NATIONAL
EMPLOYMENT
SAVINGS TRUST

National Employment Savings Trust Corporation Annual report and accounts

2012-2013

National Employment Savings Trust Corporation

Annual report and accounts 2012/13

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The information contained in this document is correct at the time of its publication.

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01 Chair's statement

This is the third Chair's report for the National Employment Savings Trust (NEST) Corporation's Annual Report and Accounts. In this report I would like to highlight the main achievements during the year and comment on some of the risks and challenges NEST continues to face.

Far and away the most significant achievement was getting ourselves ready to accept members in October 2012 at the onset of the employer duties under the Pensions Act 2008. Employers and their workers were able to use NEST to provide them with a low cost pension scheme offering good governance, plain English communications, and a specifically designed investment approach.

We have progressively accepted more members into the scheme and by 31 March, the end of our financial year, had 347 participating employers, with over 80,000 members and net assets of around £6m. We are working with a large number of employers, who vary from the very small to the very large employers.

Clearly we would not have been in a position to accept members if our business operations had not already been developed and tested and I would like to thank our partners Tata Consultancy Services (TCS) for their excellent work in building and operating them.

One adverse event of significance during the year was the discovery of a criminal fraud against the organisation. We responded immediately and have strengthened our defences, although we are chastened by the experience. Steps to recover the losses are still ongoing; our approach is to vigorously pursue recoveries as long as the prospective returns exceed the costs involved. Further information is provided in the chief executive's report and in the governance statement.

I would like to pay tribute to the dedication and enthusiasm of all NEST staff, who have worked diligently on developing, supporting and operating our service to members. It has been a tough year, with staff turnover continuing to be in excess of both industry norms and the Trustee's risk appetite. We are looking at ways of tackling this, principally through increasing employee engagement and making NEST a great place to work.

In contrast to the stability and continuity of the Board, the executive team has been through a number of changes this year. In particular I would like to pay tribute to Simon Richards, Sam Hainsworth and Nick Carter who left us during the year after years of excellent service. We have strengthened the executive team and extend a warm welcome to Debbie Gupta, Dan Davis, Fiona Smith, John Taylor and Nick Sex in their respective roles.

We strongly welcome the government's proposal for a new single tier State Pension as an essential simplification on which occupational and personal pensions can be built.

Rising to the challenge set by the Pensions Minister, we are examining whether and how greater predictability of outcomes could be built into pension schemes in order to encourage and sustain greater levels of saving.

Early signs of lower-than-anticipated rates of opt out are encouraging. We in NEST need to do what we can to keep people saving, not least by maintaining standards of service.

The coming year promises to be a challenging one in which we must demonstrate a reliable and consistent service to employers who choose to use NEST and to members of the NEST pension scheme. Meanwhile the economy is struggling to pick up growth momentum, and investment markets remain challenging and volatile. What is beyond doubt however is that making and maintaining contributions to a pension plan is an excellent way of securing an income in retirement.

Lawrence Churchill

Lawrence Churchill CBE
Chair
NEST Corporation

5 July 2013

02 Trustee Members' report

About NEST Corporation

NEST Corporation is the trustee corporation that was established on 5 July 2010 as a successor organisation to the Personal Accounts Delivery Authority (PADA). Its role is to develop and operate the NEST pension scheme. NEST Corporation is a non-departmental public body sponsored by the Department for Work and Pensions (DWP) as a key component of the Automatic Enrolment Programme. Its working relationship with the Department is set out in a Framework Document and in a Memorandum of Understanding agreed between both parties on 11 November 2010 and 19 April 2011 respectively. The function of NEST Corporation is to act as the Trustee of the NEST pension scheme, ensuring that the scheme is run in the interest of its members. The NEST pension scheme accounts are produced separately from this document and may be found at **nestpensions.org.uk**

Key events in the year

2012/13 has been a challenging year in which the Trustee's key objectives were to:

- oversee the delivery of the infrastructure and processes to enable the NEST scheme to be a compliant scheme that employers could use from the onset of employer duties (OED)
- emphasise the transition from a project orientation to a full business
- complete our review of the initial strategic objectives
- monitor investment performance of our funds under management
- develop our culture and build staff engagement
- begin to strengthen the connections between the Trustee and its outsourced suppliers
- encourage the strengthening of the executive team
- continue to strengthen the governance infrastructure
- identify using the annual effectiveness review, any areas where we could improve the Trustee's performance.

Looking ahead

This year will see a step change in the scale of membership of the scheme. We'll support large employers as they start to use the scheme this year and make the necessary product and service updates to prepare for the increased numbers of employers that will reach their duty date in subsequent years.

2013/14 sees a relatively small number of employers reach their duty dates compared to later staging years. However, due to the size of these employers the scale, in terms of the number of workers they enrol, will be significant. We estimate that at the end of the next financial year we will have over half a million contributing members.

Some prominent UK employers have already publicly announced that they will be using the NEST scheme, underlining the role the NEST scheme can play for these types of employer. These include household names such as McDonalds, the BBC, BT and the Compass Group. In 2013/14 we expect further large employers to start using the NEST scheme for some or all of their eligible workforce.

The programme of work to address these challenges is set out in NEST's Corporate Plan for 2013-16 **nestpensions.org.uk/corporate-plan-2013-2016** see page 38.

Organisation structure

The Trustee has 11 members (consisting of a Chair and 10 other Trustee Members) who are responsible for setting the strategic direction and objectives for NEST Corporation.

The appointments of the Chair and the Trustee Members were made by the Secretary of State for Work and Pensions and in line with the Commissioner for Public Appointments' Code of Practice.

The terms of reference for the trustee and committee meetings are published on our website at **nestpensions.org.uk/terms-of-reference**

A schedule of delegations gives authority and responsibility to the chief executive for the day-to-day operations and management of NEST Corporation. We completed the annual review of this schedule in July 2012.

Under the NEST Order 2010, article 8, the Employers' Panel and Members' Panel must give any assistance and advice requested by the Trustee about the operation, development or amendment of the scheme. For further information on the panels, see page 25.

Trustee Member profiles

Lawrence Churchill CBE, Chair

Chair nominations and governance committee

Lawrence is chair of the Financial Services Compensation Scheme and a member of the board of BUPA. He is also a trustee of the International Longevity Centre, UK and a governor of the Pensions Policy Institute.

Previous appointments have been as chairman of the Pension Protection Fund, a member of the Board for Actuarial Standards, chief executive of Zurich Financial Services UK and International Life, executive chairman of UNUM and CEO of NatWest Life and Investments.

Lawrence has also served in a non-executive capacity on the boards of the Association of British Insurers, the Employers' Forum on Disability and the Financial Ombudsman Service, and has been a trustee of the Royal Society of Arts.

Iraj Amiri, member of the audit and investment committees

Iraj was a partner with Deloitte LLP for over 20 years. He led the National Internal Audit Group of Deloitte and was one of the firm’s recognised experts in internal audit and risk management.

In the public sector, his clients included numerous organisations in central government, health, education and local government, and many public bodies, such as the Financial Services Compensation Scheme, The Pensions Regulator, National Savings and Investments and the European Investment Bank. He also has extensive private sector experience at a senior level, serving such organisations as Schroders plc and The Wellcome Trust.

As well as being an FCA, Iraj is a fellow of the Royal Statistical Society, Chair of the Audit and Risk Committee for the Institute and Faculty of Actuaries and was a member of the Internal Audit Task Force of the Institute of Chartered Accountants in England and Wales for a number of years.

Tom Boardman, member of the audit and investment committees

Tom has been involved in the pensions and insurance industry with Prudential and Nationwide for more than 35 years in a wide variety of roles. Before taking up his appointment at NEST Corporation, he was director of retirement strategy and innovation at Prudential UK.

He is a fellow of the Institute of Actuaries, honorary visiting professor at the Cass Business School and a governor of the Pensions Policy Institute. Tom was also a senior advisor at the Financial Services Authority during the 2012/13 year and a trustee of the International Longevity Centre UK until he resigned in June 2012. He became a senior advisor at the newly formed Financial Conduct Authority from 1 April 2013.

Sharon Darcy, member of the investment and risk committees

Sharon is a qualified accountant with a very strong background in the consumer movement.

She is a non-executive director of Consumer Focus and was previously on the board of energywatch, an organisation which both helped consumers deal with problems with their energy suppliers and campaigned on fuel poverty. She is also a non-executive director of the Hyde Group, a large housing association, and a Member of the Committee on Standards of the House of Commons.

In the past Sharon was a consumer director of TrustMark, an organisation which promotes reputable traders in the home maintenance and repair sector, a non-executive director of Sutton and Merton Primary Care Trust and the chair of Sutton Borough Citizens Advice Bureau.

After the year-end Sharon was appointed as chair of the risk committee and became a member of the audit committee.

Laurie Edmans, CBE, member of the remuneration and risk committees

Laurie is deputy chairman of MGM Assurance. This is a long-established mutual that has become a specialist annuity provider.

He is on the council of the Pensions Policy Institute and is a director of Bdifferent, a specialist financial services branding and research agency. He is chairman of the trustees of the Trinity Mirror Pension Plan and a trustee of two charities, the Quest School for Autistic Children and the Family and Parenting Institute where he is treasurer. Laurie is a non-executive director at the Money Advice Service and was until recently the chairman of Safe Home Income Plans, the trade association for equity release products. Before joining NEST Corporation, Laurie was a non-executive director of The Pensions Regulator, following three years on the board of its predecessor, OPRA.

Paul Hewitt, chair audit committee and member of risk committee and senior independent director

Paul is currently non-executive chairman of a number of companies including RJ Kiln, OB10, Shop Direct Financial Services and The Good Care Group. Paul is also non-executive director of Tesco Bank.

He joined the Co-operative Group in 2003 where initially he was chief financial officer before becoming acting chief executive of Co-operative Bank, CIS and Smile and later, deputy group chief executive.

In his earlier career, after qualifying as a chartered accountant, Paul worked as finance director in a number of private equity-backed and quoted companies.

Chris Hitchen, chair investment committee, member of the nominations and governance committee

Chris is the chief executive of the Railways Pension Trustee Company and its operating company RPMI Ltd, which runs the industry-wide pension arrangement for the UK's railways. This covers 350,000 people and around 100 employer groups.

The scheme has assets of around £20 billion and Chris also chairs the group's FCA-authorised investment subsidiary Railpen Investments. Before joining the rail scheme as chief investment officer in 1998, he worked for 12 years as an investment consultant and actuary to a number of UK pension plans.

Chris is a past chairman of the National Association of Pension Funds (NAPF) and chairman of the Pensions Quality Mark, an initiative to give recognition to good defined contribution pension provision. Chris is also a past chairman of both the NAPF Investment Council and the Institutional Shareholders Committee.

After the year end Chris stood down as chair of the investment committee but remains a member.

Julius Pursaill, chair risk committee, member of the audit and investment committees

Julius retired from full-time employment in 2001 and has since acted as a non-executive director and consultant for a number of technology-based companies. These have predominantly been in the financial services sector including Barrie & Hibbert and Capita. Julius also sits as an independent member on both the Heineken pension scheme advisory board, Royal London with Profits Committee and the Scottish Life investment advisory committee. Julius is vice chair of governors at MidKent College.

Julius spent his early career in the retail financial services industry in sales management and designing financial services products.

In 1994 Julius joined the investment management company Mercury Asset Management and was appointed to head its defined contribution pensions business.

In 1998 he was appointed head of e-Business for the Europe, Middle East and Africa global region at Merrill Lynch Investment Management.

After the year-end Julius stood down as chair of the risk committee and as a member of the audit committee. He remains a member of the risk committee. Also after the year end Julius was appointed as chair of the investment committee.

Enid Rowlands, member of the remuneration, nomination and governance committees

Enid Rowlands has a background in change management, organisational transition and development. A psychologist by qualification, she has chaired public sector bodies with budgets in excess of £1.2 billion and is a companion of the Chartered Management Institute.

In recent years Enid has specialised in governance in public and not-for-profit sectors. She is currently a board member and chair of HR/Remuneration of the General Medical Council, the Information Commissioner's Office and the Solicitors Regulation Authority. Enid was previously a board member of Customer Focus.

She has served with a range of organisations and Ministerial Advisory Groups concerned with marginalised and disadvantaged groups in the workforce, including women returning to work and people with sensory impairment. She is also chair for Victim Support.

Sue Slipman, chair remuneration committee, member of the nomination and governance committee

Sue has been the chief executive of the Foundation Trust Network which she ran from 2004 to 2012. She is currently a non-executive director at Kings College Hospital Foundation Trust. She was previously chair of the Financial Ombudsman Service and was also executive director with Camelot Group where she was responsible for social responsibility and external affairs.

Sue's previous roles include chief executive of the Gas Consumers' Council, the London Councils' Transport and Environment Committee and the National Council for One Parent Families.

She has also held a number of public appointments. These include chair of the Department for Trade and Industry's working group on corporate social responsibility, and chair of the National Consumer Council's Policy Commission on Public Services.

She has also chaired the Financial Services Authority's schools working group on financial capability and was a non-executive director of Thames Water until 2008.

Nigel Stanley, member of the investment and remuneration committees

Nigel has been head of campaigns and communications at the TUC since May 1997, where he has led much of the TUC's work on pensions reform following the report of the Pensions Commission.

He joined the TUC as its first ever parliamentary officer in 1994. From 1992 to 1994 he freelanced in public affairs, research and journalism where his client list included the Shopping Hours Reform Council, the European Commission, the Labour Party and a number of MPs.

Nigel also worked at the House of Commons from 1983 to 1992, first for Robin Cook and then for Bryan Gould on research, press relations and campaign management.

The table below sets out the membership of NEST Corporation committees and provides details of meetings attended by Trustee Members during the year:

	Trustee Member meetings	Audit committee	Investment committee	Nominations and governance committee	Remuneration committee	Risk committee
Number of meetings	**13**	**6**	**5**	**3**	**6**	**7**
Lawrence Churchill	13			3		
Iraj Amiri	12	6	5			
Tom Boardman	13	6	5			
Sharon Darcy	13		5			6
Laurie Edmans	12				4	6
Paul Hewitt	12	6				7
Chris Hitchen	12		5	3		
Julius Pursaill	12	6	5			7
Enid Rowlands	12			2	5	
Sue Slipman	13			2	6	
Nigel Stanley	13		4		6	

The Pensions Regulator's six principles for good workplace defined contribution schemes

In December 2011, The Pensions Regulator (TPR) published six high-level principles as part of its ongoing engagement with the pensions sector to improve standards of defined contributions (DC) provision and ensure that the pensions sector is ready to support automatic enrolment.

The six principles span the lifecycle of a DC scheme from the design and set-up phases through to their ongoing management. TPR published a consultation document on regulating work-based defined contribution pension schemes in January 2013 which proposed a new code of practice and regulatory approach. This developed further the core components of a new regulatory framework to help it ensure that work-based DC pension schemes (including those used for automatic enrolment) are good quality. NEST Corporation's response to this consultation can be viewed at **nestpensions.org.uk/Regulating-work-based-defined-contribution** and is broadly supportive of the proposed approach.

The table below provides an overview of NEST's compliance with the principles.

Principle	TPR: Six Principles for DC	NEST's summary response
1	Schemes are designed to be durable, fair and deliver good outcomes for members. This principle covers the features necessary in a scheme to deliver good outcomes for members, including features such as the provision of a suitable default fund, transparent costs and charges, protected assets and sufficient protection for members against loss of their savings.	The NEST scheme has been designed based on unprecedented research into the types of savers who will be brought into pensions by automatic enrolment. NEST scheme's Retirement Date Funds have been specifically created to manage investment risks throughout a member's time saving with NEST in a sophisticated and tailored way. Details of our current charges are explained in a clear and straightforward way to our members and their employers. Examples are online. Charges to the member are currently the same whichever fund they select. The NEST scheme is transparent about the way it operates and what it does with members' money. We also make available on our public website the research that has led to the design of the investment approach, including the Member Research Brief. In June 2012, the Trustee determined that it will make no deductions from member accounts for so-called consultancy charging.

Principle	TPR: Six Principles for DC	NEST's summary response
2	A comprehensive scheme governance framework is established at set-up, with clear accountabilities and responsibilities agreed and made transparent. This includes identifying key activities which need to be carried out, and ensuring each of the activities has an 'owner' who has the necessary resources to carry out the activity.	NEST Corporation's dual status as Trustee and Public Corporation, combines best practice and guidance from pensions and the corporate governance world. Please see the governance statement at section 4, pages 18 to 32 for more detail.
3	Those who are accountable for scheme decisions and activity understand their duties and are fit and proper to carry them out. This principle ensures that those who are given accountability or responsibility for a key governance task are able to carry this out. The principle will cover definitions of fitness and propriety for accountable parties and also conflicts of interest that may arise.	NEST Corporation's governance structure provides clear lines of accountability and decision making. This includes a scheme of reserved powers and delegated authorities. All Trustee Members are appointed on merit for their knowledge, expertise and diversity. They undertake and report continuous professional development (CPD) activity, and maintain a register of interests. At every meeting Trustee Members must disclose any conflicts of interest pertinent to that meeting's agenda. NEST's Corporate Governance Statement is available online at **nestpensions.org.uk/corporate-governance-statement**
4	Schemes benefit from effective governance and monitoring through their full lifecycle. This principle looks at the ongoing governance and running of the scheme, including the internal controls and monitoring needed to ensure that the scheme continues to meet its objectives, and continues to be run with the best interests of its membership in mind.	Although the scheme was only launched in 2011, the Trustee has given consideration to longer-term strategy, the identification of critical success factors and the investment risks from members joining through to making decisions about converting their pension pot into a retirement income. The Trustee receives and scrutinises management information about the scheme regularly, develops its objectives and monitors performance against these. It also sets strategy and considers risk issues at a scheme level. The Trustee undertakes an annual review of its effectiveness as a body and that of the committees. The Chair leads on the annual appraisals for each Trustee Member. The members of the nominations and governance committee lead on the annual appraisal of the Chair.

Principle	TPR: Six Principles for DC	NEST's summary response
5	Schemes are well-administered with timely, accurate and comprehensive processes and records. This principle is informed by TPR's previous work on record keeping, looking specifically at the administration processes required in a DC scheme.	NEST's scheme administration is delivered by Tata Consultancy Services (TCS), part of the Tata Group and a top-10 global IT services, business solutions and outsourcing company. Operational performance is monitored by the executive team and reported regularly to the Trustee Members. The scheme assets are administered by a fund administrator, State Street Bank, and reconciled on every trading day.
6	Communication to members is designed and delivered to ensure members are able to make informed decisions about their retirement savings. This includes all communications to members during their time with the scheme – from joining through to making decisions about converting their pension pot into a retirement income, including promotion of the open market option.	The NEST scheme gives members a clear journey online from joining to taking their money out. See the *NEST for savers* section of the website at **nestpensions.org.uk/NESTforsavers**. The NEST scheme also has a UK based contact centre operated by TCS where all staff receive thorough training on supporting scheme members and employers. Our commitment to communicating to members in a way they understand is at the centre of our communications development. NEST Corporation has developed *The NEST phrasebook* which sets out how we talk to employers, members and future members about pensions, using words and phrases that have been designed with them in mind. NEST Corporation continues to undertake research to get a better understanding of the best ways to communicate technical issues such as investment risk to members in a meaningful way.

TPR believes that if schemes follow these principles in their design, set-up and ongoing operations it will help them to deliver the six elements necessary for members to receive good outcomes, which TPR have previously identified:

- appropriate decisions with regards to pension contributions
- appropriate investment decisions
- efficient and effective administration of DC schemes
- protection of scheme assets
- value for money
- appropriate decisions on converting pension savings into a retirement income.

More detail on how the Trustee Members have carried out their responsibilities during the year is set out below in the Governance Statement.

03 Chief executive's report

Over the last year, NEST Corporation has achieved a number of significant milestones:

- We prepared the scheme for the onset of employer duties from September 2012 so that we could meet our statutory obligation to provide a pension scheme that enables employers to meet their employer duties.
- The scheme grew in scale from 849 to 80,406 members, 200 to 347 employers and £0.5m to £6.0m assets under management.
- We put in place the capacity to grow even further, with three major service releases in the last six months of 2012/13 and a significant deployment of additional infrastructure by TCS.
- We delivered an on-line platform for employers to enrol members and for members to interact with the scheme.
- The scheme completed its first full year of managing investment funds in line with the Trustee Members' *Statement of investment principles*.
- We worked hard to contribute to the communications challenges posed by automatic enrolment in the form of our consumer campaign last summer and the *NEST insight* report and event early in 2013.
- We welcomed the first set of employers selecting NEST to help them meet their employer duties. While we cannot extend this approach beyond the first few employers because of the sheer numbers coming to the duties in later months, this has provided invaluable insight into the employer experience that is informing our approach to delivery at scale and has already helped us determine priorities for IT releases. We are very grateful for the help and support we have and continue to receive from our customers.

We have achieved all this while keeping costs within budget, effecting major changes in the composition of the executive team and taking the organisation further along its journey from start-up to pension scheme of scale. Staffing has increased from 225 to 258 in preparation for the challenges ahead. Our staff are the backbone of our endeavour and our success is a testament of their commitment to NEST Corporation's mission and purpose.

We will be moving offices later this year as our current lease expires at the end of 2013. Remaining on the government estate we will move into new offices sharing a building with OFCOM at Riverside House, Southwark.

Many of our achievements would not have been possible without our strong and strengthening partnership with our scheme administrators, Tata Consultancy Services (TCS). Neither we nor they have found 2012/13 an easy year, but by putting our shared objectives first, we have delivered to schedule, quality and budget a pension scheme that doesn't just meet the needs of today's membership but is designed to support the rapid scaling up of membership as the staging schedule rolls out.

It's been an amazing year for NEST where our hard working staff, both within NEST and in our partner organisations have delivered exceptional results.

I am very disappointed to have to report that NEST lost £1,446k in 2012/13 from a single fraudulent attack, involving the diversion of a supplier payment.

On learning of this, I moved immediately to close down our exposure to any further attack of this nature and we promptly informed the DWP, police and relevant regulatory authorities. A series of actions to seek recovery of the monies, tighten our controls framework and review business processes across NEST Corporation have been undertaken. Given this event, I have asked the Chair to remove me from consideration for any non-consolidated award for 2012/13.

Over the next 12 months one of our key challenges, a challenge shared with the whole pensions industry, is scaling up and preparing for an even faster pace of scaling up beyond them. We need to be able to do this while delivering a quality service for members and employers.

I am looking forward to the next stage of NEST's development and am determined to deliver what our customers and members require of us in the coming year.

Tim Jones
Chief executive and accounting officer
NEST Corporation

5 July 2013

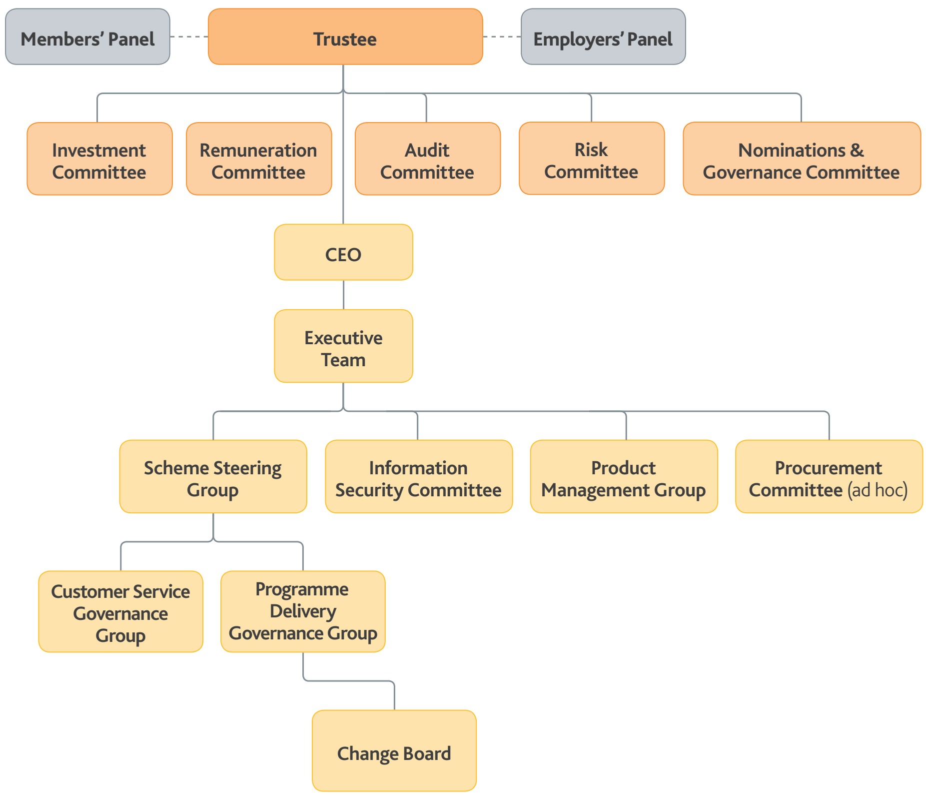
04 Governance statement

NEST Corporation was established under the Pensions Act 2008 as a Non Departmental Public Body (NDPB) to set up and manage the NEST pension scheme. It has a public service obligation to accept all employers who want to use the scheme to meet their employer duties, by making the scheme available to them. NEST Corporation is the Trustee of NEST pension scheme and has accountability for making decisions according to trust law.

The key features of NEST's governance, the principal risks and uncertainties we face, and the controls and mitigations we have put in place to address those risks, are summarised in this statement.

Governance framework

The table below shows the governance structure for NEST Corporation



There are 11 Trustee Members including the Chairman. All Trustee Members were independent at appointment having no current or previous material relationship (with the exception of Paul Hewitt who was a member of the PADA board) with the organisation as an employee, officer or contractor. The scope of all the bodies and committees encompasses those issues relating to the NEST pension scheme and those relating to NEST Corporation as an NDPB.

The Trustee meets 13 times a year, with additional off-sites to discuss strategy and longer-term issues. It has established audit, investment, nominations and governance, remuneration and risk committees to improve efficiency and effectiveness. These committees meet as required and report back on their work to Trustee meetings. Details of the meetings can be found below.

The chief executive has powers delegated to him through a schedule of reserved powers and delegated authorities from NEST Corporation. In turn he delegates authority to and holds each member of the executive team accountable for delivery of their specific objectives. Weekly executive team meetings are used by the chief executive to communicate key issues and provide an escalation route for matters that benefit from discussion between all executives. In addition there are advisory committees of executives which are used to explore issues and consult with colleagues.

Trustee performance

The nominations and governance committee oversaw the process for the effectiveness reviews for the Trustee and its committees which was carried out between January and March 2013. Actions from the 2011/12 review included strengthening of the corporate secretarial function, promoting cultural development and strengthening of the executive team.

The balance of skills, knowledge and diversity of the governing body was thought to meet the needs of NEST Corporation and the scheme. Good debate was encouraged and the balance of ordinary business and strategy was found to be appropriate.

Actions identified for 2012/13 are focused on embedding a strong performance culture within the organisation to deliver its values and meet the challenges of bringing significant volumes of employers and members on board over the next few years. Leadership development sessions will be set up for the trustee members and the executive team to strengthen the formation of a team with a number of new members. The Trustee Members agreed to appoint a senior independent director (Paul Hewitt), in line with best practice in governance.

The Chair held a performance appraisal meeting with each Trustee Member. The members of the nominations and governance committee led on the appraisal process for the Chair.

4.1 Trustee Meetings

Trustee Members held 13 (2012 : 10) meetings during 2012/13, with committee membership and attendance at their meetings set out on page 12.

During the year, the Trustee received and scrutinised information on operational activities and projections, considered the strategic development of the scheme and took a number decisions flowing from the normal cycle of business. This included receiving the report from the chief executive at each meeting to update Trustee Members on key operational issues and management information. The Annual Report and Accounts for 2011/12 for the NEST Corporation and NEST scheme were approved. Changes to the scheme rules were approved, following public consultation. Updates to the scheme of reserved powers and delegated authorities were agreed. Funding arrangements were reviewed. A reward strategy was approved. Customer, stakeholder and staff survey results were considered and Members' Panel appointments were approved.

In addition, the Trustee agreed a Corporate Responsibility Framework, drawing on the Sustainability Reporting Framework developed by the Global Reporting Initiative, decided not to allow members funds to be used for consultancy charging and approved developments on organisational culture.

The Trustee responded to the Department for Work and Pension's call for evidence on lifting the restrictions on NEST. Development work was considered on member engagement and segmentation and the employer and advisor proposition.

The Trustee held three specific workshops to discuss long-term strategic challenges.

A joint meeting between the Trustee Members and the Employers' and Members' Panels was held in November 2012.

The Trustee approved the budget and corporate plan for 2013-2016 incorporating the business plan for 2013/14. This is published on our website **nestpensions.org.uk/corporate-plan-2013-2016**.

4.2 Audit committee

The committee's role is to provide oversight, review and advisory guidance to the Trustee on all audit and control issues across NEST. Key areas of focus for the committee during 2012/13 included:

- review of the 2011/12 annual report and accounts for both NEST Corporation and NEST scheme
- review of the external auditors' strategies for their audits of the 2012/13 accounts
- approval of the internal audit plan for 2013/14 and oversight of the delivery of the 2012/13 plan
- approval of the 2013/14 compliance plan and oversight of the delivery of the 2012/13 plan
- review of the assurance framework
- review of the committee's effectiveness in March 2013.

In view of the challenges posed by the onset of employer duties and the subsequent scaling up of the scheme, the committee has paid particular attention to the controls and assurance that NEST Corporation has over the operation of the scheme administration contract. The committee also instituted a comprehensive review of the internal controls in NEST Corporation following the mandate fraud incident. For further details see sections 4.15 to 4.17 on pages 31 to 32.

Paul Hewitt
Chair, audit committee

4.3 Report of the investment committee

The Trustee approves the NEST *Statement of investment principles (SIP)*. The responsibilities and delegations of the investment committee and the chief investment officer appear within the governance structure detailed in Appendix A of the *SIP* which is available at **nestpensions.org.uk/statement-of-investment-principles**. The investment committee, together with the chief investment officer share a set of responsibilities and delegations to consider and implement investment decisions on behalf of the Trustee. The committee reports to the Trustee.

The key decisions and activities of the investment committee in the past year include:

- oversight of the investment and risk management of all NEST retirement date funds including approving asset allocation changes as required
- approval of a dynamic risk management framework
- approval of the responsible investment policies
- ongoing consideration of the development of the NEST investment approach.

The day-to-day management of NEST scheme's assets is performed by external fund managers, each of which is authorised and regulated by the Financial Conduct Authority.

The investment committee has overall responsibility for approving fund manager selection, ongoing monitoring and removal and has appointed the fund managers listed within the NEST pension scheme Annual Report and Accounts.

The investment committee receives regular reports in order to review and monitor NEST scheme's assets, the fund managers and other third-party providers as well as investment costs.

More on the management of NEST's assets is included in the separate NEST pension scheme Annual Report and Accounts.

Chris Hitchen
Chair, investment committee

4.4 Nominations and governance committee

This committee aims to help deliver a well-run and controlled organisation, ensuring that it is adequate, appropriate and operating effectively. It is responsible for preparing nominations for membership of the Members' and Employers' Panels and for the development and oversight of the governance structure. In the past year, the nominations and governance committee:

- approved the questionnaires and process for carrying out the effectiveness review of the Trustee and its committees
- approved the process for performance appraisals for Trustee Members led by the Chair and for the Chair led by members of the nominations and governance committee
- agreed the content of the consultation proposing changes to the NEST scheme rules
- reviewed the draft internal audit report on corporate governance and approved the responses and timescales to meet the auditors' recommendations
- undertook the recruitment of the members for the Members' and Employers' Panels and recommended candidates to the Trustee.

Lawrence Churchill
Chair, nominations and governance committee

4.5 Remuneration committee

The remuneration committee has provided oversight, review and advice to the Trustee on the approach to corporate responsibility, organisational culture and remuneration of senior executives and staff. The committee is not responsible for reviewing the remuneration of the Trustee Members, which is determined by the Secretary of State in accordance with Schedule 1 to the Pensions Act 2008.

During the year the committee has focused its work on helping NEST Corporation move from a 'start up' project to a sustainable organisation for the longer term. The committee has:

- considered the results of the 2012 staff survey and advised on the draft staff survey for 2013, leading to work on strengthening the performance management culture and defining career paths within NEST Corporation
- monitored the progress of work to develop equality and diversity policies
- reviewed the organisation's policy on volunteering
- agreed pay and reward principles for 2012/13 onwards
- approved a job architecture for NEST Corporation staff

- recommended the adoption of a corporate responsibility standard drawing on indicators within the Global Reporting Initiative's Sustainability Reporting Guidelines to the Trustee
- considered NEST's responsible investment programme
- overseen a programme of cultural change, including the introduction of a competency framework and additional training for managers
- approved a revised gifts and hospitality policy.

A report on the work sponsored by the committee on corporate responsibility is in Annex 2, and the remuneration report is on pages 42 to 46.

Sue Slipman
Chair, remuneration committee

4.6 Risk committee

The risk committee is responsible for oversight of the risk management framework and for recommending the statement of risk appetite to the Trustee. The committee has:

- provided a review of all aspects of risk management
- overseen further development of strategic risks, including their integration into the risk management framework for regular review and reporting
- provided challenge to the executive through a series of deep dives into specific areas of operational and strategic risk
- approved the appointment of Dan Davis CIRM, as director of risk
- overseen and driven continuous improvement of the risk management framework to improve the risk culture of the corporation.

Further information on risk is provided on pages 26 to 28.

Julius Pursaill
Chair, risk committee

4.7 Employers' Panel and Members' Panel

The Employers' Panel and Members' Panel were established in summer 2011 in line with requirements under the Pensions Act 2008 and NEST's order and rules.

Employers' Panel

Paul Jagger, MBE was appointed as chair of the Employers' Panel which was established in the summer of 2011. There are currently eight panel members and their details are at **nestpensions.org.uk/employer-panel**.

The Employers' Panel provides an advisory role to NEST Corporation on the operation, development or amendment of the scheme from a participating employer perspective (section 69, Pensions Act 2008 and article 8 of the NEST Order). The panel is consulted whenever the *Statement of investment principles* is revised by the Trustee. In addition, the panel is consulted on proposed changes to NEST's order and rules. The Employers' Panel engages with the Trustee through the chair of the panel.

The Employers' Panel met six times during the financial year. The panel has been informed about various issues including opting out and keeping records, messaging to employers, on-boarding and research results carried out by NEST within the employer and IFA communities. The Employers' Panel has been consulted during the year about changes to the NEST's order and rules, maintaining contributions and late payments, as well as the *Statement of investment principles* to be published in 2013. The Employers' Panel has provided feedback and input on a number of areas in relation to the development of the scheme from an employer's perspective, including on the call for evidence on lifting the restrictions on the NEST scheme.

Further information on the Employers' Panel, including details of the members is at **nestpensions.org.uk/employer-panel**.

Members' Panel

Museji Ahmed Takolia, CBE was appointed as chair of the Members' Panel when it was established in summer 2011 with five panel members. Details of current panel members are at **nestpensions.org.uk/member-panel**.

The Members' Panel provides advice to NEST Corporation on the operation, development or amendment of the scheme from a scheme member's perspective (section 69, Pensions Act 2008 and article 8 of the NEST Order). The panel has met five times during the financial year and was consulted on the *Statement of investment principles*, proposed changes to NEST's order and rules, charges, opt-out process, communications, complaints monitoring, customer services and researching members' needs. The Members' Panel engages with the Trustee through the chair of the panel.

The Members' Panel submits a separate report to the Secretary of State for Work and Pensions. A copy of the report is available on NEST's website, along with further details of the panel at **nestpensions.org.uk/NEST-members-panel-annual-report-2012-2013**

Corporate governance

NEST Corporation subscribes to high standards of corporate governance in order to serve the best interests of pension scheme members and to fulfil its obligations as a Non-Departmental Public Body (NDPB).

It is required as an NDPB to formally report its compliance with the HM Treasury/ Cabinet Office Corporate Governance Code for central government departments on a 'comply or explain' basis. This governance statement sets out how NEST Corporation addresses the requirements of the four principal areas of the Code:

Accountability

NEST Corporation is accountable to Parliament. The reporting lines of accountability are through the Chair to the Secretary of State, and through the accounting officer to the principal accounting officer in DWP. On non-accounting officer responsibilities the chief executive reports to NEST Corporation through the Chair.

Governing body composition

The Members of NEST Corporation are the Trustee Members profiled on pages 8 to 12.

Governing body effectiveness

The governing body reviews its effectiveness on an annual basis. The last review concluded that it was effective in carrying out its function. As explained on page 20 the Trustee delegates to the chief executive via a schedule of reserved powers and delegated authorities that is reviewed annually. The chief executive in turn delegates functions to executive management and is advised by a number of committees as shown on page 18.

Risk management

The Trustee is responsible for ensuring that there is a continuous process for identifying, evaluating and managing any material risks faced by the organisation and for ensuring that risk is effectively managed. In order to assist it in carrying out its responsibilities, the Trustee has established a risk committee in line with best practice corporate governance. The report from the risk committee is on page 24.

Risk appetite

Risk appetite is the level of risk that NEST Corporation is prepared to accept in the course of pursuing its strategic objectives. NEST Corporation's risk appetite is dynamic and evolves alongside NEST Corporation's development. Our appetite for risk encompasses both qualitative and quantitative factors which combine to represent a level of risk taking that we think provides an acceptable balance between risk and reward.

Risk exposure is the level of risk that we face. We compare our current risk exposure against our appetite to ensure we are comfortable with our risk profile. Where the risk profile and appetite are inconsistent, we consider whether mitigating actions could address the imbalance. Exposure to risk is considered both on an individual risk basis and as an aggregation of risk across strategic objectives.

We recognise that we do not want to nor can we avoid or eliminate risk altogether. Instead our risk management framework puts us in a position where we should be aware of and understand the risks that affect us. This helps us make informed decisions about how we manage these risks.

4.9 Principal risks and uncertainties

At any one time we will be managing a number of risks across different business areas.

a) Reputation

NEST needs to grow and maintain its strong reputation across the market to ensure new and existing members and employers recognise us as a trustworthy provider of pensions. Being seen as an honest and reliable organisation is not something we can achieve instantly. Our reputation will grow as the market sees what we stand for and how we do business.

Strong engagement with our Employers' and Members' Panels helps us to get feedback from our stakeholders on how NEST is perceived.

b) Operational risk

Strong working relationships with partners

It is vital that NEST maintains strong working relationships with its key delivery partner TCS. We see this relationship as critical to our success. It is based on working together to develop and improve our product and manage the delivery and operational risks that we face.

Over the last year, we have worked hard with TCS to ensure that changes in key personnel on both sides have not damaged the relationship.

Our close working relationship maintains our quality of service and facilitates the delivery of our objectives. Over the next 12 months we have a number of challenging milestones and targets. NEST and TCS will develop plans together that set us on the right path to achieving our goals.

Business transition

In the last 12 months, NEST has successfully progressed further along the road from a start-up to a pension scheme operating at scale. Managing the people, process and system risks involved has been a key part of that journey.

Over the next 12 months NEST will continue to mature and develop as an organisation, enrolling hundreds of thousands of new members saving for their retirement. Managing the operational risks that this change will bring is integral to ensuring we have the capacity and skills across the organisation to facilitate growth and deliver planned outcomes. Failure to manage this organisational development and transition would be extremely damaging to our aspirations of providing a pension product that meets the needs of our members.

In parallel to this development, NEST Corporation will be relocating its head office, moving the short distance to Riverside House on the South Bank of the River Thames. It is important that we are able to focus on our priorities and maintain seamless operations while adapting to the changes that we face throughout this process.

As automatic enrolment begins to become a reality for many employers, it is important that they start to consider how they will meet their obligations. Where this obligation is to be met through NEST, we need to make sure that we have the right support available.

At NEST Corporation we will use our experiences of enrolling existing members to further refine our processes, and provide support for employers to help them prepare for automatic enrolment.

c) Government policy and regulation

As a delivery vehicle for government's pension policy, and being dependent on initial funding from government, we are exposed to the risks and opportunities that flow from any change of policy or approach.

d) Market conditions and investments

Like all pension providers, the prevailing market conditions influence our ability to maximise investment returns for our members. The investment strategies we have in place, which are overseen by our investment committee, will help us find an appropriate balance between risk and return. Fund manager performance is monitored by the investment team on a continuing basis and is also overseen by the investment committee. In addition, adverse economic conditions make it more difficult for employers and members to save sufficiently for retirement.

4.10 NEST Corporation policy

Policies that set out how we operate are a core element of our governance and internal control system. These policies provide transparency in how we respond to legal and regulatory requirements and how we operate on matters of importance in support of a culture of accountability. These policies cover a wide range of risks including human resource matters, workforce strategy, finance, procurement, information technology, governance and risk management as well as how the scheme itself is to be managed.

During the course of the year, further work has been conducted to make sure that NEST Corporation has a robust framework for setting and applying policies in place.

4.11 Information security

NEST Corporation is committed to supporting a secure electronic environment to conduct its business and has established and maintained a comprehensive information security management system (ISMS) that is certified against ISO 27001:2005. NEST Corporation has also maintained a data protection policy and training, which sets out its approach to the protection of personal data. We designed a framework for aiming to comply with the Data Protection Act 1998 and other regulations for the purpose of ensuring the security and use of personal data.

As an NDPB, NEST Corporation is required to provide detailed information on our management of information risk and compliance with the relevant aspects of the security policy framework for the Department for Work and Pensions (DWP), which is incorporated within the DWP submission to the department's senior information risk owner.

During 2012/13, there was no reportable loss or compromise of personal data.

4.12 Business continuity

NEST Corporation maintains a cost-effective business continuity capability that enables management to respond to and recover from major incidents that impact business operations. Our business continuity management programme is appropriate to the size and complexity of NEST Corporation. It is aligned with industry standards and integrated with the risk management framework. Appropriate continuity strategies that support scheme members' interests have been approved by the chief executive. Business continuity arrangements are exercised, reviewed and renewed as appropriate including an IT test in February 2013. A training and awareness programme ensures staff and key service providers are informed of procedures and their responsibilities within them while helping to embed business continuity into NEST Corporation's culture.

4.13 Compliance

The compliance function is responsible for monitoring compliance with internal, statutory and regulatory requirements. This includes managing NEST Corporation's regulatory relationship with The Pensions Regulator (TPR). Compliance has also developed arrangements with key suppliers, such as the scheme and fund administrators to ensure that they have a compliance framework in place that allows NEST Corporation, through its outsourced partners, to comply with regulatory requirements.

The compliance function operates against an annual compliance plan that is agreed with the audit committee. Key activities include ensuring that all customer-facing material, such as employer and scheme member documentation and the external NEST website, is compliant with regulatory requirements. It also acts as a source of advice to operational areas on regulatory issues and performs an annual compliance monitoring programme to evidence ongoing compliance.

TPR's approach to the regulation of workplace defined contribution pension schemes has been articulated in two consultation documents during the last year. NEST Corporation has responded to both consultations and continues to seek to influence the shape of the regulatory environment as it develops. In the meantime, the compliance function aims to ensure that NEST Corporation remains compliant both with the current and anticipated future approach of TPR in this area.

The approach to the management and enforcement of the employer compliance regime is also subject to continuing development by TPR. NEST Corporation is contributing its views on TPR's approach in this area as part of a consultation that TPR undertook in 2012. It is anticipated that the regime will continue to evolve during the year ahead.

The compliance function is also responsible for ensuring that NEST Corporation complies with its duties as an NDPB, many of which are complementary to the requirements of TPR.

4.14 Internal audit

Internal audit services are provided by Deloitte, which is responsible for the provision of independent control assurance to NEST Corporation and reports to the audit committee. Deloitte also provide an annual opinion on governance, risk management and internal control, required to fulfil NEST Corporation's obligations as an NDPB.

Deloitte agrees its annual internal audit programme with NEST Corporation's audit committee and reports on progress against the plan on a quarterly basis. The programme covers NEST Corporation as both an NDPB and the Trustee of an occupational pension scheme.

The following opinion has been received from Deloitte for the financial year 2012/13.

4.15 Head of internal audit opinion

We understand that in December 2012 a supplier bank mandate fraud was perpetrated. Subsequent to the discovery of the fraud, management have validated the integrity of each payment made, by NEST Corporation, with the relevant supplier. See section 4.17 below.

Based on the internal audits completed as part of the internal audit programme covering the financial year, as reviewed by the executive team and approved by the audit committee, with the exception of the control weaknesses identified in our detailed reports, three of which received limited assurance, in our opinion NEST Corporation has adequate and effective systems of governance, risk management and internal control which provide reasonable assurance. Full details of the identified control weaknesses and recommendations are included within the individual reports issued to management. The two high priority recommendations which we considered required immediate management attention are now substantially complete with mitigating controls established to address the risks identified.

4.16 Management assurance statement from senior management

Each year, the executive team members provide a personal assurance statement on corporate governance in relation to adequacy and effectiveness of the internal control system in operation within their area of responsibility. These assurance statements support the achievement of NEST Corporation's business objectives and policies, while safeguarding public funds and assets. The statements also highlight any significant internal control issues.

4.17 Significant control issues

In January 2013 we were notified that there had been an incident of fraud. This fraud was directed at NEST Corporation, resulting in a loss of £1,446k from our operating budget. It was of a type known as mandate fraud, involving the diversion of a supplier payment. No money was taken from members' retirement pots.

As soon as we were made aware of the fraud, we ensured that all relevant regulatory authorities and the police were notified and worked closely with the Department for Work and Pensions to understand how this had happened and to independently investigate the incident. We also initiated steps to strengthen controls over the payment process.

A wider programme of work has since been agreed to further improve NEST Corporation systems, people and processes. As part of this, we asked Deloitte to undertake a detailed assessment of the design and operating effectiveness of key internal controls across NEST Corporation. This work is being overseen by the Audit Committee and is substantially complete. The Audit Committee will also monitor completion of any actions arising.

We have reviewed our fraud awareness training and have carried out additional training to appropriate staff. We have put in place arrangements to identify and monitor emerging fraud risks and to address any control requirements. As part of this we are also enhancing our financial crime expertise within the risk team. We will also arrange regular fraud awareness training to ensure our employees are aware of this type of risk and know what action to take.

Other than the control issue noted above there are no other significant internal control issues that merit inclusion in the annual report and accounts for the reporting period 1 April 2012 to 31 March 2013. To provide this assurance, the Trustee Members and NEST Corporation's management team have been engaged and appropriate additional enquiries made.

Where remedial action has been recommended to address control weaknesses, appropriate action has been taken or planned to effect reasonable management of risks within an acceptable period of time.

Lawrence Churchill

Tim Jones
Chief executive and
accounting officer
NEST Corporation

5 July 2013

Lawrence Churchill CBE
Chair
NEST Corporation

5 July 2013

05 Management commentary

The management commentary discloses matters required to be disclosed in the business review under section 417 of the Companies Act 2006. It presents a business review which is intended to provide:

- a balanced and comprehensive analysis of the development and performance of the organisation's business during the financial year
- the position of the organisation's business at the end of that year
- the main trends and factors likely to affect the future development, performance and position of the organisation's business.

The management commentary also discloses information about:

- the business review and delivery against the business plan
- corporate responsibility.

Executive team

The day-to-day management of NEST Corporation is the responsibility of the chief executive who is supported by the executive team. Tim Jones is also the accounting officer for NEST Corporation.

NEST Corporation: executive team	Position
Tim Jones	Chief executive
Dan Davis	Director of risk
Helen Dean	Managing director, product and operations
Mark Fawcett	Chief investment officer
Paul Greening	Finance director
Debbie Gupta	Managing director, corporate services
Will Sandbrook	Director of strategy
Nick Sex	Director of programmes
Fiona Smith	General counsel
John Taylor	Managing director, customer and proposition

5.1 Statutory background

The financial statements for 2012/13 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 at Annex 1 of this annual report and accounts.

5.2 Principal activities

2012/13 has seen NEST starting to transform into a pension scheme of scale:

- The first few very large employers have automatically enrolled their workers into NEST.
- Membership of NEST has increased from a modest level during our volunteer phase of 849 to over 80,000.
- The number of participating employers using NEST has increased from 200 to 347.
- Scheme assets have increased from £0.5m to £6.0m.
- We have been able to start to observe automatic enrolment in practice and learn from the early experience of employers and members using the scheme.
- We have further improved our systems to ensure that the scheme continues to meet the needs of members and employers, with three system releases in the last six months of the year.
- We have strengthened our relationships with TCS and State Street.
- There have been significant changes to the senior leadership team in readiness for the challenges ahead.
- We have started implementing our plans to move to Riverside House, Southwark.

5.3 Business review

Delivery against 2012/13 business plan

This section sets out the key highlights of our delivery over this period in terms of the business objectives set out in our 2012 to 2015 corporate plan.

Strategic Objectives	Business objectives	Key performance indicators (KPIs)	Results
Develop and run a high-quality pension scheme that meets the requirements of our customers and our regulatory obligations	Deliver a compliant scheme that meets the needs of major corporate employers	• Deliver the onset of employer duties OED service release by 1 October 2012 • Deliver the first enhanced functionality service releases in March 2013 and have plans for a further release in June 2013	• The OED service release was successfully delivered in advance of October 2012 to enable NEST to be ready for use by employers at the OED. • Two further service releases were successfully implemented in 2012/13 to deliver enhanced scheme functionality. These delivered the majority of planned enhancements that were originally envisaged for the June 2013 release. NEST plans to deliver a package of measures through service releases in 2013/14 that are designed to enable us to balance the need to remain compliant with all regulatory requirements, maintain operational viability, and anticipate and respond to the current forecast increase in volumes of employers using the scheme.
	Maintain a high quality operational service to our members as volumes increase	• Availability of web and interactive voice recognition (IVR) services 24 hours a day, 365 days a year except for during planned maintenance • Contact centre availability in line with advertised hours – currently 8am to 8pm seven days a week and 10am to 4pm on bank holidays. Closed on Christmas Day, Boxing Day, New Year's Day and Easter Sunday and Monday • Calls to the contact centre answered within 60 seconds, and five seconds for the IVR system • Written acknowledgement of all complaints within five working days and responses to complaints within eight weeks • Deliver the first phase of customer satisfaction research and incorporate findings into our service improvement plan by the end of September 2012	• The scheme website has been available 99.99% of the time, with minimal unplanned interruptions. • The IVR service has been available 99.94% of the time, with minimal unplanned interruptions. • The contact centre has been available 99.93% of the time, within advertised hours. • 99.42% of calls to the contact centre have been answered within their service level of 60 seconds. • 99.51% calls to the IVR system have been answered within five seconds. • We have received positive and constructive feedback from both our employers and members. Of the complaints we have received, 93.44% have received written acknowledgement within five days and all have been resolved within eight weeks. NEST Corporation delivered the first phase of customer satisfaction research in July 2012 and incorporated the constructive findings into our service improvement plan by September.
Attract sufficient take-up and revenues to give us a clear line of sight to a self-funding business model	Deliver sufficient scale into the scheme	• Enrol at least 250,000 workers from employers whose duty date falls before the end of March 2013 • Opt-out rates no higher than the government's estimates • At least a further 250,000 workers in the pipeline from signed-up employers for the first six months of 2013/14 • 95 per cent awareness of the NEST scheme among employers coming into the duties in 2013/14 and at least 50 per cent reporting a positive overall perception	Between 1 April 2012 and 31 March 2013 employers enrolled 86,425 workers into the NEST scheme. NEST Corporation's objective was focused on the number of enrolments from employers with duty dates that fell before the end of March 2013. In practice, many of these employers have chosen to use a waiting period, with some utilising the full three month period. This has pushed the timing of their enrolments into the next financial year, and we will only be able to measure how many workers were enrolled from these employers at the end of June.

Strategic Objectives	Business objectives	Key performance scheme indicators (KPIs)	Results
			Based on our current information, we believe that we are on track to have enrolled more than 250,000 workers from employers whose duty date falls before the end of March 2013. NEST's March 2013 employer readiness survey indicates 97% of employers with 1,000+ employees are aware of the NEST scheme. Amongst those employers with 100-999 employees (some of whom will have staging dates outside beyond March 2014*) awareness of the NEST scheme is 86%. While the overall positive perception is lower than 50% our surveys suggest that this is because significant numbers of employers currently hold neutral views about the NEST scheme. Many report that they do not yet feel they have enough information to form a view about the NEST scheme.
Deliver stable, smooth and sustainable investment returns above inflation after all charges in line with our investment objectives	Invest our members' savings in line with our investment strategy	• All NEST scheme retirement date funds are invested according to their risk budgets • Our fund managers perform in accordance with the mandates set for them • The NEST Ethical Fund and NEST Sharia Fund remain invested in accordance with NEST's policies for ethical and sharia investing • Our responsible investment policy is applied effectively and proportionately	Pensions are a long-term investment and we avoid putting too much emphasis on short-term returns. We have stayed well within our risk budget, although generally at the lower end due to the challenging market conditions we've seen in the 18 months we have been investing contributions. We've exceeded our investment return objectives to outperform inflation. We have done this without exposing our members to excessive investment volatility and we have protected members from some big reductions in market value.
Maintain consensus among stakeholders that there's a role for a healthy and vibrant NEST within the UK pensions market	Continue to build our reputation for fulfilling our remit and for demonstrating improvements in the way pensions are run	• Results from NEST Corporation's annual stakeholder survey indicate that at least 80% of stakeholders agree NEST is delivering its remit effectively • Active engagement in the debate with policymakers in the UK and in Europe on developing best practice around the governance of DC pensions	In 2012/13 we chose not to conduct a survey of our stakeholders which in previous years we've used to measure performance against this indicator. The last survey, undertaken in January 2012, indicated that 88% of those stakeholders surveyed were confident that NEST Corporation was delivering its remit effectively. We've continued to work closely with our stakeholders as the roll out of automatic enrolment gets underway.

*Note that NEST's employer readiness survey categorises employers according to their size rather than their staging date. Therefore NEST cannot give a single awareness figure for employers with staging dates in 2013/14.

Strategic Objectives	Business objectives	Key performance indicators (KPIs)	Results
			We have contributed to the policy debate in the UK and Europe: • We responded to relevant UK government and European consultations on issues that relate to DC schemes. In 2012/13 NEST responded to 17 consultations. • We held a number of thought leadership events with leading international academics and commentators including the *NEST forum* and *NEST insight* events and also shared our research on automatic enrolment and how it relates to best practice with providers and European and International institutions including the European Insurance and Occupational Pensions Authority and the Organisation for Economic Co-operation and Development. • We engaged with both Westminster and Whitehall including responding to the Work and Pensions Select Committee (WPSC) enquiries on governance and best practice in workplace pension provision and automatic enrolment in workplace pensions and the NEST scheme, briefing the WPSC and all party groups on insurance and occupational pensions.
Develop and maintain a stable and efficient organisation with sufficient skills, knowledge and corporate memory to deliver our other objectives	Deliver a comprehensive people policy and corporate responsibility strategy	• Reduce staff turnover so that it's in line with industry averages – around 15% – by the end of March 2013 • Publish a corporate responsibility strategy and begin to implement the delivery plan by March 2013	• Voluntary staff turnover rate for NEST Corporation in 2012/13 was 17% – slightly above the target we set ourselves. • The total turnover rate for NEST Corporation for the year was 29%. This figure includes 10 redundancies and the ending of eight fixed term contracts, as planned, in this year. This headline figure is as expected, as NEST Corporation continues its organisational transition from project-based organisation towards steady state, and we have used the last year to align the organisation to this model. • We will be spending 2013/14 monitoring employee engagement and responding to some of the feedback from our last employee engagement survey, to ensure our employment proposition at NEST Corporation remains attractive and that the employee experience at NEST Corporation reflects our promise to new joiners. This includes more investment in learning and development, and a transparent, performance driven approach to reward.

Strategy for the future

In 2013 we published our corporate plan for 2013-2016. Our strategic objectives set out the things we need to do in order to achieve our long-term vision and mission. They are:

- Develop and run a high-quality pension scheme that meets the requirements of our customers and our regulatory obligations.
- Attract sufficient take-up and revenues to give us a clear line of sight to a self-funding business model.
- Deliver stable, smooth and sustainable investment returns above inflation after all charges in line with our investment objectives.
- Maintain consensus among stakeholders that there's a role for a healthy and vibrant NEST scheme within the UK pensions market.
- Develop and maintain a stable and efficient organisation with sufficient skills, knowledge and corporate memory to deliver our other objectives.

Further information on each of these, and the activities and indicators that sit below them can be found in our NEST Corporation Corporate Plan 2013-2016, available online at **nestpensions.org.uk/corporate-plan-2013-2016**.

External factors that may influence the performance of the business, and NEST Corporation's responses to those factors, are explained in the section 'Principal risks and uncertainties' on page 27.

Going concern

NEST Corporation is funded by:

- income from deductions from members accounts, which are a 1.8 per cent contribution charge and a 0.3 per cent annual management charge on assets invested
- loan funding from DWP
- grant income from DWP which effectively reduces the interest paid on the loan from a commercial to the government rate (see note 4 of the financial statements, page 74)
- grant income from DWP to meet those costs that are non-chargeable to members, that is the costs of being an NDPB.

For the early years of the scheme, income from members is expected to be relatively small in relation to other sources of funding. As such, NEST Corporation is dependent on funding from DWP. We have confirmed with DWP that they will provide funding for the period relevant to this going concern statement. We therefore believe NEST Corporation will be able to continue in operation for the foreseeable future and have continued to adopt the going concern basis for accounting in preparing these financial statements, in accordance with HM Treasury's financial reporting framework.

Financial performance

In 2012/13 contribution charges collected from NEST pension scheme have increased from £7,000 to £61,000 and net expenditure after interest from £48.5m to £61.0m, mainly because of the growth of the scheme. This growth has been slightly less than anticipated in the setting of 2012/13 budgets, but given the major uncertainties around any start up, some variance from budget is unsurprising. We have also taken steps to keep costs to a minimum consistent with protecting members' interests, such as reducing reliance on external legal advice.

In line with the requirements of International Financial Reporting Standards, we continue to recognise on our Statement of Financial Position certain assets used by TCS for scheme administration. Our non-current assets continue to grow from £55.9m to over £67.6m.

5.4 Key business relationships

NEST Corporation has worked closely with its suppliers, particularly our scheme administration partner TCS to ensure that the scheme will work effectively. TCS plays an integral role in the governance arrangements for the delivery of the scheme so that planning and monitoring is carried out in a spirit of partnership, while ensuring that accountabilities remain clear and distinct. We have also found that working physically alongside our TCS partners is the most effective way of identifying and resolving implementation issues.

5.5 Corporate responsibility

Details of our programme of work relating to corporate responsibility are set out in Annex 2.

5.6 Sickness absence

Details of staff sickness can be found in Annex 2 on page 95.

5.7 Pension liabilities

A description of the pension arrangement for NEST Corporation staff is given in the remuneration report and the accounting treatment is described in accounting policy 1.9 and note 2b to the financial statements.

5.8 Register of interests

Trustee Members of NEST Corporation have registered any interests they hold that may create an actual or potential conflict with their responsibilities to NEST. Trustee Members also declare conflicts in relation to any items of business in Trustee meetings. Members of the executive team also register any interests they hold that may create a potential conflict with their responsibilities to NEST.

The Trustee Member register of interests is published on our website at **nestpensions.org.uk/registered-interests**.

5.9 Statutory auditors

The Comptroller and Auditor General is the statutorily appointed auditor for NEST Corporation under the provisions of Schedule 1 (part 3 paragraph 20) to the Pensions Act 2008. The cost for the work performed by the auditors for the year ended 31 March 2013 is £82,000 (2011-12: £68,000).

So far as the accounting officer is aware, there is no relevant audit information of which the entity’s auditor is unaware. The accounting officer has taken all the steps that he ought to have taken to make himself aware of any relevant audit information and to establish that NEST Corporation's auditors are aware of that information.

During the year NEST Corporation did not make any payments to their auditors for non-audit work.

5.10 Political and charitable donations

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

5.11 Information and data management

NEST Corporation is committed to supporting a secure electronic environment to conduct its business and has established a comprehensive information security management system (ISMS) that is certified against International Organization for Standardization (ISO) 27001:2005. NEST Corporation has also established a data protection policy, which articulates its approach to the protection of personal data. It aims to and is designed to comply with the Data Protection Act 1998 and other regulations for the purpose of ensuring the security and use of personal data.

As an NDPB, NEST Corporation is required to provide detailed information on our management of information risk and compliance with the relevant aspects of the security policy framework to the Department for Work and Pensions (DWP). This is incorporated within the DWP submission to the department's senior information risk owner. During 2012/13, there was no loss or compromise of personal data that required reporting to the DWP's senior information risk owner.

5.12 Payments to suppliers

In accordance with HM Treasury's publication *Managing Public Money*, NEST Corporation aims to comply with the British Standard for achieving good payment performance in commercial transactions and with the Late Payment of Commercial Debts (Interest) Act 1998, as amended. We aim to pay all undisputed invoices within 30 days of receipt (or other terms as may be applicable).

It is NEST Corporation practice to:

- settle the terms of the payments with suppliers when agreeing the terms of each transaction and pay bills in accordance with the contract
- ensure that suppliers are made aware of the terms of payment.

During 2012/13 the average time taken to pay suppliers was 22 days, compared to 18 days in 2011/12.

The value of debt owing to suppliers at 31 March 2013 amounted to six days' invoices (31 March 2012: six days).

5.13 Events after the reporting date

There were no significant events after the year end.

Tim Jones
Chief executive and accounting officer
NEST Corporation

5 July 2013

06 Remuneration report

The remuneration disclosures relate to NEST Corporation Trustee Members and the chief executive (CE), being the only individuals that make decisions spanning the entire organisation.

Lawrence Churchill was appointed Chair of NEST Corporation by the Secretary of State for Work and Pensions. He is contracted to work 2.5 days a week. All other NEST Corporation Trustee Members are contracted to work 30 days a year. Trustee Members were appointed by the Secretary of State for an initial period of either four or five years. In accordance with paragraph 7 to Schedule 1 of the Pensions Act 2008, the remuneration of Trustee Members is determined by the Secretary of State. Contracts allow for extra work to be remunerated on a pro rata basis.

NEST Corporation's remuneration committee comprises four Trustee Members: Sue Slipman (chair), Laurie Edmans, Enid Rowlands and Nigel Stanley. It has provided oversight, review and advice to the trustee members on remuneration of senior executives and staff. A report on the activities of the committee can be found on pages 23 to 24.

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

- eligibility to be considered for a non-consolidated annual performance related pay award
- automatic enrolment for eligible workers into the NEST Corporation defined contribution pension arrangements
- 25 days paid holiday per annum rising by length of service
- critical illness cover
- death in service life cover of three times salary.

6.1 Pension

NEST Corporation brought forward its automatic enrolment staging date to 1 October 2012 and therefore automatically enrols eligible staff into its defined contribution pension arrangements from that date. Prior to this membership was available upon application from eligible members of staff.

The NEST Corporation's active defined contribution pension arrangements comprise two schemes:

- NEST pension scheme
- top-up arrangements with Aviva for employees contributing above the NEST annual contribution cap.

In addition there is a legacy scheme operated by Zurich Life UK (the 'NEST Corporation Group Personal Pension Plan') for employees who have not transferred to the NEST/Aviva arrangements. We no longer have any contributing members in the Zurich scheme.

As part of the NEST Corporation's 2012 pay settlement, employees could increase their pension contributions on a matched basis from 1 January 2013. This brings NEST Corporation in line with the Pension Quality Mark Plus Standard, by offering increased employer contributions for increased employee contributions.

Employees can increase their contributions as follows:

- 6 per cent gross employee contribution – NEST Corporation matches with 9 per cent employer contribution
- 7 per cent gross employee contribution – NEST Corporation matches with 10 per cent employer contribution.

Our default contribution levels are 5 per cent gross employee contributions with NEST Corporation paying an 8 per cent employer contribution.

None of the individuals included in these remuneration disclosures are or have been members of the NEST Corporation pension scheme. As explained in note 19 of the financial statements two Trustee Members are related to the NEST pension scheme but are not members of the NEST Corporation pension scheme.

6.2 Performance-related Pay

The Trustee approved NEST's **performance based approach to reward** – we recognise those who perform well and contribute more.

For **consolidated pay awards,** we used 1.65 per cent of our overall salary bill to provide consolidated pay awards to our staff on a performance-related basis.

For **non-consolidated pay,** we allocated 1.38 per cent of our overall salary bill to provide non-consolidated awards to our highest performers. The Committee also applied additional caps in line with DWP's approach to Senior Civil Service pay bands or equivalents.

6.3 Compensation

There have been no compensation payments made in respect of early contract termination or loss of office to any former senior managers of NEST Corporation.

6.4 Internal comparisons

The ratio between the median remuneration of NEST Corporation's staff and that of the chief executive, being the highest paid director, is 4.4 to 1 for 2012/13. In 2011/12: 4.3 to 1. For this comparison, total remuneration includes salary, benefits in kind as well as severance payments. It does not include employer pension contributions or the cash equivalent transfer value of pensions. For 2012/13, as decisions on performance-related pay have not yet been made, no amount for this has been included in the remuneration figures for either the median or the highest paid director. The figures for 2011/12 include performance related pay in respect of 2011/12.

6.5 Remuneration

The information in the table below has been audited.

Name and Position	Contract details: Contract start date	Contract details: Unexpired term as at 31 March 2013	Contract details: Notice period	2012/13: Full-year equivalent salary and allowances (£000)	2012/13: Salary and allowances paid (£000)	2012/13: Performance related payments (£000)[4,6]	2012/13: Taxable expenses (to nearest £100)	2011/12: Full-year equivalent salary and allowances (£000)	2011/12: Salary and allowances paid (£000)	2011/12: Performance related payments (£000)[4,6]	2011/12: Taxable expenses (to nearest £100)
Lawrence Churchill Chair	1 February 2010	1 year 10 months	3 months	95-100	95-100		18,300	95-100	95-100		26,700
Paul Hewitt Trustee Member	1 April 2010	1 year	3 months	20-25	20-25		4,600	20-25	20-25		1,500
Sue Slipman[1] Trustee Member	1 April 2010	2 years	3 months	20-25	25-30		0	20-25	20-25		300
Laurie Edmans Trustee Member	1 April 2010	1 year	3 months	20-25	20-25		0	20-25	20-25		700
Julius Pursaill[1] Trustee Member	1 April 2010	1 year	3 months	20-25	20-25		1,800	20-25	35-40		2,200
Tom Boardman[1] Trustee Member	1 April 2010	2 years	3 months	20-25	25-30		600	20-25	25-30		2,300
Chris Hitchen Trustee Member	1 April 2010	2 years	3 months	20-25	20-25		300	20-25	20-25		0
Enid Rowlands[1] Trustee Member	11 July 2011	3 years	3 months	20-25	20-25		2,000	20-25	10-15		1,700
Sharon Darcy[1] Trustee Member	20 June 2011	3 years	3 months	20-25	20-25		0	20-25	15-20		0
Nigel Stanley Trustee Member	20 June 2011	3 years	3 months	20-25	20-25		0	20-25	15-20		0
Iraj Amiri[1] Trustee Member	20 June 2011	3 years	3 months	20-25	20-25		2,700	20-25	15-20		1,900
Tim Jones[2,3] Chief executive	8 October 2007	9 months	3 or 6 months	230-235	230-235	15-20	0	230-235	230-235	15-20	0
Midpoint of banding of highest paid director's total remuneration[4] (£)				232,500				232,500			
Median total remuneration[4] (£)				52,250				54,050			
Ratio				4.4				4.3			

Notes

1 All the Trustee Members except the Chair are contracted for 30 days a year. The remuneration for Sue Slipman, Julius Pursaill, Tom Boardman, Enid Rowlands, Sharon Darcy and Iraj Amiri reflects the fact that they worked additional days beyond those contracted for.

2 The performance-related payment for Tim Jones in 2012/13 column was paid in 2012/13 but related to the 2011/12 performance year. The Chair of the Trustee recommended a 10 per cent of salary payment, which was agreed by the remuneration committee, but as the government expects all NDPBs to demonstrate increased restraint in non-consolidated performance awards, a cap was set at £17,500 which was paid in February 2013.

3 Tim Jones is due a non-consolidated payment at the end of his fixed term contract on 6 January 2014. We have accrued £70,000, based on performance agreed by the remuneration committee for the period 1 October 2007 to 31 March 2012.

4 The figures for 2012/13 include performance-related pay in respect of 2011/12. Performance-related pay in respect of 2012/13 is not included, as this has yet to be decided.

5 Simon Richards, a director of PADA and director of business delivery was paid a non-consolidated payment of £101,500 during the year as part of his fixed term contract which ended on 31 December 2012.

6 The trustee members do not receive any performance related payments.

Tim Jones
Chief executive and accounting officer NEST Corporation

5 July 2013

Sue Slipman
Trustee Member
Chair, remuneration committee

5 July 2013

07 Statement of accounting officer's responsibilities

Under Schedule 1 (part 3 paragraph 20) to the Pensions Act 2008, the Secretary of State 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. 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 accounts, the accounting officer is required to comply with the requirements of the *Government Financial Reporting Manual* 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 Government *Financial Reporting Manual* have been followed, and disclose and explain any material departures in the financial statements
- prepare the financial statements on a going concern basis.

The principal accounting officer for the Department for Work and Pensions has designated the chief executive as accounting officer of NEST Corporation. The responsibilities of an accounting officer, including responsibility for the propriety and regularity of the public finances for which the accounting officer is answerable, for keeping proper records and for safeguarding NEST Corporation's assets, are set out in *Managing Public Money*, published by HM Treasury.

Tim Jones
Chief executive and accounting officer
NEST Corporation

5 July 2013

08 The Certificate and Report of the Comptroller and Auditor General to the Houses of Parliament

8.1 The Certificate of the Comptroller and Auditor General to the Houses of Parliament

I certify that I have audited the financial statements of the National Employment Savings Trust Corporation for year ended 31 March 2013 under the Pensions Act 2008. The financial statements comprise: the Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Corporation, Accounting Officer and auditor

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Corporation and the Accounting Officer are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the Pensions Act 2008. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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. This includes an assessment of: whether the accounting policies are appropriate to the National Employment Savings Trust Corporation's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the National Employment Savings Trust Corporation; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

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

Basis for qualified opinion on regularity

The National Employment Savings Trust Corporation is required to comply with the authorities laid out for it in statute and other regulations. When expenditure is not in accordance with these authorities I consider it to be irregular. As detailed in my accompanying report, the National Employment Savings Trust Corporation has incurred expenditure in respect of a mandate fraud (£1,446k) which I have concluded is not in conformity with the authorities which govern it, and is, therefore, irregular.

Qualified opinion on regularity

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

Details of this matter are set out in my accompanying report.

Opinion on financial statements

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 2013 and of its net expenditure after interest for the year then ended; and
- the financial statements have been properly prepared in accordance with the Pensions Act 2008 and the Secretary of State directions issued thereunder.

Opinion on other matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with Secretary of State directions made under the Pensions Act 2008; and
- the information given in the Trustee Members' Report and the Management Commentary 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 part of the Remuneration 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.

Amyas C E Morse
Comptroller and Auditor General

11 July 2013

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

8.2 Report of the Comptroller and Auditor General

National Employment Savings Trust Corporation 2012-13

Introduction

1. The National Employment Savings Trust Corporation (the Corporation) was established under the Pensions Act 2008 as a non-departmental public body, sponsored by the Department for Work and Pensions, to act as a trustee of any pension scheme established under section 67 of the Act.
2. Under the Pensions Act 2008 I am required to examine, certify and report on the accounts of the Corporation. In addition to the requirements to obtain evidence to give reasonable assurance that the financial statements are free from material misstatement, I am also required to give an opinion that the transactions are, in all material respects, in conformity with the authorities which govern them (a regularity opinion).
3. The purpose of this Report is to explain the background to the qualification of my audit opinion on regularity and to note the steps taken in respect of this matter by the Corporation.

Qualified opinion on regularity as a result of fraudulent expenditure

4. Fraudulent transactions cannot, by definition, be regular since they are without proper authority. Consequently, fraud which is material always results in qualification of the regularity part of the opinion.
5. I have qualified my regularity opinion for the year ended 31 March 2013 because the Corporation has incurred a material fraud (£1,446k). Where fraudulent payments occur, the transaction is not in conformity with the authorities which govern them and is therefore irregular. In the Governance Statement at section 4.17 of its Annual Report, the Corporation has explained the circumstances of the mandate fraud involving the diversion of supplier payments, which resulted in a loss of £1,446k being incurred by the Corporation.
6. I consider the circumstances that gave rise to this fraud to be a significant control failure for the Corporation, although I recognise that the Corporation has undertaken the necessary work to investigate the incident and initiated steps to strengthen controls over the payment process.

7. Whilst I have qualified my regularity opinion, as the Corporation has included the cash loss within its expenditure and made appropriate disclosures[1] in accordance with *Managing Public Money*, I have been able to conclude that the financial statements give a true and fair view of the net expenditure after interest for the year ended 31 March 2013.

Conclusion

8. In my view the fraudulent expenditure is a material loss of public funds and those funds have been used for purposes other than that intended by Parliament. I have therefore concluded that the expenditure incurred in respect of the mandate fraud is not in conformity with the authorities which govern it, and is, therefore, irregular.

9. The fraud arose because of a serious control failure within the Corporation. The Corporation recognises this, and has commenced a wider programme of work to improve its systems, as well as ensuring that its employees are aware of the risks of frauds and know what actions to take to minimise the risk of loss to public funds in the future.

Amyas C E Morse
Comptroller and Auditor General

11 July 2013

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

[1] Note 18 Losses and special payments.

09 NEST Corporation 2012/13 financial statements

National Employment Savings Trust Corporation Statement of Comprehensive Net Expenditure

for the year ended 31 March 2013

	Note	Year ended 31 March 2013 £000	Year ended 31 March 2012 £000
Expenditure			
Staff costs	2a	20,956	18,793
Depreciation and amortisation	3	10,146	5,677
Other expenditure	3	24,888	25,308
		55,990	**49,778**
Income			
Grant income	4	(7,944)	(10,832)
Other income	5	(76)	(28)
Net expenditure		**47,970**	**38,918**
Interest payable	6	13,080	9,597
Net expenditure after interest deducted from general reserve		**61,050**	**48,515**
Other comprehensive expenditure			
Net gain on revaluation of non-current intangible assets		(5,142)	–
Total comprehensive expenditure for the year		**55,908**	**48,515**

All income and expenditure is derived from continuing operations.

The accounting policies and notes on pages 58 to 87 form part of these financial statements.

National Employment Savings Trust Corporation Statement of Financial Position

as at 31 March 2013

	Note	31 March 2013 £000	31 March 2012 £000
Non-current assets			
Property, plant and equipment	7	11,497	9,681
Intangible assets	8	50,213	39,820
Prepayments amounts falling due over one year	9a	5,873	6,373
Total non-current assets		**67,583**	**55,874**
Current assets			
Trade and other receivables	9b	8,372	12,833
Other current assets	9c	75	50
Cash and cash equivalents	10	17,763	14,591
Total current assets		**26,210**	**27,474**
Total assets		**93,793**	**83,348**
Current liabilities			
Trade and other payables	11a	(11,884)	(8,566)
Other liabilities	11b	(8,650)	(7,620)
Provisions for liabilities and charges	13	(781)	–
Total current liabilities		**(21,315)**	**(16,186)**
Non-current assets plus net current assets		**72,478**	**67,162**
Non-current liabilities			
DWP loan	12	(239,317)	(171,128)
Other liabilities	12	(11,167)	(17,315)
Provisions for liabilities and charges	13	–	(797)
Total non-current liabilities		**(250,484)**	**(189,240)**
Assets less liabilities		**(178,006)**	**(122,078)**
Taxpayers' equity			
General reserve		(183,161)	(122,111)
Revaluation reserve		5,142	–
Lease incentive reserve		13	33
Total taxpayers' equity		**(178,006)**	**(122,078)**

The financial statements, including the accounting policies and notes, on pages 53 to 87 were approved by the Trustee on 5 July 2013 and were signed on its behalf by Tim Jones.

Tim Jones
Accounting officer

The accounting policies and notes on pages 58 to 87 form part of these financial statements.

National Employment Savings Trust Corporation Statement of Cash Flows

for the year ended 31 March 2013

	Note	Year ended 31 March 2013 £000	Year ended 31 March 2012 £000
Cash flows from operating activities			
Net expenditure after interest		(61,050)	(48,515)
Adjustment for non-cash items	21	6,307	4,292
(Increase) in trade and other receivables	9	(2,295)	(2,269)
Increase in trade and other payables	11	3,575	3,659
Increase/(decrease) in provisions	13	(16)	137
Net cash outflow from operating activities		**(53,479)**	**(42,696)**
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets	21	(695)	(8,042)
Advance payments	21	(10,843)	(8,754)
Net cash outflow from investing activities		**(11,538)**	**(16,796)**
Cash flows from financing activities			
Loan received from parent department	12	68,300	51,171
Loan repaid to parent department		(111)	–
Net cash inflow from financing activities		**68,189**	**51,171**
Net increase/(decrease) in cash and cash equivalents in the period	10	3,172	(8,321)
Cash and cash equivalents at the beginning of the period	10	14,591	22,912
Cash and cash equivalents at the end of the year	10	**17,763**	**14,591**

The accounting policies and notes on pages 58 to 87 form part of these financial statements.

National Employment Savings Trust Corporation Statement of Changes in Taxpayers' Equity

for the year ended 31 March 2013

	Note	Lease Incentive reserve £000	Revaluation reserve £000	General fund £000	Total reserves £000
Balance at 1 April 2011		**53**	**–**	**(73,596)**	**(73,543)**
Changes in taxpayers' equity 2011/12					
Release of reserves to the Statement of Comprehensive Net Expenditure	3	(20)	–	–	(20)
Net expenditure after interest		–	–	(48,515)	(48,515)
Total recognised income and expenditure for 2011/12		**(20)**	**–**	**(48,515)**	**(48,535)**
Total taxpayers' equity as at 31 March 2012		**33**	**–**	**(122,111)**	**(122,078)**
Changes in taxpayers' equity 2012/13					
Release of reserves to the Statement of Comprehensive Net Expenditure	3	(20)	–	–	(20)
Net gain on revaluation of non-current intangible assets	8	–	5,142	–	5,142
Net expenditure after interest		–	–	(61,050)	(61,050)
Total recognised income and expenditure for 2012/13		**(20)**	**5,142**	**(61,050)**	**(55,928)**
Total taxpayers' equity as at 31 March 2013		**13**	**5,142**	**(183,161)**	**(178,006)**

The accounting policies and notes on pages 58 to 87 form part of these financial statements.

Notes to the accounts

1 Statement of accounting policies

1.1 Basis of preparation and statement of compliance

These financial statements have been prepared in accordance with the 2012/13 *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 context.

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.

All amounts included in these financial statements have been rounded to the nearest £1,000 unless stated otherwise.

NEST Corporation is required, under the Pensions Act 2008, to prepare its accounts for the period from 1 April 2012 to 31 March 2013, in accordance with the directions made by the Secretary of State 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, the Trustee of NEST, and do not present the accounts of NEST's pension scheme, which launched in July 2011.

1.2 Going concern

The financing of NEST Corporation is met through a combination of loan and grant income funding supplied through the Department for Work and Pensions (DWP), which is approved annually by Parliament. In November 2010 we signed a loan agreement with DWP that 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. Consequently, the going concern basis has been adopted for the preparation of these accounts.

1.3 Changes in accounting policy and disclosures

a) Changes in accounting policies

There has been no change in accounting policies.

b) New and amended standards adopted

There are no International Financial Reporting Standards (IFRS) or International Financial Reporting Interpretations Committee (IFRIC) interpretations that are effective for the first time for the financial year beginning on or after 1 April 2012 that have a material impact on the financial statements.

c) New standards, amendments and interpretations issued but not effective for the financial year beginning 1 April 2012 and not early adopted

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

IAS 19 (revised 2011) 'Employee Benefits' (effective for accounting periods beginning on or after 1 January 2013) was amended in June 2011. The impact will be to immediately recognise all past service costs; and to replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability.

IFRS 9 'Financial Instruments' (effective for accounting periods beginning on or after 1 January 2015) addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 requires financial assets to be classified into two measurement categories; those measured at fair value and those measured at amortised cost. The determination is made at initial recognition and depends on the contractual cash flow characteristics of the instrument and the method in which an entity manages its financial instruments.

IFRS 13 'Fair Value Measurement' (effective for accounting periods beginning on or after 1 January 2013) aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and UK GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or UK GAAP.

The above standards to be adopted are not expected to have a material impact on the financial statements.

1.4 Accounting convention

These accounts have been prepared under the historical cost convention, modified for the revaluation of certain assets and liabilities at fair value, as determined by the relevant IFRS and IFRIC interpretations.

1.5 Areas of judgement

The preparation of accounts in accordance with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenditure. These are based on historic and other factors that are believed to be reasonable, the results of which form the basis for making judgements. The estimates and underlying assumptions are reviewed on an ongoing basis. Specific areas of judgement include aspects of the treatment of assets used by Tata Consultancy Services to administer the scheme, our estimate of the percentage of costs that are not chargeable to scheme members, depreciation and amortisation periods and provisions.

1.6 Estimation techniques

Revaluation of intangible assets

The *FReM* interpretation of IAS 38 Intangible Assets 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, but only at year end and only if the impact is over 1 per cent of the net book value of the relevant asset class. The rationale to support the selection of the index is detailed below:

Software licences

It is management's view that there is no index currently available that provides a flawless result and, due to organisational and pricing structure changes among software suppliers, no trend information is available on the specific licences held by NEST Corporation. As the next best alternative, the index viewed by management as most appropriate in achieving the requirement of IAS 38 and the *FReM* to establish a suitable proxy for fair value is JV5(a): Computers and peripheral equipment. The main assumption being that although this index includes movements in IT hardware as well as licence prices, it adequately reflects the movements in the costs 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 this is the best available proxy to establish fair value for IT-related assets.

1.7 Expenditure

All expenditure is recognised on an accruals basis.

1.8 Staff benefits

Short-term staff benefits, such as salaries and paid absences, are accounted for on an accruals basis over the period for which employees have provided services in the year. To the extent NEST Corporation has benefited from service thought likely to merit recognition through a bonus payment, a general accrual for staff bonuses, including directors, is included within staff costs. However, as directors' bonuses are not agreed at the financial year-end, they are not included in the remuneration report until payments to individuals have been determined by the remuneration committee. They will be included in the first financial statements approved by the Trustee after payment has been agreed by the remuneration committee.

1.9 Pension costs

NEST Corporation operates a number of pension schemes to meet the diverse needs of our workforce. These are:

- the NEST Corporation Group Personal Pension Plan (formerly the PADA Group Personal Pension Plan), a defined contribution pension scheme for the corporation's directly employed staff who are employed on fixed-term contracts
- the NEST pension scheme, an occupational pensions scheme for all permanent employees
- an Aviva top-up scheme, a defined contribution group personal pension scheme for the corporation's directly employed staff who are employed on permanent contracts and who are eligible to access these top-up arrangements.

NEST Corporation recognises the employer costs for each relevant scheme in the period in which they are incurred.

The pension costs of civil servants on secondment to NEST Corporation are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS) which are described in DWP's annual report and accounts. PCSPS costs for civil servants on secondment to NEST Corporation are included in the payment made by NEST Corporation to the government departments from where the staff were sourced as part of the reimbursement of their employment costs. There is no residual liability for NEST Corporation in respect of PCSPS.

1.10 Value added tax (VAT)

NEST Corporation does not make taxable supplies and therefore is not registered for VAT. Consequently, where input VAT is incurred or payable, costs are shown inclusive of VAT.

1.11 Insurance

Any uninsured losses are charged directly to the Statement of Comprehensive Net Expenditure as incurred.

1.12 Income and funding

Income is reflected in the Statement of Comprehensive Net Expenditure and is recognised when it is probable that future economic benefits will flow to NEST Corporation and those benefits can be measured reliably.

Deductions made from NEST's member contributions 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 accounted for on an accruals basis once the contributions have been invested. Also income is received on 0.3 per cent of assets under management and this is accounted for on an accruals basis.

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. It is treated as income accounted for on an accrual basis.

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 loan to DWP. It also receives from DWP a grant sufficient, in effect, to reduce the interest payable on the loan from the commercial rate to the government rate of borrowing. This grant income is allowable state aid under a ruling from the European Commission in July 2010. The grant is treated as income.

1.13 Property, plant and equipment

Property, plant and equipment are stated at fair value. However, as permitted by the *FReM*, NEST Corporation has elected to adopt a depreciated historical cost basis as a proxy for fair value where assets have a short useful life or are of relatively low value. This applies to all assets NEST Corporation discloses as property, plant and equipment.

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. Where an item costs less than the capitalisation limit, but forms an integral part of a package or pool of items whose total value is greater than the capitalisation level, the item is treated as a capital asset.

On initial recognition, assets are measured at cost, including any costs such as installation which are directly attributable to bringing them into working condition and any associated decommissioning costs. 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.

Unless otherwise provided for in an earlier period, all expenditure on repairs and maintenance is charged to the Statement of Comprehensive Net Expenditure during the financial period in which it is incurred.

Scheme administration contract assets

NEST Corporation has concluded that IFRIC 12, as adopted by the *FReM*, applies to the scheme administration contract with TATA Consultancy Services (TCS). Consequently the financial statements should recognise such dedicated non-current assets used by TCS in delivering the service that NEST Corporation effectively controls through the provisions of the scheme administration contract. These assets comprise hardware, software licences and developed software.

Hardware, such as servers in the UK and India used for scheme administration, have been classified as tangible scheme administration assets and are included in property, plant and equipment. Software licences used by TCS for scheme administration have been classified as intangible assets in the financial statements. Staffing costs incurred by TCS in configuring software to meet NEST Corporation's requirements have been classified as scheme-developed software with intangible assets. Details of how accounting policies are applied to these different classes of assets are set out in the appropriate sections of these notes.

The non-current assets are recognised when they became available for use, on the satisfaction by TCS of the associated milestone criteria. NEST Corporation's own costs are expensed as they are incurred unless they can be clearly attributed to specific scheme administration assets.

Advance payments under the contract which are made in respect of assets that have not yet come into use are recognised as prepayments. On initial recognition of the assets, the extent to which asset value exceeds the associated milestone payments is recognised as a finance lease liability.

Initial asset values are based on cost information provided by TCS under the terms of the contract. NEST Corporation has performed tests of reasonableness of this information and, in accordance with IAS 16 Property Plant and Equipment and IAS 38 Intangible Assets, has initially recognised the assets at cost.

Hardware costs have been taken from the non-current asset register supplied under the contract by TCS. This documents the hardware used by TCS exclusively for scheme administration under the contract. As the contract specifies that these assets are to be used exclusively for scheme administration and gives NEST Corporation certain rights and controls over these assets, NEST Corporation has concluded that it is appropriate to include the assets on its Statement of Financial Position.

NEST finance department has reviewed the items on the non-current asset register. On the basis that the bundles of assets are recorded at the cost incurred by TCS for each bundle and the assumption that the cost paid by TCS reflected the economic value placed by TCS on the purchase, NEST Corporation has concluded that the valuation provided by TCS is appropriate for NEST Corporation to use for the initial value of the assets in its accounts.

The *FReM* permits entities to adopt a depreciated historical cost basis as a proxy for fair value where the assets have a short useful life or low value. NEST Corporation has judged that the five years asset life of hardware assets is relatively short and consequently has decided to use depreciated historical cost as a proxy for fair value.

Asset refresh has been assumed after five years, following discussion with TCS over their asset replacement strategy. They have said that this is the likely average useful economic life of the assets, though clearly some individual items may need replacement sooner than this and others later. NEST Corporation does not believe it is useful or necessary to vary this assumption by type of asset.

An element of the annual service charge paid to TCS is attributed to asset replacement, accounted for as a prepayment up until the actual date of asset replacement. If, at replacement the prepayment is less than the cost of the replacement asset, the balance is recognised as an additional finance lease liability.

1.14 Land and buildings

In the year, NEST Corporation occupied two properties, under a combination of operating leases and rental contracts. These costs are expensed as they are incurred. During the year the Newcastle office was closed.

1.15 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. Where an item costs less than the capitalisation limit, but forms an integral part of a package or pool of items whose total value is greater than the capitalisation level, the item is treated as a capital asset. Expenditure on annual software licences is recognised in the Statement of Comprehensive Net Expenditure.

NEST Corporation capitalises website development costs in accordance with SIC 32 Web Site Costs where the recognition criteria determined by IAS 38 Intangible Assets are met. During the reporting period no such costs have satisfied the criteria.

Scheme software licence costs for the TCS contract have been taken from the non-current asset register supplied by TCS under the contract. For the same reasons as those applying to hardware used for the contract, NEST Corporation has concluded that TCS's valuation of the licences is appropriate for NEST's financial statements.

The costs of software development incurred by TCS for scheme administration are capitalised in accordance with IAS 38, based on TCS's own records of those costs, excluding an estimate from TCS for expenditure which is appropriate to be expensed, such as training and project management.

Software development costs have been taken from TCS's quarterly financial reports supplied to NEST Corporation. According to the original bid model, some 12 per cent of TCS's projected staff set-up costs were expected to relate to overhead activities such as training and project management which would not be appropriate to capitalise while the balance of the costs were for the business analysis, design, build and testing of software which NEST Corporation believes is appropriate to capitalise. TCS has confirmed that the actual percentage of staff effort on activities not appropriate to capitalise has been broadly in line with the assumption in the bid model. In view of this, NEST Corporation judges that the percentage of overhead lies between 10 per cent and 20 per cent and has decided to capitalise 85 per cent of TCS's incurred staff set up costs.

NEST management has judged that it is not appropriate to capitalise the effort of NEST's own staff in the joint work with TCS on design, as this has effectively been part of the process of defining NEST's own requirements.

NEST believes that software development costs incurred up to, but not including, the month the Service Release (SR) goes live, should be capitalised once TCS has satisfied milestone payment conditions pertaining to that particular SR. SR3 went live in July 2012 and TCS satisfied the conditions of Service Implementation Milestone (SIM) through two SIMs: 3.2 on 17 December 2012 and 3.1 on 21 December 2012. SR4 went live in December 2012 and TCS satisfied the conditions of SIM 4 on 21 March 2013. While some of TCS's set-up activity in 2012/13 related to subsequent service implementation milestones, this is not separately identified in the quarterly financial reports. NEST Corporation has judged that it is not necessary to make an adjustment to the capitalised software to reflect this, on grounds of materiality and the fact that TCS has satisfied the criteria for certain advance payments relating to subsequent milestones.

NEST has concluded that the useful economic life of the capitalised software development should be regarded as the currently expected duration of the contract (seven years to 2020).

1.16 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, as follows:

- furniture and fittings: two to five years
- information technology and telecoms equipment: three to five years
- scheme administration IT hardware assets are expected to be replaced after five 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 Expenditure over the remaining life of the asset.

1.17 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, or if shorter as follows:

- software licences: three years or period remaining on licence if less than three years
- scheme software licences used by TCS for the scheme administration contract: five years, on the grounds that hardware asset refresh is likely to be accompanied by upgrading of software licences
- scheme developed software – as described in accounting policy 1.15, 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 Expenditure over the remaining life of the asset.

1.18 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. Impairments 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 devaluation is charged to the Statement of Comprehensive Net Expenditure. Each year, the realised element of the reserve that is an amount equal to the excess of the actual depreciation over depreciation based on historical cost is transferred from the reserve to the general fund.

Impairment losses that result from a clear consumption of economic benefit are taken directly to the Statement of Comprehensive Net Expenditure. 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 fund 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 fund. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the Statement of Comprehensive Net Expenditure.

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.

1.19 Financial assets and financial liabilities

Financial assets and financial liabilities are recognised in NEST Corporation's Statement of Financial Position when it becomes party to contracts that give rise to them. NEST Corporation determines the classification of financial assets and liabilities at initial recognition in line with the categories designated by IAS 39: Financial Instruments: Recognition and Measurement as appropriate. Financial assets are derecognised when the right to receive cash flows has expired or NEST Corporation has transferred substantially all the risks and rewards of ownership or control of the asset. Financial liabilities are derecognised when the obligations under the liability are discharged, cancelled or expire. It is, and has been, NEST Corporation policy that no trading in financial instruments is undertaken.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and which are not classified as available for sale. Loans and receivables are initially recognised at fair value and subsequently held at amortised cost. The fair value of trade and other receivables is usually the original invoiced amount.

Cash and cash equivalents comprise current balances with banks and similar institutions, which are readily convertible to known amounts of cash and which are subject to insignificant changes in value.

Fair value

The fair value of a financial instrument is the amount for which an asset could be exchanged, or a liability settled, in an arm's-length transaction between knowledgeable willing parties. Where the classification of a financial instrument requires it to be stated at fair value, that fair value is determined using expected cash flows discounted back to a present value.

Impairment of financial assets

NEST Corporation assesses, at the end of the reporting period, whether there is objective evidence that financial assets are impaired as a result of events that occurred after the initial recognition of the asset and prior to the end of the reporting period. If such events had an adverse impact on the estimated future cash flows of the financial instrument they are impaired and the value within the Statement of Financial Position is reduced by the amount of any impairment.

The amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows and is recognised in the Statement of Comprehensive Net Expenditure.

Interest, impairment losses and translation differences on monetary items are recognised in the Statement of Comprehensive Net Expenditure.

1.20 Inventories

NEST Corporation holds no inventories other than consumable items, the costs for which are expensed as they are incurred.

1.21 Provisions

Provisions are recognised when NEST Corporation has a present legal or constructive obligation arising as a consequence of past events and where it is probable that a transfer of economic benefit will be necessary to settle that obligation. These obligations, which are of uncertain timing or amount at the end of the reporting period, are included on the basis of the best estimate of the expenditure required to settle the obligation. Where the effect of the time value of money is significant, the estimated cash flows are discounted using NEST Corporation's weighted average cost of capital (see note 3).

1.22 Leases

Leases are classified as finance leases if the terms of the lease involve the transfer of substantially all the risks and rewards of ownership to the lessee. All the other leases are classified as operating leases and the rentals paid are charged to the Statement of Comprehensive Net Expenditure as incurred.

As set out above under 1.13 property, plant and equipment, NEST Corporation has concluded that the scheme administration contract with TCS involves a service concession and a finance lease in respect of the assets used by TCS for the service.

Leased assets classified as a finance lease are capitalised at the lower of the present value of the minimum lease payments discounted by the interest rate implicit in the lease or the fair value of the leased asset. Obligations relating to finance leases are recognised as liabilities. Lease payments are apportioned between reductions in the capital obligation included in liabilities and the interest element of the finance lease payment, which is charged to the Statement of Comprehensive Net Expenditure over the period of the lease.

The contract with TCS does not stipulate an interest expense element in relation to the provision of assets used for scheme administration. Therefore, as permitted by the *FReM*, NEST Corporation has concluded that the best proxy for the interest rate implicit in the contract is NEST's weighted average cost of capital.

Leases where the lessor retains a significant portion of the risks and rewards of ownership are classified as operating leases and the lease payments are charged to the Statement of Comprehensive Net Expenditure over the term of the lease.

1.23 Lease incentives

Assets received from third parties which are regarded as falling within the SIC 15 Operating Lease Incentives definition of lease incentives are capitalised and credited to a lease incentive reserve where appropriate. The lease incentive reserve is amortised on a straight-line basis over the remaining term of the lease and credited to the Statement of Comprehensive Net Expenditure.

1.24 Contingent liabilities

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is uncertain or cannot be reliably measured. Contingent liabilities are not recognised but are disclosed, unless they are remote.

In addition to contingent liabilities disclosed in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets, NEST Corporation discloses certain statutory and non-statutory contingent liabilities where the likelihood of a transfer of economic benefit is remote. These must be reported to Parliament in accordance with the requirements of Managing Public Money.

These liabilities comprise:

- items over £250,000 (or lower, where required by specific statute) that do not arise in the normal course of business and which are reported to Parliament by departmental minute before NEST Corporation entering into the agreement; and
- all items (whether or not they arise in the normal course of business) over £250,000 (or lower, where required by specific statute) which are required by the *FReM* to be noted in the accounts.

Where the time value of money is material, contingent liabilities that are required to be disclosed under IAS 37 are stated at discounted amounts and the amount reported to Parliament separately noted. Contingent liabilities that are not required to be disclosed by IAS 37 are stated at the amounts reported to Parliament.

1.25 Operating segments

IFRS 8 Operating Segments applies in full to NEST Corporation. In preparing the financial statements, NEST Corporation has considered the IFRS 8 requirement to report results by operating segment. NEST Corporation has concluded that it does not have separate operating segments as defined by the standard.

2 Staff numbers and related costs

a) Staff costs

NEST Corporation is staffed by a combination of direct employees, staff seconded from other organisations (the majority from DWP), and a number of interim staff.

	Year ended 31 March 2013 £000	Year ended 31 March 2012 £000
Directly employed staff		
Wages and salaries	15,269	12,044
Social security costs	1,797	1,461
Pension costs	885	685
Sub-total	**17,951**	**14,190**
Secondees	455	1,100
Interim staff	2,550	3,503
Total	**20,956**	**18,793**

b) Pension arrangements

NEST Corporation operates two active defined contribution pension schemes for its directly employed staff. There were 192 workers in these pension schemes as at 31 March 2013 (31 March 2012: 144). During the year there was also a legacy scheme NEST Corporation Group Personal Pension Plan (formerly the PADA Group Personal Pensions Plan). At the year end there were no active members in this scheme.

NEST Corporation recognises the employer costs in the period in which they are incurred. At 31 March 2013 there was one month's contributions outstanding amounting to £138k (31 March 2012: £100k).

The pension costs of civil servants on secondment to NEST Corporation are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS) which are described in the parent department's annual report and accounts. PCSPS costs for civil servants on secondment to NEST Corporation are included in the payment made by NEST Corporation to the government departments from where the staff were sourced as part of the reimbursement of their employment costs and reflected in secondee costs in the table above. There is no residual liability for NEST Corporation in respect of PCSPS.

c) Average number of staff employed

	Year ended 31 March 2013 Average full time equivalents	Year ended 31 March 2012 Average full time equivalents
Directly employed staff		
Directly employed staff	238	182
Secondees	4	15
Interim staff	16	28
Total average number of staff	**258**	**225**

3 Depreciation, amortisation and other expenditure

	Note	Year ended 31 March 2013 £000	Year ended 31 March 2012 £000
Depreciation and amortisation	7,8	10,146	5,677
Professional advice and support		2,076	4,602
Legal fees and expenses		646	1,894
Scheme administration expenses		13,133	10,237
Scheme investment costs		411	592
Recruitment and other staff costs		1,691	1,769
Information technology and telephony		2,403	1,741
Research costs		800	1,400
Accommodation		714	950
Rentals under operating leases		648	648
Other running costs		558	1,002
Internal audit		255	189
Auditor's remuneration – inc statutory audit			
– Corporation (National Audit Office)		82	68
– Scheme (KPMG)		55	30
Unwinding of discount on provisions	13	(16)	55
Devaluation of intangibles	8	–	(17)
Loss on disposal of non-current assets		6	68
Release of reserve		(20)	(20)
Write off of cash loss	18	1,446	–
Increase in provision	13	–	100
Sub total – *Other expenditure*		24,888	25,308
Total		**35,034**	**30,985**

NEST's weighted average cost of capital is the effective cumulative interest rate on the loan from DWP. Under the terms of the loan agreement NEST borrows at a fixed commercial rate of interest prevailing at the time if each drawdown, but it also receives a grant from DWP which is calculated so as to bring the effective rate of interest NEST pays from the commercial rate to the government rate. The weighted cumulative interest rate of borrowing up to 31 March 2013, taking into account that subsidy, is 3.3 per cent (2011/12: 3.6 per cent).

4 Grant income

	Year ended 31 March 2013 £000	Year ended 31 March 2012 £000
Grant income for non chargeable costs	879	1,002
Public service obligation offset payment	7,065	9,830
Total	**7,944**	**10,832**

Costs associated with the functions of government are not chargeable to NEST members and are met through grant income funding from 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 has been receivable from DWP which has the effect of reducing the cost of servicing the loan to the government cost of borrowing. This offset payment was received on the first loan interest payment date following the practical commencement of the public service duty when NEST took in its first members.

5 Other income

	Year ended 31 March 2013 £000	Year ended 31 March 2012 £000
Interest received and receivable	15	21
Contribution charges received and receivable	61	7
Total	**76**	**28**

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. Contribution charges relate to the 1.8 per cent deduction of contributions from members of NEST pension scheme and 0.3 per cent annual management charge on the value of NEST pension scheme investments under management. These amounts are collected by the scheme and paid to NEST Corporation when members' contributions have been invested.

6 Interest payable

	Note	Year ended 31 March 2013 £000	Year ended 31 March 2012 £000
Loan interest paid and payable	19	13,080	9,597

Interest payable relates to interest charged on balances outstanding on the loan from DWP (see note 12).

7 Property, plant and equipment

2012/13	Note	Furniture & fittings £000	Information technology[a] £000	Scheme hardware £000	Total £000
Cost					
As at 1 April 2012		254	1,349	10,050	11,653
Additions		6	311	4,214	4,531
Disposals		(8)	–	–	(8)
Write offs		(18)	–	–	(18)
Reclassification	8	–	(35)	–	(35)
As at 31 March 2013		**234**	**1,625**	**14,264**	**16,123**
Depreciation					
As at 1 April 2012		(135)	(421)	(1,416)	(1,972)
Charged in period		(46)	(305)	(2,346)	(2,697)
Disposals		7	–	–	7
Write offs		13	–	–	13
Reclassification	8	–	23	–	23
As at 31 March 2013		**(161)**	**(703)**	**(3,762)**	**(4,626)**
Net book value at 31 March 2013		**73**	**922**	**10,502**	**11,497**
Net book value at 31 March 2012		**119**	**928**	**8,634**	**9,681**
Asset financing:					
Owned		73	922	10,502	11,497
Net book value at 31 March 2013		**73**	**922**	**10,502**	**11,497**

Non current assets totalling £17.2m were added during the year (£4.5m property, plant and equipment, £12.7m intangible assets).

Of the £17.2m non-current assets added, £16.5m have been used by TCS for scheme administration, £nil relate to environments used by NEST Corporation for user acceptance testing in relation to scheme administration and £0.7m relate to other assets used by NEST Corporation.

2011/12	Furniture & fittings £000	Information technology[a] £000	Scheme hardware £000	Total £000
Cost				
As at 1 April 2011	216	1,207	–	1,423
Additions	42	147	10,050	10,239
Disposals	(4)	(5)	–	(9)
As at 31 March 2012	**254**	**1,349**	**10,050**	**11,653**
Depreciation				
As at 1 April 2011	(93)	(171)	–	(264)
Charged in period	(43)	(253)	(1,416)	(1,712)
Disposals	1	3	–	4
As at 31 March 2012	**(135)**	**(421)**	**(1,416)**	**(1,972)**
Net book value at 31 March 2012	**119**	**928**	**8,634**	**9,681**
Net book value at 31 March 2011	**123**	**1,036**	**–**	**1,159**
Asset financing:				
Owned	119	928	8,634	9,681
Net book value at 31 March 2012	**119**	**928**	**8,634**	**9,681**

a. Information technology includes telecoms equipment.

The annual review of all property, plant and equipment verified that the carrying value approximated to the fair value of the assets. Consequently there was no revaluation or impairments in the period.

8 Intangible assets

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

2012/13	Note	Software licences £000	Scheme software licences £000	Scheme developed software £000	Total £000
Cost or valuation					
As at 1 April 2012		606	18,844	24,367	43,817
Additions		378	4,441	7,869	12,688
Revaluation	a	107	2,947	3,651	6,705
Reclassification	7	35	–	–	35
As at 31 March 2013		**1,126**	**26,232**	**35,887**	**63,245**
Amortisation					
As at 1 April 2012		(197)	(2,354)	(1,446)	(3,997)
Charged in period		(313)	(3,909)	(3,227)	(7,449)
Revaluation	a	(56)	(887)	(620)	(1,563)
Reclassification	7	(23)	–	–	(23)
As at 31 March 2013		**(589)**	**(7,150)**	**(5,293)**	**(13,032)**
Net book value at 31 March 2013		**537**	**19,082**	**30,594**	**50,213**
Net book value at 31 March 2012		**409**	**16,490**	**22,921**	**39,820**

2011/12	Note	Software licences £000	Scheme software licences £000	Scheme developed software £000	Total £000
Cost or valuation					
As at 1 April 2011		480	–	–	480
Additions		242	18,844	24,367	43,453
Disposals		(114)	–	–	(114)
Devaluation	a	(2)	–	–	(2)
As at 31 March 2012		**606**	**18,844**	**24,367**	**43,817**
Amortisation					
As at 1 April 2011		(102)	–	–	(102)
Charged in period		(165)	(2,354)	(1,446)	(3,965)
Disposals		51	–	–	51
Devaluation	a	19	–	–	19
As at 31 March 2012		**(197)**	**(2,354)**	**(1,446)**	**(3,997)**
Net book value at 31 March 2012		**409**	**16,490**	**22,921**	**39,820**
Net book value at 31 March 2011		**378**	**–**	**–**	**378**

a. Intangible assets used by NEST Corporation itself were fair valued applying an appropriate ONS index. The revaluation and devaluation charge reflects movements in the index since the date the intangible assets were recognised.

The largest intangible asset on the NEST Corporation Statement of Financial Position relates to internally developed software by TCS to support the launch of the NEST pension scheme. The asset is borne in three tranches, £19.9m, £8.0m and £8.0m giving a total value of this asset of £35.9m, with accumulated amortisation of £5.3m as at 31 March 2013. The remaining amortisation period of these assets is 87 months.

Within the software licences associated with NEST pension scheme are items of relatively high value. These include BaNCS (bespoke transactional management software) – net book value £6.2m, Oracle software database – net book value £1.8m and Oracle UAT environment software – net book value £1.5m as at 31 March 2013. The remaining amortisation periods of these assets are 86, 58 and 39 months respectively.

The non-current intangible assets were revalued at 31 March 2013 with the increase in valuation of £5.1m being taken to the revaluation reserve. There was no revaluation reserve in the previous year and the decrease in the value of non-current intangible assets at 31 March 2012 was thus recognised as an expense in the Statement of Comprehensive Net Expenditure.

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

	31 March 2013 £000	31 March 2012 £000
a) Amounts falling due over one year		
Advance payments to TCS	2,202	5,200
Prepayments in respect of asset refresh	3,657	1,173
Other prepayments	14	–
	5,873	**6,373**
b) Amounts falling due within one year		
Advance payments to TCS	3,360	10,077
Accrued income public sector obligation offset payment	3,444	2,391
Accrued income for non chargeable costs	879	–
Other prepayments	689	365
	8,372	**12,833**
c) Other current assets		
Staff loans	74	50
Other receivables	1	–
	75	**50**
	14,320	**19,256**

A total of £9.2m of prepayments (2011/12: £16.5m) relate to assets expected to be used in scheme administration services. £3.4m (2011/12: £10.1m) of these prepayments relate to assets that are expected to be available for use within one year after 31 March 2013 and £5.8m (2011/12: £6.4m) relate to assets expected to be available for use beyond one year.

Of the £9.2m (2011/12: £16.5m) of prepayments, £5.6m (2011/12: £15.3m) are advance payments related to the setting up of the scheme and £3.6m (2011/12: £1.2m) are amounts deducted from service charges to fund future asset replacement, which are being held within prepayments until asset replacement has taken place. The only intra government receivables at year end were in respect of the public sector obligation offset payment of £3.4m (2011/12: £2.4m) and non chargeable costs of £0.9m (2011/12: £nil).

10 Cash and cash equivalents

	31 March 2013 £000	31 March 2012 £000
Opening balance	14,591	22,912
Net change in cash balances	3,172	(8,321)
Balance at end of year	**17,763**	**14,591**
The following balances were held with the Government Banking Service	**17,763**	**14,591**

11 Current liabilities

	31 March 2013 £000	31 March 2012 £000
a) Trade and other payables		
Trade payables	863	847
Accruals	11,021	7,719
	11,884	**8,566**
b) Other liabilities		
Other taxation and social security	769	550
Pensions costs	138	100
Imputed finance lease element of TCS assets	7,743	6,970
	8,650	**7,620**
Total	**20,534**	**16,186**

12 Non-current liabilities

	31 March 2013 £000	31 March 2012 £000
DWP Loan	239,317	171,128
Imputed finance lease element of TCS assets	11,167	17,315
Total	**250,484**	**188,443**

Loan funding from DWP is provided to meet the scheme implementation and initial running costs and will subsequently be repaid from charges levied on scheme members. The interest rate on each loan is determined by the interest rate prevailing at the time of taking out the loan. At 31 March 2013, the weighted average interest rate on loan funding was 3.3 per cent (31 March 2012: 3.6 per cent) (see note 3). Interest on loans is payable on April and October each year. The loan principals fall due for settlement on a series of repayment dates commencing 21 October 2020.

An imputed finance lease of £18.9m (2011/12: £24.3m) has been recognised, reflecting the difference between £67.6m (2011/12: £51.1m) scheme administration assets initially recognised and £47.1m (2011/12: £26.6m) payments made to TCS up to 31 March 2013 in relation to those assets, less £2.9m (2011/12: £0.7m) offset against monthly service charges plus £1.3m (2011/12: £0.5m) of finance credit charge on the lease liability since the assets were recognised. This finance lease has been split between the amount expected to be extinguished within one year £7.7m (2011/12: £7.0m) and the balance of the lease £11.2m (2011/12: £17.3m).

a) Liabilities: analysis by amounts owing to central government

The following table identifies balances with other types of public sector organisation included with liabilities.

	31 March 2013 £000	31 March 2012 £000
Balances with other central government bodies	246,486	176,599
Amounts owing to bodies external to government	24,532	28,030
Total	**271,018**	**204,629**

Within the balance owing to other central government bodies is £239m loan funding (2011/12: £171m) owing to DWP and £0.8m (2011/12 : £0.6m) owing to HM Revenue and Customs for employment-related tax and social security costs.

13 Provisions for liabilities and charges

a) Administration provision

	31 March 2013 Provision for property repairs £000	31 March 2012 Provision for property repairs £000
Balance at 1 April	797	660
Change in provision	–	100
Provisions not required written back	–	(3)
Provisions utilised in the period	–	(15)
Unwinding of discount (note 3)	(16)	55
Balance as at 31 March 2013	**781**	**797**
Classified as:		
Amounts falling due within one year	781	–
Amounts falling due over one year	–	797
	781	**797**

The provision at 31 March 2013 relates to building surveyors' estimates of amounts required to settle property repairing liabilities which may arise. The provision included in the Statement of Financial Position has been calculated based upon the latest estimated liability contained in the surveyor's reports.

The provision represents estimate future cash flows discounted at NEST Corporation's weighted average cost of capital of 3.3 per cent nominal or 0.3 per cent real (2011/12: 0.2 per cent real).

b) Analysis of expected timing of discounted flows

	Discount included in provision £000	Discount included in provision £000
Between 1 April 2012 and 31 March 2014	–	3
Balance as at 31 March 2013	**–**	**3**

Whilst there is balance at year end on the provision, the discount has been utilised in the year and the provision is expected to be utilised in 2013/14.

14 Capital and other financial commitments

a) Capital and other financial commitments

	31 March 2013 £000	31 March 2012 £000
Contracted capital commitments at 31 March 2013 not otherwise included in these financial statements	53	41
Balance as at 31 March 2013	**53**	**41**

The contract for TCS for the provision of scheme administration services has been recognised as a service concession and the commitments included 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 point's service charges and the imputed interest element.

	31 March 2013 £000	31 March 2012 £000
Total obligations under service concession arrangements reflected in the SoFP for the following periods comprise:		
Not later than one year	25,032	26,849
Later than one year and not later than five years	140,332	125,912
Later than five years	124,935	197,569
Total	**290,299**	**350,330**
Less interest element	(40,894)	(61,129)
Present value of obligations	**249,405**	**289,201**
Present value of obligations under service concession arrangements reflected in the SOFP for the following periods comprise:		
Not later than one year	24,227	25,906
Later than one year and not later than five years	124,854	110,980
Later than five years	100,324	152,315
Total present value of obligations	**249,405**	**289,201**

c) Charge to the Statement of Comprehensive Net Expenditure and future commitments.

The total amount charged in the Statement of Comprehensive Net Expenditure in respect of the service element of this service concession was £15.7m and the payments to which NEST Corporation is committed (subject to the conditions of the contract, particularly volume levels) is as follows:

	31 March 2013 £000	31 March 2012 £000
Not later than one year	20,135	13,942
Later than one year and not later than five years	105,063	100,778
Later than five years	105,130	164,640
Total	**230,328**	**279,360**

15 Commitments under leases

Operating leases

The future minimum lease payments under non-cancellable operating leases extant at the year-end date, in the following periods are:

	31 March 2013 £000	31 March 2012 £000
Future minimum lease payments comprise:		
Buildings:		
Not later than one year	468	648
Later than one year and not later than five years	–	470
	468	**1,118**

The future minimum lease payments represent a lease for offices occupied by NEST Corporation. Rent is fixed in the lease, based on normal market rates, and is payable quarterly in advance. The agreement imposes no restrictions on NEST Corporation on how it conducts its business. There is no break clause remaining and the prescribed term concludes in December 2013. There is no renewal clause.

16 Financial instruments

	Note	31 March 2013 £000	31 March 2012 £000
Financial Assets			
Cash and cash equivalents	10	17,763	14,591
Staff loans	9	74	50
Total		**17,837**	**14,641**

The above figures exclude statutory receivables and prepayments.

	Note	31 March 2013 £000	31 March 2012 £000
Financial liabilities			
Trade payables	11	863	847
Accruals	11	11,021	7,719
Total		**11,884**	**8,566**

The above figures exclude statutory payables.

It is, and has been, NEST Corporation's policy that no trading in financial instruments is undertaken. Financial assets and liabilities generated by day-to-day operational activities are not held in order to change the risks facing NEST Corporation in undertaking its activities.

NEST Corporation borrows money from DWP to fund activities which will subsequently be repaid from revenue raised from charges to scheme members. The weighted average interest rate applicable to the loans is 3.3 per cent (2011/12: 3.6 per cent) (see notes 6 and 12).

NEST Corporation's financial assets and liabilities which are outside the scope of activities to be charged to scheme members have either a nil or a fixed rate of interest related to the cost of capital.

NEST Corporation has no exposure to foreign currency risk at the year-end date (2011/12: nil).

The book value of NEST Corporation's financial assets and liabilities as at 31 March 2013 and 31 March 2012 are not materially different from their fair values.

17 Contingent liabilities disclosed under IAS 37

There are no contingent liabilities to disclose.

18 Losses and special payments

	Year ended 31 March 2013 £000	Cases	Year ended 31 March 2012 £000	Cases
Losses:				
Cash loss – mandate fraud	1,446	1	–	–
Other write offs – furniture and fittings	5	215	–	–
Constructive loss – software licences	–		70	200
Store loss – lost and stolen IT equipment	–		2	4
	1,451		**72**	

As explained in section 4.17 on page 32 of the annual report, NEST Corporation lost £1,446k as a result of a fraud. In the light of the requirements of the Government's Financial Reporting Manual and *Managing Public Money*, this has been recorded as a loss in the accounts and is accounted for as an expense in note 3 of the financial statements.

There were no special payments during 2012/13 (2011/12: nil).

19 Related party transactions

NEST Corporation is a non-departmental public body accountable to the Secretary of State for Work and Pensions and is classified as a public corporation. 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:

		Year ended 31 March 2013		Year ended 31 March 2012	
	Note	£000 Income and financing	£000 Expenditure	£000 Income and financing	£000 Expenditure
Loan funding and repayment	12	68,300	111	51,171	–
Loan interest	6	–	13,080	–	9,597
Other transactions	4	7,944	473	10,832	1,404
Total		**76,244**	**13,664**	**62,003**	**11,001**

At 31 March 2013 excluding the liability to repay the loan which does not fall due for more than 12 months, NEST Corporation had £6.4m outstanding liability with DWP (2011/12 : £113k). NEST Corporation has also recognised an accrued income due from DWP of £4.3m at 31 March 2013 (2011/12: £2.4m).

This relationship with DWP includes provision to NEST Corporation of:

a) grant income and loan funding

b) office accommodation and some IT services

c) secondees

d) public service obligation offset payments.

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

During the year NEST Corporation received income from the NEST pension scheme of £61k (2011/12: £7k), see note 5 for details.

No board members, senior managers or other related parties have undertaken any material transactions with NEST Corporation during the year. Julius Pursaill, a Trustee Member, is a contributing member of NEST pension scheme on standard business terms, he is not a member of the NEST Corporation pension scheme. Tom Boardman, a Trustee Member, is one of the directors of a participating employer in NEST pension scheme. The participating employer makes contribution to the scheme on standard business terms.

Chris Hitchen is a board member of the National Association of Pensions Funds (NAPF). During 2012/13, NEST Corporation did not purchase services from the NAPF (2011/12: £5.9k).

A close relative of Paul Hewitt is a member of the board of NCC Group. During 2012/13, NEST Corporation did not purchase services from NCC Services, a trading arm of NCC Group (2011/12: £23.9k).

20 Late payment of commercial debt

The Late Payment of Commercial Debts (Interest) Act 1998, which came into effect on 1 November 1998, and the Late Payment of Commercial Debts Regulations 2002, which came into effect on 7 August 2003, provides all businesses and public sector bodies with, amongst other entitlements, the right to claim interest for late payment.

During the year to 31 March 2013, NEST Corporation incurred £16 interest charges under the Late Payment of Commercial Debts (Interest) Act 1998 (2011/12: £2).

21 Cashflow analysis

	Note	Year ended 31 March 2013 £000	Year ended 31 March 2012 £000
Non cash items			
Depreciation and amortisation	3	10,146	5,677
Release of reserve	3	(20)	(20)
Loss on disposal of assets		6	68
Prepayments for asset refresh	9	(2,484)	(1,173)
Offset for finance lease liability		(2,172)	(731)
Finance credit charge		831	488
Devaluation of intangibles	3	–	(17)
Total non cash items		**6,307**	**4,292**
Purchase of property, plant and equipment and intangible assets			
Purchase of software licences	8	(378)	(242)
Purchase of UAT Environment		–	(2,156)
Purchase of Fixtures and Fittings	7	(6)	(42)
Purchase of IT	7	(311)	(147)
Payments towards TCS milestones met 2011/12		–	(5,455)
Total purchase of property, plant and equipment and of intangible assets		**(695)**	**(8,042)**
Advance payments			
Total advance prepayments made in the year	9	(10,843)	(14,209)
Less prepayments made in the year that converted into milestone payments	9	–	5,455
Net advance payments		**(10,843)**	**(8,754)**

22 Events after the reporting period

IAS 10 *Events After the Reporting Period* requires NEST Corporation to disclose the date on which the financial statements are authorised for issue. This is the date of the certificate and report of the Comptroller and Auditor General.

The authorised date for issue is 11 July 2013.

Annex I 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 period 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 ("the 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 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 (eg, scheme administration) entered into for and on behalf of NEST; and
   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 NEST (the 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.
9. 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.
10. This Direction revokes and supersedes the Accounts Direction issued to PADA on 29 April 2009.
11. This Direction is signed by the authority of the Secretary of State for Work and Pensions.

Jos Joures
3 March 2011

Annex 2 Delivering sustainable value for members – NEST Corporation's corporate responsibility

Annex 2 is an annex of the annual report and does not form part of the financial statements and is not subject to audit.

Introduction

The NEST scheme has been established to deliver good financial outcomes for a market previously excluded from pension saving. Its establishment forms part of wider workplace pension reforms. As a pension scheme we have a long-term outlook and will develop lifetime relationships with our members. NEST then, by its strategic objectives, has the central aim of delivering sustainable value for members at the core of all it does. The commitment from NEST towards corporate responsibility is underpinned by its values, and is shaped by the way that it operates and interacts with:

- employers who choose the NEST scheme to fulfil their obligations in providing a workplace pension
- our key national partners the DWP and TPR in delivering auto-enrolment
- wider society who may benefit from NEST's positive influence on the pension and financial services market
- the local community in which we operate, and to which we want to contribute
- our supplier partners who are crucial in helping us deliver on our commitments and maintaining the standards and quality we uphold as an organisation
- all our stakeholders who take a keen interest in our success.

Recognising the number of individuals, organisations, and government bodies towards whom NEST Corporation has a corporate responsibility, our approach will focus on:

- supporting auto-enrolment
- responsible investing
- organisational development
- environmental sustainability

NEST believes it will be beneficial to report this under a globally recognised framework. The Trustee Members have agreed for NEST to work towards obtaining certification under the Global Reporting Initiative.

Supporting auto-enrolment

Automatic enrolment provides a significant opportunity for millions of people to be enrolled into pension saving, many for the first time. This opportunity brings with it new responsibilities for the industry, government and regulators to ensure that pension savers can save with confidence, without risk of detriment, and that their pension is administrated efficiently. This year we have focused on meeting our obligations and responsibilities both in live operation and in preparation for the new duties by:

- responding to feedback from our customers about the service they receive from NEST
- working with those employers who have chosen the NEST scheme to help them prepare, often in partnership with Employee Benefit Consultants (EBCs) and advisors
- testing and refining items like our communications to make sure that they are clear and simple for members and employers. We have created *The NEST phrasebook* to help make pensions language more accessible both for the NEST scheme members and beyond.

We have been working with world-leading behavioural economists in order to understand how the framing of our processes and communications could influence member decisions, which in turn can affect their financial outcomes. And we have developed a code of practice to ensure ethical practices are used in research involving our members.

We have worked with others in the industry to inform employers about the new workplace pension reforms and their new duties. We have worked with government and The Pensions Regulator to contribute to building an effective legislative and regulatory framework surrounding the workplace pension reforms, and we have highlighted areas where savers could lose out.

We are one part of the DWP automatic enrolment programme and work with DWP and TPR to ensure the success of automatic enrolment. We also recognise our responsibilities across our supply chain. Where our services may be outsourced, we recognise that accountabilities reside with NEST. We therefore take a whole supply chain view of corporate responsibility and work towards end-to-end coherence in our activities.

Responsible investment

Building value through responsible investment

NEST is committed to investing in a way that aims to enhance long-term value and reduces investment risk. We believe that responsible, well-run companies and projects offer better long-term value to investors.

For this reason environmental, social and governance (ESG) considerations are essential to building and managing our investment portfolios.

We've appointed The Co-operative Asset Management (TCAM) as our responsible ownership partner. They help us keep track of the ESG performance of companies we invest in on our members' behalf and help us develop and put in place our responsible investment approach.

Voting rights

The voting rights that come with ordinary shares are an important tool for our responsible ownership objectives. Through voting, we can protect our members' retirement pots and make sure their views are taken into account. We have worked with TCAM and Manifest (the proxy voting agency) to develop our in-house capability. By monitoring and consolidating our fund managers voting activity, we have been able to flag issues and explore how voting rights should be used in the best interests of members of the NEST scheme.

Our voting rights are currently exercised on our behalf by our fund managers. We've asked them to make their voting records available to our members. We'll let them know if we have particular concerns about a company or if we believe they're voting in a way that's not in our members' interests.

Engagement

NEST Corporation and The Co-operative Asset Management, on our behalf, work with companies to make sure our ESG goals are understood.

We also work with other investors to engage with companies on issues where we have a shared interest. Coordinating our efforts in this way makes it more likely that we can positively influence the companies we invest in.

Risk management

We've appointed EIRIS, a leading provider into ESG matters, to provide data to allow us to monitor and act on the long-term ESG risks and opportunities our portfolios will be exposed to.

Codes and initiatives

NEST is one of a small number of pension funds that have become signatories of the UK Stewardship Code. The code was adopted by the Financial Reporting Council in July 2010. It aims to improve the quality of engagement between investors and companies to enhance long-term returns to shareholders and improve and strengthen corporate governance.

In accordance with the Stewardship Code, we've published our statement of compliance with the UK Stewardship Code on our website.

NEST Corporation is also a signatory to the United Nations-backed Principles for Responsible Investment (PRI). The PRI are a set of principles that aim to build a framework for global best practice in responsible investment.

NEST Corporation is an affiliate member of UK Sustainable Investment Finance (UKSIF). This is a network of investment companies that promotes responsible investment and other forms of finance that support sustainable economic development, enhance quality of life and safeguard the environment. Affiliate membership is designed for companies that do not sell products or services, or manage their own funds.

Research and consultation

Our responsible ownership policies are based on extensive research and consultation. An example of this is Benchmarking Responsible Investment, a report produced by our investment advisor Aon Hewitt, which can be found on our website at **nestpensions.org.uk/responsible-investment**

Fund manager responsible investment reports

Our fund managers provide us with regular reports on their ESG engagement and voting records which we place on our website.

Organisational development

NEST continues to adapt and mature as an organisation. A number of changes this year contribute to our corporate responsibility strategy, and supported our transition from a project-based delivery authority to a sustainable organisation in the long-term.

Staff engagement

NEST Corporation completed its first annual staff survey, providing an opportunity for all staff members to provide anonymous feedback. NEST Corporation has acted on the recommendations and comments that staff have made. We have also established a NEST Network, providing staff with an active 'voice' in shaping the development of NEST Corporation longer term.

Succession planning

In 2011/12 we completed the transition to a permanent workforce, from one characterised by fixed-term contract staff. Our new employment contracts have a three-month notice period for all senior managers. In addition, executive managers are undertaking their first annual review of key roles and critical skills, so that robust succession plans can be implemented.

Health and safety

NEST Corporation promotes a healthy and harm-free environment, setting high standards of health, safety and welfare for our staff. We believe our staff deserves the highest standards of health and safety and that we will exceed the minimum standards required by regulations and legislation wherever possible.

There were no reportable accidents in our offices under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations (RIDDOR). In 2012/13 three accidents of a minor nature were recorded in the accident books in St Dunstan's House (2011/12 : three).

Equality and diversity

NEST Corporation is committed to championing inclusion and promoting diversity. By understanding our people and our members, we can maximise our ability to meet their needs. For our staff, our approach enables us to make the best use of the talent and skills of all our people.

NEST Corporation is required to uphold the Equality Act and comply with the Equality Duty. We carry out our duties with due regard to the need to eliminate unlawful discrimination, promote equality of opportunity and promote good relationships between people of different groups.

In relation to our members, we continue to develop our understanding of the demographic attributes of our target market, through our research, and ensuring that our responsible investing approach takes full account of this analysis. On voting policy on responsible investing, we take an active interest in the companies we invest in and their progress towards electing women onto their boards.

In relation to our staff, in recruitment we operate a fair and open policy for all external appointments; and for senior appointments, we adopt the principles set out by the Office for the Commissioner of Public Appointments. We provide training and awareness raising about our inclusion and diversity policy during induction for all new staff, including on harassment and bullying. This year, we have developed an in-house training programme for all managers, which includes diversity and inclusion awareness. We closely monitor all cases and grievances arising from staff, analyse our staff survey, and monitor our performance management system to understand trends or evidence.

Sickness absence

One individual has been off for the entire period and is not reported in the data.* In 2012/13, the average amount of time per employee which was lost to sickness was 4.7 days, compared with 5.9 days in 2011/12.

*One individual had 250 days sick in this leave year. If this individual is included in the data the average would increase to 5.82 days.

Employee benefits

Pension arrangements for NEST Corporation employees are provided in the remuneration report, accounting policy note 1.9 and note 2b to the financial statements. This year we adopted Pension Quality Mark Plus standards for matching increased employee contributions. We have also doubled our investment in staff learning and development, to provide better support and training in their career development. We support the Better Bankside Wellbeing at Work initiative. Staff are invited to attend free Wellbeing at Work sessions which included a free health check and a package of treatments covering nutrition, mental well-being and physical exercise. We also have our own employee counselling service, childcare vouchers for NEST Corporation, season ticket loans and a bike loan initiative.

Stakeholder engagement

We value the input of our all stakeholders in supporting the development of NEST, and engage with them regularly throughout the year.

This year we have held research groups with our target members to help shape initiatives under development. We've listened to feedback from current members through their engagement with us. We have held workshops with employers and worked closely with them in their preparations for automatic enrolment, to understand how we can best support them. This is the first year of establishment for our Members' Panel and Employers' Panel and we have been able to consult them on a number of aspects of the development of NEST Corporation. This is covered further in the panels' reports.

We have engaged with stakeholders from across the pensions industry. We are a member of the Rotman International Centre for Pensions Management (ICPM), and engage with a number of providers and groups overseas, to share best practice on pensions globally. We are also a member of The National Association of Pension Funds (NAPF).

We have sought to be transparent about our product and to dispel myths about the NEST scheme by demonstrating the functionality of our systems and processes with a wide range of stakeholders.

The NEST scheme serves a target market and aims to support a new generation of savers affected by automatic enrolment. We have shared our thinking and research, including *The NEST phrasebook*, our work on behavioural economics and barriers to saving, and research on the reactions of our target market to issues of volatility and loss. These issues have been shared through 'thought leadership' events which have been generously hosted by stakeholders.

Support for social and community issues

We strive to be a responsible partner within the local community by supporting community initiatives and local charities. Through our employee volunteering policy we encourage our people to find new ways to have a positive impact on the communities in which we live and work. We also support community investment through our community dedicated pages on our intranet and offering a Give As You Earn scheme.

Many staff members were involved in the Bring a Better Christmas initiative, donating and wrapping presents to be distributed to local charities.

Staff members took part in a book event run by The Book People, with a percentage of the sales going to charity.

A number of other charitable events took place in 2012/13, including Red Nose Day, Jeans for Genes, Sports Relief and in total, almost £1,600 was raised in donations from staff.

Environmental matters

Our environmental policy sets out how we manage NEST Corporation's environmental impact and our approach to sourcing sustainable products. We are committed to reducing the use of energy, minimising the use of consumables, increasing recycling and re-use and making the best use of technology to limit our carbon footprint.

The policy ensures that we are focused on environmental issues by:

- increasing the proportion of recyclable waste while aiming to reduce our total waste volume
- maximising the use of public transport in preference to other forms of transport
- ensuring electricity usage is kept to a minimum
- working towards increasing environmentally friendly office supplies
- seeking to continually improve the sustainability of our supply chain.

We review our progress against these objectives twice a year.

HM Treasury has introduced a requirement for most public sector bodies covered by the government's *Financial Reporting Manual (FReM)* to prepare a sustainability report. The data presented below represents NEST Corporation functions located at its head office, St Dunstan's House. For the first part of the year, NEST Corporation also had one small operation located within another government estate. The data for this site is covered within the relevant HM Revenue and Custom's report.

Energy consumption and emissions

NEST Corporation takes the reporting of its sustainability performance seriously. It is considered an important tool in raising awareness and influencing behaviours. The following tables report performance on the lines set out in HM Treasury's guidance on sustainability reporting.

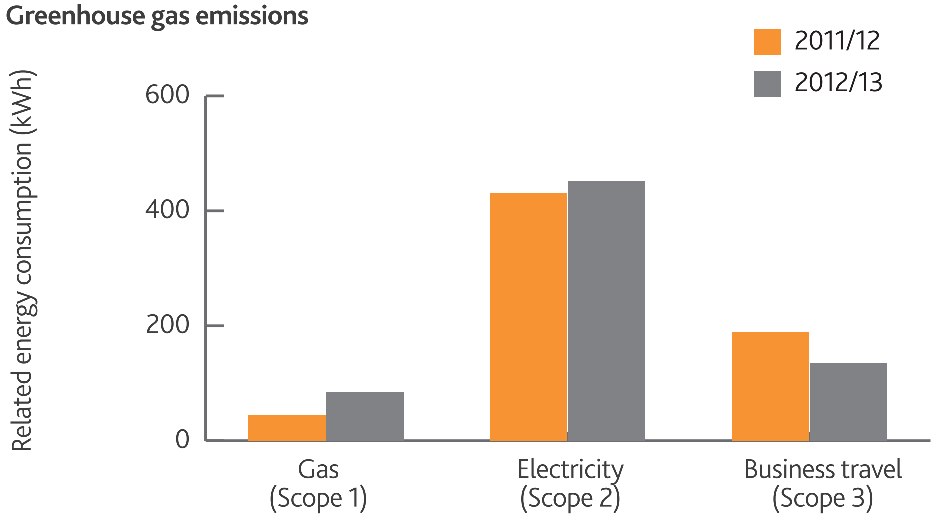
Summary of performance		
Area	**Actual performance**	**Normalising data (per FTE)**
Average annual full-time equivalent staffing figure: 267[1]		
Energy and emissions		
CO_2e emissions from offices	536.8 tonnes CO_2e	2.0 tonnes CO_2e
Total building energy consumption	1,328,033 kWh	4,974 kWh
Total energy expenditure	£123,094	£461
Travel and related emissions		
CO_2e emissions from official business travel[2]	134.3 tonnes CO_2e	0.5 tonnes CO_2e
Total expenditure on official business travel	£388,267	£1,454
Waste		
Total waste produced[3]	31.9 tonnes	0.1 tonnes
Total recycled	14.6 tonnes	0.1 tonnes
Total incinerated	17.3 tonnes	0.1 tonnes
Total to landfill	Nil	Nil
Total waste expenditure	£8,341	£31
Water		
Water consumption	4,345 m^3	16 m^3
Water expenditure	£9,980	£37

[1] This figure includes employees, secondees, interims totalling 258 and 9 consultants.
[2] Does not include bus/tube/metro for official business travel. Data collection and robust estimate not currently possible.
[3] Waste figures for March 2013 have been estimated.

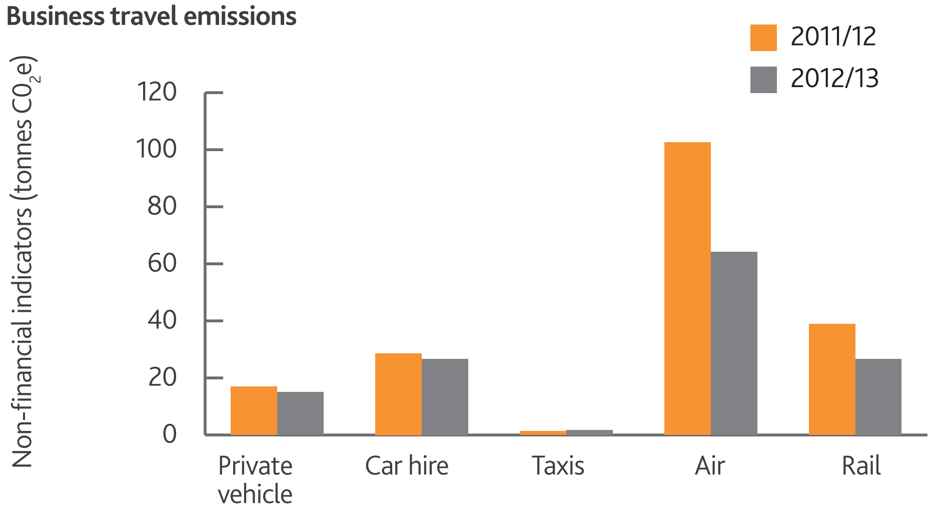
Greenhouse gas emissions		2012/13	2011/12
Non-financial indicators (tonnes CO_2e)	**Scope 1 – Gas emissions**		
	Gas	85.2	43.7
	Total scope 1	**85.2**	**43.7**
	Scope 2 – Electricity emissions		
	Electricity: brown	338.7	323.1
	Electricity: green	45.2	43.1
	Electricity: CHP	67.7	64.6
	Total scope 2	**451.6**	**430.8**
	Scope 3 – Business travel emissions		
	Private vehicle	15.0	17.0
	Car hire	26.7	28.6
	Taxis[4]	1.8	1.4
	Air	64.1	102.6
	Rail	26.7	38.9
	Total scope 3	**134.3**	**188.5**
	Total emissions	**671.1**	**663.0**
Related energy consumption (kWh)	**Scope 1**		
	Gas	460,225	237,757
	Scope 2		
	Electricity: Brown	650,856	615,841
	Electricity: Green	86,781	82,112
	Electricity: CHP	130,171	123,168
	Total electricity	**867,808**	**821,121**
Financial indicators (£)	**Scope 1 and 2**		
	Gas	20,693	12,772
	Electricity: brown	76,801	71,648
	Electricity: green	10,240	9,553
	Electricity: CHP	15,360	14,330
	Scope 3		
	Private vehicle	17,873	18,513
	Car hire	62,432	42,846
	Taxis	15,538	[5]10,026
	Air	108,449	81,575
	Rail	183,975	189,020

[4] Assumption that 50 per cent black cab, 50 per cent regular taxi.
[5] Only taxis claimed through expenses have been captured. Work is underway to capture all taxi use in future reports.

Greenhouse gas emissions



Business travel emissions



GHG performance commentary including targets

Over the 2012/13 year we have seen an 5.7 per cent (2011/12 : 11.6 per cent) increase in electricity usage. This is due to the increased capacity usage of the building as NEST scaled up for OED.

We have tried to work along the same principles as the Greening Government Commitments (GGC) when setting our targets. However as NEST Corporation is a newly established low-cost scheme it is generally not possible to conform to the ambitious targets within these commitments.

NEST Corporation is currently the sole occupant of a pre 1980s building which is of inefficient design. The lease on the property is due to expire in December 2013 so any capital expenditure to improve efficiency will not see a return on investment and becomes unviable. We also had a small amount of office space that sat within the government estate, which we released during the autumn of 2012. Once we are located in our new property we will review and set new NEST Corporation estate targets.

As explained earlier NEST Corporation is in the process of finalising a move to Riverside House, part of the government estate. The government department responsible for this building already has an action plan for reducing its properties carbon footprint in line with the GGC which NEST Corporation as a tenant will help to achieve.

Tata Consultancy Services are our scheme administrator and as one of our main service providers travel between our premises and their UK and Indian premises is essential. We also have many other commitments and relationships that require business travel. All of this along with the fact that as a business we will be growing and gaining many more members over the next 12 months means a scope 3 emissions reduction target is unachievable and will not be set.

Use of finite resources

Water consumption(scope 2)		2012/13	2011/12
Non-financial indicators (m^3)	Water consumption	4,345	4,243
	Water supply	6,682	6,377
	Sewerage	3,299	2,881
Financial indicators (£)	Total water costs	9,980	9,258

GGC states that typical usage for an organisation of our size and structure is 4–6m^2 per person. Our current usage is 18m^2 per person. Again, to make a significant difference to this would require a degree of capital expenditure that could not be justified in the light of our anticipated office move.

Waste

Waste		2012/13	2011/12
Non-financial indicators (tonnes)	Total waste	31.9	38.1
	Waste to landfill	0	0
	Waste incinerated	17.3	17.9
	Waste recycled/reused	14.6	20.2
Financial indicators (£)	Total waste	8,341	10,846

At NEST we have the ability to recycle all of our waste streams and we have implemented a one waste bin system to aid the recycling rates. We are unable to calculate the financial data for individual waste streams.

NEST reporting against Global Reporting Initiative framework

NEST Corporation believes that delivering sustainable value for members also requires us to act responsibly as a corporate citizen. The Trustee Members agreed this year to use the Global Responsibility Index to benchmark NEST Corporation's performance.

The Global Reporting Initiative (GRI) is a non-profit organization that works towards a sustainable global economy by providing sustainability reporting guidance. GRI has pioneered and developed a comprehensive Sustainability Reporting Framework that is widely used around the world. The Framework enables all organizations to measure and report their economic, environmental, social and governance performance – the four key areas of sustainability. More information on this can be found at: **globalreporting.org/reporting/get-started/Pages/default.aspx**

NEST will aim to achieve certification against the GRI framework in order to support the work that the organisation is already doing around corporate and social responsibility. It will also allow NEST Corporation to choose stretch targets with regards to corporate responsibility in areas that we may not currently perform to the levels that we would like to.

Gaining GRI certification will allow NEST to refine and target where the organisation wishes to focus effort. In the coming year, we will involve the Employers' and Members' Panels, as well as other stakeholders, in agreeing the indicators and targets we should aspire to under GRI.

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