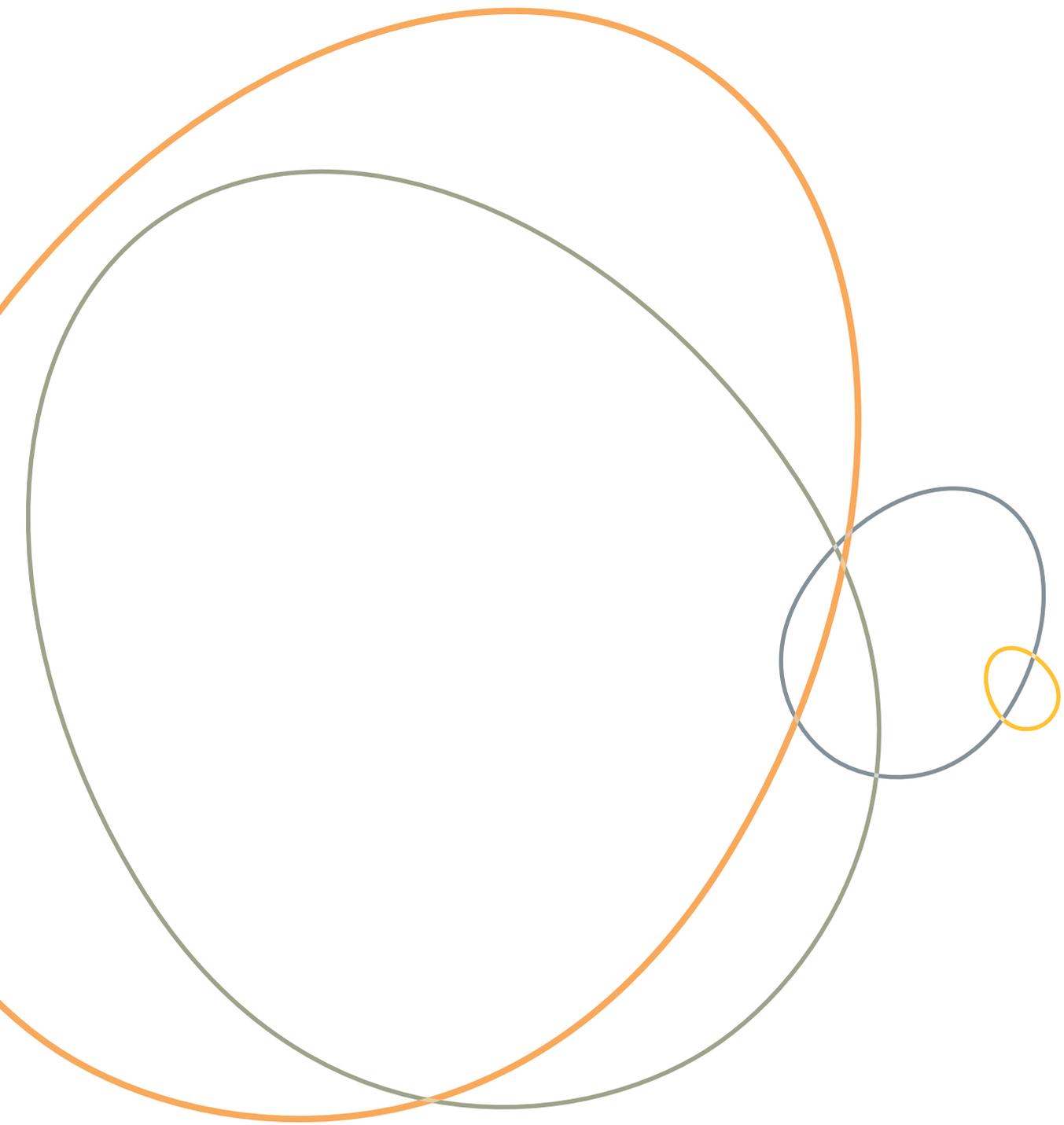




# **NEST Corporation corporate plan**

2015-2018



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# Foreword

In this corporate plan we set out what we plan to do with our resources over the next planning period.

## About us

NEST (National Employment Savings Trust) is a trust-based multi-employer defined contribution (DC) pension scheme, run in the interests of its members. NEST Corporation is the Trustee of the NEST scheme. It's made up of a Chair and up to 14 Trustee Members, appointed by the Secretary of State for Work and Pensions in line with public appointments guidance. This guidance comprises the Cabinet Office Guidance and the Code of Practice for Ministerial Appointments to Public Bodies.

The Trustee is supported by an organisation, comprising an executive team and a range of specialists, the resources of which are discussed in this document. We work with Tata Consultancy Services (TCS) to administer NEST. TCS has been successfully providing administration services for pension schemes and other financial clients for many years.

NEST plays a key role in the implementation of auto enrolment. The reforms require employers to automatically enrol eligible workers into a qualifying workplace pension scheme. NEST has been established with a public service obligation (PSO) to accept any employer, of any size, which wants to use the scheme for the purposes of meeting their duties. This means that every single employer is able to enrol their eligible workers into a qualifying pension scheme.

## The next three years

The next three years will be very important to our success. In the peak month of the staging profile over 2014/15, just over 10,000 employers reached their staging date. In the busiest months of the next three years, over 100,000 employers will be looking to set up a pension scheme and automatically enrol their workers. This accelerated growth in employers looking to set up schemes will be a challenge for the whole industry. However given NEST cannot turn any employer away, we need to be prepared to handle very high volumes.

Our ultimate vision is to help the millions of people who are already, and will be, saving with us save confidently for their retirement. So in parallel to playing an important role in making sure that many tens of thousands of employers can meet their duties, over this period we also need to continue to build a financially self-sustaining business which can deliver value to its members in the long-term.

These goals are linked. For us to simultaneously handle high volumes and build a sustainable business, it follows that we must continue to deliver an effective self-serve, online product to employers and members. In this plan we'll signpost how.

For our business to be truly sustainable as we grow we need a mature corporate culture, an appropriate approach to controls and to keep up with changing regulation. Additionally, effectively targeting our resources in these ways will allow us to develop and maintain our investment approach, contributing to good member outcomes.

We'll also need to look beyond the challenges of the staging profile, and understand and prepare for some changes. Specifically, in 2017 two restrictions which currently operate on NEST will be lifted. We'll be able to accept transfers both into and out of the scheme, and will no longer be subject to a NEST-specific cap on contributions. Furthermore the government's recent pension reforms which affect how savers can access their pots will have been in place for some time. These changes will impact NEST's costs and revenues in different ways. So in this period we'll need to understand how best to respond, again from the perspective of building a sustainable NEST which will maximise the value it delivers to its members.

This context is reflected in the activity we signpost in this plan, and we look forward to reporting on progress in due course.

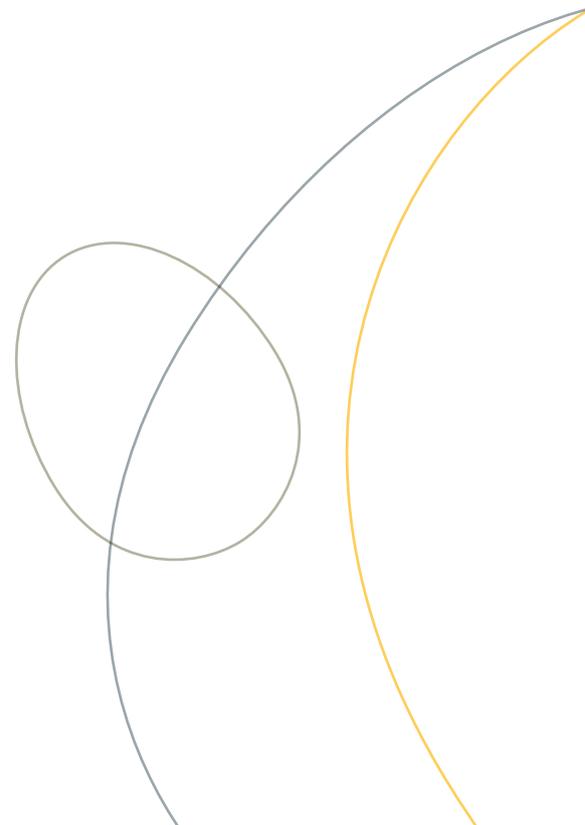
Otto Thoresen  
Chair  
NEST Corporation  
July 2015



# What's the purpose of the corporate plan?

As part of our obligations as a public body we're required to produce and publish a corporate plan to inform the Department for Work and Pensions (DWP) and interested parties of progress against our objectives. This is our sixth corporate plan, which incorporates our 2015/16 business plan. Given that the aim of this plan is to allow interested parties to review progress in delivering our statutory objectives, its contents have not been verified or independently approved. It should also be noted that while our corporate plans set out our strategy for the coming years, like all organisations, these plans may be modified as we adapt to our changing environment.

NEST's sixth corporate plan covers the period from April 2015 to March 2018 and includes details of our business plan for April 2015 to March 2016. The plan identifies what we believe we'll need to achieve if we're to be successful in helping millions to save confidently for their retirement. It sets out the areas of priority we'll be focusing on in the financial year 2015/16.



# The value we deliver

## To our members

As the Trustee of the NEST scheme, NEST Corporation's role is to administer, safeguard and invest the pension contributions of employers and members. NEST is specifically tailored to provide anyone who's enrolled with a high-quality, great-value pension scheme. Most of these people will not currently be saving for their retirement and, without NEST, many wouldn't have had access to a quality pension scheme.

## To taxpayers

NEST's PSO and competitive pricing structure mean that every employer can enrol their workers in a high-quality pension scheme. This will boost the retirement pots of millions of workers and their ultimate retirement income.

# Our priorities for 2015-2018

The following set of priorities are a continuation of last year's. They highlight how we're both preparing for an increase in scale, while also building a resilient and sustainable business model. We're directing our resources to enable us to:

- develop scalable, efficient, and secure operations, supported by a product which enables employers to get it right, enabling us to safely manage peaks of demand and to minimise the costs of our operations
- build an organisation which is culturally fit for the challenge of delivering the NEST scheme
- maintain the ongoing functions of a leading pensions business
- prepare for the challenges and opportunities of 2017.

The remainder of this document will detail how we plan to take each priority forward in this period.

## Develop scalable, efficient, and secure operations, supported by a product which enables employers to get it right, enabling us to safely manage peaks of demand and to minimise the costs of our operations

By July 2015 NEST had helped around 22,000 employers meet their auto enrolment duties since the onset of employer duties in autumn 2012, and, with our partner, TCS, we're already administering the pension contributions of over 2.2 million members.

The summer of 2014 was our busiest period to date in terms of the numbers of employers looking to set up their schemes with us. However, 97 per cent of all employers affected by the auto enrolment legislation are due to stage between mid-2015 and 2018.

This expectation of rapid growth in the numbers of employers setting up a scheme, and subsequently managing their arrangements day to day, is part of the backdrop to this first strategic priority. It's clear that, for NEST to be successful, we need our product and the underlying operations to work effectively at significant scale.

However we need to prepare for scale in such a way that also enables us to build a sustainable long-term business. That's why our model is that of a self-serve online business and why we continually seek to improve our online tools to make sure that employers and their advisers can use NEST entirely independently. Making our self-serve model work is how we'll manage at scale and keep costs down.

Over the past 12 months we've continued to learn from the experiences of our customers and listened to what they wanted from our product. As a result, we've made enhancements so that it's as straight forward as possible for employers to sign up and administer their scheme and for members to access their NEST account online. Over the coming year, we'll continue to monitor customer feedback and make appropriate improvements.

In this planning period lots of employers will be supported by other service providers, for example payroll providers, accountants and other intermediaries. Consequently, we'll also need to make sure that our product and service meets the needs of these intermediaries. We're working very closely with the payroll software industry on enhancements for further integration between NEST and payroll systems. In June we announced that NEST has developed web services capability and will be able to deliver key auto enrolment actions through seamless payroll integration. We'll continue to evolve our systems to meet the needs of our customers and to ensure we're ready for the high volumes of employers and members likely to come to us over the next three years.

## **Build an organisation, NEST Corporation, which is culturally fit for the challenge of delivering the NEST scheme**

The scale of the NEST scheme is growing rapidly. This means we, the Corporation, are responsible for the security of ever-increasing amounts of customers' data and assets. We'll continue to devote resource to make sure our organisation has the right capabilities and controls and we'll continue to maintain and improve our control framework.

### **Staff engagement**

We'll continue to seek to raise our levels of staff engagement through training, supporting staff to develop in their roles, improving our internal communications and motivating and retaining our staff through a fair reward programme. We're developing our people strategy to reflect the changing demands on our organisation. This will provide the framework to align the key people-related tools and priorities needed to deliver the business plan and strategic priorities for NEST.

### **Control framework**

We'll also continue to embed a robust control framework with a focus on 'getting it right first time' so that we can balance the need for controls in our operations with the need to keep costs low for our members. As above, all of the resource we employ on our objectives is with a view to building a sustainable business model.

## Maintain the ongoing functions of a leading pensions business

The third of the priorities reflects that NEST is already a large, operational pension scheme. In a plan which is focused on meeting upcoming scale challenges, while simultaneously building a sustainable business model, we also need to focus on maintaining our core functions, and doing so in a changing landscape. We aim to:

- deliver a leading investment approach for our members; and considering how to respond to the 2014 Budget changes which provide greater freedom to savers at retirement
- respond to the Budget freedoms
- maintain a compliant scheme
- maintain our voice and our brand.

Each of these areas is considered in more detail below.

### Deliver a leading investment approach for our members

NEST has been investing on its members' behalfs for over three years. Whilst many of the principles underpinning the original investment approach have remained in place, we've continued to refine the delivery of our strategy and sought to drive greater efficiency in the way we invest. We'll continue to do so in this period.<sup>1</sup>

In order to maintain and improve our investment approach we'll continue to devote resource to monitoring and assessing performance of the funds our members' money is invested in, as well as wider global risks and opportunities. In response to this information we'll manage the risks our portfolios are exposed to and potentially invest in new asset classes as appropriate.

<sup>1</sup> <https://www.nestpensions.org.uk/schemeweb/NestWeb/includes/public/docs/looking-after-members-money.PDF.pdf>

## Respond to the Budget freedoms

Like other pension trustees, NEST Corporation has been affected by the 2014 Budget's changes to legislation regarding pensions.<sup>2</sup>

Less than 10 per cent of our membership is currently over 55, and, as they haven't been saving with us for very long, their average pot size is less than £200. Those who want to take advantage of the new freedoms can take their pot as a cash lump sum.

However, we expect most of those who are actively contributing to NEST to continue saving and building up their pots.

We are a relatively young scheme, that means we can look at the impacts of these changes with a longer-term horizon. We want to give them the time and thorough evidence-based approach they deserve to make sure we get the best outcomes for our members.

We're undertaking a consultation process to understand the likely needs of NEST members at retirement and the implications for what they might be offered in the longer term. In the short term we've published an interim response to this consultation, outlining six principles for meeting the needs of a new generation of savers.<sup>3</sup> A further response was published in June 2015 and can be found on the NEST website.<sup>4</sup>

<sup>2</sup> These changes and NEST's response to them are outlined in the Retirement Solutions Consultation Document, found here: <http://www.nestpensions.org.uk/schemeweb/NestWeb/includes/public/docs/The-future-of-retirement.pdf>

<sup>3</sup> <https://www.nestpensions.org.uk/schemeweb/NestWeb/includes/public/docs/guiding-principles.pdf>

<sup>4</sup> <http://www.nestpensions.org.uk/schemeweb/NestWeb/public/aboutnestcorporation/contents/consultations.html>

## Maintain a compliant scheme

The external environment is not static and neither are the regulatory requirements we need to meet. This objective anticipates a need for us to deliver some changes to remain compliant, both to our scheme and to the activities in the Corporation.

Following the publication of the Office of Fair Trading's (OFT) *Defined contribution workplace pension market study* in 2013 there's been an increased focus by legislators, the regulator and industry on how the DC market can address the recommendations of the report. These include how DC schemes, including master trusts, meet minimum governance standards and improve the quality of information available on costs and charges. This increased focus has resulted in additional reporting and assurance requirements on master trusts.

Last year we presented our voluntary governance statement, which was welcomed by The Pensions Regulator (TPR). We reviewed and assessed whether our systems, processes and controls across key governance functions are consistent with those set out in TPR's DC code and guidance. The governance statement was drafted in the spirit of openness, addressing not only the presence of TPR's quality features but also acknowledging the challenges we face and which are faced by all large auto enrolment schemes.

This year, we plan to build on this by producing an independently audited assurance report, in accordance with the Institute of Chartered Accountants in England and Wales AAF 02/07 framework. As we look to meet all the reporting and assurance requirements, we'll continue to maintain our high-quality approach to risk management by keeping our frameworks up and running but also by continuing to develop our approaches in line with industry best practice.

## Maintain our voice and our brand

Ease, transparency and empowerment are at the core of the NEST brand. We endeavour to stay true to these values in all that we do, from the way we communicate to our business practices.

We'll continue to communicate with our members in a way we think is clear and transparent, with a view to empowering them to take ownership of their retirement and feel confident about pension saving.

Within the industry we'll continue to participate in relevant debates, make evidence-based contributions to relevant consultations and share our experiences with the wider market to help develop best practice for a new generation of pension savers.

## Prepare for the challenges and opportunities of 2017

The first three priorities relate to immediate business needs. However, in 2017 the landscape will be different. Importantly, the government has now legislated to remove two restrictions from April 2017<sup>4</sup> which affect the NEST scheme. These are the restrictions on transfers and our annual contribution limit.

In this period we plan to consult on a set of rule changes which will complement these legislative changes by, for example, giving the Trustee of NEST a specific power to accept individual transfers into the scheme from existing members. This will involve public consultation and consultation with our two panels, the Employers' Panel and the Members' Panel. On a practical level, we'll need to make sure we're ready to start accepting transfers in and out of the scheme within this planning period.

4 <http://www.legislation.gov.uk/uksi/2015/178/article/2/made>

# Monitoring progress

The following table summarises what our priorities mean for our activities over the next year and sets out some examples of the indicators we'll monitor. Not all of these lend themselves to quantification, but they paint a picture of the information we'll use to understand our progress and the challenges we face.

Together, these objectives define what we think we need to focus on in order to deliver a sustainable scheme. Being on the right trajectory to be financially self-sustaining is an important part of this so we'll consider these measures alongside an overarching focus on our costs, our revenues and the numbers of employers and members whose needs we're meeting.

Strategic priority one	Actions we'll undertake	What we'll monitor
Develop scalable, efficient, and secure operations, supported by a self-service model which enables employers to get it right, enabling us to safely manage peaks of demand and to minimise the costs of our operations.	<p>Continue to develop our product to provide an easy-to-use, self-serve experience for employers throughout their service journey with NEST which should keep costs low in the long-term.</p> <p>Continue our constant dialogue with TCS to allow us to deliver change in order to improve the product, as above.</p> <p>Continue to work with intermediaries to ensure that they have the support and training that they need to support smaller employers; and continue to develop our integration with payroll.</p>	<p>Performance against our expectations of the service, including:</p> <ul style="list-style-type: none"> <li>- website availability</li> <li>- contact centre availability</li> <li>- the speed with which we answer calls to the contact centre</li> <li>- the queries our members and employers contact us with, the amount of time it takes us to deal with their query and other indicators of customer feedback</li> <li>- the nature of complaints and the time taken to resolve them</li> <li>- indications of scheme efficiency, for example, error rates.</li> </ul>
Strategic priority two	Actions we'll undertake	What we'll monitor
Build an organisation which is culturally fit for the challenge of delivering the NEST scheme.	Continue to develop robust controls.	- Evidence of how well our financial and information security policies and processes are working.
	Continue our programme of work to nurture high levels of staff engagement.	- Monitor indicators of staff engagement, including through our annual staff survey.

Strategic priority three	Actions we'll undertake	What we'll monitor
Maintain the ongoing functions of a leading pensions business.	Continue to maintain and evolve our investment approach, investing NEST retirement funds in line with risk budgets and relevant ethical principles.	<ul style="list-style-type: none"> <li>- Investment performance.</li> <li>- The running of our funds in line with our investment principles, including our responsible investment policy.</li> <li>- The results of a NEST consultation on how we should evolve the scheme in light of the 2014 Budget changes offering savers greater flexibility.</li> </ul>
	Continue to maintain a compliant scheme.	<ul style="list-style-type: none"> <li>- Compliance with relevant regulations and other legal requirements and codes of conduct.</li> </ul>
	Maintain our brand and our voice by: <ul style="list-style-type: none"> <li>- continuing to engage constructively in external policy and other debates, and with stakeholders, media and influencers across the industry</li> <li>- continuing to raise awareness of the NEST brand among relevant audiences</li> <li>- further deepening our insight into our members and the employers who use us.</li> </ul>	<ul style="list-style-type: none"> <li>- Our assessment of how employers, members, media outlets and other stakeholders view NEST.</li> <li>- Strong, co-operative and constructive relationships with other stakeholders involved with pensions and auto enrolment.</li> </ul>
Strategic priority four	Actions we'll undertake	What we'll monitor
Prepare for the challenges and opportunities of 2017.	Assess and understand the challenges and opportunities presented by 2017; consult the public with our two panels to prepare for the lifting of restrictions and the end of staging.	<ul style="list-style-type: none"> <li>- The volume of employers and members using the NEST scheme.</li> <li>- Our overall financial performance.</li> <li>- Our operational readiness for the lifting of restrictions.</li> </ul>

# How we'll deliver our priorities

This section talks about our values and our code which underpin the culture we need to be successful.

## NEST code

Our code of conduct goes further than the requirements placed on us by law and regulatory compliance. It clearly outlines the ethical principles that help define who we are and what we're about as employees of NEST. This code, first implemented in 2013/14, is now widely recognised and adopted at NEST. It applies to all NEST employees, secondees and interims, at all levels of seniority. Our code is:

- do the right thing
- don't walk by
- learn from our mistakes.

This complements the NEST value statements of:

1. we know why we're here
2. we believe in the value of what we do
3. we care about delivering
4. we know we can only be successful by working together and with others.

# Resource summary

When spending, we must always hold the interests of our members at the front of mind. Every cost ultimately falls at their feet.

The following section provides information on the resources required to deliver business activities for 2015/16, as well as information on resource planning for the period April 2016 to March 2018.

## Financial Resources

	Figures from 2014/15 corporate plan £(m)	2014/15 provisional outturn £(m)	2015/16 plans £(m)	2016/17 plans £(m)	2017/18 plans £(m)
<b>Expenditure</b>					
Scheme administration including change requests, fund administration, fund management and The Pensions Regulator levy	35.6	33.1	27.7*	42.3	56.2
Costs of running NEST Corporation	34.5	30.3	35.2	35.6	32.4
Depreciation	12.4	13.6	15.6	15.6	15.6
Interest on loans	22.1	21.7	26.0	31.7	37.1
<b>Resource expenditure</b>	<b>104.5</b>	<b>98.7</b>	<b>104.4</b>	<b>125.1</b>	<b>141.3</b>
<b>Income</b>					
Income from member charges	7.0	5.8	8.2	12.1	27.2
Grant in respect of public service obligation	12.5	12.2	14.8	16.3	17.6
Grant-in-aid for non-chargeable expenditure	0.6	0.4	0.6	0.6	0.5
<b>Total income</b>	<b>20.1</b>	<b>18.5</b>	<b>23.5</b>	<b>29.1</b>	<b>45.3</b>
<b>Total comprehensive expenditure for the year</b>	<b>84.4</b>	<b>80.2</b>	<b>80.8</b>	<b>96.0</b>	<b>96.0</b>
<b>Capital expenditure</b>	<b>11.8</b>	<b>12.4</b>	<b>12.4</b>	<b>12.4</b>	<b>16.4</b>

\*Generally scheme administration costs are expected to grow as the scheme grows; however you'll see from the table above that we anticipate a reduction in scheme administration costs in 2015/16. This is because since reaching 2 million members, the charging mechanism in our scheme administration contract changes from a flat minimum charge to a variable per member charge which means that the overall cost per member reduces and overall costs reduce until the membership builds up.

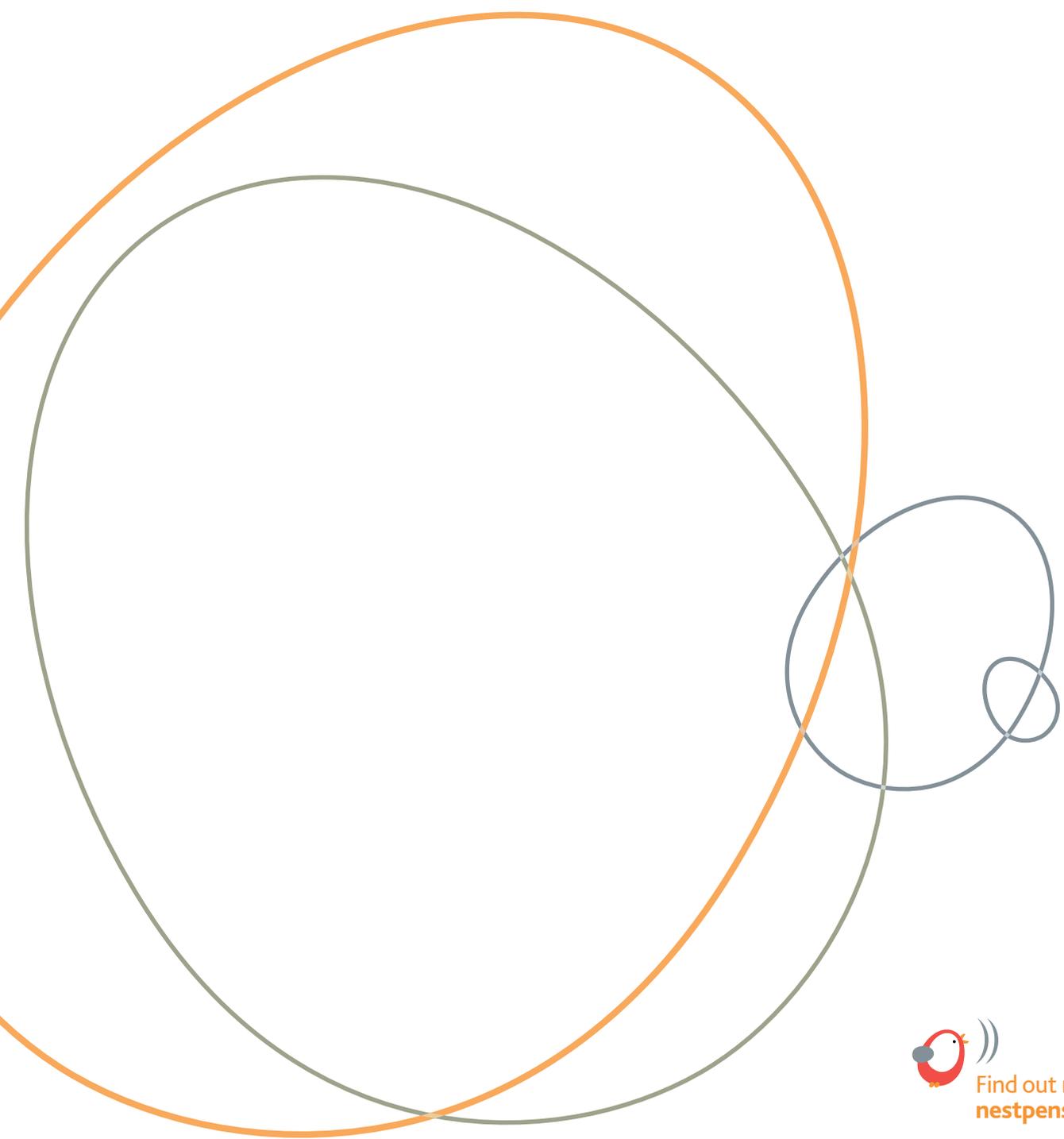
## Analysis

Total comprehensive expenditure for 2014/15 was lower than anticipated, totalling £80.2m compared to the forecasted £84.4m. This is due to a combination of things including spending less on scheme administration and NEST Corporation as we continuously strive to reduce costs. There were also higher depreciation costs as we have capitalised more assets under the TCS contract than originally anticipated.

Total comprehensive expenditure for 2015/16 is expected to be £80.8m plus £12.4m capital expenditure. This includes a reduction relating to scheme administration due to contractual arrangements with our scheme administrator, an increase in interest and the related public service offset grant.

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