of Nest Corporation is described in this section, beginning with the membership of the Board.

The Board



Otto Thoresen

Chair, Nest Corporation
from 1 February 2015

Otto will continue in his current role as Chair of the Board of Nest Corporation until 31 January 2022, having been appointed for an additional term of two years.

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



Iraj Amiri

Board Member
from 20 June 2011 to 30 June 2019

Chair, Audit Committee
from 1 April 2014 to 28 January 2019

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



Ian Armfield

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

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



Graham Berville

Board Member
from 1 June 2014 to 30 June 2019

Chair, Risk Committee
from 25 September 2017 to 20 February 2019

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



Sally Bridgeland

Board Member
from 1 April 2015 to 30 June 2019

Chair, Investment Committee
from 2 July 2017 to 28 May 2019

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

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



Tomas Carruthers

Board Member
from 1 July 2016 to 28 November 2019

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



Karen Cham

Board Member
from 1 July 2019

Karen is an internationally recognised expert in user experience design and behaviour change. Her research concerns designing for persuasion, emotion and trust and she specialises in the digital transformation of values and ethical practice. She is Professor of Digital Transformation Design at the University of Brighton and the Professorial Lead for Connected Futures research and enterprise, including in the areas of digital economy, digital health, immersive, simulations and virtualisation and complex systems.



Helen Dean

Board Member
from 1 June 2018

Chief Executive Officer, Nest Corporation

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

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

Helen is a mentor to female professionals. She has established a senior leadership programme to cultivate the next generation of diverse leaders for Nest's future. Helen is a non-executive director of debt charity StepChange and a governor of the Pensions Policy Institute.



Clive Elphick

Board Member
from 1 June 2018

Chair, Audit Committee
from 29 January 2019

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



Chris Hitchen

Board Member
from 1 June 2018

Chair, Investment Committee
from 28 May 2019

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

He is Chair of the £40 billion Border to Coast Pensions Partnership, and Chair of The Pension SuperFund, and sits on the investment committee for the Guardian Media Group. He is also Board Member for the Toronto-based International Centre for Pensions Management and the UK's Investor Forum. Previously, Chris was Chief Executive Officer of the UK Railways Pension Scheme.



Ron Jarman

Board Member
from 1 July 2016

Chair, Nominations and Remuneration Committee
from 28 May 2019

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

He is currently Board Chair at World at Play, an international development charity, and until the end of March 2020 was a senior member of Proxima's consulting practice.



Richard Lockwood

Board Member
from 1 September 2018

Chief Financial Officer, Nest Corporation

Richard is a chartered management accountant with broad financial experience and knowledge of corporate governance, commercial finance, strategic planning and mergers and acquisition activity.

His experience over the last 25 years includes supporting Nest's growth as Chief Financial Officer for over five years as well as leading financial roles in a number of blue-chip UK retail and consumer product companies such as Home Retail Group, BAA and Kingfisher.



Mutaz Qubbaj

Board Member
from 1 June 2018

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



Caroline Rookes CBE

Board Member
from 1 April 2015 to 30 June 2019

Chair, Nominations and Remuneration Committee
from 28 November 2017 to 28 May 2019

Caroline is a Trustee of The Pension SuperFund. She is also a Trustee of the Civil Service Sports Council superannuation scheme. In January 2019 The Pensions Regulator released Caroline's review of the support provided to British Steel Pension Scheme members in 2017/18.

Caroline retired as Chief Executive Officer of the Money Advice Service in June 2017 and previously held director-level roles with the DWP and HM Revenue & Customs. In 2014 she was awarded an Alumni award by Lancaster University. Caroline was appointed interim Chair of The Pensions Ombudsman in September 2019.



Martin Turner

Board Member
from 1 June 2018

Chair, Risk Committee
from 21 February 2019

Martin has 37 years' experience in financial services within Barclays and Lloyds, ranging from front-line customer service and relationship management through to strategy and transformation, IT and operational service delivery and the second-line risk function, with group-level accountabilities for operational risk, regulatory compliance, internal and external risk reporting and disclosures, the risk management framework and significant structural reform programmes.

Martin is currently a non-executive Board Member with AQA Education. He is Chair of its combined audit, risk and compliance committee and a member of its nominations committee and remuneration committee.



Jill Youds

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

Senior Independent Director
from 25 July 2017

Chair, Determinations Committee
from 24 March 2016

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

Jill holds the Pensions Management Institute Award in Pension Trusteeship.

Register of interests

Board members have registered any interests they hold that may create an actual or potential conflict with their responsibilities to Nest Corporation or the Nest scheme. The register of interests is published on Nest's website.[14]

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

2.1.2 Statement of Chief Executive Officer's responsibilities

Under schedule 1, part 3, paragraph 20 to the Pensions Act 2008, the Secretary of State for Work and Pensions has directed Nest Corporation to prepare for each financial year a statement of accounts in the form and on the basis set out in the Accounts direction (see Appendix 1, page 126). The Accounts direction requires that the accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of Nest Corporation and of its income and expenditure, changes in taxpayers' equity and cash flows for the financial year. In preparing the financial statements, the Chief Executive Officer is required to comply with the requirements of the Government Financial Reporting Manual (FReM)[15] and in particular to:

- Observe the Accounts direction issued by the Secretary of State, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis.
- Make judgements and estimates on a reasonable basis.
- State whether applicable accounting standards as set out in the FReM have been followed, and disclose and explain any material departures in the financial statements.
- Prepare the financial statements on a going concern basis.

The Chief Executive Officer confirms that Nest Corporation's Annual report and accounts as a whole is fair, balanced and understandable. She takes personal responsibility for the Annual report and accounts and the judgements required for determining that it is fair, balanced and understandable:

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

The Principal Accounting Officer for the Department for Work and Pensions (DWP) has designated the Chief Executive Officer as having responsibility for the propriety and regularity of the public finances for which the Chief Executive Officer is answerable for keeping proper records and for safeguarding Nest Corporation's assets, as set out in Managing public money[16] published by HM Treasury.

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

15 assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/853604/FRAB_138__02__2019-20_Government_Financial_Reporting_Manual__Dec_2019__CLEAN_VERSION.pdf

16 assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/835558/Managing_Public_Money__MPM__with_annexes_2019.pdf

2.1.3 Governance statement

Governance framework

Nest Corporation subscribes to high standards of corporate governance in order to serve the best interests of scheme members and fulfil its obligations as a public corporation. It has considered the Cabinet Office's Corporate governance in central government departments: code of good practice[17] within its own governance framework. In respect of those principles of the code which are applicable to Nest Corporation, there have been no departures.

Accountability

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

Trustee effectiveness

Effectiveness reviews for the Board and its committees take place on an annual basis. In line with best practice, Nest Corporation engages an external facilitator once every three years. The next external review will take place in 2020/21.

During 2019/20 an internal effectiveness review continued to provide assurance that the Nest governance framework operated effectively.

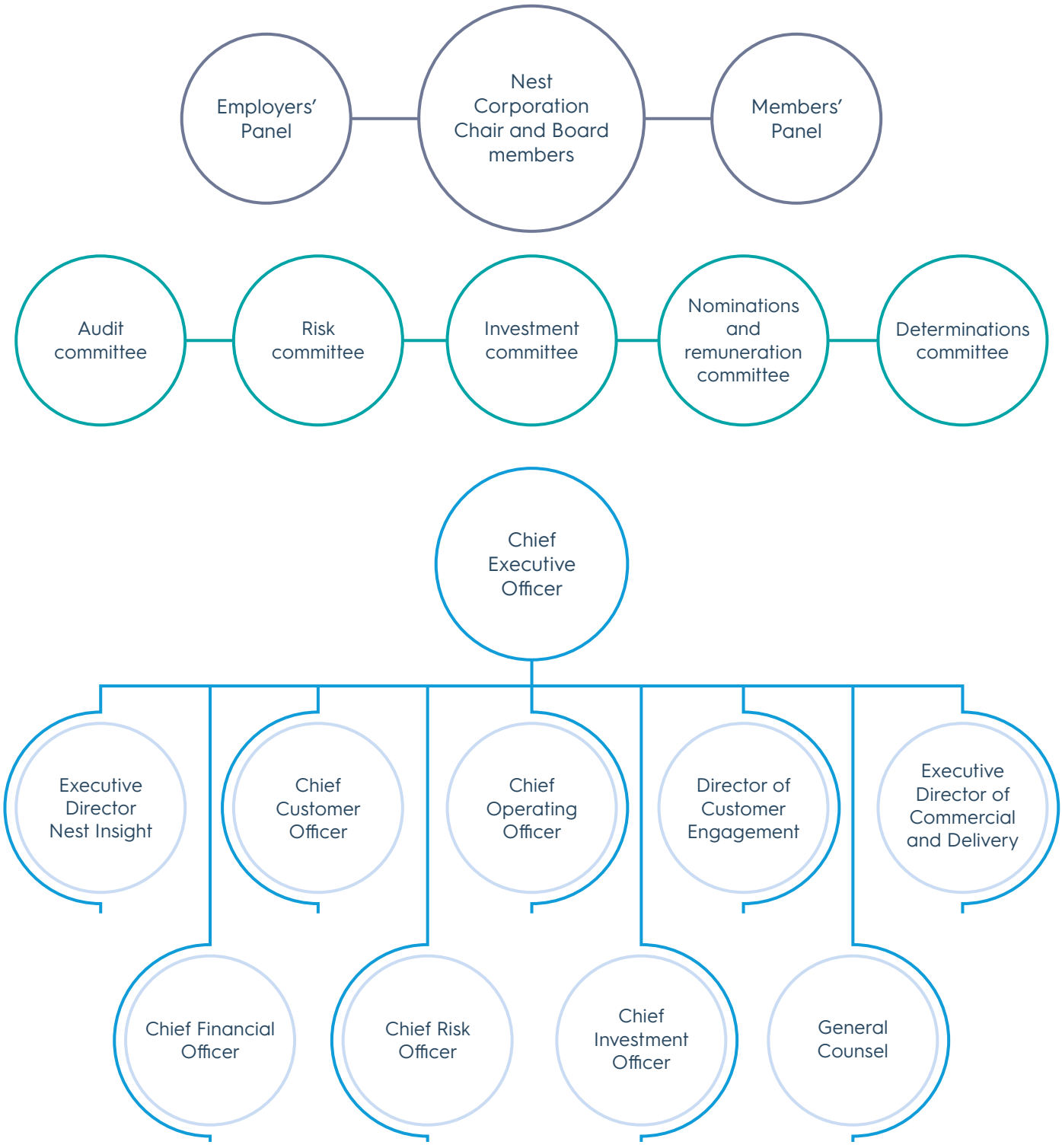
Risk management

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



17 assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/609903/PU2077_code_of_practice_2017.pdf

Organisational chart



Executive team

Biographies of the executive team are available on Nest's website at **nestpensions.org.uk/schemeweb/NestWeb/public/aboutnestcorporation/contents/executive-team.html**

Nest Corporation Board members and committees

As at 31 March 2020 the Board had 11 members, consisting of a Chair and 10 other Board members, two of whom have day-to-day executive responsibilities. Collectively the Board is responsible for setting the strategic direction and objectives for Nest Corporation.

The Board members are appointed by the Secretary of State for Work and Pensions in line with public appointments guidance that promotes selection on the basis of merit, fairness and openness. A broad range of skills, experience and knowledge are required collectively on the Board. Appointments are made in line with the Commissioner for Public Appointments' Governance code.

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

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

Nest Corporation carries out an annual skills and experience analysis of its Board members. This is used to inform and support their future requirements for knowledge and understanding. These are met through relevant briefing sessions and a commitment to ongoing education and training for each individual.

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

To support effective and robust decision-making, the Board has established five committees (see pages 69 to to 70). The Board and its committees take decisions that affect the Nest scheme and ensure that Nest Corporation fulfils its obligations as a public corporation. The terms of reference for the Board and its committees are published on Nest's website.[18]

In addition, the Nest Order 2010, article 8 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 Nest scheme. For further information on the panels, see pages 70 to 71.

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

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

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

Audit committee

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

During 2019/20 the audit committee met six times, including one 'virtual' online meeting during lockdown, and:

- Reviewed the Annual report and accounts for both Nest Corporation and the scheme and recommended their approval to the Board.
- Reviewed the plans of the external auditors for their audit of the annual accounts of both Nest Corporation and the scheme, and oversaw the delivery and effectiveness of the external audit.
- Approved the annual internal audit plan and provided oversight of its delivery and implementation of its recommendations.
- Approved the annual compliance plan and received regular updates on delivery and findings.
- Provided oversight of Nest Corporation's application for master trust authorisation to TPR, which was approved.
- Provided oversight of the quality and assurance of the three-year business planning process from 2020 to 2023.
- Reviewed the system of internal controls within Nest Corporation and the scheme via the Audit and Assurance Faculty (AAF) 02/07 controls report and recommended its approval to the Board.

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 Nest scheme.

During 2019/20 the risk committee met five times, including one virtual meeting during lockdown, and:

- Provided oversight of the risks to Nest Corporation resulting from the creation of its investment subsidiary, Nest Invest. This included oversight of the Financial Conduct Authority (FCA) authorisation process to establish Nest Invest as an occupational pension scheme firm and gain the necessary permissions for additional regulated investment functions, including the ability to provide investment advice.
- Reviewed Nest Corporation's risk management and policy frameworks and recommended them for approval to the Board.
- Provided oversight of the risk appetite levels for each principal risk and recommended their approval to the Board.
- Reviewed and challenged key areas of risk in respect of Nest Corporation activities, including the change programme underpinning the retendering of outsourced scheme administration services.
- Carried out a cybersecurity benchmarking exercise to assess the maturity of both Nest Corporation and scheme capabilities.

Investment committee

The investment committee is responsible for overseeing the Nest scheme's investment strategy and any changes to the investment approach or the funds made available to members. The committee also monitors investment performance and operational investment risks. Following a review of investment governance arrangements, Nest Corporation has sought additional expertise to ensure the continued effectiveness of the committee. Two additional committee members, Jennie Austin and Jaap van Dam, were subsequently appointed. Their appointment ensures that the overall balance of skills on the Board remains consistent while enabling continued appropriate oversight and challenge to the investment strategy.

During 2019/20 the investment committee met six times, including one virtual meeting during lockdown, and:

- Reviewed the Statement of investment principles (SIP) and recommended updated versions for approval to the Board.
- Provided oversight and made recommendations to the Board on the development of the overall investment strategy, including changes to the funds available to Nest members.
- Maintained oversight of the investment performance and risk management of all Nest retirement funds, including the approval of changes in asset allocation as required.
- Gave ongoing consideration to the development of the Nest investment approach.

- Approved infrastructure as a new asset class Nest can invest in.
- Approved the Nest Guided Retirement Fund (NGRF) rebalancing rates and the Statutory money purchase illustration (SMPI) rates for all fund options.
- Provided oversight of the developing work on responsible investment and considered the annual responsible investment report.

Nominations and remuneration committee

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

During 2019/20 the nominations and remuneration committee met eight times and:

- Reviewed the results of the annual skills and experience analysis of Board members, approved recommendations relating to Board training requirements and induction processes and assessed any implications on recruitment of new Board members.
- Reviewed the responses of Board members' annual fitness and propriety questionnaires, and the questionnaires submitted with The Pensions Regulator's (TPR) master trust authorisation application.
- Considered recommendations arising from the annual internal Board and committee effectiveness review.
- Approved the appointment of five new members to the Employers' Panel and four new members to the Members' Panel.
- Received regular reports from the Director of People and Development on people and remuneration matters across Nest Corporation, including senior executive remuneration, the results of the annual staff survey and the progress of the diversity and inclusion strategy.
- Approved changes to Nest Corporation's reward and performance management processes and policies.

Determinations committee

The determinations committee is responsible for adjudicating the disputes received about the scheme at Stage 2 of the internal dispute resolution (IDR) procedure. This is the final stage of the complaints process for members of the scheme.

The committee makes recommendations to the executive on learning outcomes from any Stage 2 IDR disputes to help improve the effectiveness of the scheme and members' experience.

During 2019/20 the determinations committee considered 24 cases (2018/19: 29 cases):

- 1 was upheld (2018/19: 7 cases).
- 14 were partially upheld (2018/19: 16 cases).
- 9 were not upheld (2018/19: 6 cases).

The committee received information on no (0) cases which had been withdrawn by the complainant before consideration by the committee (2018/19: 6 cases) and 3 cases (2018/19: 5 cases) which were escalated to The Pensions Ombudsman after Stage 2.

Employers' Panel

The Employers' Panel was set up in accordance with the Pensions Act 2008 and Nest Order 2010. It represents participating employers by providing advice on the operation, development and amendment of the scheme. The Employers' Panel currently has 12 members. During 2019/20 it:

- Prepared and presented the Employers' Panel annual report to the Board.
- Completed a programme of work which focused on topics that were useful to Nest Corporation and relevant to the panel. A highlight of this year's work programme was the panel's input into Nest's employer segmentation research on how to grow the business in the right way and deliver a good service to Nest customers.
- Held a joint meeting between Board members, panel members and the executive team. The meeting explored how Nest should develop its brand strategy so that all its customers, including employers, understand and see the value of Nest's proposition.
- Were consulted on proposed changes to the Statement of investment principles (SIP), the formation of Nest Corporation's investment subsidiary, Nest Invest, and the pensions dashboard. Some panel recommendations were considered and implemented.

Members' Panel

The Members' Panel was set up in accordance with the Pensions Act 2008 and Nest Order 2010 to represent Nest scheme members and allow them to provide advice on the operation, development and amendment of the scheme. The Members' Panel currently has 12 members. During 2019/20 it:

- Prepared and published the Members' Panel annual report for submission to the Board and the Secretary of State for Work and Pensions.
- Completed a programme of work which focused on topics that were useful to Nest Corporation and relevant to the panel. A highlight of this year's work programme was the panel's advice on digital tools which are being developed to support Nest members in accessing, understanding and engaging with their retirement pot.
- Held a joint meeting between Board members, panel members and the executive team. The meeting explored how Nest should develop its brand strategy so that all its customers, including members, understand and see the value of Nest's proposition.
- Were consulted on proposed changes to the SIP, the formation of Nest Invest and the pensions dashboard. Some panel recommendations were considered and implemented.

Committee membership as at 31 March 2020

Audit committee	
Clive Elphick	Chair
Martin Turner	Member
Ian Armfield	Member
Risk committee	
Martin Turner	Chair
Clive Elphick	Member
Ron Jarman	Member
Investment committee	
Chris Hitchen	Chair (from 28 May 2019)
Ian Armfield	Member
Clive Elphick	Member (from 16 May 2019)
Jaap Van Dam	Member (from 1 January 2020)
Jennie Austin	Member (from 25 November 2019)
Nominations and remuneration committee	
Ron Jarman	Chair (from 28 May 2019)
Ian Armfield	Member
Jill Youds	Member
Otto Thoresen	Member
Determinations committee	
Jill Youds	Chair
Karen Cham	Member (from 24 October 2019)
Otto Thoresen	Member

Details of meetings attended by Board members

	The Board	Audit committee	Risk committee	Investment committee	Nominations and remuneration committee	Determinations committee
No. of meetings	**8**	**6**	**5**	**6**	**8**	**11**
Otto Thoresen	8	-	-	-	7	8
Iraj Amiri	1 of 2	1 of 3	1 of 1	-	-	-
Ian Armfield	8	6	-	6	8	-
Graham Berville	2 of 2	3 of 3	1 of 1	0 of 1	-	-
Sally Bridgeland	1 of 2	-	1 of 1	1 of 1	-	-
Tomas Carruthers	4 of 5	-	-	-	-	4 of 7
Ron Jarman	8	-	5	-	8	-
Caroline Rookes	2 of 2	-	-	-	2 of 2	3 of 3
Jill Youds	8	-	-	-	6	11
Clive Elphick	7	6	2	5 of 5	-	-
Chris Hitchen	7	-	-	6	-	-
Mutaz Qubbaj	8	-	-	-	-	-
Martin Turner	8	6	5	-	-	-
Helen Dean	8	-	-	-	-	-
Richard Lockwood	8	-	-	-	-	-
Karen Cham	5 of 6	-	-	-	-	4 of 5
Jaap Van Dam	-	-	-	2 of 2	-	-
Jennie Austin	-	-	-	3 of 3	-	-

Explanatory notes:

Board

The terms of office for Iraj Amiri, Graham Berville, Sally Bridgeland and Caroline Rookes came to an end on 30 June 2019.

Karen Cham joined the Board from 1 July 2019.

Tomas Carruthers resigned from the Board with effect from 28 November 2019.

Investment committee

Clive Elphick joined the investment committee on 16 May 2019.

Jennie Austin joined the investment committee as a member with effect from 25 November 2019.

Jaap Van Dam joined the investment committee as a member with effect from 1 January 2020.

Determinations committee

Karen Cham joined the determinations committee on 24 October 2019.

Meetings during lockdown

During March 2020, the Board and the audit, investment and risk committees each held one of their meetings using 'virtual' online meeting video conferencing tools.

For details on Nest Corporation's response to the Covid-19 crisis, see the Covid-19 statement on page 6.

Board meetings

The Board met eight times during 2019/20, including one virtual meeting during lockdown, with an additional meeting focused solely on business planning and strategy. The Board is responsible for agreeing the strategy for the organisation, as well as holding the Chief Executive Officer to account for the implementation of the strategy, providing support and challenge as appropriate.

The audit, risk, investment, nominations and remuneration and determinations committees also met on a regular basis and the Chair of each committee reported back on their work to a subsequent Board meeting. Details of the meetings and attendance can be found on page 72 and committee membership is set out on page 71.

The priority of the Board 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 its public service obligation to enable any employer to choose Nest to meet their auto enrolment duties as well as to accept self-employed people into the scheme. The quality of the data used by the Board is reviewed annually as part of the Board effectiveness review. This helps to ensure that the data continues to be appropriate and supports the Board in robust decision-making.

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

As part of the normal business cycle, in 2019/20 the Board of Nest Corporation:

- Approved the long-term financial projections, three-year business plan, annual budget and all associated funding plans.
- Approved the Annual report and accounts for both Nest Corporation and the Nest scheme.
- Approved the Audit and Assurance Faculty (AAF) 02/07 master trust controls assurance report for the scheme.
- Approved the revised Statement of investment principles (SIP).
- Approved the risk appetite statement on recommendation of the risk committee.
- Approved changes to committee membership, including changes to the Chairs of both the investment committee and the nominations and remuneration committee.
- Approved the Nest Corporate plan for 2019-22.
- Reviewed and approved Nest Corporation's Modern Slavery Act (MSA) statement, on recommendation from the audit committee.

In addition, during this year it:

- Approved the incorporation of a subsidiary company, Nest Invest, and the related application to the Financial Conduct Authority (FCA) for authorisation of Nest Invest as an occupational pension scheme firm.
- Approved the investment management agreement between Nest Corporation and Nest Invest.
- Reviewed and approved the addition of the Nest Guided Retirement Fund (NGRF) to Nest's range of retirement choices for members.
- Provided oversight of the procurement process for Nest's future scheme administration service.
- Received annual reports from the Members' Panel and the Employers' Panel.
- Approved the annual assessment of value for members and the conclusions.
- Provided oversight of the introduction of discretionary death benefits to members.

Significant control issues

There are no significant internal control issues for inclusion in the Annual report and accounts for the accounting period 1 April 2019 to 31 March 2020.

This is evidenced by reports provided to the audit committee and the Board by Nest Corporation's internal audit and compliance assurance functions, in line with annual internal audit and assurance plans approved by the audit committee.

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



Corporate risk statement overview

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

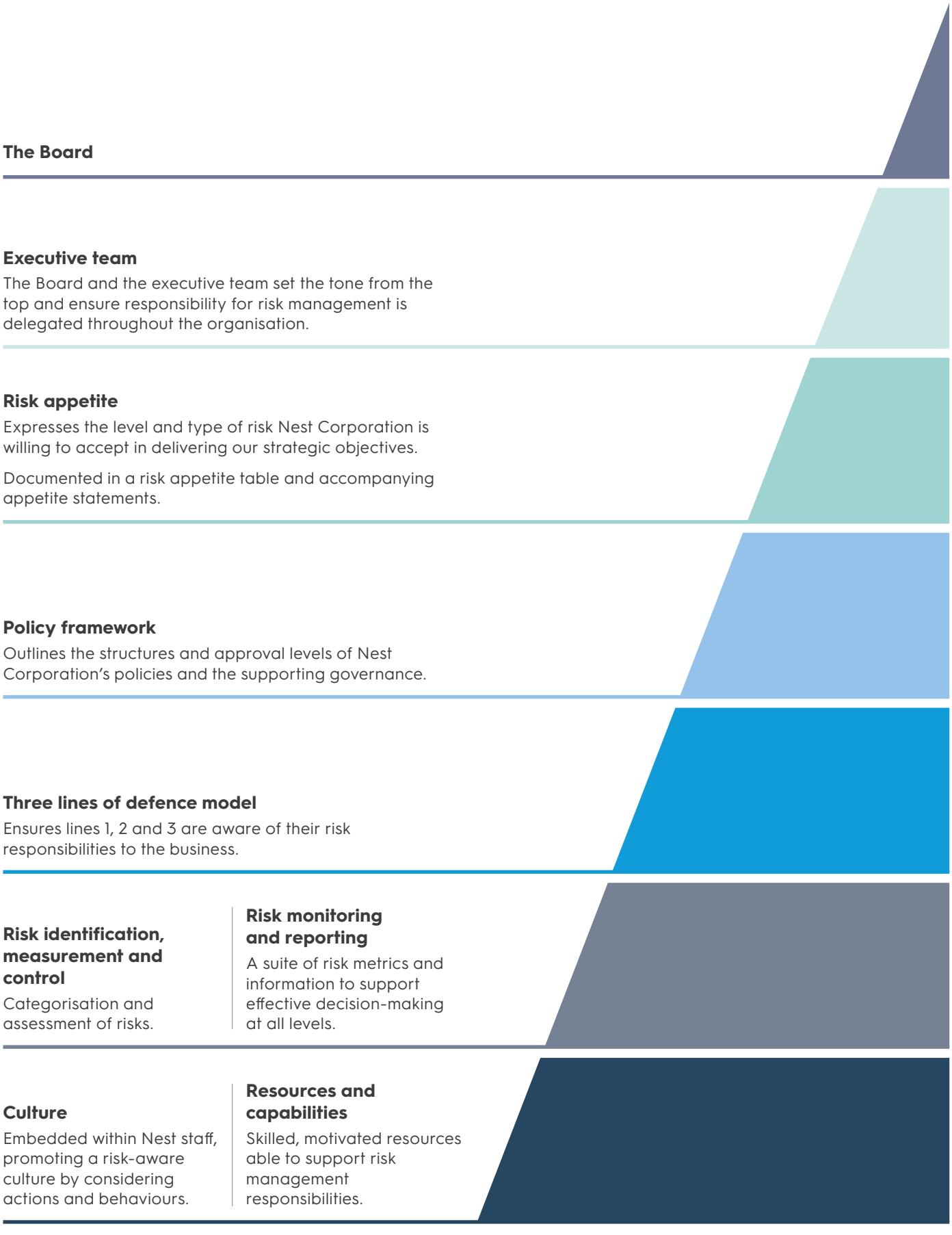
Nest Corporation must take risks to deliver its strategic priorities. Understanding the risks it faces, and how best to control or mitigate them, is integral to this. It does not do this alone. It also engages key stakeholders to understand and manage risk.

Nest Corporation's risk management framework

Nest Corporation's risk management framework is reviewed on an annual basis to ensure it remains fit for purpose and takes developments in industry practice into account. The framework ensures a robust and consistent approach to risk management is applied across all business areas and all risk types, to drive improvements in Nest Corporation's risk profile in line with risk appetite. It articulates individual and collective accountabilities for risk management, risk oversight and risk assurance and supports the discharge of responsibilities to members, trustees and regulators.

The framework is made up of nine components in a structured hierarchy, and encapsulates at a high level the risk management practices operating across Nest Corporation, outsourced providers, suppliers and Nest Invest.

Risk management framework



Nest Corporation's principal risks

Each business area across Nest Corporation maintains a log of its key risks which is reviewed regularly. Risk dashboards are used to report critical, principal and other significant risks, including emerging risks and risks that have emerged but are evolving, to the executive team and risk committee. Additionally, the Board receives regular information on emerging and principal risks. There is a business continuity plan and major incidents management process that detail the arrangements should a business continuity event or incident occur.

A risk is an uncertain event which, if it were to occur, could impact the delivery of Nest Corporation's objectives. This impact could be positive or negative.

Nest Corporation's risk profile is broken down into primary categories.

Nest Corporation has identified principal risks in relation to the delivery of its strategic priorities. Its definition of a principal risk is: 'A risk that is considered material to the development, performance, position or future prospects of Nest.'

Principal risks are monitored on a continuous basis and reviewed every year to ensure they remain appropriate and factor in any emerging risks. In addition, every three years the risks review takes the form of a comprehensive zero-based review. This zero-based review was last carried out during 2018/19. There were no new principal risks identified in the 2019/20 annual review. The current set of principal risks are explored in further detail below.

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

> **Nest recognises the importance of ensuring that it responds appropriately to risks but still allows flexibility within its approach to support the pursuit of its strategic objectives.**

Risk appetite

Nest Corporation recognises the importance of ensuring that it responds appropriately to risks but still allows flexibility within its approach to support the pursuit of its strategic objectives. Taking too much or too little risk could result in failure to deliver its strategic objectives. In doing so, Nest Corporation acknowledges that some risks may crystallise. It operates a pragmatic approach to risk with robust management controls. It prioritises its actions in terms of risk, impact to members and perceived benefits in a consistent and transparent way, choosing the most appropriate course of action to drive and inform good decision-making.

Nest Corporation's risk appetite statement details the risk parameters within which it operates. The statements form part of its risk management framework and are used to inform decision-making. The Board is responsible for setting this risk appetite annually, expressed in a series of risk appetite statements linked to key risk measures and, where possible, key risk indicators. An 'averse' disposition reflects a very low appetite for a specific category of risk and a need to develop a significant suite of controls, even if they are costly, to reduce the likelihood or impact of the risk, with due consideration for value for members. At the other extreme, an 'active' disposition reflects broad acceptance of risk within a category because of the associated potential for significant reward. Nest Corporation's risk appetite statement was approved by the Board in November 2019.

Nest Corporation's risk appetite has not changed in response to the pandemic or its effects.



Averse

Only activities that would be considered to carry virtually no inherent risk are considered permissible. A significant suite of controls, even if they are costly, are required to reduce the likelihood and/or impact of risk, with due consideration for value for members.

Minimal

Only activities that would be considered safe and have a low degree of inherent risk are permissible. The associated potential for reward or opportunity should not be a key driver in selecting activities.

Cautious

Only activities that have scope to achieve significant reward or realise a significant opportunity would be considered permissible. Activities may carry a high degree of risk that is believed to be well managed and mitigated.

Open

There is the opportunity to undertake activities that may carry or contribute to a reasonable degree of residual risk. Appropriate controls must always be considered.

Active

There is the opportunity to undertake activities that focus on maximising additional benefits and goals or on offering potentially high rewards, even if in some circumstances activities carry a high residual risk. Appropriate controls must always be considered.

Risk category	Risk appetite	Risk appetite statement
Environment – legal and regulatory		Nest Corporation seeks to comply with all relevant regulation and all applicable laws. Where legislation or regulatory obligations are not prescriptive and require interpretation, it applies a proportionate approach with the interests of its members as paramount.
Environment – political		Because the political environment is by definition uncertain, Nest Corporation must consider and respond to changing political contexts to maintain delivery of its strategic objectives.
Environment – economic and market		Nest Corporation is conscious of the broader economic environment in which it operates. Whilst it cannot control macroeconomic and market conditions, it develops business plans that deliver its strategic objectives under a range of potential scenarios.
Transformational change		Nest Corporation takes well managed risks where innovation and change create opportunities for discernible benefits and clear improvement in its ability to achieve its strategic objectives and deliver services to its members.
Operational service		Nest Corporation seeks to deliver resilient and reliable services that are easy to access by its members, employers and intermediaries through a range of channels. Business decisions are taken in the context of minimising actions that would impact service delivery. This leads to a healthy tension between transformation and operational delivery.
Conduct		Nest Corporation's product design processes and customer experience ensure that products are transparent, appropriate and meet members' needs. Its consideration for its members is paramount in its actions and development of any product. It acts with integrity, due skill, care and diligence to ensure its commitment to members is met.

Risk category	Risk appetite	Risk appetite statement
Cyber and information security		Nest Corporation is heavily reliant upon information and data to be able to operate an effective service for members. The disclosure of sensitive or personal information, through error or criminal action perpetrated against it or the scheme, has the potential to erode trust, damage its or the scheme's reputation and/or lead to regulatory sanction, and ultimately may prevent it from being able to operate.
Financial crime		Nest Corporation maintains robust controls to prevent, detect and act as a deterrent to this type of criminal behaviour. It balances these risks with operational service delivery and accessibility for members, employers and intermediaries.
Investment – financial		Nest Corporation recognises that members are exposed to financial risks. It gives judgement and quantitative consideration to these risks when deciding strategic asset allocation and choice of fund managers.
Investment – operational		Nest Corporation seeks to provide reliable and resilient investment and operational infrastructure. Business decisions are taken in the context of minimising the impact on operational reliability and resilience.
Financial – corporation performance		Nest Corporation maintains a prudent financial profile and strong cost management. It has governance arrangements that support transparent and controlled risk decisions across the organisation to deliver value to the scheme's members and deliver on the financial commitments to government.
People		Nest Corporation's people agenda embeds its values and maintains a prudent risk and compliance culture. It leads responsibly and proficiently, and manages its people effectively and with respect. It meets all legal and regulatory obligations related to its leadership and staff. Within this context, it seeks to be an outstanding employer that attracts and retains top talent, as well as enabling its employees to grow and develop professionally.

Nest Corporation seeks to be an outstanding employer that attracts and retains top talent, as well as enabling its employees to grow and develop professionally.

The following sections detail each of Nest Corporation's principal risks, and the key controls and mitigating actions that are in place to manage them. In addition, key risk indicators are linked to each principal risk, and linked assurance is monitored and reported within the principal risk dashboard.

Service failure risk

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

Key controls and mitigating actions

- Nest Corporation works closely with its key suppliers to support them in providing a stable, resilient service to Nest's customers. It undertakes a monthly capacity review with its scheme administrator to ensure that there is sufficient IT and headcount capacity to cope with predicted future transaction volumes. There are contractual service levels in place to underpin the timely and effective delivery of this work.
- Processes and systems are designed to be as straightforward as possible, and Nest Corporation consistently looks for ways to make its systems easier to use.
- Key outsourced providers are required to provide Nest Corporation with independent assurance reports on their controls, for example an Audit and Assurance Faculty (AAF) 01/06. Nest Corporation reviews these reports and follows up on weaknesses or control failures if any are identified.
- Business continuity and disaster recovery (BCDR) plans are in place and reviewed regularly to ensure operational resilience.

Customer data and assets risk

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

Key controls and mitigating actions

- The information security management systems operated by Nest Corporation, its scheme administrator and its IT managed services provider are all independently certified to the International Organization for Standardization (ISO) 27001:2017 standard. This gives assurance that systems and processes are robust and help protect customers' data.
- The scheme administrator has strict operational procedures in place to safeguard customers' data as well as assets to support cyber resilience.
- On an annual basis, an independent reporting accountant reviews the design of, and compliance with, key controls of the scheme administrator and provides Nest Corporation with an AAF 01/06 report. Nest Corporation follows up on any exceptions identified within this report. The scheme administrator also regularly conducts penetration testing and responds appropriately to any findings.

Legal and regulatory compliance risk

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

Nest Corporation and the Nest scheme are required to comply with pension-specific legislation including the Pensions Act 2008, The Pensions Regulator's (TPR) codes of practice[19] and TPR's new supervisory regime for authorised master trusts.[20] Nest Corporation has a compliance assurance function which undertakes an annual plan of activity to monitor compliance with pensions legislation. This function also undertakes assurance activities to ensure compliance with the Data Protection Act 2018 and financial crime legislation.

Key controls and mitigating actions

- To ensure Nest Corporation remains compliant, it must react in a timely fashion to regulatory change. It continually scans the legislative, regulatory and policy landscape to identify change as early as possible and plan ahead as far as possible, which allows it to manage and incorporate changes into its systems and processes. Its ability to manage and respond effectively to legislative and regulatory change aims to prevent such changes from adversely impacting its members and minimise any associated costs.

19 thepensionsregulator.gov.uk/en/document-library/codes-of-practice
20 thepensionsregulator.gov.uk/en/master-trust-pension-schemes/supervision-of-master-trusts/supervisory-return

- The significant change in the regulatory environment for Nest Corporation over 2019/20 has been the approval by TPR of Nest as an authorised master trust. In this process Nest Corporation provided adequate evidence to demonstrate that its governance and operational systems and processes, together with its financial and continuity planning, met or exceeded the standards defined by TPR. This risk continues to evolve to reflect TPR's requirements for authorised master trusts through the new supervisory regime.
- A further change in this risk over the last year has been authorisation from the Financial Conduct Authority (FCA) for Nest Invest, which will enable the evolution of the investment strategy within the appropriate regulatory framework.

"Processes and systems are designed to be as straightforward as possible, and Nest Corporation consistently looks for ways to make its systems easier to use."

Financial performance risk

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

Key controls and mitigating actions

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

Investment performance risk

This is the risk that the Nest pension scheme's investments fail to perform to targets and that stakeholders, especially members, lose confidence in the investment approach. Nest Corporation's approach to investment is underpinned by its Statement of investment principles (SIP)[21] and investment beliefs, which provide the Board with a transparent framework for consistent and good-quality decision-making.

Key controls and mitigating actions

- Nest Corporation's SIP is reviewed at least every three years by the Board, and more frequently when required. The last review was in March 2020.
- Nest's funds are diversified across different asset classes and fund managers. Nest Corporation continually monitors its investment performance and financial risk, for example liquidity risk and market risk, and where appropriate makes changes to its investment portfolio.
- Oversight of investment risk is primarily the responsibility of the investment committee.
- The creation of Nest Invest has been authorised by the FCA so as to enable the evolution of Nest's investment strategy within the appropriate regulatory framework.

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

Corporation, culture, capability and capacity risk

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

Key controls and mitigating actions

- Nest Corporation's staff handbook sets out the values, behaviours and standards it expects from employees along with the core policies and procedures that its staff should follow. It is aligned to the organisation's internal values of transparency, ease, empowerment and respect.
- All staff are required to attend mandatory training about diversity and inclusion and complete e-learning modules relating to financial crime, information security, the General Data Protection Regulation (GDPR) and competition law. Nest provides training to further develop leadership and management capability as well as encouraging and supporting training on technical topics.
- Nest Corporation holds an annual staff conference, along with quarterly town hall briefings, to ensure core messages are communicated and understood. It publishes regular communications for staff on its intranet.
- Nest Corporation values the opinions of its staff and seeks to understand and identify how to respond to staff needs through annual staff surveys.
- It has developed a diversity and inclusion strategy which will further support it in attracting and retaining capable, skilled staff. It has contracted with a diversity and inclusion business partner to deliver training and other resources. This work is overseen by the nominations and remuneration committee.
- Nest Corporation has launched a new people and development strategy to ensure that it can attract and retain the skills it needs for the future. See page 38 for further details.

Failure to deliver compliant and effective member and employer proposition risk

This is the risk that Nest Corporation does not keep its proposition and service aligned to regulatory requirements, or to the changing needs or expectations of the scheme's customers.

Key controls and mitigating actions

- Nest Corporation continues to work with policymakers, regulators and the wider pensions industry to engage and contribute to the development of regulatory changes. It performs regular horizon-scanning activities to monitor the impact of new legislation and regulations.
- Nest Corporation continues to assess and monitor the needs of its members and employers through a detailed programme of research and customer insight tracking. It has implemented two new work streams, one for members and one for employers, to identify, understand and prioritise necessary operational and product improvements to key customer processes.
- Nest Corporation continues to invest in improvements to member engagement, including the development of new communication tools and strategies and updates to the Nest scheme website. These allow members to better engage with Nest across a range of devices and to more effectively manage their pension and plan for their retirement.
- Nest Corporation has developed a product roadmap setting out the changes it is likely to make over the next three years to ensure that change is managed in line with its strategic priorities. The roadmap incorporates potential legal and regulatory change. Nest Corporation works alongside its scheme administrator to plan, design and build these changes into its software systems and processes.
- Nest Corporation is reviewing the way that change is delivered as it nears the end of its current scheme administration contract and work progresses to procure a new contract. It has sought to limit procurement risk by exploring new approaches to change and put in place a framework and an approach to limit transition and migration risk.

Ensuring competitiveness risk

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

Key controls and mitigating actions

- Nest Corporation performs regular horizon-scanning activities to monitor market trends and potential upcoming competitive challenges. It also engages with the wider pensions market and participates in government consultations, industry groups and working groups to maintain a positive relationship with government, regulators and industry peers.
- Nest Corporation plans to further improve its employer experience through changes to its products and processes. Incremental improvements to web services and functionality have been made, and refreshed branding and tailored communications have been developed which better demonstrate Nest's personality and values in order to engage customers.
- To enable effective engagement with employers and intermediaries such as advisers and payroll providers, Nest Corporation develops thought leadership content and publishes a wide range of media through trade publications and digital channels. Its account management team attends key trade events and facilitates two events each year for large employers.
- Product innovations such as Nest Connect and payroll integration through web services have allowed Nest Corporation to create a simple and hassle-free service that matches Nest's processes to the way people work. Nest Corporation continues to evaluate this service and engages regularly with Nest Connectors, employers and payroll providers to maintain these relationships and ensure it has an effective and competitive proposition.

Future scheme administration service risk

One of Nest Corporation's key outsourced contracts, the scheme administration contract, is due to expire in 2023. Nest is running a programme to procure future scheme administration requirements. This will ensure that Nest Corporation continues to meet its scheme and statutory duties and remains effective and efficient.

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

Key controls and mitigating actions

- A programme-specific governance structure ensures that decisions are made appropriately.
- This programme has identified critical success factors, their related risks and mitigation and controls activities for the procurement. There are structures in place to ensure success factors are achieved, mitigation and control activities occur and the future scheme administration procurement is assured.
- The programme regularly reassesses the impacts, if any, it has on the overall risk exposure for Nest Corporation through an impact assessment across all principal risks.

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

This is the risk of conflict between Nest Corporation, a public corporation, and its sponsoring department, the Department for Work and Pensions (DWP), or the government, which provides funding through a loan facility.

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

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

Key controls and mitigating actions

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

Whistleblowing

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

In line with best practice, it also has 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 the whistleblowing procedures annually. It is satisfied with the approach taken and the effectiveness of the arrangements.

Any whistleblowing concerns are reported and discussed with the audit committee. No such concerns were raised during 2019/20.

Modern Slavery Act

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

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

Nest Corporation has a staff handbook which sets out all the key policies and organisational standards that employees are expected to follow and uphold. Its corporate responsibility statement reflects Nest Corporation's commitment to acting ethically and with integrity in all its business relationships. Further information can be found on Nest's website.[22]

Nest Corporation has carried out a risk-based assessment across the organisation to identify the impact of the MSA on its activities and supply chain, as well as potential exposure to modern slavery and human trafficking activity. Its due diligence exercises include contacting Nest's main suppliers to monitor their compliance with section 54 of the MSA by requesting, where applicable, a copy of their published MSA statement. The supplier is asked to notify Nest Corporation of any actual or suspected breaches of modern slavery that have occurred within their organisation in the last 12 months.

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

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

Internal audit

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

EY agrees its annual internal audit plan with Nest Corporation's audit committee and reports on progress against the plan on a quarterly basis. The internal audit plan covers Nest Corporation as both a public corporation and the Trustee of an occupational pension scheme. EY has provided the Head of Internal Audit opinion for the period 2019/20.

Head of Internal Audit opinion

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

Compliance and assurance

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

The compliance assurance team follows an annual compliance plan that is agreed with the audit committee, and which covers provision of assurance against the internal controls framework, regulation and legislation. The plan is risk-based and focuses on monitoring Nest Corporation's key areas of risk. The service delivery, scheme assurance and fund administration teams ensure that Nest Corporation receives adequate assurance from external providers where tasks are outsourced.

Nest Corporation has published its annual controls assurance report against the Audit and Assurance Faculty (AAF) 02/07 master trust controls assurance report for the period 1 April 2019 to 31 March 2020. This framework, established by The Pensions Regulator (TPR) and the Institute of Chartered Accountants in England and Wales (ICAEW), sets out a series of control objectives relating to governance and administration of master trust schemes. Trustees of master trust schemes – in the case of Nest, the Board of Nest Corporation – should be able to demonstrate that their schemes meet these objectives.

In addition, members of Nest Corporation's executive team provide an annual personal assurance statement to the Chief Executive Officer relating to risk, governance and internal controls within their area of responsibility. These statements are designed to highlight any significant internal control issues. In 2019/20 there were no significant control issues (2018/19: none).

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

TPR will continue to supervise authorised master trusts. Nest Corporation believes that its internal controls and processes will continue to demonstrate the required standard.

Information security and data protection

Nest Corporation is committed to supporting a secure electronic environment to conduct its business. It has a comprehensive Information Security Management System (ISMS) that is certified by the International Organization for Standardization (ISO) 27001:2017. Its outsourced administration provider, Tata Consultancy Services (TCS), and IT infrastructure provider, Advanced 365, each hold their own ISO 27001:2017 certification for the services they provide to Nest Corporation.

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

Nest Corporation continues to implement the policy, with a focus on application of the data retention requirements. In addition, everyone within Nest Corporation has received training on how to remain compliant with the regulations.

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

Personal data-related incidents

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

Date	April 2019
Nature of incident	Manual print run contained formatting error causing interleaving pages of two customers' letters in the same envelope
Number of individuals affected	156
Impact on individuals affected	Low
Affected individuals notified	Yes
Resolution steps implemented	Yes
ICO status	Closed

Complaints to the Parliamentary Ombudsman

There have been no complaints to the Parliamentary Ombudsman in 2019/20 (2018/19: none).

Business continuity

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

Nest Corporation's business continuity and disaster recovery (BCDR) plans were set into action in response to the coronavirus pandemic and subsequent government and market reactions. A summary of Nest Corporation's response to the Covid-19 crisis is provided in the Covid-19 statement on page 6.

Helen Dean
Chief Executive Officer
Nest Corporation

25 June 2020

"Nest Corporation maintains an effective business continuity capability. This allows management to respond to and recover from any major incidents that affect business operations."



2.2
Remuneration and staff report

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

Remuneration report

Remuneration policy

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

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

- A job architecture and remuneration policy
- Pension arrangements
- Other benefits

Its remuneration policy was implemented in July 2015 in line with civil service guidelines and a review of current market data supplied by external providers Korn Ferry and McLagan.

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

Nest Corporation's new people and development strategy has involved development of the reward and remuneration policy. It features changes to annual pay awards and bonuses, performance reviews and staff rewards and recognition. Due to the coronavirus pandemic, this new policy will now be rolled out in the 2021/22 financial year. The reward and remuneration policy will not apply to Board members.

The disclosures in this section relate to Board members. Those are the only individuals that make decisions spanning the entire organisation.

- Otto Thoresen was appointed Chair of Nest Corporation by the Secretary of State for Work and Pensions. His appointment began on 1 February 2015. Under his terms of appointment, he is required to commit to work 2.5 days a week for Nest.
- Most other non-executive Nest Corporation Board members are required to commit to working for Nest for 30 days a year. Board members are appointed by the Secretary of State for a period of initially between four and five years. In accordance with paragraph 7 of schedule 1 to the Pensions Act 2008, the remuneration of Board members is determined by the Secretary of State. The terms of appointment allow for extra days to be remunerated on a pro-rata basis.
- The nominations and remuneration committee is responsible for advising on the appropriateness of remuneration strategies and sets the remuneration of the Chief Executive Officer. A report on the activities of the committee can be found in section 2.1.3 on page 70.

Performance-related pay

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

For 2019/20 Nest Corporation used 1.5 per cent of its overall salary bill to provide consolidated pay awards to its staff on a performance-related basis (2018/19: 1.5 per cent).

For 2019/20 Nest Corporation allocated 2.2 per cent of its overall salary bill to provide non-consolidated awards to its staff (2018/19: 2.2 per cent). Additional caps in line with the Department for Work and Pensions (DWP) approach to senior civil service pay bands or equivalents were applied.

Compensation (subject to audit)

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

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

"Nest Corporation holds the Pension Quality Mark (PQM) Plus standard. This demonstrates that Nest Corporation offers increased employer contributions for increased employee contributions."

Internal comparisons (subject to audit)

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

The ratio between the median remuneration of Nest Corporation's staff and that of the Chief Executive Officer, being the highest paid director, is 4.5 to 1 for 2019/20. In 2018/19 it was 4.2 to 1.

In 2019/20, 1 (2018/19: 1) employee received remuneration in excess of the highest-paid director. Remuneration ranged from £20,000 to £276,000 (2018/19: £20,000 to £272,000)

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

Gender pay gap

Details of Nest Corporation's 2019/20 hourly and bonus gender pay gap can be found in the table below. The hourly pay gap continues to fall as more senior women are recruited. However, the bonus gap has increased. Nest Corporation is confident that this will begin to fall as more of the senior recruited women become eligible for a bonus.

Pensions

Nest Corporation's staff are offered a defined contribution (DC) pension arrangement in the Nest pension scheme.

Nest Corporation holds the Pension Quality Mark (PQM) Plus standard. This demonstrates that Nest Corporation offers increased employer contributions for increased employee contributions.

Its default contribution levels are 5 per cent gross employee contribution on earnings, with Nest Corporation paying an 8 per cent employer contribution.

Employees can increase their contributions as follows:

- 6 per cent gross employee contribution is matched by a 9 per cent employer contribution from Nest Corporation.
- 7 to 10 per cent gross employee contribution is matched by a 10 per cent employer contribution.

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

Women's compensation

	Mean		Median	
	2019/20	2018/19	2019/20	2018/19
Hourly pay gap	18.8%	23.0%	14.3%	16.7%
Bonus gap	21.2%	14.6%	18.0%	0.0%

Remuneration tables

The information in the table below has been audited.

	Contract details		2019/20			
Name and position	**Contract start date**	**Unexpired term as at 31 March 2020**	**Full-year equivalent salary and allowances (£000)**	**Salary and allowances paid (£000)[1]**	**Performance related payments (£000)[2]**	**Pension benefits (to nearest £100)[5]**
Otto Thoresen Chair	1 February 2015	22 months	90-95	90-95	0	0
Iraj Amiri Board Member	20 June 2011	Contract expired 30 June 2019	15-20	0-5	0	0
Ian Armfield Board Member	1 April 2014	3 months of current term, extended from 1 July 2020 to 30 June 2021	15-20	15-20	0	0
Graham Berville Board Member	1 June 2014	Contract expired 30 June 2019	15-20	0-5	0	0
Sally Bridgeland Board Member	1 April 2015	Contract expired 30 June 2019	15-20	0-5	0	0
Tomas Carruthers Board Member	1 July 2016	Resigned 28 November 2019	15-20	10-15	0	0
Karen Cham Board Member	1 July 2019	Appointed from 1 July 2019 to 30 June 2024	15-20	20-25	0	0
Clive Elphick Board Member	1 June 2018	38 months	15-20	15-20	0	0
Chris Hitchen Board Member	1 June 2018	38 months	15-20	15-20	0	0
Ron Jarman Board Member	1 July 2016	15 months	15-20	15-20	0	0
Mutaz Qubbaj Board Member	1 June 2018	38 months	10-15	10-15	0	0
Caroline Rookes Board Member	1 April 2015	Contract expired 30 June 2019	15-20	0-5	0	0
Martin Turner Board Member	1 June 2018	38 months	15-20	25-30	0	0
Jill Youds Board Member	1 April 2015	51 months	15-20	15-20	0	0
Helen Dean[6] Chief Executive Officer	1 June 2018	38 months	245-250	245-250	15-20	6,400
Richard Lockwood[6] Chief Financial Officer	1 September 2018	41 months	230-235	240-245	5-10	6,200

	2019/20	2018/19
Midpoint of banding of highest paid director's total remuneration excluding pension benefits (£)	262,500	252,500
Median total remuneration (£)	58,000	59,517
Ratio[4]	4.5	4.2

Notes

1. Board members' terms of engagement allows them to claim for time in excess of their contractual obligation.
2. With the exception of the Chief Executive Officer and Chief Financial Officer, Board members do not receive any performance related payments.

		2018/19					
Taxable expenses (to nearest £100)[3]	Total (£000)	Full-year equivalent salary and allowances (£000)	Salary and allowances paid (£000)[1]	Performance related payments (£000)[2]	Pension benefits (to nearest £100)[5]	Taxable expenses (to nearest £100)[3]	Total (£000)
11,800	100-105	90-95	90-95	0	0	16,600	105-110
1,200	5-10	15-20	15-20	0	0	7,200	25-30
0	15-20	15-20	15-20	0	0	0	15-20
3,900	5-10	15-20	15-20	0	0	9,900	25-30
0	0-5	15-20	15-20	0	0	0	15-20
0	10-15	15-20	15-20	0	0	0	15-20
3,000	25-30						
10,600	25-30	15-20	15-20	0	0	3,300	15-20
400	15-20	15-20	15-20	0	0	400	15-20
500	15-20	15-20	15-20	0	0	0	15-20
0	10-15	10-15	10-15	0	0	0	10-15
0	0-5	15-20	15-20	0	0	0	15-20
700	25-30	15-20	15-20	0	0	600	15-20
6,300	25-30	15-20	15-20	0	0	6,600	20-25
0	265-270	235-240	235-240	15-20	6,500	0	260-265
0	255-260	225-230	225-230	5-10	6,200	0	235-240

3. Taxable expenses relate to travel and subsistence.

   Prior to 2019/20 the tax on taxable expenses were paid directly to HMRC through a PAYE settlement agreement. Tax is now paid through Board members' personal tax accounts by grossing up the net expense. This may result in higher taxable expenses when compared to 2018/19.

4. The ratio has increased to 4.5 in 2019/20 (2018/19: 4.2) primarily due to a rise in the highest paid director's remuneration and a fall in the median remuneration.

   In 2019/20, 1 (2018/19: 1) employee received remuneration in excess of the highest-paid director in the above remuneration table. Remuneration ranged from £20,000 to £276,000 (2018/19: £20,000 to £272,000).

5. Pension benefits comprise employer contributions into the Nest scheme.

6. Helen Dean and Richard Lockwood were both Board members as at 31 March 2020. The remuneration disclosed is in respect of their positions as Chief Executive Officer and Chief Financial Officer.

Staff report

Summary of staff costs for 2019/20

The information in this table has been audited.

	Year ended 31 March 2020 £000	Year ended 31 March 2019 £000
Directly employed staff		
Wages and salaries	19,698	17,658
Social security costs	2,332	2,145
Pension costs	1,476	1,292
Subtotal	**23,506**	**21,095**
Secondees	283	225
Interim staff	2,166	3,361
Total staff costs	**25,955**	**24,681**

Nest Corporation is staffed by a combination of direct employees, staff seconded from other bodies and interim staff employed through third-party organisations. In 2019/20 Nest Corporation had no staff consultancy expenditure.

The information in this table has been audited.

	Year ended 31 March 2020 average FTE	Year ended 31 March 2019 average FTE
Directly employed	305	273
Secondees	4	3
Interim Staff	9	19
Total average number of staff	**318**	**295**

Staff, composition and gender analysis

The following table shows the total number and gender breakdown of the Board, executive team and all other staff at Nest as at 31 March 2020.

Title	Male	Female	Total
Board Members (ex CEO and CFO)	6	2	8
Executive Board (inc CEO and CFO)	8	1	9
All other staff	143	153	296
Total	**157**	**156**	**313**

Other

Health, safety and wellbeing

Nest Corporation respects all of its employees and wants to ensure they are safe at work and treated fairly.

It has a health, safety and wellbeing policy that defines staff's responsibilities in this area. Its minimum requirement is to meet standards set out in appropriate health and safety legislation and to exceed them where possible.

Employment practices

A staff handbook and line managers' toolkit document Nest Corporation's approach to employment issues including recruitment practices, employee participation and consultation with staff. The staff handbook includes information about people management, such as pay policies, standards of staff behaviour and career management. Nest Corporation also has a recruitment and redundancy policy which is available to all staff for information. The people and development team reviews employee relations cases on a monthly basis.

Although Nest Corporation does not recognise any trade unions, it plans to set up and roll out a workforce advisory forum in 2020/21.

Flexible working

Nest Corporation recognises that flexible working can provide benefits to both members of staff and the organisation, and aims to support employees where possible to manage the balance between work and home life. Its flexible working policy provides for arrangements on an ad hoc, temporary or formal, ongoing basis. Nest Corporation's existing ability to accommodate work from home (WFH) and flexible hours has helped to support the move to WFH during the pandemic.

Diversity

Nest Corporation's diversity is strong. As at 31 March 2020 the proportion of women in senior leadership roles (grade A and above) was 46 per cent and the proportion of Black, Asian and Minority Ethnic (BAME) employees in senior leadership roles was 20 per cent. These figures do not include Board members.

Nest Corporation has recently launched a diversity and inclusion strategy that sets ambitious but achievable targets. These include a target of 13 per cent of executive roles to be held by BAME members of staff by 2025. It will continue to monitor BAME representation in leadership roles.

Nest Corporation is also committed to promoting diversity in other characteristics. By 2025 it wants at least 30 per cent of executive roles to be held by women and at least 12 per cent of executive and leadership roles to be held by people with disabilities. These targets are based on the UK's working-age population demographics.

Sickness absence

The average amount of time lost to sickness per employee in 2019/20 was 3 days, compared to 4.5 days in 2018/19. The reduction is a result of more proactive management of sickness within Nest Corporation and the effective implementation of the sickness absence management process.

Staff policies

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

Women in Finance

Nest Corporation is committed to HM Treasury's Women in Finance Charter[23], which aims to improve gender balance across financial services. It exceeded its target of 30 per cent of director-level roles to be held by women by September 2019, and 40 per cent of its director-level roles and above are now held by women.

Nest Corporation's Women in Finance Charter achievements were also recognised by female leadership network Global Women 4 Wellbeing in March 2020.

Further details on Nest Corporation's involvement in the Women in Finance Charter are available on Nest's website.[24]

Disability Confident

Nest Corporation became a Level 2 Disability Confident Employer in 2019/20. This recognises Nest's drive to be an inclusive employer.

Nest Corporation guarantees that applicants with a disability who meet the essential criteria for a role will be shortlisted for interview.

If an employee becomes disabled while working for Nest Corporation, the organisation will work with its occupational health provider to assess the employee's needs and make reasonable adjustments.

Nest Corporation has a generous learning and development budget for employees, including disabled colleagues. It encourages all staff to have routine discussions about their career development during regular one-to-one meetings with their line manager, and these are supported by a professional development plan. Reasonable adjustments are provided for any training or other development needs.

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

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

Off-payroll engagements

For all off-payroll engagements as at 31 March 2020, amounting to more than £245 per day and that last for longer than six months:

Number of existing engagements as at 31 March 2020	**7**
of which	
Number that have existed for less than one year at time of reporting	3
Number that have existed for between one and two years at time of reporting	2
Number that have existed for between two and three years at time of reporting	1
Number that have existed for between three and four years at time of reporting	-
Number that have existed for four or more years at time of reporting	1

For all new off-payroll engagements, or those that reached six months in duration, between 1 April 2019 and 31 March 2020, amounting to more than £245 per day and that last for longer than six months:

Number of new engagements, or those that reached six months in duration between 1 April 2019 and 31 March 2020	**11**
of which	
Number assessed as caught by IR35 (taxed as similar to employment)	2
Number assessed as not caught by IR35	9
of which	
Number engaged directly (via PSC contracted to department) and are on the departmental payroll	-
Number of engagements reassessed for consistency or assurance purposes during the year	8
Number of engagements that saw a change in IR35 status following consistency review	1

Exit packages (subject to audit)

Exit packages for 2019/20 totalled £110,389.98. This included one redundancy payment of £16,460.74 and contractual notice period pay totalling £93,929.24. There were four involuntary exits, but for two of these, notice was worked or garden leave agreed.

Redundancy and other departure costs are paid in accordance with Nest Corporation's redundancy policy. The redundancy policy is set out to pay statutory minimum amounts. Nest Corporation recently changed this to be statutory payments based on actual salary, so some of these would have been statutory minimum amounts and others statutory payments on actual salary. Exit costs are accounted for in full in the year of departure. Where Nest Corporation agrees early retirements, the additional costs are met by Nest Corporation and not by the Civil Service Pension Scheme. Ill-heath retirement costs would be met by the pension scheme and are not included in the table.

This table has been audited.

Exit package cost band	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band	
	(2018/19)	2019/20	(2018/19)	2019/20	(2018/19)	2019/20
<£10,000	(2)	2	(3)	-	(5)	2
£10,000 - £25000	(2)	-	(3)	-	(5)	-
£25,000 - £50,000	(1)	1	(-)	-	(1)	1
£50,000 - £100,000	(-)	1	(-)	-	(-)	1
£100,000 - £150,000	(-)	-	(-)	-	(-)	-
£150,000 - £200,000	(-)	-	(-)	-	(-)	-
Total number of exit packages	**(5)**	**4**	**(6)**	**-**	**(11)**	**4**
Total cost					**(£135,577)**	**£110,390**

No ex-gratia payments were made to any individuals who left Nest Corporation during 2019/20.

2.3

Parliamentary accountability and audit report

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

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

Regularity of expenditure (subject to audit)

HM Treasury's publication Managing public money[25] prescribes any losses or special payments in excess of £300,000 should be disclosed.

There have been no individual losses or special payments over £300,000 in 2019/20 (2018/19: none).

Total losses and special payments do not exceed £300,000 in 2019/20 (2018/19: none).

There have been no gifts exceeding £300,000 in 2019/20.

25 assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/835558/Managing_Public_Money__MPM__with_annexes_2019.pdf

Remote contingent liabilities (subject to audit)

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

Fees and charges (subject to audit)

There is no charge for employers to set up or use the Nest pension 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 Nest 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 per cent on the value of each new contribution into the member's pension pot and an annual management charge of 0.3 per cent on the total value of the member's pension pot each year which is reflected in the unit price and calculated on a daily basis.

The Board also assesses value for money 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 Nest Corporation's financial objectives and performance against them, as well as costs, charges and scheme income, please see the Overview of financial performance on page 36.

Helen Dean
Chief Executive Officer
Nest Corporation
25 June 2020

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 2020 under the Pensions Act 2008. The financial statements comprise: Statements of Comprehensive Net Income, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes, including the significant accounting policies. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Accountability Report that is described in that report as having been audited.

In my opinion:

- the financial statements give a true and fair view of the state of the National Employment Savings Trust Corporation's affairs as at 31 March 2020 and of net income for the year then ended; and
- the financial statements have been properly prepared in accordance with the Pensions Act 2008 and Secretary of State directions issued thereunder.

Opinion on regularity

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

Basis of opinions

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

Conclusions relating to going concern

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- the National Employment Savings Trust Corporation's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the National Employment Savings Trust Corporation have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the National Employment Savings Trust Corporation's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of National Employment Savings Trust Corporation's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Conclude on the appropriateness of the National Employment Savings Trust Corporation's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the National Employment Savings Trust Corporation's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my report. However, future events or conditions may cause National Employment Savings Trust to cease to continue as a going concern.

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

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

Other Information

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

Opinion on other matters

In my opinion:

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

Matters on which I report by exception

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

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and the parts of the Accountability Report to be audited are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Gareth Davies
Comptroller and Auditor General

7 July 2020

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

Chapter 3

Financial statements



3.1
Nest Corporation financial statements

Statement of comprehensive net income
for the year ended 31 March 2020

	Note	Year ended 31 March 2020 £000	Year ended 31 March 2019 £000
Income			
Members' contribution and annual management charge	2	107,289	61,359
Grant income	3	24,908	22,422
Other income	4	805	458
Total operating income		**133,002**	**84,239**
Expenditure			
Staff costs	5a	(25,955)	(24,681)
Scheme investment and administration costs	6b	(95,842)	(74,364)
Depreciation and amortisation	6a	(12,331)	(12,113)
Other expenditure	6c	(20,112)	(16,696)
Total operating expenditure		**(154,240)**	**(127,854)**
Net financing expenditure			
Interest payable	7	(38,612)	(35,391)
Total financing expenditure		**(38,612)**	**(35,391)**
Net comprehensive income for the year		**(59,850)**	**(79,006)**
Other comprehensive net income			
Net (loss) on revaluation of non-current intangible assets	9	544	(382)
Release from lease incentive reserve	6c	-	(32)
Total comprehensive income for the period		**(59,306)**	**(79,420)**

All income and expenditure is derived from continuing operations. The presentation of this primary statement has changed this year from a statement of comprehensive net expenditure to a statement of comprehensive net income. See note 1 for further details. The accounting policies and notes on pages 106 to 123 form part of these financial statements.

Statement of financial position

as at 31 March 2020

	Note	Year ended 31 March 2020 £000	Year ended 31 March 2019 £000
Non-current assets			
Property, plant and equipment	8	13,551	13,619
Intangible assets	9	37,976	39,479
Prepayment amounts falling due over one year	10a	5,013	4,541
Total non-current assets		**56,540**	**57,639**
Current assets			
Trade and other receivables	10b	15,139	13,998
Other current assets	10c	67	63
Cash and cash equivalents	11	34,179	25,592
Total current assets		**49,385**	**39,653**
Total assets		**105,925**	**97,292**
Current liabilities			
Interest payable	12a	(17,419)	(16,042)
Trade and other payables	12b	(17,400)	(15,628)
Other liabilities	12c	(2,612)	(2,218)
Provisions for liabilities and charges	14	(32)	(35)
Total current liabilities		**(37,463)**	**(33,923)**
Total assets less current liabilities		**68,462**	**63,369**
Non-current liabilities			
DWP loan	13	(777,647)	(713,747)
Other liabilities	13	(4,301)	(4,903)
Provisions for liabilities and charges	14	(1,141)	(40)
Total non-current liabilities		**(783,089)**	**(718,690)**
Total assets less total liabilities		**(714,627)**	**(655,321)**
Taxpayers' equity and other reserves			
General reserve		(717,857)	(658,007)
Revaluation reserve		3,230	2,686
Total equity		**(714,627)**	**(655,321)**

The financial statements, including the accounting policies and notes, on pages 102 to 123 were approved by the Trustee on 25 June 2020. The accounting policies and notes on pages 106 to 123 form part of these financial statements.

Helen Dean
Chief Executive Officer
Nest Corporation
25 June 2020

Statement of cash flows

for the year ended 31 March 2020

	Note	Year ended 31 March 2020 £000	Year ended 31 March 2019 £000
Cash flows from operating activities			
Expenditure	5a,6	(154,240)	(127,854)
Members' contribution and annual management charges	2	107,289	61,359
Other income	4	805	458
Grant income for non-chargeable costs	3	459	458
Adjustment for non-cash items	22	10,045	9,551
(Increase) in trade and other receivables	10	(1,956)	(2,377)
Increase in trade and other payables	12	3,137	3,898
Increase/(decrease) in provisions	14	1,098	(1,228)
Net cash outflow from operating activities		**(33,363)**	**(55,735)**
Cash flows from investing activities			
Purchase of property, plant and equipment (PPE) and intangible assets	22	(67)	(601)
Payments towards imputed lease liability of TCS* assets	22	(7,720)	(8,580)
Net cash outflow from investing activities		**(7,787)**	**(9,181)**
Cash flows from financing activities			
Loan interest	7	(38,612)	(35,391)
Public service obligation offset payment	3	24,449	21,964
Loan received from DWP	13	63,900	91,000
Net cash inflow from financing activities		**49,737**	**77,573**
Net increase in cash and cash equivalents in the period	11	8,587	12,657
Cash and cash equivalents at the beginning of the period	11	25,592	12,935
Cash and cash equivalents at the end of the period		**34,179**	**25,592**

* Tata Consultancy Services (TCS) has been the administrator of the Nest scheme in 2019/20.

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

Statement of changes in taxpayers' equity

for the year ended 31 March 2020

	Lease incentive reserve £000	Revaluation reserve £000	General fund £000	Total reserves £000
Total taxpayers' equity as at 1 April 2018	32	3,068	(579,001)	(575,901)
Changes in taxpayers' equity 2018/19				
Release of reserve to the statement of comprehensive net income	(32)	-	-	(32)
Net gain on revaluation of non-current assets	-	(382)	-	(382)
Net expenditure after interest	-	-	(79,006)	(79,006)
Total changes for 2018/19	**(32)**	**(382)**	**(79,006)**	**(79,420)**
Total taxpayers' equity as at 31 March 2019	**-**	**2,686**	**(658,007)**	**(655,321)**
Changes in taxpayers' equity 2019/20				
Net gain on revaluation of non-current assets	-	544	-	544
Net expenditure after interest	-	-	(59,850)	(59,850)
Total changes for 2019/20	**-**	**544**	**(59,850)**	**(59,306)**
Total taxpayers' equity as at 31 March 2020	**-**	**3,230**	**(717,857)**	**(714,627)**

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

3.2

Notes to the financial statements

1 Statement of accounting policies

These financial statements have been prepared in accordance with the 2019/20 Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector. Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of Nest Corporation for the purpose of giving a true and fair view has been selected. The particular policies adopted by Nest Corporation are described below. They have been applied consistently in dealing with items that are considered material to the accounts. Nest Corporation is required, under the Pensions Act 2008, to prepare its accounts for the year ended 31 March, 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 Nest Corporation to comply with the requirements of the FReM.

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

Prior to 2019/20 Nest Corporation presented a statement of comprehensive net expenditure to reflect its in-year income and expenditure movements. With 'staging' and 'phasing' now complete (see What is staging and phasing? on page 9), Nest's scheme income has grown significantly since the scheme's launch. With income from the scheme now being the biggest line item, a statement of comprehensive net income is now a more appropriate statement.

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

The financial statements have been prepared on a going concern basis. In accordance with the FReM 2.2.3 Nest Corporation has explained why it has adopted a going concern basis for the organisation. This can be found in section 1.6 of the Performance report on page 28.

Nest Corporation produces an updated business plan and long-range financial projections in February each year. For financial years 2020/21 and onwards, this process was completed before the coronavirus outbreak in the UK, and before the pandemic started to have a wide impact around the globe. The Trustee and the Department for Work and Pensions (DWP) have subsequently approved this plan as a baseline from which to measure the impact of the Covid-19 crisis on Nest Corporation's finances.

Nest Corporation has assessed the resilience of its trading income with respect to the economic impacts of the Covid-19 crisis. This has been done by reviewing the sources and values of income and the possible scale of impact. The Trustee has reviewed a revised going concern justification that uses scenarios consistent with the most recent external economic forecasts available.

The measures taken by the UK government during the first months of the pandemic have been designed to support as many employers as possible. The Coronaviruse Job Retention Scheme (CJRS) explicitly includes covering the employer pension contributions for the salary cost still paid to employees.

1.3 Changes in accounting policy and disclosures

a) Changes in accounting policies

There have been no changes to accounting policies.

b) New and amended standards adopted

There have been no new standards adopted from 1 April 2019 to 31 March 2020.

c) New standards, amendments and interpretations issued but not effective for the financial year beginning 1 April 2019 and not adopted early

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

IFRS 16: leases

IFRS 16 requires lessees and lessors to provide information about leasing activities within their financial statements. IFRS 16 eliminates the operating/finance lease distinction and imposes a single model geared towards the recognition of all except low-value or short-term (<12 months) leases. These will now be recognised on the balance sheet and disclosed separately from other non-lease assets and liabilities as a 'right of use' asset, lease liability and a lease premium asset (where applicable).

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

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

IFRS 16 is expected to have a material impact on the financial statements by the recognition of both a right of use asset and an associated lease liability. Due to the material nature it is expected that these will be presented on the face of the balance sheet, particularly in the first year of adoption.

The above standard was expected to be effective from 1 April 2020. However, given the consequences of Covid-19, HM Treasury along with the Financial Reporting Advisory Board (FRAB) took the decision to defer the implementation of IFRS 16 to 1 April 2021 to reduce the financial reporting burden. Therefore, IFRS 16 will impact the 2021/22 financial statements.

1.4 Accounting estimates and judgements

The development, selection and disclosure of significant accounting estimates and judgements and the application of these judgements and estimates have been discussed and agreed with the audit committee.

Below are the significant accounting estimates and judgements:

1.4 a) Critical judgements in applying Nest Corporation's policies

Service concession arrangement

The accounting treatment of assets used by Tata Consultancy Services (TCS) to administer the scheme involves judgements about the degree to which Nest Corporation controls both the services and any significant residual interest. The contract assets are reflected in the Statement of financial position, as Nest Corporation controls both elements.

1.4 b) Critical accounting estimates and assumptions

Revaluation of IAS 38: intangible assets

The FReM interpretation of IAS 38 requires Nest Corporation to revalue its intangible assets to depreciated replacement cost as a proxy for fair value. As suggested in the FReM, Nest Corporation applies an appropriate index to revalue software licence and software development assets at year-end if the impact is over 1 per cent of the net book value of the relevant asset class. The most suitable proxy for Nest Corporation's software licences and software development is JV5 (a): Computers and peripheral equipment.

Scheme software and Nest Corporation software licences

Management believe there is currently no accurate software license index or trend information available on the specific licences held by Nest Corporation. As the next best alternative, the index seen as most appropriate in achieving the requirement of IAS 38 and the FReM to establish a suitable proxy for fair value is JV5 (a), as although it includes movements in IT hardware as well as licence prices, it adequately reflects the movements in the cost of licences during changing market conditions experienced over the reporting period.

Software development

Management's conclusion is that the most appropriate index to use for software development is also JV5 (a) as the best available proxy to establish fair value for IT-related assets.

Asset refresh prepayment

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

1.5 Employee benefits

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

1.6 Pension costs

All eligible employees are auto enrolled into the Nest pension scheme, a defined contribution (DC) retirement date fund scheme with employer contributions matched at various rates.

Nest Corporation recognises the employer costs for the scheme in the period in which they are incurred. The pension cost of civil servants on secondment to Nest Corporation is reimbursed as part of the employment costs. There is no residual pension liability for Nest Corporation.

1.7 Value added tax (VAT)

In 2014 the European Court of Justice ruling in the ATP (Danish pension fund) case concluded that for VAT purposes DC pension schemes with certain characteristics should be treated as a 'special investment fund' and therefore all costs associated with the management of those funds should be exempt from VAT.

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

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

1.8 Income

Income is reflected in the statement of comprehensive net income in line with IFRS 15: contracts with customers (as adapted for the public sector by HM Treasury) and the revenue is recognised when Nest Corporation meets its performance obligations.

In 2019/20 Nest Corporation had three material revenue streams:

1. Scheme income

2. Public service obligation offset payment

3. Sponsorship and research revenue

Article 27 of the Nest Order gives Nest Corporation a duty to make deductions from members' funds to go towards the general costs of the setting up, administration and management of the scheme. Charges are 1.8 per cent of contributions received and 0.3 per cent of assets under management. Revenue is recognised when the obligation of investing and administering members' pots have been met.

Those costs not associated with functions of government and not met by deductions from contributions from members are funded by means of loans from DWP, which will subsequently be repayable from the deductions made from the contributions made by scheme members. The loans are recognised as a liability within the Statement of financial position.

Nest Corporation pays a commercial rate of interest on the loans to DWP. It also receives from DWP a grant sufficient, in effect, to reduce the interest payable on the loans from the commercial rate to the government rate of borrowing. This grant income is allowable under a ruling from the European Commission in July 2010.

The grant is treated as income, known as the public service obligation offset payment, which recognises that Nest Corporation has met its public service obligation over the reporting period. The performance obligation is to provide a pension service to any employer at a standard charge regardless of its size.

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

All significant contract balances for 2019/20 have been settled one month after the balance sheet date.

Income outside the scope of IFRS 15

Costs associated with the functions of government are not chargeable to Nest members and are met through grant funding. The amount of grant funding is determined by management estimates of the time spent and costs involved in non-chargeable activities. This estimate is subsequently agreed with DWP.

1.9 Loan funding from DWP

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

1.10 Property, plant and equipment

All assets under property, plant and equipment (PPE) are deemed to be short-life or low value and, as permitted by the FReM, have been valued on the basis of depreciated historic cost as a proxy for fair value.

Assets are capitalised where they have an expected useful life of more than one year and where the original cost of the item exceeds Nest Corporation's capitalisation threshold of £1,000. Individual items costing less than the capitalisation limit but forming an integral part of a package or pool of items whose total value is greater than £1,000 are also capitalised.

On initial recognition, assets are measured at cost, including costs directly attributable to bringing them into working condition. Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset only when it is probable that future economic benefits associated with the item will flow to Nest Corporation and the cost of the item can be measured reliably.

1.11 Intangible assets

Intangible assets are initially recognised at cost with subsequent measurement at fair value. Where an active market exists for the asset, it is carried at a revalued amount based on fair value at the end of the annual reporting period. Where no active market exists, assets are revalued using appropriate indices to indicate depreciated replacement cost as a proxy for fair value.

Purchased software licences and applications covering a period of more than one year and above the capitalisation threshold of £1,000 are capitalised at cost as intangible assets and subsequently revalued.

Individual items costing less than the capitalisation limit but forming an integral part of a package or pool of items whose total value is greater than £1,000 are also capitalised. If software licences don't meet either criteria, then expenditure is recognised in the statement of comprehensive net income.

Internally generated software development costs are capitalised when the criteria for recognition per IAS 38: intangible assets are met. Nest Corporation capitalises 85 per cent of gross software development costs incurred by the scheme administration services provider, TCS, the reduction of 15 per cent being a proxy for project management costs.

1.12 Depreciation

Depreciation is charged on property, plant and equipment using the straight-line method as this reflects the expected pattern of consumption of economic benefits. The rates used are calculated to write down each asset to its estimated residual value over its expected useful life. In 2019/20 Nest Corporation revised the accounting estimate for the useful economic life of scheme administration IT hardware assets to 7 years (previously 3 to 5 years). The effect of this change in accounting estimate is around £1.5m lower depreciation for the year. The useful economic lives of assets are as follows:

- Furniture and fittings: 2 to 5 years
- Information technology and telecoms equipment: 3 to 5 years
- Scheme administration IT hardware assets: 7 years

Depreciation commences once an asset is available for use and continues until the asset is derecognised, categorised as held for sale or written down to nil value. Depreciation is calculated from the month following that of acquisition or, if later, from the month in which the asset is available for use. No depreciation is charged in the month of disposal.

Residual values and estimated useful economic lives of non-current assets are reviewed annually and adjusted if appropriate at the end of the reporting period. The financial impact is recognised in the statement of comprehensive net income over the remaining life of the asset.

1.13 Amortisation

Amortisation is calculated on intangible assets using the straight-line method as this reflects the expected pattern of consumption of economic benefits. The rates used are calculated to write down each asset to its estimated residual value over its expected useful life. In 2019/20 Nest Corporation revised the accounting estimate for the useful economic life of scheme software licenses used by TCS to 7 years (previously 5 years). The effect of this change in accounting estimate is around £1.0m lower amortisation for the year. The useful economic lives of assets are as follows:

- Software licences: 3 years, or period remaining on licence if less than 3 years
- Scheme software licences used by TCS for the scheme administration contract: 7 years
- Scheme developed software: costs incurred by TCS in developing the software used to administer the scheme have been amortised over the life of the contract on the grounds that the coding involved will be required to support scheme administration throughout the duration of the contract.

Amortisation commences once an asset is available for use and continues until the asset is derecognised, categorised as held for sale or written down to nil value. Amortisation is calculated from the month following that of acquisition or, if later, from the month in which the asset is available for use. No amortisation is charged in the month of disposal. Residual values and estimated useful economic lives of non-current intangible assets are reviewed annually and adjusted if appropriate at the end of the reporting period. The financial impact is recognised in the statement of comprehensive net income over the remaining life of the asset.

1.14 Revaluation and impairment of non-current assets

Nest Corporation carries out an annual valuation review of its non-current intangible assets. Increases in value are credited to a revaluation reserve. Downward revaluations of revalued assets that do not result from a clear consumption of economic benefits are debited to the revaluation reserve up to the level of depreciated historical cost. Any excess downwards revaluation is charged to the statement of comprehensive net income.

Impairment losses that result from a clear consumption of economic benefit are taken directly to the statement of comprehensive net income. Where the impairment relates to a revalued asset, the balance on the revaluation reserve to which the impairment would have been charged is transferred to the general reserve to ensure consistency with IAS 36: impairment of assets.

On disposal of a revalued asset, the balance on the revaluation reserve in respect of that asset becomes fully realised and is transferred to the general reserve. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the statement of comprehensive net income.

All non-current assets are tested annually for impairment. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

1.15 Financial instruments

Recognition

Financial assets and financial liabilities which arise from contracts for the purchase and sale of non-financial items (such as goods or services), which are entered into in accordance with Nest Corporation's normal purchase, sale or usage requirement, are recognised when, and to the extent to which, performance occurs. All other financial assets and liabilities are recognised when Nest Corporation becomes party to the contractual provisions to receive or make cash payments.

Derecognition

A financial asset is considered for derecognition when the contractual rights to the cash flows from the financial asset expire, or Nest Corporation has either transferred the contractual right to receive the cash flows from the asset, or has assumed an obligation to pay those cash flows to one or more recipients, subject to certain criteria. Nest Corporation derecognises a transferred financial asset if it transfers substantially all the risks and rewards of ownership.

Classification and measurement – financial assets

In addition to cash and cash equivalents, Nest Corporation has one category of financial assets:

Staff loans

Staff loans are loans that have fixed or determinable payments that are not quoted in an active market. Staff loans are initially recognised at fair value and are subsequently measured at amortised cost.

Impairment of financial assets

At the end of each reporting period, Nest Corporation assesses whether there is impairment to a financial asset or a group of financial assets. This assessment is done using the forward-looking expected credit loss model as prescribed in IFRS 9. The model contains a three-stage approach based on the change in credit quality of financial assets since initial recognition.

Classification and measurement – financial liabilities

Nest Corporation has one category of financial liability:

Other financial liabilities

Other financial liabilities comprise trade payables and loans. All financial liabilities are recognised initially at fair value, net of any transaction costs incurred, and then measured at amortised cost using the effective interest rate method. Interest on financial liabilities carried at amortised cost is calculated using the effective interest rate method and is charged to the statement of comprehensive net income.

1.16 Provisions for liabilities and charges

In accordance with IAS 37, Nest Corporation provides for legal or constructive obligations where the transfer of economic benefit is probable, but where the timing or amount at the end of the reporting period is uncertain. The provision is calculated on the basis of the best estimate of the expenditure required to settle the obligation.

1.17 Leases

Payments in relation to operating leases are charged to the statement of comprehensive net income on the basis of rentals payable in the year.

Nest Corporation has one finance lease as set out under Service concession arrangements, note 1.19 below.

1.18 Operating segments

Although IFRS 8: operating segments applies in full to Nest Corporation, the organisation does not have separate operating segments as defined by the standard.

1.19 Service concession arrangements

Service concession arrangements are accounted for in accordance with International Financial Reporting Interpretations Committee (IFRIC) 12, as adapted for the public sector context by FReM. Where Nest Corporation controls the services provided and retains a significant residual interest in the asset, the asset is recognised on Nest Corporation's Statement of financial position.

The scheme administration contract with TCS meets these conditions and is recognised in the financial statements as service concession arrangements. The assets comprise of hardware, software licences and developed software.

1.20 Subsidiaries and controlled entities

During the period controlling interest in a private company was acquired: Nest Invest Limited (Registered Number 10405650). Nest Invest Limited is a wholly owned subsidiary of Nest Corporation and is registered at 1st Floor, 10 South Colonnade, Canary Wharf, London, E14 4PU.

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

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

2 Members' contribution and annual management charges

	Year ended 31 March 2020 £000	Year ended 31 March 2019 £000
Members' contribution and annual management charges	107,289	61,359
Total	**107,289**	**61,359**

Contribution charges relate to the 1.8 per cent deduction on invested contributions from members of Nest pension scheme and the 0.3 per cent annual management charge on the value of Nest pension scheme investments under management.

3 Grant income

	Year ended 31 March 2020 £000	Year ended 31 March 2019 £000
Grant income for non-chargeable costs	459	458
Public service obligation offset payment	24,449	21,964
Total	**24,908**	**22,422**

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

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

4 Other income

	Year ended 31 March 2020 £000	Year ended 31 March 2019 £000
Interest received and receivable	123	50
Sponsorship and research revenue	492	320
Sponsorship and research revenue from DWP	190	88
Total	**805**	**458**

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

The sponsorship and research revenue is to fund Nest Corporation's pension research think tank, Nest Insight. Additionaly Nest Insight received a research grant of £190k from DWP. The grant is not classified as state aid.

5 Staff numbers and related costs

a) Staff costs

Nest Corporation is staffed by a combination of direct employees, staff seconded from other bodies and interim staff employed through third-party organisations.

	Year ended 31 March 2020 £000	Year ended 31 March 2019 £000
Directly employed staff		
Wages and salaries	19,698	17,658
Social security costs	2,332	2,145
Pension costs	1,476	1,292
Subtotal	**23,506**	**21,095**
Secondees	283	225
Interim staff	2,166	3,361
Total staff costs	**25,955**	**24,681**

b) Pension arrangements

Nest Corporation operates one active defined contribution (DC) pension scheme for its directly employed staff. There were 292 workers in this pension scheme as at 31 March 2020 (31 March 2019: 248).

Nest Corporation recognises the employer's costs in the period to which they relate. At 31 March 2020 there was one month's contributions outstanding amounting to £193k (31 March 2019: £166k).

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

6 Depreciation, amortisation and other expenditure

	Note	Year ended 31 March 2020 £000	Year ended 31 March 2019 £000
a) Depreciation and amortisation			
Depreciation and amortisation	8,9	12,331	12,113
Total		**12,331**	**12,113**
b) Scheme investment and administration costs			
Scheme administration expenses		86,789	69,496
Scheme investment costs		9,053	4,868
Total		**95,842**	**74,364**
c) Other expenditure			
Professional fees and advice		5,511	3,345
Information technology and telecoms equipment		2,654	2,604
Legal fees and expenses		2,584	2,826
Accommodation		2,075	1,796
Research, marketing and communications		2,000	1,969
Recruitment and other staff costs		1,121	1,305
Movements in property repair and provisions in the year	14	1,098	(1,228)
Rentals under operating leases		874	2,295
Insurance		637	613
Loss on disposal of non-current assets	8,9	494	147
Industry engagement		378	360
Business travel		328	313
Auditor's remuneration - corporation		90	87
Auditor's remuneration - scheme		90	90
Release of lease incentive reserve		-	(32)
Information security audit		-	8
Other running costs		178	198
Total		**20,112**	**16,696**

Scheme administration expenses shown here are exclusive of £178k (2018/19: £1.3million) set aside for asset refresh prepayment in 2020/21.

7 Interest payable

	Year ended 31 March 2020 £000	Year ended 31 March 2019 £000
Loan interest paid and payable	38,612	35,391
Total	**38,612**	**35,391**

Interest payable relates to interest charged on balances outstanding on the loan from DWP (see note 13). Nest Corporation's weighted average cost of capital (WACC) is the effective cumulative interest rate on the loan from DWP. Under the terms of the loan agreement, Nest Corporation borrows at a fixed commercial rate of interest prevailing at the time of each drawdown. Nest Corporation receives a grant from DWP (public service obligation offset payment) which effectively reduces the commercial rate to the government borrowing rate. The cumulative WACC up to 31 March 2020, net of grant, is 2.45 per cent (2018/19: 2.50 per cent).

8 Property, plant and equipment

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

2019/20	Furniture and fittings £000	Information technology £000	Scheme hardware £000	Total £000
Cost				
As at 1 April 2019	510	686	23,768	24,964
Additions	-	67	2,857	2,924
Disposals	-	(11)	(3,974)	(3,985)
As at 31 March 2020	**510**	**742**	**22,651**	**23,903**
Depreciation				
As at 1 April 2019	(68)	(246)	(11,031)	(11,345)
Charged in period	(70)	(144)	(2,538)	(2,752)
Disposals	-	6	3,739	3,745
As at 31 March 2020	**(138)**	**(384)**	**(9,830)**	**(10,352)**
Net book value at 31 March 2020	**372**	**358**	**12,821**	**13,551**
Net book value at 31 March 2019	**442**	**440**	**12,737**	**13,619**
Asset financing				
Owned	372	358	12,821	13,551
Net book value at 31 March 2020	**372**	**358**	**12,821**	**13,551**

2018/19	Furniture and fittings £000	Information technology £000	Scheme hardware £000	Total £000
Cost				
As at 1 April 2018	244	2,535	21,741	24,250
Additions	496	105	6,808	7,409
Disposals	(230)	(1,954)	(4,511)	(6,695)
As at 31 March 2019	**510**	**686**	**23,768**	**24,964**
Depreciation				
As at 1 April 2018	(198)	(1,873)	(12,325)	(14,396)
Charged in period	(74)	(234)	(3,211)	(3,519)
Disposals	204	1,861	4,505	6,570
As at 31 March 2019	**(68)**	**(246)**	**(11,031)**	**(11,345)**
Net book value at 31 March 2019	**442**	**440**	**12,737**	**13,619**
Net book value at 31 March 2018	**46**	**662**	**9,146**	**9,854**
Asset financing				
Owned	442	440	12,737	13,619
Net book value at 31 March 2019	**442**	**440**	**12,737**	**13,619**

9 Intangible assets

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

2019/20	Note	Corporation software licences £000	Scheme software licences £000	Scheme developed software £000	Total £000
Cost					
As at 1 April 2019		890	29,091	64,982	94,963
Additions		-	1,969	5,816	7,785
Disposals		(194)	(2,943)	-	(3,137)
Revaluation	a	11	470	1,117	1,598
As at 31 March 2020		**707**	**28,587**	**71,915**	**101,209**
Amortisation					
As at 1 April 2019		(820)	(19,113)	(35,550)	(55,483)
Charged in period		(40)	(2,071)	(7,468)	(9,579)
Disposals		194	2,689	-	2,883
Revaluation	a	(11)	(324)	(719)	(1,054)
As at 31 March 2020		**(677)**	**(18,819)**	**(43,737)**	**(63,233)**
Net book value at 31 March 2020		**30**	**9,768**	**28,178**	**37,976**
Net book value at 31 March 2019		**70**	**9,978**	**29,432**	**39,480**

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

a. Intangible assets were revalued to fair value by applying an appropriate Office of National Statistics index. The revaluation gain reflects movements in the index since 1 April 2019.

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

	As at 31 March 2020 £000	As at 31 March 2019 £000
a) Amounts falling due over one year		
Lease premium London property	4,206	4,541
Prepayments in respect of asset refresh	807	-
	5,013	**4,541**
b) Amounts falling due within one year		
Accrued income public sector obligation offset payment	11,098	10,005
Accrued grant income for non-chargable costs	235	241
Lease premium London property	374	371
Prepayments in respect of asset refresh	178	1,324
Other trade receivables	43	-
Other prepayments and accrued income	3,211	2,057
	15,139	**13,998**
c) Other current assets		
Staff loans	67	63
	67	**63**
Total	**20,219**	**18,602**

Included in prepayments is £985k (2018/19: £1.3 million) for amounts set aside from service charges to fund future scheme asset replacement. It is estimated that part of the £3.2 million of scheme replacement hardware and software will be funded out of this prepayment and an additional amount to be set aside from future scheme administration services payments between April 2021 and June 2023.

A lease premium of £4.6 million (2018/19: £4.9 million) has been recognised for advanced payments made to the landlord of the property that Nest Corporation relocated to in 2018.

11 Cash and cash equivalents

	Year ended 31 March 2020 £000	Year ended 31 March 2019 £000
Opening balance	25,592	12,935
Net change in cash balances	8,587	12,657
Balance at end of year	**34,179**	**25,592**

Cash and cash equivalents consists of cash at bank. Nest Corporation do not have any cash equivalents.

12 Current liabilities

	As at 31 March 2020 £000	As at 31 March 2019 £000
a) Interest payable		
Accrued interest payable to DWP	17,419	16,042
	17,419	**16,042**
b) Trade and other payables		
Trade payables	2,015	1,060
Accruals	15,385	14,568
	17,400	**15,628**
c) Other liabilities		
Other taxation and social security	582	621
Pension costs liability	193	166
Imputed finance lease element of TCS assets	1,837	1,431
	2,612	**2,218**
Total	**37,431**	**33,888**

13 Non-current liabilities

	As at 31 March 2020 £000	As at 31 March 2019 £000
DWP loan	777,647	713,747
Imputed finance lease element of TCS assets	4,301	4,903
Total	**781,948**	**718,650**

Loan funding from DWP is provided to meet the scheme implementation and running costs and will subsequently be repaid from charges levied on scheme members. The interest rate on each loan drawdown is determined by the interest rate prevailing at the time of taking out the loan. At 31 March 2020, the weighted cost of capital on loan funding was 2.45 per cent (31 March 2019: 2.50 per cent) (see note 7). Interest on loans is payable in April and October each year. In March 2019 Nest Corporation signed an amended and restated loan agreement with DWP which was an update to the 2010 loan agreement.

In total, an imputed finance lease of £6.1 million (2018/19: £6.3 million) has been recognised, mainly reflecting the shortfall between the scheme administration assets recognised and cash payment made to TCS.

14 Provisions for liabilities and charges

	Note	Year ended 31 March 2020 £000	Year ended 31 March 2019 £000
Balance at 1 April 2019		75	1,303
(Released)/provided in the year	6	1,098	(1,228)
Balance as at 31 March 2020		**1,173**	**75**
Classified as:			
Amounts falling due within one year		32	35
Amounts falling due over one year		1,141	40
		1,173	**75**

The provision of £32k (2018/19: £35k) relates to property repairs and a dilapidation liability for Riverside House, which Nest Corporation exited in August 2018. The provision of £1.1 million relates to a dilapidation liability for 10 South Colonnade, which Nest Corporation entered into in September 2018. The provision is based upon Nest Corporation's share of the dilapidation costs which are due at the end of the tenancy in 2033/34.

15 Capital and other financial commitments

a) Capital and other financial commitments

	As at 31 March 2020 £000	As at 31 March 2019 £000
Contracted financial commitments at 31 March 2020 not otherwise included in these financial statements	245	923
Balance as at 31 March 2020	**245**	**923**

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

The contract with TCS for the provision of scheme administration services has been recognised as a service concession arrangement and the commitments involved are shown below.

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

Nest Corporation has a contract with TCS for scheme administration which has been assessed under IFRIC 12 and recognised as a service concession. As a result, assets used for the contract have been recognised as non-current assets in the Statement of financial position and the liability to pay for these assets has been accounted for as a finance lease. The commitments analysed below reflect advance payments towards milestones, investment decision points' service charges and the imputed interest element.

Total obligations under service concession arrangement reflected in the Statement of financial position for the following periods comprise:	Year ended 31 March 2020 £000	Year ended 31 March 2019 £000
No later than one year	85,114	78,093
Later than one year and not later than five years	224,247	301,409
Later than five years	-	-
Total gross obligation	**309,361**	**379,502**
Less interest element discount	(9,000)	(16,121)
Present value of obligations	**300,361**	**363,381**

Present value of obligations under service concession arrangements reflected in the Statement of financial position for the following period comprise:	Year ended 31 March 2020 £000	Year ended 31 March 2019 £000
No later than one year	85,114	78,093
Later than one year and not later than five years	215,247	285,288
Later than five years	-	-
Total present value of obligations	**300,361**	**363,381**

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

The total amount charged to the statement of comprehensive net income in 2019/20 in respect of the service element of this service concession was £86.8 million (2018/19: £69.5 million) and the payments to which Nest Corporation is committed (subject to the conditions of the contract, particularly volume levels) is as follows:

	Year ended 31 March 2020 £000	Year ended 31 March 2019 £000
No later than one year	77,429	71,027
Later than one year and not later than five years	206,567	291,328
Later than five years	-	-
Total	**283,996**	**362,355**

16 Commitments under leases

Operating leases

Future minimum lease payments comprise:	As at 31 March 2020 £000	As at 31 March 2019 £000
Buildings:		
Within one year	2,875	2,786
Between one year and five years	12,389	12,000
Over five years	26,574	29,731
	41,838	**44,517**

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

The future minimum lease payments represent a lease for Nest Corporation's offices at South Colonnade from the 1 April 2020 to 27 June 2032.

17 Financial instruments

	Note	As at 31 March 2020 £000	Year ended 31 March 2019 £000
Financial assets			
Cash and cash equivalents	11	34,179	25,592
Staff loans	10c	67	63
Total		**32,246**	**25,655**

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

	Note	As at 31 March 2020 £000	Year ended 31 March 2019 £000
Financial liabilities			
DWP loan	13	777,647	713,747
Trade payables	12b	2,015	1,060
Accruals	12	32,804	30,610
Total		**812,466**	**745,417**

It is, and has been, Nest Corporation's policy that no trading financial instruments are undertaken, nor are they held to change risk.

Nest Corporation has no exposure to foreign currency risk as at 31 March 2020 (2018/19: none). Nest Corporation has limited exposure to interest rate risk for its loans as the rates are set and fixed on drawdown or rollover for a period of five years.

The book value of Nest Corporation's financial assets and liabilities as at 31 March 2020 and 31 March 2019 are not materially different from their fair values.

18 Contingent liabilities disclosed under IAS 37

There are no contingent liabilities to disclose for 2019/20 or 2018/19.

19 Contingent assets disclosed under IAS 37

There are no contingent assets to disclose for 2019/20 or 2018/19.

20 Losses and special payments

There are neither losses nor special payments to disclose for 2019/20 or 2018/19.

21 Related-party transactions

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

	Note	Year ended 31 March 2020 £000		Year ended 31 March 2019 £000	
		Income	Expenditure	Income	Expenditure
Loan funding and repayment	13	63,900	-	91,000	-
Sponsorship and research revenue	4	190	-	88	-
Loan interest	7	-	38,612	-	35,391
Other transactions		24,908	379	22,422	1,438
Total		**88,998**	**38,991**	**113,510**	**36,829**

As at 31 March 2020, excluding the liability to repay the loan which does not come into effect for more than 12 months, Nest Corporation had £17.4 million outstanding liability with DWP (2018/19: £16.7 million).

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

a) loan funding

b) public service obligation offset payments and grant income

c) premium on letter of credit

d) secondees

e) grant to fund pension research (via Nest Insight)

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

During 2019/20 Nest Corporation received income from the Nest scheme of £107.3 million (2018/19: £61.4 million) (see note 2 for details on page 112). Nest Corporation is a participating employer in the scheme. Contributions of £2.3 million (2018/19: £2.0 million), were payable by Nest Corporation to the scheme during the period. Nest Corporation also paid over £200k to the Nest scheme to fund the scheme's general account during the period.

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

22 Cashflow analysis

	Note	Year ended 31 March 2020 £000	Year ended 31 March 2019 £000
Non-cash items			
Depreciation and amortisation including non-TCS	6a	12,331	12,113
(Release) of lease incentive reserve	6c	-	(32)
Loss on disposal of assets	6c	494	147
Prepayment asset refresh		(1,091)	(1,295)
Offset for lease liability		(1,848)	(1,549)
Finance credit charge		159	167
Total non cash items		**10,045**	**9,551**
Purchase of property, plant and equipment (PPE) and intangible assets			
Purchase of furniture and fittings	8	-	(496)
Purchase of IT	8	(67)	(105)
Total PPE and intangible assets		**(67)**	**(601)**
Payments towards imputed lease liability of TCS assets			
Total lease liability payment made in the year		**(7,720)**	**(8,580)**

23 Political and charitable donations

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

24 Events after the reporting period

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

There were no reportable events after the reporting period.

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

Appendices


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Appendix 1

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

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

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

Overview of environmental performance

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

Nest Corporation is located at 10 South Colonnade, Canary Wharf, a modern, efficient multi-tenant government property unit building housing several departmental and arm's-length bodies.

The building management company controls energy use, for example through:

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

The Greenhouse Gas Protocol defines emissions under scope 1 (direct), scope 2 (purchased electricity) and scope 3 (upstream and downstream). As part of the multi-tenant arrangement in the building, all tenants, including Nest Corporation, are only given energy usage data for the building as a whole. This reduces the level of detail that can be reported on scope 2 emissions.

Estimates of Nest Corporation's scope 2 energy use are based on the amount of space Nest occupies within the building, which was 6.8 per cent in 2019/20. Whilst not precise, these calculations provide an indicator of Nest Corporation's environmental impact.

Scope 3 data have been captured directly from expense claims and contract reporting.

During the period 2018/19 Nest Corporation moved offices from Riverside House. No scope 2 data were available for the first quarter of 2018/19, so Nest Corporation had approximated energy consumption on an average basis for that reporting period. This is likely to have overstated the costs because the initial three months of the financial year (April, May and June) would have been warmer months where gas and electricity use would be much lower.

Additionally, gas consumption in the 2018/19 calculation is significantly higher than in 2019/20 because the previous year's data for 10 South Colonnade was estimated based on the Chartered Institution of Building Services Engineers (CIBSE) figures for a similar size and type of building which assumed gas was used for heating. At that time, the building management company had no confirmed gas supply or history of meter readings.

The 2019/20 gas figures have been based on actual meter readings. They show very low levels of consumption because gas is only used for hot water. It is not used for heating.

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

In 2019/20 the building management company has had a new contract for gas, electricity and with access to the rates to calculate the cost of these utilities. The 2019/20 figures have therefore been based on meter readings and the rates provided by the building management company. For the last 12 months, the building management company has received more accurate data on electricity consumption and costs from the new supplier. Similarly, it has received more accurate data for gas and water costs in the fourth quarter of the financial year which has been used to generate the cost estimate for 2019/20.

Summary of environmental consumption

There has been a fall in scope 2 reported emissions compared to 2018/19. This is because gas usage was overstated last year as it was assumed that gas was used for both heating and hot water in Nest Corporation's new offices. However, in 2019/20 actual meter readings indicated gas is only being used for hot water in the building. The 2019/20 figures are based on the meter readings and rates provided by the building management company.

Nest Corporation has noted a sharp fall in scope 3 emissions from private vehicles, rail and air travel compared to last year. This is mirrored in the cost figures for private vehicles, rail and air travel which have also fallen significantly compared to 2018/19. Covid-19 travel precautions and restrictions have contributed to the fall in emissions this year.

Emissions from taxis, however, have risen back to 2017/18 levels with a corresponding increase in cost. Both emissions and cost of car hire were stable and in line with 2018/19 levels.

The total amount of waste produced by Nest Corporation is the same as 2018/19, although there has been a slight change in the waste allocation. Waste recycled fell slightly and waste incinerated increased in 2019/20. 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.

The absolute paper usage at Nest Corporation increased against 2018/19. However, the usage per full-time equivalent employee (FTE) remained the same. As employees started to work from home (WFH) in response to the government guidance during the pandemic, there have been great improvements in remote collaboration and working practices and a consequent reduction in printing and reliance on paper copies. Going forward, this is an area where Nest Corporation can continue to improve to reduce its overall carbon footprint.

2019/20 environmental performance

Area	Actual performance	Normalising data (per FTE)
Average annual full-time equivalent staffing figure: 318[1]		
Estate energy and emissions		
GHG emissions from offices	222 tonnes CO_2e	0.70 tonnes CO_2e
Total organisation energy consumption	808,361 kWh	2,542 kWh
Total energy expenditure	£112,699	£354.40
Travel emissions		
CO_2e emissions from business travel[2]	200 tonnes CO_2e	0.63 tonnes CO_2e
Total expenditure on business travel	£241,336	£758.92
Waste		
Total waste produced	14.3 tonnes	0.04 tonnes
Total recycled/reused	5.2 tonnes	0.02 tonnes
Total incinerated	9.1 tonnes	0.03 tonnes
Total to landfill	0.0 tonnes	0.00 tonnes
Total waste expenditure	£6,272	£19.72
Paper		
Total paper usage	2 tonnes CO_2e	0.01 tonnes CO_2e
Total paper expenditure	£2,047	£6.44
Water		
Total water consumption	2,360 m^3	7.4 m^3
Total water expenditure	£4,811	£15.13

Notes

1 This figure includes employees, Board members, interims, secondees and panel members.

2 CO_2e means carbon dioxide equivalent, which is a widely accepted standard for measuring emissions from all greenhouse gases.

Greenhouse gas emissions (GHG)

The data for scope 2 emissions for 2019/20 has been taken as a percentage of the overall data for the building based on Nest Corporation's 6.8 per cent occupancy. This estimate provides an indication of Nest Corporation's performance.

Greenhouse gas emissions		2017/18	2018/19	2019/20
Non-financial indicators (tonnes CO_2e)	**Scope 2 - Gas and electricity**			
	Gas	54.3	32.7	4.0
	Electricity - total	241.9	336.9	218.2
	Electricity - brown[1]	181.4	n/a	n/a
	Electricity - green[1]	24.2	n/a	n/a
	Electricity - CHP[2]	36.3	0.0	0.0
	Total scope 2	**296.2**	**369.6**	**222.2**
	Scope 3 - Business travel[3]			
	Private vehicle	16.9	13.2	11.5
	Car hire	0.0	0.1	0.1
	Taxis	0.9	0.4	0.8
	Air	243.2	221.7	181.4
	Rail	9.0	8.9	6.5
	Total scope 3	**270.0**	**244.3**	**200.3**
	Total emissions	**566.2**	**613.9**	**422.5**
	Scope 3 - Paper			
	Paper	2.2	1.6	1.9

Notes

1. In 2018/19 Nest Corporation moved to a new office in London's Canary Wharf and the building management company that provides Nest Corporation with energy usage data changed. The new building management company is unable to allocate the electricity costs and usage to green and brown electricity based on the information supplied to them from the electricity suppliers.
2. This stands for combined heat and power.
3. Nest Corporation introduced an online expenses system effective from May 2018. As there were no expense for 2018/19 available from the system for April 2018, the average monthly expenses has been used as a proxy for the April 2018 expenses.

Greenhouse gas emissions		2017/18	2018/19	2019/20
Related energy consumption in kilowatt hours (kWh)	**Scope 2 - Gas and electricity[2]**			
	Gas	294,854	178,001	21,599
	Electricity - total	586,885	1,096,666	786,762
	Electricity - brown[1]	440,165	n/a	n/a
	Electricity - green[1]	58,688	n/a	n/a
	Electricity - CHP[2]	88,032	-	-
	Total scope 2	**881,739**	**1,274,667**	**808,361**
Financial indicators (£)	**Scope 2 - Gas and electricity[3]**			
	Gas	8,311	13,172	368
	Electricity - total	76,691	208,367	112,331
	Electricity - brown	57,518	n/a	n/a
	Electricity - green	7,669	n/a	n/a
	Electricity - CHP	11,504	-	-
	Total scope 2	**85,002**	**221,539**	**112,699**
	Scope 3 - Business travel[4]			
	Private vehicle	29,075	20,776	20,342
	Car hire	85	146	142
	Taxis	7,962	2,597	6,894
	Air	109,252	168,800	159,834
	Rail	81,501	100,031	54,124
	Total scope 3	**227,875**	**292,350**	241,336
	Scope 3 - Paper			
	Paper	3,483	1,664	2,047
Volume of paper in reams	**Scope 3 - Paper**			
	A4	945	570	740
	A3	30	30	30

Notes

1. In 2018/19 Nest Corporation moved to a new office in London's Canary Wharf and the building management company that provides Nest Corporation with energy usage data changed. The new building management company is unable to allocate the electricity costs and usage to green and brown electricity based on the information supplied to them from the electricity suppliers.
2. This stands for combined heat and power.
3. The utilities figures are cost estimates provided by the building management company to support intergovernmental department reporting against Greening Government Commitments and departmental or agency sustainability reporting. These reporting estimates may not reflect the way that costs are attributed in any one tenancy or other contractual agreement.

   The utilities only came onto contract part way through 2019/20. The costs of electricity, gas and water for the full year are estimated based on the actual invoices from the point when each utility came onto contract during 2019/20 and actual meter readings for the full year. These estimates only relate to consumption in 2019/20 and do not include any other back-dated costs for periods prior to a formal contract.
4. Nest Corporation introduced an online expenses system with effect from May 2018. As there were no expenses available from the system in April 2018, the average monthly expense in 2018/19 has been used as a proxy for the April 2018 expenses.

Business travel emissions

Tonnes CO_2e

Private vehicle	Car hire	Taxi	Air	Rail
13.2	0.1	0.4	221.7	8.9
11.5	0.1	0.8	181.4	6.5



● 2018/19 ● 2019/20

Greenhouse gas emissions

Tonnes CO_2e

Gas and electricity (scope 2)	Business travel (scope 3)
369.6	244.3
222.2	200.3



● 2018/19 ● 2019/20

GHG performance commentary including target

Nest Corporation is located in a well maintained, energy-efficient building. Although it does not have direct influence over how the building is managed, it continues to work with the building management company on all energy management initiatives that are undertaken. However, with the current limitations in place, Nest Corporation believes that a target to reduce scope 2 emissions is currently not viable.

Nest Corporation actively seeks to reduce international travel and only has staff and Board members undertake it when necessary and unavoidable.

Nest Corporation will continue to encourage initiatives to reduce the need for paper copies of documents through electronic review processes and electronic records management.

Use of finite resources

Scope 2 – Water consumption		2017/18	2018/19	2019/20
Non-financial indicators (m^3)	Water consumption	2,722.0	2,214.5	2,360.1
Financial indicators (£)	Total water costs[1]	5,088.6	5,181.8	4,811.0

Performance commentary

Nest Corporation's water usage in 2019/20 was 7.4m^3 per person. This represents a reduction of 1 per cent against the previous year. This figure is an approximation calculated by applying the 6.8 per cent of the total building space which Nest Corporation occupies to the building's total water usage.

Notes

1. The utilities figures are cost estimates provided by the building management company to support intergovernmental department reporting against Greening Government Commitments and departmental or agency sustainability reporting. These reporting estimates may not reflect the way that costs are attributed in any one tenancy or other contractual agreement.

   The utilities only came onto contract part way through 2019/20. The costs of electricity, gas and water for the full year are estimated based on the actual invoices from the point when each utility came onto contract during 2019/20 and actual meter readings for the full year. These estimates only relate to consumption in 2019/20 and do not include any other back-dated costs for periods prior to a formal contract.

Waste management

Waste		2017/18	2018/19	2019/20
Non-financial indicators (tonnes)	Waste to landfill	0.0	0.0	0.0
	Waste recycled/ reused	14.3	6.2	5.2
	Waste incinerated[1]	12.2	8.1	9.1
	Total waste	26.5	14.3	14.3
Financial indicators (£)	Total waste costs[2]	3,736	5,945	6,272

Performance commentary

All of the waste produced by Nest Corporation in the building is diverted from landfill. Waste that can be recycled is collected either through a dry mixed recycling bin or a confidential paper bin to aid effective recycling. All waste that is incinerated is sent to an energy-from-waste facility to produce refuse-derived fuel and therefore had an element of energy recovery. The figures for waste usage are an approximation based on Nest Corporation's 6.8 per cent occupancy of the building and total waste figures supplied by the building management company.

Notes

1. In 2018/19 and 2019/20, the waste incinerated was sent to an energy-from-waste facility.
2. Total waste expenditure does not include the cost of confidential waste recycling in order to compare the figure against prior year. Waste disposal services are provided as a fixed cost as part of the facility management contract for the building. The costs provided for waste are therefore only indicative.

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