National Employment Savings Trust Corporation

Annual report and accounts

2017/18

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2017/18

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Cautionary statement

This document contains statements that are, or may be deemed to be, 'forward-looking statements' with respect to NEST Corporation's financial condition.

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

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

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

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

Chapter one

Performance report

1.1 Chair's statement

Otto Thoresen
Chair, NEST

With employers of all sizes now complying with pensions auto enrolment, it is an appropriate time to reflect on what NEST has achieved so far and on how we will support employers' and members' needs for the future.

What we have achieved

For NEST, 2017/18 has been dominated by the final and most intensive period of auto enrolment staging (the process of requiring all employers to comply with auto enrolment, in order of company size). Small and micro employers reached their staging dates, driving unprecedented levels of new enrolments for us. We welcomed over 1.9 million new members from over 289,000 new employers across this financial year.

We are now managing £2.7bn on behalf of over 6.4 million members and 616,000 employers, compared to £1.7bn for 4.5 million members and 327,000 employers at the same time last year.

Our charge revenue from contributions and from member assets under management increased from £15 million to £26 million in this financial year. Minimum contribution levels under auto-enrolment increased on 6 April 2018. So, 2017/18 was the final year at the lowest statutory contribution level, where members and employers collectively contributed a minimum of 2 per cent of salary.

NEST's scheme costs have increased in line with our expectations as our member numbers have grown. We remain confident that our long term financial projections are robust and that we continue to deliver value to our members, while also providing value for money to the taxpayer.

As we grow, we must remain a well-run scheme that meets employers' and members' needs and invests their money appropriately. To achieve that, we carried out the following in during the year:

Reviews of governance: We review the effectiveness of the Trustee Board and its committees every year. In 2017/18, this review was carried out by an external facilitator, OE Cam. It concluded that the Board is well run and provided recommendations for the future which our Nominations and Remuneration Committee will oversee (see page 45 for more details).

We also conducted our annual skills and experience assessment of Trustee Members. This ensures we have the right range of experience and knowledge on our Board to continue to govern NEST effectively. We have used the results to update our training plan for existing Trustee Members, our induction plan for new Trustee Members, and refine our skills and experience requirements for the future.

The Department for Work and Pensions carried out a Tailored Review of NEST in 2017. This assessed the ongoing need for and operational efficiency of NEST. The Review concluded that there is a need for us, and that the Corporation is well-run. Our CEO, Helen Dean, talks more about this in her statement on page 10. Please also see page 19 for more details of the Review's outcomes.

The Department for Work and Pensions carried out a Tailored Review of NEST in 2017. This assessed the ongoing need for and operational efficiency of NEST.

AAF 02/07 control assurance report: We are finalising our annual Audit and Assurance Faculty (AAF) 02/07 control assurance reports against the Master Trust assurance framework, which provides an independent assessment of the design and operation of our internal controls. These reports confirm that all the control objectives set out in the AAF guidance were met for the reporting period.

Update to Statement of Investment Principles (SIP): We reviewed and published an updated version of our SIP[1] and published additional materials to support it. These explain our approach to investment risk management and our methodology for applying it. We have also shared our views on the different asset classes we invest in, and how NEST is using these within its portfolio. These documents are available on our website.

Responsible Investment: In summer 2017, we published our second annual responsible investment report. This set out how we have performed as a responsible investor, as well as defining our future environmental, social and governance (ESG) priorities. We increased the allocation to our Climate Aware Fund in the growth and foundation phases of our default funds in 2017/18, as part of our strategy to benefit from a global move towards greener sources of energy.

We are pleased to be fulfilling our commitment to report against the Task force on Climate related Financial Disclosures (TCFD) framework in this year's scheme annual report and accounts. It is important to us that NEST's members and stakeholders have transparency into how NEST is managing climate-related risks and opportunities in its investment approach on behalf of its 6.4 million members[2].

We are also delighted to have been recognised in the industry as a responsible investment leader, gaining the highest score in ShareAction's annual ranking of auto enrolment pension providers.

Contributions to consultations: NEST continues to contribute to Government and other consultations on wider debates in pensions that affect our members. In 2017/18, we responded to:

- Work and Pensions Select Committee: inquiry into Collective Defined Contribution (CDC) pension schemes
- Work and Pensions Select Committee: inquiry into pension freedoms
- Pensions and Lifetime Savings Association: Hitting the Target consultation

1 nestpensions.org.uk/schemeweb/dam/nestlibrary/SIP-Apr18-Mar21.pdf

2 See the NEST pensions scheme annual report and accounts for more information.

- Department for Work and Pensions: Occupational pensions: improving disclosure of costs, charges and investments.

Our responses to these can be found on the NEST website.

Forward look

The master trust sector has become more tightly regulated, under the Pension Schemes Act 2017. This is a welcome step by Government and The Pensions Regulator that will build greater trust and confidence in pensions, and master trusts in particular. We will ensure that we comply with the Occupational Pension Schemes (Master Trusts) Regulations 2018, and I am confident that our ongoing focus on governance will stand us in good stead.

Statutory minimum contributions under auto-enrolment increased on 6 April 2018 to 2 per cent of salary for employers, and 3 per cent for employees. This is a positive step to ensuring adequate savings for retirement.

Since the introduction of auto-enrolment, investment markets have generally performed well. NEST has delivered average returns of 8.8 per cent per annum (after all charges) over the last five years for funds in the growth phase of our default strategy and we have won many awards for our investment approach. However, there is no guarantee that market conditions will remain so favourable. Diversification, as a means of managing investment risk and delivering good risk-adjusted returns, must continue to be a focus for us. NEST is exploring how rising inflation and uncertainty in markets will impact the types of asset classes that we invest in. As early evidence of this, we are currently in the final stages of adding a commodities fund to our portfolio, which will offer more cost effective inflation protection and further diversify members' pots.

In order to ensure that we meet the future needs of our members and their employers, we have started procurement for our future administration services. See page 20 for more details on the early stages of this process.

Our increasing size will enable NEST to improve the services that we can offer to our members. It also makes us a significant force in UK defined contribution pensions and gives us the potential to help identify future retirement savings needs. NEST continues to carry out research and use evidence-based decision making to drive better outcomes for members and employers. We have invested in NEST Insight, our research initiative, which will help us better understand members' behaviours and attitudes towards retirement savings, in more detail.

We will act on the findings to continue to deliver the scheme that our members need, as well as supporting the broader academic and public policy communities by making NEST Insight's findings publicly available for free. We are seeking for NEST Insight to be largley self-funded.

I would like to thank our Trustee Members, and the members of our Employers' and Members' Panels for their continued commitment to helping our members build their retirement savings. In particular, I would like to thank Tom Boardman and Karen Silcock, who stepped down as Trustee Members (and deputy chair in Tom Boardman's case) during 2017/18, for their significant contribution to the development of NEST. I look forward to building on NEST's successes in 2018/19.

1.2 CEO's Report

Helen Dean
CEO, NEST

UK pensions reached a significant milestone in 2017/18 with the completion of the auto enrolment staging process. NEST has grown substantially, in terms of the number of members that we serve and our assets under management. We now look forward to the next stage in the auto enrolment journey.

Progress to date

On 1 February 2018, we reached the 52nd and final auto enrolment staging date. Staging has been a once-in-a-lifetime event which has introduced millions more people to retirement saving in the UK.

The final part of staging in 2017/18 was the most intense, as the legislation reached small and micro employers, and newly formed companies (known as instant new-born employers). At peaks we saw over 1,800 employers sign up to NEST in a single working day, compared to 500 per year at earlier stages of auto enrolment.

Staging has been a once-in-a-lifetime event which has introduced millions more people to retirement saving in the UK.

NEST has been able to handle these unprecedented volumes of new business with exceptional efficiency, and we have enrolled every employer who wanted to use us. That is testament to our own and our partners' preparation and dedication. I would like to thank all our partners, including Tata Consultancy Services (TCS) and State Street Bank, for the significant part they have played in our auto enrolment success. Working closely with them, we were delighted to be able to consistently maintain service levels exceeding 99 per cent, even at peak times.

This period has also proved the effectiveness of our operational processes, with over 99 per cent of the employers that have enrolled with us able to do so through our website or web services. Only 15 per cent have had to contact us for support during their enrolment process.

We are now serving more than 6.4 million members saving for a better retirement, and workplace pensions are a part of everyday business for employers. NEST's membership includes a wide spectrum of individuals from different demographics, many of whom have previously been excluded from affordable, good quality pensions and savings products. NEST has continued to uphold its Public Service Obligation (PSO)[1] and has remained focused on that market and on the delivery of our social purpose. The median average pensionable wage of those who are paying into NEST is £18,000, and 29 per cent of our membership are under 30.

We operate a tax relief at source model. This means that an employer takes a worker's pension contribution from their pay after deducting tax and National Insurance contributions. We then claim the tax back from the Government at the basic rate of 20 per cent. This is added to their pension pot. The model is in the best interests of our members and ensures that even the lowest earners contributing to NEST receive tax relief.

The Government delivered its *Automatic Enrolment Review 2017* at the end of last year. It included a number of positive recommendations for the future expansion of the policy. Reducing the auto enrolment age threshold from 22 to 18 will enable younger workers to get into the habit of making small, regular savings earlier in their careers and help them to build a larger savings pot for retirement. NEST's statistics show that opt-out rates are particularly low in the 22 to 29 -year-old age group (typically 4 per cent compared to 8 per cent overall). I am confident that this enthusiasm for pension savings will continue when even younger workers are included.

Self-employed workers have been excluded from the legislation to date, but the Review recommends testing different approaches to encourage this group to further participate in pensions. NEST has always been open to self-employed workers and we welcome the opportunity to work with Government to help build better participation rates among them.

Current focus

The NEST Insight research programme has continued to grow in 2017/18. Our second annual conference took place in July 2017, where the Insight unit announced Vanguard Asset Management as its first major sponsoring partner. NEST Insight produced a series of briefing papers and held roundtables during the year. Examples include papers on *Pensions savings and the self-employed* and *Life events and pensions engagement*. It also published its plans for a trial of 'sidecar savings', (the ability to accumulate liquid savings alongside a pension pot). This will be delivered in partnership with the Harvard Kennedy School and the Money Advice Service. The interest in, and response to, the work of the unit has been positive and we are looking forward to building on the successes of the programme in 2018/19.

> NEST Insight produced a series of briefing papers and held roundtables. It also published its plans for a trial of 'sidecar savings'.

As an arm's-length body of the Department for Work and Pensions (DWP), we were recently assessed under the Government's Tailored Review programme. This re-confirmed that there is still an on-going need for NEST Corporation and the scheme, and made recommendations for our future development. This included a clarification in our public sector classification. We will no longer be both a non-departmental public

1 Our Public Service Obligation is to accept any employer who wants to use us.

body and a public corporation, but will continue in future as a public corporation only. The findings from the Tailored Review are covered in greater detail on page 19.

> In 2017/18, we voluntarily published our gender pay gap, submitted our first Women in Finance Charter review, and continued to work hard to ensure that we have a diverse, inclusive leadership and workforce.

We have reviewed and updated our Corporate Plan, including objectives, for the next three years. Meeting those objectives will require investment in our staff and our corporate capabilities.

In 2017/18, we voluntarily published our gender pay gap, submitted our first Women in Finance Charter review (see Appendix 2) and continued to work hard to ensure that we have a diverse, inclusive leadership and workforce. Our ongoing programme of skills development will make sure that NEST Corporation keeps pace with the needs of our members and employers. Our black, asian and minority ethnic (BAME) and gender diversity is strong. We are committed to continuing to build a diverse and inclusive workforce.

Looking forward

As members continue to build their savings pots with us, the need for a retirement offering that meets their needs will become ever more important. Having encouraged and enabled members to save for their future, we want to make sure that they can convert those savings into a regular income stream in retirement. This is a key focus for the whole UK pensions industry and is reflected in the increased interest we are seeing from both the Work and Pensions Select Committee and the Financial Conduct Authority around retirement options.

We established NEST with our current administration partners, Tata Consultancy Services (TCS), and with them have successfully met the challenge of helping over 616,000 employers meet their duties. The present scheme administration services contract expires in 2023 and we have started procurement for the next one.

Our vision for future services is a different one. We need to re-imagine the scheme and our corporation in a digital world, harnessing advances in technology to continue to deliver a high-quality service. This will enable us to continue to play a vital role in helping the millions of members enrolled into NEST save for and enjoy their retirement.

NEST Corporation's achievements to date are significant. We have delivered on our PSO requirement, and opened up retirement savings for parts of the market that have been poorly served in the past. Now staging is complete and a success, we are in a strong position to build on our achievements to benefit employers and members alike, to help our members to save for the best possible retirement and to continue to deliver value for the taxpayer.

1.3 Key figures as at 31 March 2018

Our members and customers

Active/Inactive members

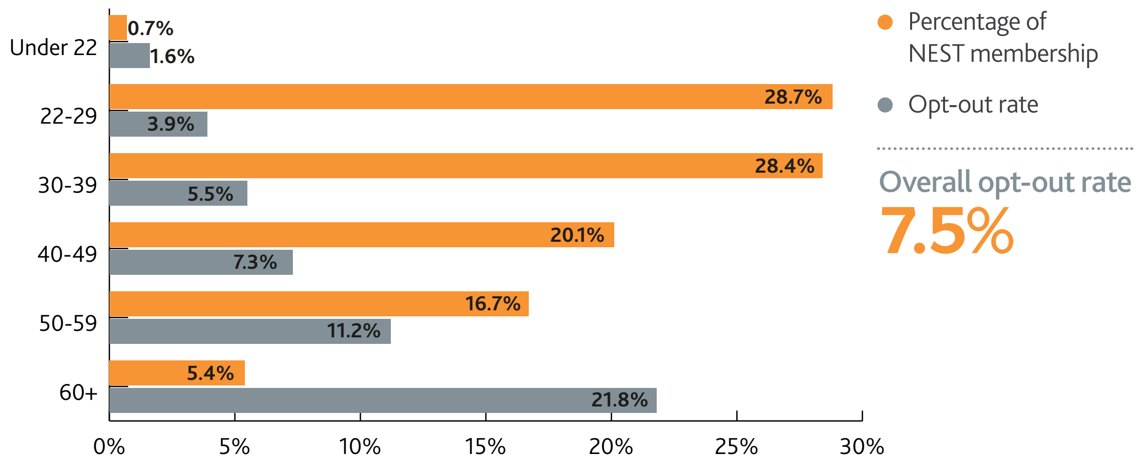
31 March 2018

3.8m Active members + 2.6m Inactive members = 6.4m Total members

31 March 2017

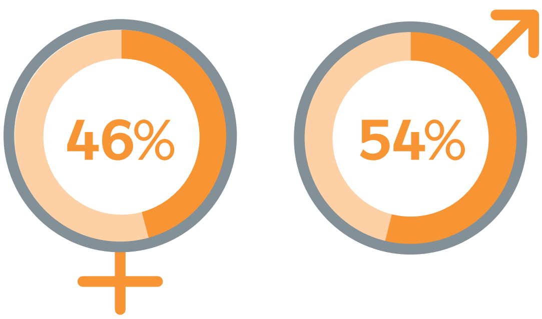
2.7m Active members + 1.8m Inactive members = 4.5m Total members

Member opt-out rates (split by age)



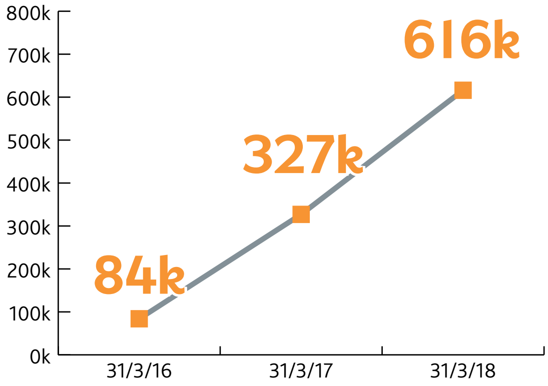
Overall opt-out rate
7.5%

Gender split

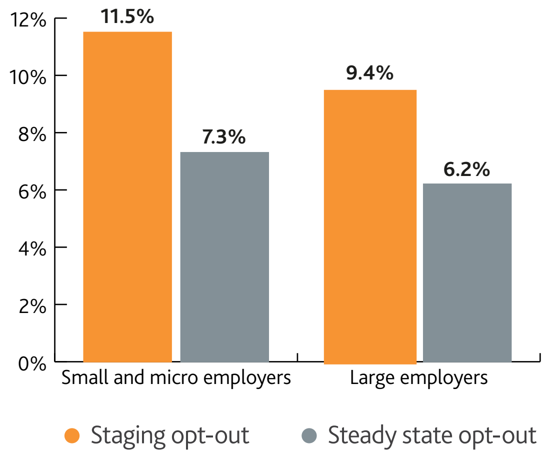


Assets under management

Number of employers using NEST



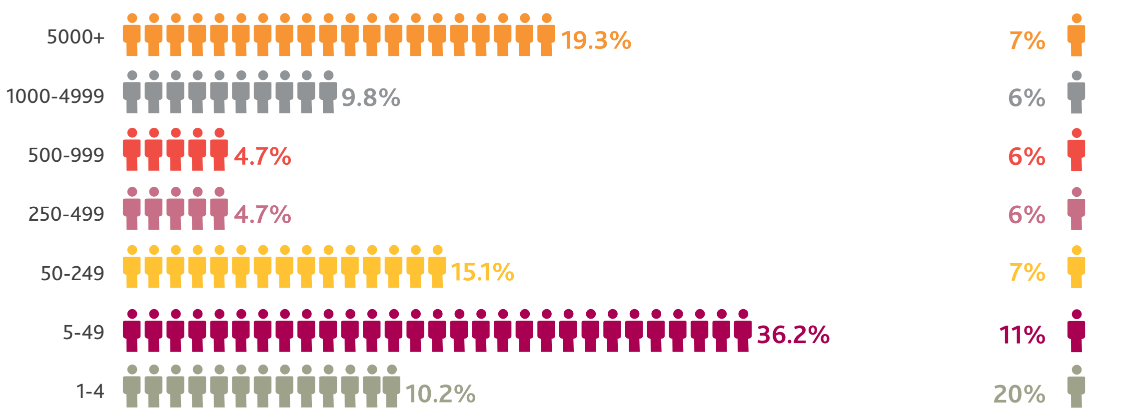
Opt-out during staging period compared to opt-out since*



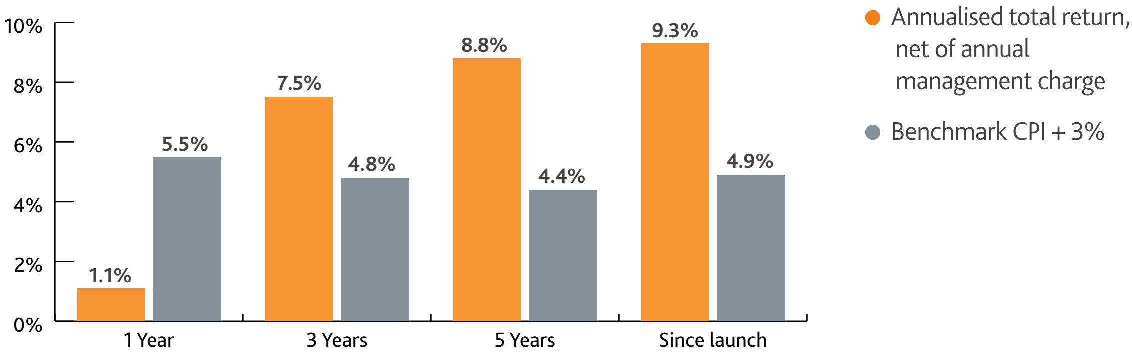
*Members opting out in the first six weeks after being auto enrolled

Members by employer size

Opt-out rate by employer size



Annualised fund performance for the NEST 2040 Retirement Fund to 31 March 2018




"Saving is something I didn't do before. Being automatically enrolled into NEST made it easy."
Terry Rodgers
Area Manager, Little Acorns and Stepping Stones Ltd

Overview

What is NEST?

NEST is a workplace pension scheme established by law to support the introduction of auto enrolment. It is funded by a loan from Government which will be repaid through member charges.

NEST Corporation aims for the scheme to become self-financing while providing consistently low charges to members.

NEST Corporation aims for the scheme to become self-financing while providing consistently low charges to members.

NEST Corporation is the Trustee body responsible for running NEST. NEST is run in the interests of its members rather than private shareholders.

Any employer, however large or small, can use NEST if they want to.

NEST's vision

"To help millions enjoy a better retirement".

What NEST does

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

NEST believes that members deserve to have a pension that is looked after by experts. The way NEST invests is about growing members' money and offering a high quality pension at a low cost.

NEST's structure

NEST is a workplace pension scheme which was set up by legislation and is treated as a trust-based scheme. The Trustee responsible for running the scheme is NEST Corporation.

NEST Corporation is a public body that operates at arm's length from the Government and is accountable to Parliament through the Department for Work and Pensions.

Public bodies are public organisations. They are parts of the Government however the day to day decisions they make are generally independent.

Risk and uncertainties

The culture and processes at NEST are designed to manage risk in line with the expectations of Trustee Members, who have the legal responsibility to act in the interests of members of the NEST pension scheme.

NEST approaches risks and uncertainties both in the scheme and Corporation using a holistic approach.

NEST must take risks in order to deliver its strategic priorities. Understanding the risks it faces and how best to control or mitigate them is integral to this. NEST also engages with key stakeholders to understand and manage risk.

1.4 Principal activities

NEST is a multi-employer workplace pension scheme. It enables millions of members from employers across the UK to build pension savings for their later years.

NEST Corporation operates a predominantly outsourced business model and works closely with its partners including scheme administrator Tata Consultancy Services (TCS) to deliver its services.

By 1 February 2018 all employers, including small and micro businesses, were required to offer their employees a pension scheme under auto enrolment legislation. This is the end of the process termed ‘staging’ that started in 2012 and has gradually required all employers to comply, according to company size. The next significant development in the auto enrolment legislation termed ‘phasing’, came into force in April 2018, as minimum contribution rates increased for both employers and scheme members. As a result, NEST’s focus will shift from the need to manage high volumes of new enrolments through staging, towards planning for the increased contribution effects of phasing.

In terms of new business, 2017/18 was NEST’s busiest year to date. During this period, 1.9 million new members joined NEST from 289,000 new employers using our scheme. By 31 March 2018 we had a total of 616,000 employers and 6.4 million members, of whom 3.8 million are active. At 31 March 2018, we had £2.7 billion assets under management (a growth of 58 per cent over the year).

NEST experienced its largest volume of new business in a single month during this year, with 200,000 members joining NEST in August 2017 alone.

It has been able to effect transfers in and out of the scheme since 1 April 2017, when restrictions applied at NEST’s launch were lifted. It has worked with TCS to add new functionality and capacity where necessary to support this. An annual contribution limit of £4,900 per year which had been in place since launch was also removed, making NEST suitable for members of all income levels.

Continued support for small and micro employers

NEST's systems have proved to be resilient as high volumes of new employers and members entered the scheme during the year.

In the final, most intense, periods of staging saw 97.5 per cent of employers successfully enrol with NEST without having to contact us for help. This demonstrated the ease of use and effectiveness of our systems and processes. Many employers who joined the scheme were offering their staff a workplace pension for the first time, so were not only unfamiliar with NEST, but also with pensions in general.

In 2017/18 a total of 44 per cent of employers signed up with NEST directly, using its online tools. The other 56 per cent did so through an adviser, accountant, payroll provider or other third party using NEST Connect, NEST’s online hub to support delegates acting on behalf of an employer. The capacity and scalability of NEST Connect has been a key factor in enabling NEST to enrol high volumes of employers. It now has over 19,000 ‘NEST Connectors’ (third parties supporting employers) using the system. NEST works with all major payroll providers in the UK. It continues to support these organisations for mutual benefit.

NEST Corporation launched its web services in 2015 which offer further support for small and micro employers. The web services allow data to flow seamlessly from payroll software into NEST, providing an accurate, low-cost and simple means of managing members' pensions from within payroll. This reduces the amount of time needed to administer auto enrolment for employers, whether directly or through third parties, and minimises data errors.

As of March 2018, over 167,000 employers in total had used NEST's web services. While staging is now complete, the self-service tools for employers and members will continue to be an important feature of NEST's offering.

Diversifying investments

NEST invests in a diversified range of assets, helping to reduce investment risk and deliver better risk adjusted returns. In 2017/18, the scheme extended its range of asset classes and further improved its risk management approach.

Anticipating the potential for significant volatility around several national elections in the Eurozone, NEST moved at the start of 2017 to hedge some downside risk in its default funds via derivative contracts on continental European equities. This reduced uncertainty for members during a turbulent period in European equities markets, while allowing them to fully benefit from strong US growth. As political risk normalised towards the end of 2017, NEST removed the European equities hedge but has kept the dynamic risk management facility in place. This will allow it to respond more effectively where it anticipates medium term volatility, helping provide a smoother savings journey for members.

Another investment challenge has been the extended period of historically low interest rates.

While mindful that interest rates are starting to rise, NEST added a high yield bond mandate to its underlying building block funds in May 2017. This was a long term strategic move to allow NEST to diversify members' funds as appropriate, while offering the potential for stronger returns as the low-yielding fixed income environment prevails.

Central banks have begun to raise interest rates against a backdrop of synchronised global growth and tightening labour markets. The Federal Reserve raised its target range from 1.25 per cent to 1.5 per cent and then again from 1.5 per cent to 1.75 per cent (**federalreserve.gov/monetarypolicy/openmarket.htm**), while the Bank of England raised interest rates for the first time in a decade, to 0.5 per cent. NEST's funds, which have negligible gilts exposure and have a short duration bias in investment grade credit, were relatively well positioned for these developments.

NEST is also seeking a commodities mandate to provide more cost-effective inflation protection than index-linked gilts, and to further diversify members' pots. Commodities are expected to benefit from strong global growth and rising inflation and look attractive relative to their long term historic prices.

In summer 2017, NEST Corporation published its second annual responsible investment report. This reported to members on performance as a responsible investor as well as offering a forward look on its responsible investment and Environmental, Social and Governance (ESG) priorities for the future. NEST also increased the climate aware allocation in its default strategy to 30 per cent of equities in the growth phase and 40 per cent in the foundation phase as part of a long-term strategy to capture the benefits of a global transition to greener sources of energy.

1.5 Principal risks and uncertainties

The principal risks and uncertainties are included as part of NEST Corporation's risk statement. See section the Corporate Risk Statement on pages 51 to 56.

Going concern

The statement on going concern is included in Chapter 3, Notes to the Financial Statements, section 1.2 on page 78. The Department for Work and Pensions'(DWP) Tailored Review (see page 19) concluded that there is a definite ongoing need for NEST Corporation, and that it should remain an arm's length body. We have changed our status to a public corporation and will implement a unitary board as recommended in the Review.

NEST's latest forecasts estimate that NEST Corporation would be able to cover its operating costs from pension scheme member charges in 2027 at which point the estimated borrowings will be £1,247m. NEST expects to be free of all funding debt by 2039.

The final drawdown under the current loan agreement is in June 2020. Work with the DWP is progressing to agree future funding arrangements. NEST Corporation has agreed funding levels with the DWP for 2018/19.

1.6 Business review

The completion of auto enrolment staging in February 2018, drove much of NEST Corporation's core business activity in 2017/18.

According to the DWP's *Automatic Enrolment Review 2017*[1], since auto enrolment started in 2012, workplace pension participation among eligible workers has increased from 55 per cent in 2012 to 78 per cent in 2016. NEST now manages the pension savings of over 6.4 million members on behalf of 616,000 employers.

Staging in 2017/18 drove unprecedented volumes of new business for NEST. Its scheme operations continued to respond well and it maintained at least 99 per cent service levels at all times.

With staging now complete, NEST Corporation is ready to address future developments affecting the scheme and its members. These include new master trust regulations (Occupational Pension Schemes (Master Trusts) Regulations 2018) and phasing (i.e. increases in minimum contribution levels in April 2018 and April 2019). To cater for this, NEST Corporation has updated its strategic objectives.

These are:

- Support strong member outcomes
- Deliver a good service to customers
- Grow the business in the right way
- Deliver a sustainable future business model
- Deliver a corporation fit for the future.

See page 24 for more information about the strategic objectives.

1 assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/668971/automatic-enrolment-review-2017-maintaining-the-momentum.PDF

NEST Corporation kept within the operational and financial targets agreed with the Department for Work and Pensions (DWP) for the financial year. Income from contributions and assets under management have increased as a consequence of the growth of members from £15.2 million last financial year to £25.6 million this year.

NEST's scheme administration costs are in line with expectations and reflect the growth in scheme size. NEST Corporation's costs are lower than expected due to its continued focus on targeted efficiencies. For example, it has reduced the cost of staff hires through greater use of direct recruitment instead of external recruitment agencies.

NEST is finalising its annual type-2 AAF 02/07 control assurance report. This provides independent assurance that its controls are effective and that NEST is well governed. NEST also carried out an independent assessment of Trustee board effectiveness and reviewed its committee structure as a result. See page 41 for more detail about the review.

In the 2017/18 financial year NEST continued to achieve its near-term objectives, underpinned by an efficient service delivery model. NEST Connect (online tools for third parties such as accountants), NEST's web services, and payroll connectivity continue to play a key part in supporting of employers, with only 15 per cent having to contact the scheme for support during their initial enrolment process.

NEST Corporation has also embarked on a member service improvement programme. This will improve the transfers in and out process for members and enhance the overall quality of the experience that they have with NEST.

Tailored Review of NEST Corporation

The Department for Work and Pensions carried out a Tailored Review of NEST Corporation, published in March 2018.

A Tailored Review assesses the ongoing need for and operational efficiency of a Government body, and is typically carried out on a five-yearly basis. This is the first time NEST Corporation has been assessed in this way.

The objectives of the review were:

- To provide a robust challenge to and assurance on the continuing need and correct form for NEST Corporation
- to ensure that the control and governance arrangements in place are effective and in line with the principles of good corporate governance
- to assess NEST Corporation's capacity to deliver more efficiently and effectively, including an assessment of its performance and assurance processes.

The review concluded that there is a definite ongoing need for NEST Corporation, and that it should remain as an arm's length body. It recommended that its structure should change in future, as follows:

- It will become a unitary board, incorporating both executive and non-executive trustee members. This will help NEST Corporation to continue to improve how it works at board level.

- Since launch, NEST Corporation has been classified as both a non-departmental public body and a public corporation. It will now be classified solely as a public corporation. This is an important step in developing its relationship with Government as it matures as a financial services provider.

NEST Corporation also welcomed additional recommendations in the review about the structure and content of its Corporate Plan, increasing gender diversity in the senior leadership, increasing staff engagement and increasing customer satisfaction scores.

The full Tailored Review and its recommendations is available here:

gov.uk/government/publications/national-employment-savings-trust-nest-corporation-tailored-review

NEST's future scheme administration requirements

Since 2010 NEST has contracted with TCS to carry out the day to day operation of scheme administration for NEST. This contract will come to an end in 2023. The current scheme is growing and, according to NEST's internal forecasts, is expected to more than double in size over the remaining life of the contract adding more than 6 million additional members.

A programme has been established to consider NEST's future scheme administration requirements. The primary objective is the procurement of pension administration services to allow NEST to continue to meet its scheme and statutory duties and remain effective and efficient.

To achieve this, a programme team has been created harnessing senior expertise from across NEST. The resource pool has been supplemented with new members, including subject matter experts from central Government, and over time will continue to grow to support the programme as the requirements develop including using external advisors as necessary.

In May 2018 NEST issued a Prior Information Notice (PIN) in the Official Journal of the European Union. This allowed NEST to formally engage with the market to understand how requirements might be met or may need to be set to run a successful procurement process.

"A good retirement, for me, would be being comfortable in my own home, eating good food and being around the people I love - maybe a holiday every now and again."

Perry Goodwin

Veterinary Care Assistant, Spring Lodge Veterinary Hospital

Performance summary

The following table provides information on past performance, the resources required to deliver business activities for 2018/19, as well as information on resource planning for the period 2019/20.

	2013/14 £m	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
Expenditure							
Staff costs	22.6	20.4	18.9	18.5	20.8	25.9	27.4
Depreciation and amortisation	11.5	13.5	14.2	10.9	10.9	9.6	12.4
Other expenditure	33.4	43.0	45.1	61.4	75.3	109.8	121.3
Interest payable	17.1	21.7	25.6	29.1	32.2	35.5	38.2
Total expenditure	**84.6**	**98.6**	**103.8**	**119.9**	**139.2**	**180.8**	**199.3**
Income							
Grant income	(10.2)	(12.7)	(15.1)	(17.7)	(20.0)	(22.5)	(23.6)
Other income	(2.0)	(5.9)	(9.0)	(15.2)	(42.7)	(63.8)	(107.3)
Total income	**(12.2)**	**(18.6)**	**(24.1)**	**(32.9)**	**(62.7)**	**(86.3)**	**(130.9)**
Net expenditure after interest	**72.4**	**80.0**	**79.7**	**87.0**	**76.5**	**94.5**	**68.4**

Net expenditure after interest for 2017/18 was £76.5 million compared with £87 million in 2016/17. The reduction is mainly due to increased income from more members, growth in assets under management and a historical VAT recovery from the scheme administrator (See note 1.7, chapter 3).

Between 2018/19 and 2019/20 minimum contributions will increase to 8 per cent as a result of phasing. However, due to the cost associated with procurement of a new service for scheme administration, net expenditure after interest is expected to increase to £94.5 million in 2018/19. It is then expected to fall to £68.4 million in 2019/20, when higher member contributions take effect.

NEST's loan liability to the Department for Work and Pensions (DWP) at 31 March 2018 was £623 million compared to £539 million as at 31 March 2017.

Expenditure

- Staff costs increased by £2.3 million between 2016/17 and 2017/18, to £20.8 million. They will continue to increase to £27.4 million by 2019/20. This is mainly due to the procurement process for a new scheme administration service. Staff costs other than those associated with this procurement are not expected to materially increase during this period.

- Depreciation and amortisation remained the same between 2016/17 and 2017/18 but is expected to grow in 2018/19 and 2019/20. This is in line with the average over the last five years. Recent depreciation and amortisation has been lower as some assets have lasted longer than originally envisaged.

- Other expenditure increased by £14 million between 2016/17 and 2017/18. It will continue to increase in 2018/19 and 2019/20. This is mostly due to higher scheme administration and fund manager fees driven by the increase in scale of the scheme. Expenditure will also increase due to costs associated with the procurement of a new scheme administration service.

- The associated net expenditure will result in a higher loan base and as a consequence an increase in interest payable in 2018/19 and 2019/20.

Income

- Other income grew by £27.5 million in 2017/18. Of this, £16.9 million is the recovery of historical VAT from the scheme administrator (see note 1.7, chapter 3), and there is an increase of £10.4 million in annual management charges and contribution charges. This reflects a 1.9 million increase in member numbers and the growth of assets under management (AUM) to £2.7 billion. In 2018/19 and 2019/20 other income will increase to £63.4 million and £107.3 million respectively in line with the increased statutory contribution rates to 8 per cent and associated growth in funds under management.

NEST Corporation spending decisions are made prudently and it recognises that costs are ultimately borne by scheme members.

Performance analysis

Performance against our strategic objectives

NEST's strategic objectives describe how we will work towards our vision, to help millions enjoy a better retirement. Our strategic objectives will always have a similar focus: achieving the best possible outcomes for our members; delivering a great service; keeping the business sustainable and ensuring our systems are cost efficient; and running the Corporation in a way that allows our staff to deliver for our customers.

Objective	What we've done and how we've performed
1. Support strong member outcomes	
Grow assets in a manner fit for our membership.	Whilst performance should be measured over the long-term and rising inflation and volatility will create challenges ahead, the performance of the 2040 fund in growth phase to end of March 2018, after charges, over an annualised five year rolling period, was 8.8 per cent. This exceeded the benchmark of 4.9 per cent or CPI plus 3 per cent. NEST invests in a diversified range of assets, which it expanded last year, to manage risk effectively on behalf of its members. NEST reviewed and updated the Statement of Investment Principles and published additional material to support this approach. By incorporating environmental, social and governance (ESG) factors into investment management, NEST aims to deliver sustainable, long term returns for members. Increased allocation to the Climate Aware Fund in the growth and foundation phases of default funds in 2017/18 is part of a strategy to benefit from the global move towards greener sources of energy. In February 2018 NEST gave evidence to the House of Commons' Environmental Audit Committee on current activities regarding climate investment risk and the climate aware fund. NEST's second annual responsible investment report was published in September 2017. The quality of NEST's investment approach has been recognised by the industry. During the year NEST won the Pensions & Investment's Excellence for Innovation in Investment, and the Institutional Investor Peer to Peer Best DC scheme.
Communications to members are easy to understand and accessible	NEST continues to research the communication needs of members. It has developed a 'golden rules of communication' document and phrasebook to ensure the use of simple, plain English terms that people can easily understand. Once enrolled members can select to have communications sent to them in electronic format via their secure mailbox or on paper. NEST also provides communications in different languages. Each year NEST runs a Voice of the Customer research programme. This improves understanding of how members, employers and companies that support them experience the service. The findings from this are used to make improvements to processes and the way we communicate with members. Latest research results show that members who have logged on to their account find our communications clear and useful.

Members' money and data are kept safe	The NEST scheme administrator has strict operational procedures in place to safeguard members' data and assets. On an annual basis, an independent reporting accountant reviews and tests the design of and compliance with key controls and provides NEST with an AAF 01/06 assurance report. Also, penetration test activities are regularly conducted and NEST responds appropriately to any findings. The key suppliers of fund management and fund administration services provide independently tested control reports in accordance with either the AAF 01/06 standard or the international ISAE 3402 standard. The information security management systems operated by NEST, the scheme administrator and the IT managed services provider are all independently certified to the, ISO 27001 standard, giving assurance that systems and processes are robust to protect members' data.
Research and policy work that supports members' needs	NEST actively contributes to Government and other consultations to help policy makers consider how they can best support members and those like them to achieve strong retirement outcomes. The NEST Insight unit, established to gain a better understanding of members' behaviours and attitudes towards retirement savings, received additional resources in 2017/18. NEST Insight's second annual conference took place in July 2017 and the unit also produced a series of briefing papers and held roundtables.

2. Deliver a good service to our customers

Deliver good quality services to customers.	NEST has delivered on its public service obligation to support any employer who wants to use the scheme, through a period of employer staging in which regular enrolments of up to 1,800 employers in a single day were achieved. The very rapid growth during 2017/18 means that NEST now provides a service to over 616,000 employers and 6.4 million members. This is an exceptional achievement by any measure. NEST has also monitored the performance of its scheme and fund administrators against service level agreements. The performance of both remains very strong with well over 95 per of service levels met. This is a significant achievement in the context of rapidly increasing contributions and customer volumes. The NEST scheme is primarily accessed on line making it easy for members and employers to use and reducing operational costs. In the final most intense periods of staging, 85 per cent of employers successfully enrolled with NEST without having to contact the scheme administrator for help. In addition, web services have allowed data from over 167,000 employers to flow seamlessly from payroll software into NEST. NEST's service for small and micro employers reaching their staging dates in 2017/18 ran smoothly in large part due to the support NEST offers to intermediaries (the payroll providers and accountancy practices) who manage automatic enrolment on behalf of their employer clients through NEST Connect. The capacity and scalability of NEST Connect has been a key factor in enabling NEST to enrol high volumes of employers. Members have a single pot for life with NEST, regardless of whether they change jobs, stop working or become self-employed. Operating a tax relief at source model for contributions, an employer takes a worker's pension contribution from the employee's net pay and NEST claims the tax back from the Government at the basic rate of 20 per cent. NEST's key metrics demonstrate strong customer service levels with the proportion of complaints per customer decreasing year on year.

Channels are available and accessible to customers.	Throughout the year service channels have remained available and accessible to members and employers with the NEST Public Area Website, web services and the contact centre available to customers more than 99 per cent of the time. Customer contacts have increased this year, from 1.2m to 1.4m, reflecting the growth of our membership, but the average number of contacts per member has remained stable. Employer contacts have reduced from an average of 21% in the previous financial year to 9% this year.

3. Grow the business, in the right way

A revenue model that is sustainable while remaining fully focused on the needs of the low-to-moderate income target market	Total annual contributions have increased this year to £1.1 billion, up from £0.7 billion last year. Over the last year we have continued our focus on developing a sustainable revenue model, while retaining our central focus on serving the needs of those not traditionally well served by the pensions industry. This has involved evaluating and enhancing NEST's proposition, raising awareness of the scheme, and strengthening relationships with employers and the intermediaries that support them. Strategic Account Managers have managed key relationships with a portfolio of larger employers and offered an enhanced range of services such as attendance at governance meetings, enhanced management information reporting and regular updates on scheme developments. NEST is confident that this will help achieve the goal of delivering a sustainable Corporation whilst fulfilling the statutory duty to be open to any employer who wishes to use the service. On 1 April 2017 the Government lifted restrictions on NEST accepting transfers. It is important that members can consolidate their pension pots into NEST if they wish to, and the Corporation is considering how to make this process simpler for members
Members have access to appropriate retirement income solutions.	NEST is clear that guided pathways at retirement should be a feature of all good pension schemes in future and thus continued a dialogue with Government to explore how this can be achieved. In the meantime, NEST is considering how best to support members reaching retirement through effective tools and guidance.

4. Deliver a sustainable future business model

Maintain a strong financial performance base	Assets under management increased this year to £2.7 billion and with £1.1 billion contributions from members. In the previous year assets under management stood at £1.7 billion and contributions received were £0.7 billion. NEST Corporation seeks to ensure the highest level of efficiency by developing a Corporate Plan, three-year business plan and annual budget. As part of this process each directorate sets out their requirements for the forthcoming year that will help them deliver their objectives as defined by NEST's strategic priorities. The chief executive officer, the chief financial officer and the Trustee provide challenge before they are approved. A funding requirement is then submitted to the Department for Work and Pensions (DWP), which provides further scrutiny and challenge.

	NEST Corporation has kept within the operational and financial targets agreed with the DWP for the financial year. Scheme administration expenses were in line with expectations and the growth of the scheme. NEST Corporation costs were lower than expected due to continued focus on targeted efficiencies. NEST's latest forecasts estimate that NEST Corporation should be able to cover its operating and financing costs from pension scheme member charges in 2027. It also estimates that the loan balance will be £1,247 million at that date with an expected repayment date for the loan of 2039.
Procure future scheme administration services	The scheme administration contract with Tata Consultancy Services will come to an end in 2023 and will require replacing with a new contract. NEST has established a programme to consider future scheme administration requirements. In May 2018 NEST issued a Prior Information Notice (PIN) in the Official Journal of the European Union. This allows NEST to formally engage with the market to take forward the procurement process.
Drive value for money for members	NEST strives to deliver value for money for members by investing in improvements to services and ensuring systems are cost efficient. Having embarked on a member service improvement programme, this will initially focus on ensuring that transfers into and out of the scheme are completed efficiently. NEST undertook a formal value for members assessment during the year which concluded that the costs and benefits of the NEST scheme provide good value for members. NEST also published its first 'Delivering value for our members' report in early 2018. The procurement process for our administration provider, which commenced last year, provides an opportunity to consider where NEST can drive better value through its business model in the future.
5.Deliver a Corporation fit for the future	
Maintain strong standards of governance.	NEST continued to ensure that standards of governance were of the highest quality. Each year NEST reviews the effectiveness of the Board and its committees. In 2017/18 this review was carried out by an external facilitator. NEST also conducted an annual skills and experience audit of Board Members and used the results to update our training plan for existing Trustee Members, our induction plan for new Board Members, and refine our skills and experience requirements for the future. The DWP carried out a Tailored Review of NEST Corporation in 2017. This concluded that there is a definite ongoing need for NEST and that the Corporation is well-run.
Staff have the right skills to deliver for members, supported by a diverse, inclusive and positive working culture.	Alongside the growth of the NEST scheme, it is important that NEST evolves the Corporation, to ensure the continuing recruitment and retention of staff with the right skills to deliver for members. NEST staff have access to a range of learning and development opportunities to develop the skills they need to progress in their careers. NEST's mission, values and remuneration framework continues to attract and allow the retention of high quality staff. NEST submitted its first Women in Finance review, and continued to work hard to ensure the maintenance of a diverse and inclusive workforce.

Staff have the right skills to deliver for members, supported by a diverse, inclusive and positive working culture.	The overall percentage of black, Asian and minority ethnic (BAME) staff at NEST is 25%, significantly higher than the percentage of economically active BAME people in the UK of around 12%. NEST offers a good shared parental leave package where staff can take six months full pay, and several members of staff, including executive team members, have taken this benefit. NEST also continued to encourage flexible working arrangements and have recently put in place more part time and job share arrangements. NEST staff are strongly motivated by the Corporation's mission and purpose. In the latest annual staff survey, 87% of staff said the purpose of NEST make them feel good about their work. This is well above UK benchmarks.
Effective risk management and controls	NEST has a strong and robust control framework. First line assurance is provided by accountable executives in each directorate and owners of key policies through the attestation letter process run by the risk team. There is an extensive second line compliance and monitoring programme, and third line internal audit programme. NEST's risk management framework is reviewed on an annual basis to ensure it remains fit for purpose and takes into account developments in industry practice. In 2017/18 NEST rolled out a new methodology for monitoring and reporting risk to executive board, risk committee and the Trustee which focuses on principal risks. This work included a more granular approach to the identification of NEST's risk appetite for the identified principal risks. NEST is finalising its annual AAF 02/07 control assurance report against the master trust assurance framework which provides an independent assessment of the design and operation of NEST's internal controls. The report confirms that all the control objectives set out in the AAF guidance were met for the reporting period.
Respond effectively to regulatory change	The master trust sector will become more tightly regulated under the new Occupational Pension Schemes (Master Trusts) Regulations 2018. NEST has been actively monitoring developments during the year to ensure that it is well placed to manage and respond effectively to the new regulatory requirements.

1.7 Our strategy for 2018/19

NEST's vision is to help millions of people enjoy a better retirement, by becoming the UK's best whole of life provider, self-funded and run in the interests of its members. It has five strategic objectives which describe how it will work towards that vision over the next three years.

Support strong member outcomes	NEST will grow members' assets and keep their data safe. It will deliver a targeted approach to increasing member engagement – including at retirement - while continuing also to focus on ensuring the right retirement products exist to meet their needs.
Deliver a good service to customers	NEST will deliver a sustainable high-quality service to customers – members, employers, advisors and payroll providers.
Grow the business, in the right way	NEST will ensure it has a broad customer base while remaining fully focused on the needs of its low-to-moderate income target market.
Deliver a sustainable future business model	NEST will agree and implement a sustainable approach to service delivery following the expiry of its current administration contract and set a clear direction for NEST's future ownership, funding and administration, working with Government.
Deliver a Corporation fit for the future	NEST will develop the Corporation to ensure it is well governed and ready to manage the scheme at scale.

NEST Corporation's strategic priorities will always have a similar focus: achieving the best outcomes for members; delivering a great service; keeping the business sustainable and running the Corporation in a way that supports its staff to succeed.

The initiatives it undertakes to deliver those priorities will evolve as the scheme grows and the world around it changes. This year it is moving on from a focus on the operational challenges of staging to thinking about how the Corporation will evolve to ensure that it is fit for future growth. For that reason it has made minor updates to its strategic priorities.

Its business planning is also anchored in the delivery of the strategic priorities.

1.8 Key business relationships

NEST Corporation has a number of key business relationships. These include Tata Consultancy Services (TCS) which administers the scheme, and State Street Bank which provides fund administration services. It has worked in partnership with both suppliers throughout the year to ensure that the scheme operates effectively.

Its initial 10-year scheme administration contract with TCS was due to finish in 2020, but in 2015 it was extended to 2023.

1.9 Sustainable development

NEST Corporation is fully committed to respecting the environment in which it operates. It aims to make efficient use of natural resources to help protect the environment, further information on which can be found in the Corporate Social Responsibility section of this document. See page 108.

1.10 Anti-discrimination, anti-bribery and human rights

NEST Corporation aims to treat everyone fairly regardless of any protected characteristics.

It also ensures that any business conducted complies with the Anti-Bribery Act 2010 and that it adheres to all regulation and meets all necessary criteria to avoid corruption. Additionally, NEST Corporation respects human rights for all of its staff, members and business partners.

1.11 Financial statements

Statutory background

The financial statements for 2017/18 for NEST Corporation are prepared in accordance with the requirements of schedule 1, part 3, paragraph 20 to the Pensions Act 2008, and in the form set out in the Accounts direction issued by the Secretary of State for Work and Pensions. The Accounts direction is presented in Appendix one.

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

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

Helen Dean
Chief executive and accounting officer
NEST Corporation
28 June 2018

Chapter two

Accountability report

2.1 Corporate governance report

This accountability report, including the Directors' report, the *Statement of Accounting Officer's responsibilities, Governance statement, Remuneration report and Parliamentary accountability and audit report* has been prepared in accordance with the provisions of the Government Financial Reporting Manual (FReM) and HM Treasury's Managing Public Money, Annex 3.1. See also Appendix one – Accounts direction.

2.1.1 Directors' report

About NEST Corporation

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

NEST Corporation is the Trustee of the NEST pension scheme. As Trustee, NEST Corporation has a duty to run the scheme in the best interests of its members. NEST Corporation is also a public corporation and is expected to fulfil its obligations in that role unless these conflict with its fiduciary duty.

Under the National Employment Savings Trust Order 2010 (NEST Order) the Trustee receives assistance and advice from a members' panel that represents the member's perspective of the scheme, and an employers' panel that represents participating employers. The Trustee consults the panels on matters to do with the operation, development or amendment of the scheme. It also consults the panels when specifically required to do so by legislation, for example when making changes to the NEST rules.

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

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

Organisational structure

The organisational structure of NEST Corporation is described in section 2.1.3. See page 43 for further details.

Trustee Members

Otto Thoresen
Chair, NEST Corporation
(from 1 February 2015)

Chair, nominations and governance committee
(from 1 February 2015 - 28 November 2017)

Otto has extensive experience gained in pensions, insurance and consumer roles across a range of private and public sector organisations including Royal Insurance, AEGON and charities Young Enterprise and StepChange.

Tom Boardman
Trustee Member
(from 1 April 2010 - 31 May 2017)

Deputy Chair
(from 1 June 2014 - 31 May 2017)

Tom's 40 years' experience in pensions and insurance includes executive roles at Prudential and Nationwide. He was a former senior advisor at the Financial Conduct Authority, a Fellow of the Institute and Faculty of Actuaries, honorary visiting professor at the Cass Business School and a governor of the Pensions Policy Institute.

Iraj Amiri
Trustee Member
(from 20 June 2011, appointed for a second term in 2015)

Chair, audit committee
(from 1 April 2014)

Iraj led the National Internal Audit Group at Deloitte LLP, where he was a partner. He is a non-executive director and chair of the Audit Committee at Development Bank of Wales and a member of the Regulatory Decisions Committee of the Financial Conduct Authority (FCA) as well as chair of the Audit and Risk Committee for the Institute and Faculty of Actuaries.

Ian Armfield
Trustee Member
(from 1 April 2014)

Ian has worked in the investment and pension sectors for more than 25 years, principally as an audit and risk assurance partner with PricewaterhouseCoopers LLP. He is a non-executive director of Keystone Investment Trust plc and Managed Pension Funds Limited and the audit committee chairman for Pearson Pension Plan.

Graham Berville
Trustee Member
(from 1 June 2014)

Chair, propositions committee
(from 20 July 2015 – 25 January 2018)

Chair, risk committee
(from 25 September 2017)

Graham held executive roles with the Automobile Association (AA), Aviva plc and Police Mutual. He also worked with the Association of British Insurers and was chair of the Association of Financial Mutuals. Graham has subsequently held a number of non-executive roles and is currently chair of the LV= With-Profits Committee, chair of Yorkshire Cancer Research and chair of Keycare Insurance.

Sally Bridgeland
Trustee Member
(from 1 April 2015)

Chair, investment committee
(from 2 July 2017)

Sally is a non-executive director of Royal London Group, Impax Asset Management and the Local Pensions Partnership, a senior adviser with Avida International and a pension scheme trustee at Lloyds Banking Group. Sally is also a Trustee of the Nuclear Liabilities Fund. She was formerly the chief executive officer and trustee of the BP Pension Fund. Sally is the founder of Executive Shift, a charity supporting senior-level flexible working.

Tomas Carruthers
Trustee Member
(from 1 July 2016)

Carolan Dobson
Trustee Member
(from 1 April 2014)

Chair, investment committee (from 26 April 2014 - 2 July 2017)

Ron Jarman
Trustee Member
(from 1 July 2016)

Tomas Carruthers is an executive director of Kirkman, a firm providing advice and support in the field of social finance. He was Chief Executive of the Social Stock Exchange, which was launched by the Prime Minister in 2013. Prior to that appointment he was Chief Executive of Interactive Investor PLC, which he founded.

Carolan is an experienced trustee and non-executive director with a background in asset management. She is chair of Blackrock Latin American Trust plc, Brunner Investment Trust plc, JP Morgan European Smaller Companies Trust plc and is a non-executive director at the ISC at the London Collective Investment Vehicle (LCIV). She also works as an adviser to the Competition and Markets Authority.

Ron is a senior member of Proxima's Consulting practice, where he specialises in organisational and performance improvements including supplier risk management. Ron is the board chair at World at Play, a charity that enriches the lives of marginalised and refugee children through sport and play and is a supporter of the Kalinga Fellowship.

Caroline Rookes
Trustee Member
(from 1 April 2015)

Chair, remuneration committee
(from 19 June 2016 - 28 November 2017)

Chair, nominations and remuneration committee
(from 28 November 2017)

Caroline retired as chief executive officer of the Money Advice Service in June 2017. Her previous positions include director of private pensions at the Department for Work and Pensions where she led a landmark reform of the UK's private pension regime introducing auto enrolment, and director of savings pensions and share schemes at HMRC, where she was responsible for a reform of the pensions tax regime. Caroline is currently the vice chair of the charity V-inspired.

Karen Silcock
Trustee Member
(from 1 April 2014 - 10 October 2017)

Chair, risk committee
(from 15 April 2016 - 25 September 2017)

Karen was a partner in Deloitte LLP, advising on insolvency and restructuring and subsequently on risk management, security and financial crime. She also held the position of joint chief risk officer at Deloitte LLP. Karen's portfolio has included non-executive director roles at the Office for Legal Complaints (OLC), a regional Wildlife Trust and advisory work with The High Street Fund.

Jill Youds
Trustee Member
(from 1 April 2015)

Senior Independent Director (from 25 July 2017)

Chair, determinations committee
(from 24 March 2016)

Jill is chair of the Judicial Pensions Board for the Ministry of Justice and also of the Northern Ireland Judicial Pensions Board. She is chair of the trustee board for the National Assembly for Wales Assembly Members' pension scheme and also chair of trustees for the Legal Services Commission pension scheme. Jill is the Senior Independent Director at NEST Corporation.

For more information about our Trustee Members, visit the NEST website.

Register of interests

Trustee Members have registered any interests they hold that may create an actual or potential conflict with their responsibilities to the Corporation and scheme. The register of interests is published on the NEST website.

Trustee Members also declare conflicts in relation to any items of business at NEST Corporation and committee meetings. The executive board also register any interests they hold that may create a potential conflict with their responsibilities to NEST Corporation.

2.1.2 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, see Appendix one. The Accounts direction requires that the accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of NEST Corporation and of its income and expenditure, changes in taxpayers’ equity and cash flows for the financial year.

In preparing the financial statements, the 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 accounting officer confirms that the annual report and accounts as a whole is fair, balanced and understandable and takes personal responsibility for the annual report and accounts and the judgments required for determining that it is fair, balanced and understandable.

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

The principal accounting officer for the DWP has designated the chief executive officer 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.

Helen Dean,
Chief executive and accounting officer
NEST Corporation

28 June 2018

2.1.3 Governance statement

Governance framework

NEST Corporation subscribes to high standards of corporate governance in order to serve the best interests of scheme members and to fulfil its obligations as a public body. NEST Corporation has considered the Cabinet Office Corporate Governance in Central Government Departments Code of Good Practice, within its own governance framework. In respect of those principles of the Code which are applicable to NEST Corporation, there have been no departures.

Accountability

NEST Corporation is accountable to Parliament. The reporting lines of accountability are through the Chair to the Secretary of State, and through the accounting officer to the principal accounting officer in the Department for Work and Pensions (DWP). The chief executive officer reports to the NEST Corporation chair on all matters, except those directly related to her role as accounting officer.

Trustee effectiveness

Effectiveness reviews for the Trustee and its committees take place on an annual basis. In line with best practice, NEST Corporation engages an external facilitator once every three years. This external review took place in 2017/18. The aim of the review was to evaluate the current effectiveness of the Trustee and its committees and make recommendations for further enhancements. The scope included board dynamics, culture, management of meetings, papers and support.

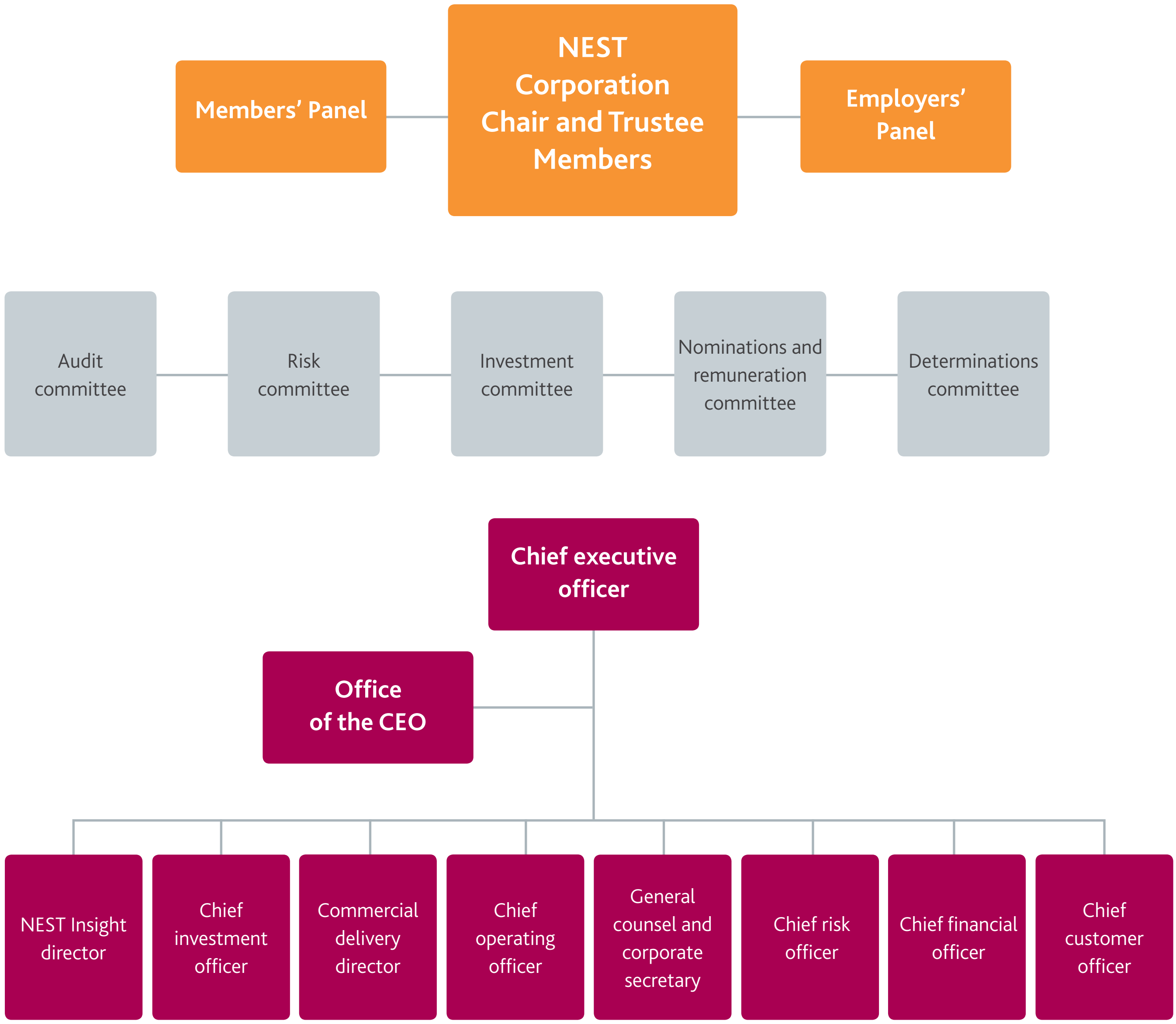
The review concluded that the Board is well run and also made a number of recommendations. The report was discussed at the Trustee meeting in January 2018 and actions were agreed, including further engagement with a number of key stakeholders, and a continuation of improvements around the papers submitted to the Trustee. The nominations and remuneration committee are now overseeing the implementation of the recommendations arising from this review.

New Trustee Members receive tailored induction training and materials. Within six months of being in office all new Trustee Members complete the Trustee Toolkit training for trustees of defined contribution schemes produced by The Pensions Regulator.

Risk management

The Trustee is responsible for ensuring that any material risks faced by the organisation are regularly identified and evaluated. The Trustee is also responsible 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 44.

Organisation structure



Executive board

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

NEST Corporation Trustee Board Members and committees

As at 31 March 2018, the Trustee had 10 members, consisting of a Chair and nine other Trustee Members. Collectively they are responsible for setting the strategic direction and objectives for NEST Corporation.

NEST Trustee Members are appointed by the Secretary of State for Work and Pensions in line with public appointments guidance that promotes selection on the basis of merit, fairness and openness. A broad range of skills, experience and knowledge are required collectively on the Trustee Board. Appointments are made in line with the Commissioner for Public Appointments' Code of Practice and Cabinet Office guidance.

All Trustee Members were independent at appointment having no current or previous material relationship with the organisation as an employee, officer or contractor.

Every Trustee Member has completed The Pensions Regulator's Trustee Toolkit, an online learning programme. New Trustee Members must complete this within their first six months, in addition to a detailed induction programme. A full skills and experience analysis of Trustee Members is completed on an annual basis in order to support and inform their continuing requirement for knowledge and understanding, which is met through briefing sessions on relevant topics and an individual commitment to ongoing education and training.

The combined knowledge and understanding of the Trustee Members, together with the advice which is available to them, enables them collectively to exercise their responsibilities as the Trustee by providing experience of investment, pensions, risk, member representation, finance, audit, governance and business management.

To support effective and robust decision making, the Trustee has established five committees. The Trustee and its committees take decisions that affect the scheme and ensure that the Corporation fulfils its obligations as a public body. The terms of reference for the Trustee and its committees are published on the NEST website[1]. Every committee makes recommendations for approval by the Trustee on specific decisions and items.

In addition, the NEST Order 2010, article 8 set out the remit for an employers' panel and a members' panel, in accordance with the requirements on the Trustee under the Pensions Act 2008. As requested by the Trustee, these panels must give assistance and advice about the operation, development or amendment of the scheme. For further information on the panels, see page 47.

A Scheme of Reserved Matters and Delegations outlines the matters reserved to the Trustee, and delegations to the committees. Decisions which are not reserved to the Trustee or a committee are within the authority of the chief executive officer, who is responsible for the day-to-day operations and management of NEST Corporation and the NEST pension scheme. The chief executive officer delegates authority to each member of the executive team and holds them accountable for delivery in their remit. Regular meetings of the executive board are chaired by the chief executive officer to oversee the operation of the Corporation and the scheme, and the chief executive officer provides a report to each meeting of the Trustee.

1 **nestpensions.org.uk/schemeweb/NestWeb/public/aboutnestcorporation/contents/trustee-committees.html**

Audit committee

The audit committee is responsible for monitoring the integrity of the financial statements for NEST Corporation and the scheme and the validity of the assurance given on them. It approves and monitors the internal control framework and the effectiveness of audit and compliance functions. During the year it:

- reviewed the annual report and accounts for both NEST Corporation and the scheme and recommended their approval to the Trustee
- reviewed the plans of the external auditors for their audit of the annual accounts of both NEST Corporation and the scheme, and oversaw the delivery and effectiveness of external audit
- approved the internal audit plan and provided oversight of its delivery and implementation of its recommendations
- approved the compliance plan and provided oversight of its delivery
- reviewed the system of internal controls within NEST Corporation and the scheme, via the AAF 02/07 report
- reviewed the master trust assurance report for the scheme and recommended its approval to the Trustee.

Risk committee

The risk committee is responsible for advising on overall risk strategy. It considers all aspects of risk, and the management of those risks that could affect NEST Corporation and the scheme. During the year it:

- reviewed NEST Corporation's risk management framework and recommended its approval to the Trustee
- provided oversight of the risk appetite levels and tolerances for each principal risk and recommended their approval to the Trustee
- reviewed and challenged key areas of risk
- reviewed and approved financial crime prevention, information security, business continuity management and crisis management policies.

Investment committee

The investment committee is responsible for overseeing the scheme's overall investment strategy and any changes to the investment approach or the funds made available to members. The committee also monitors investment performance and operational investment risks. During the year it:

- reviewed the Statement of Investment Principles (SIP) and recommended its approval to the Trustee
- provided oversight of the implementation of all recommendations from the external Investment Governance Review

- gave ongoing consideration to the development of the NEST investment approach including appointment and termination of investment managers
- maintained oversight of the investment performance and risk management of all NEST retirement funds, including the approval of changes in asset allocation as required
- considered the second responsible investment report.

Determinations committee

The determinations committee is responsible for adjudicating the complaints received about the scheme at Stage 2 of the internal dispute resolution procedure (IDRP)[1]. The committee makes recommendations to the executive on learning outcomes from the Stage 2 IDRP disputes to help improve the effectiveness of the scheme and member experience.

During the year it considered 31 cases (2016/17: 16 cases)

- Eight were upheld (2016/17: four cases)
- Eight were not upheld (2016/17: 10 cases)
- Nine were partially upheld (2016/17: two cases).

The committee also received information on six cases which had been withdrawn by the complainant before consideration by the committee (2016/17: four cases).

1 **nestpensions.org.uk/schemeweb/NestWeb/includes/public/docs/NEST-how-we-handle-complaints,PDF.pdf**

Nominations and remuneration committee

(established 28 November 2017)

The nominations and remuneration committee was created in November 2017 as a consequence of merging the nominations and governance committee and the remuneration committee. This was in line with a recommendation following an internal governance review, in order to streamline NEST's committee structure. The committee is responsible for leading the recruitment for the appointment of the chief executive officer of NEST Corporation, supporting and assisting with recruitment of Trustee Members by the Secretary of State, overseeing recruitment of panel members, ensuring sound corporate governance within NEST Corporation, setting the remuneration of the chief executive officer, providing advice on setting the remuneration of other employees of NEST Corporation and overseeing NEST Corporation's organisational culture and values. During the period from its inception it:

- considered the recommendations arising from the triannual external board and committee effectiveness review
- considered the review of Trustee Members' register of interests and conflicts of interest
- reviewed responses to the Trustee Members' annual fitness and proprietary questionnaires
- discussed the annual recruitment plan for new members of both the employers' and members' panels

- reviewed NEST's people strategy, which included resourcing, management, development and retention.

Remuneration committee

(merged with nominations and governance committee on 28 November 2017)

The remuneration committee was responsible for setting the remuneration of the chief executive officer of NEST Corporation and establishing criteria for monitoring the chief executive officer's performance. The committee also provided advice on setting the remuneration of other employees of NEST Corporation and oversaw external appointments for the executive team. During the year it:

- discussed the performance of the chief executive officer in conjunction with the NEST Chair and advised on remuneration and bonus
- considered the results of the 2017 staff survey and received a report on proposed management actions
- reviewed NEST Corporation's policies on diversity and inclusion, gifts and hospitality policies and external appointments for the executive team.

Nominations and governance committee

(merged with remuneration committee on 28 November 2017)

The nominations and governance committee was responsible for leading recruitment for the appointment of the chief executive officer of NEST Corporation, supporting and assisting with recruitment of Trustee Members by the Secretary of State, overseeing appointments to and functioning of the employers' and members' panels and ensuring sound corporate governance within NEST Corporation. During the year it:

- received the results of the annual skills and experience analysis of Trustee Members and considered the general counsel and corporate secretary's recommendations in relation to implications for induction, training and recruitment
- consulted on and reviewed changes to the Scheme Rules, which took effect from 6 April 2018
- recommended the appointment of two new members' panel members and two new employers' panel members to the Trustee
- approved the scope of the triennial external board and committee effectiveness review.

Propositions committee

(disbanded on 25 January 2018)

The propositions committee was responsible for overseeing the current proposition offered by the scheme and ensuring that it met the needs of NEST's members, employers and target market. The committee also had oversight of the key drivers for changes to the proposition.

During the year it:

- considered changes in the proposition that may arise from market developments
- considered the development of NEST Corporation's approach to raising awareness of the scheme amongst larger employers

- considered the development of proposals to support members at retirement in a changed environment for pension saving.

This committee was disbanded, following agreement that further oversight of the product and customer would be incorporated into the Trustee meeting agenda.

Employers' panel

The employers' panel was set up in accordance with the Pensions Act 2008 and NEST Order 2010 to represent participating employers by providing advice on the operation, development and amendment of the scheme. The panel now has 11 members. During the year it:

- completed its first programme of work which focused on topics that were useful to NEST Corporation and relevant to the panel. This included the panel's advice on how NEST should communicate to participating employers about the phasing of contributions from 6 April 2018
- engaged with NEST on issues including the development of NEST's large employer strategy, and provided an employer perspective on NEST's member strategy
- held a joint meeting between Trustee Members, panel members and the executive team. The meeting explored what NEST's member strategy means for NEST and for the panels
- were consulted on the proposed changes to the Statement of Investment Principles (SIP) at its meeting in December 2017 where it provided its comments
- responded to the Department for Work and Pensions (DWP) consultation paper on changes to the NEST Order and NEST's consultation on changes to the Rules.

Members' panel

The members' panel was set up in accordance with the Pensions Act 2008 and NEST Order 2010 to represent scheme members by providing advice on the operation, development and amendment of the scheme. The panel now has 12 members. During the year it:

- prepared and published the members' panel Annual Report
- completed its first formal programme of work which focused on topics that were useful to NEST Corporation and relevant to the panel. A key highlight of the work programme was the panel's workshop with the DWP on the *Automatic Enrolment Review 2017*. The panel provided its comments on each of three sections within the review (coverage, engagement and contribution levels).

- held a joint meeting between Trustee Members, panel members and the executive team. The meeting explored what NEST's member strategy means for NEST and the panels.
- were consulted on the proposed changes to the SIP at its meeting in December 2017 where it provided its comments.
- responded to the DWP consultation paper on changes to the NEST Order and NEST's consultation on changes to the Rules.
- responded to The Work and Pensions Committee inquiry into freedom and choice in pensions.

Committee membership as at 31 March 2018

Audit committee	Determinations committee	Investment committee
Iraj Amiri - Chair	Jill Youds - Chair	Sally Bridgeland - Chair
Ian Armfield	Iraj Amiri	Ian Armfield
Graham Berville	Caroline Rookes	Graham Berville
	Otto Thoresen	Carolan Dobson

Nominations and remuneration committee	Risk committee
Caroline Rookes - Chair	Graham Berville - Chair
Ian Armfield	Iraj Amiri
Carolan Dobson	Sally Bridgeland
Ron Jarman	Ron Jarman
Otto Thoresen	
Jill Youds	

Details of meetings attended by the Trustee Members appointed to each committee during the year

	Trustee Board	Audit Committee	Risk Committee	Investment Committee	Nominations and Remuneration Committee	Determinations Committee	Propositions Committee****	Nominations and Governance Committee*****	Remuneration Committee
No. of meetings	9	6	4	5	1	11	2	2	3
Otto Thoresen	8	n/a	n/a	n/a	1	9	n/a	2	n/a
Iraj Amiri	8	6	3	n/a	n/a	8	n/a	n/a	n/a
Ian Armfield	9	5	n/a	5	1	n/a	n/a	2	n/a
Graham Berville	8	n/a*	4	4	n/a	n/a	2	n/a	n/a
Tom Boardman**	1/1	n/a	n/a	n/a	n/a	n/a	n/a	1/1	n/a
Sally Bridgeland	7	n/a	4	5	n/a	n/a	2	n/a	n/a
Tomas Carruthers	8	n/a	n/a	n/a	n/a	n/a	1	n/a	n/a
Carolan Dobson	7	n/a	n/a	4	1	n/a	n/a	2	n/a
Ron Jarman	9	n/a	3	n/a	1	n/a	n/a	n/a	3
Caroline Rookes	9	5	n/a	n/a	1	10	n/a	n/a	3
Karen Silcock***	4/5	2/4	2/2	n/a	n/a	n/a	1	n/a	n/a
Jill Youds	7	n/a	n/a	n/a	1	11	2	n/a	3

*No meetings were held while Graham Berville was on the audit committee
**Tom Boardman's post came to an end on 31 May 2017
***Karen Silcock's post came to an end on 10 October 2017
****The propositions committee was disbanded on 25 January 2018
*****The nominations and governance committee and remuneration committee were merged to form the nominations and remuneration committee on 28 November 2017

Trustee meetings

The Trustee met nine times during the year, with two meetings focused on strategy. The audit, risk, investment, nominations and remuneration and determinations committees also met on a regular basis and reported back on their work during meetings. Details of the meetings and attendance can be found on page 49 and committee membership is set out on page 48.

The priority is to provide a strong, stable scheme which operates in the best interests of its members. It focuses on delivering a good service to members and employers and meeting its public service obligation to enable any employer to choose NEST to meet their auto enrolment duties. This drives the agenda. The quality of the data used by the Trustee is reviewed annually as part of an internal effectiveness review to ensure that this continues to be acceptable.

Information on strategy, scheme administration, member volumes and service, investment performance, risk management, internal controls, operational activities and financial performance is received and scrutinised. The chief executive officer provides an update at each meeting on the key issues on her agenda and decisions made within her authority. Committee chairs report back on material issues discussed at committee meetings, decisions taken and recommendations, and minutes of all meetings are submitted to a subsequent Trustee meeting.

As part of the normal business cycle, NEST Corporation:

- approved the Corporation budget and business plan
- approved the annual report and accounts for both the scheme and for NEST Corporation
- approved the AAF 02/07 master trust assurance report for the scheme
- approved the revised Statement of Investment Principles
- approved the risk appetite and tolerances for each principal risk
- appointed a senior independent director.

In addition, it:

- provided oversight of the impact of the removal of restrictions on NEST in relation to contribution limits and transfers into and out of the scheme
- received annual reports from the members' panel and employers' panel
- consulted on and approved changes to the scheme rules
- approved the appointment of a new general counsel and corporate secretary
- provided consent to the changes proposed by the Department for Work and Pensions to the NEST Order

- approved the Trustee Member training schedule and the skills and experience requirements for new Trustee Members joining in 2018
- reviewed and approved the Scheme of Reserved Matters and Delegations
- received the annual health and safety report for NEST Corporation.

Significant control issues

There are no significant internal control issues that merit inclusion in the annual report and accounts for the accounting period 1 April 2017 to 31 March 2018.

This is evidenced by reporting provided to audit committee and the Trustee by internal audit and compliance assurance functions via reporting in line with annual internal audit and assurance plans approved by the audit committee.

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

Corporate risk statement overview

The culture and processes NEST has established are designed to manage risk in line with the expectations of Trustee Members, who have the legal responsibility to act in the interests of members of the NEST pension scheme in accordance with their powers and duties. NEST is a public corporation and as such it is also accountable to Parliament.

This statement addresses risks and uncertainties in both NEST Corporation and the scheme as there is a single holistic approach.

NEST Corporation must take risks in order to deliver its strategic priorities. Understanding the risks it faces and how best to control or mitigate them is integral to this. It doesn't do this alone; it also engages with key stakeholders to understand and manage risk.

NEST's risk management framework

NEST's risk management framework is reviewed on an annual basis to ensure it remains fit for purpose and to take into account developments in industry practice. At the core of its framework is the risk management process:

Each business area across NEST maintains a log of its key risks which is reviewed regularly. Its principal risk dashboard is used to report critical, principal and other significant risks to the executive board, risk committee and the Trustee.

NEST's principal risks

A risk is an uncertain event, which if it were to occur, could impact the delivery of NEST's objectives. NEST has identified principal risks in relation to the delivery of its strategic priorities. NEST defines a principal risk as: "A risk that is considered material to the development, performance, position or future prospects of NEST".

In 2017/18 it rolled out a new methodology for monitoring and reporting risk to the executive board, risk committee and the Trustee which focuses on the principal risks.

For each principal risk NEST has identified key risk indicators, which act as key performance indicators. The Trustee has set risk appetite and tolerance levels for each key risk indicator. This allows NEST to monitor whether it is managing risk in line with Trustee expectations.

The executive board and risk committee receive reports on performance against risk appetite and tolerance levels four times a year. These reports highlight key risk indicators that are performing outside the Trustee-approved risk appetite and tolerance levels, and any action taken as a result to bring performance back on track.

The Trustee has approved the risk appetite and tolerance levels and receives a performance report across all principal risks and indicators twice a year.

In addition to the key risk indicators for each principal risk, NEST also monitors, assesses and reports against its readiness to respond to the risk should it begin to crystallise; the assurance activities that have been undertaken in relation to the controls that mitigate the risk; and other risks from the risk log that are linked to the principal risk.

NEST Corporation continually reviews the types of risks that it monitors, to ensure that these are still appropriate and complete. On an annual basis, the risk committee considers whether collectively the principal risks still reflect those that NEST faces. The committee undertakes in-depth reviews of individual principal risks to scrutinise management's approach to risk management.

The following sections explore each of NEST's principal risks, detailing the key controls and mitigating actions that are in place to manage them.

Member data and assets risk

Member data and assets risk is the risk that NEST fails to protect its members' money and data. In an evolving technological world where cyber criminals and fraudsters are developing more advanced means to commit crimes, the challenge for NEST to keep ahead of development has never been greater. It is committed to safeguarding members' data and assets from this very real threat.

The information security management systems operated by NEST Corporation, its scheme administrator and its IT managed services provider are all independently certified to the ISO 27001 standard, giving it assurance that systems and processes are robust and help protect members' data.

The scheme administrator has strict operational procedures in place to safeguard NEST's members' data and assets. On an annual basis, an independent reporting accountant reviews the design of, and compliance with, key controls and provides NEST Corporation with an assurance report. NEST Corporation follows up on any exceptions identified within the report. It also regularly conducts penetration test activities and responds appropriately to any findings.

Operational capacity risk

Operational capacity risk is the risk that NEST or its key outsourced providers don't have sufficient levels of operational capacity to meet the demands of its business-as-usual operations, as well as on-boarding all employers who wish to use NEST to meet their auto enrolment duties in line with the public service obligation.

Insufficient levels of resource and system performance could result in the failure of the continued roll-out of auto enrolment and poor service standards to NEST's employers and members.

NEST's processes and systems are designed to be as straightforward to use as possible. It aims for employers and intermediaries to be able to use NEST without needing to contact it for advice or help. NEST continually looks for ways to make its systems easier to use. Throughout 2017/18 it continued to undertake analysis of likely volumes of employers and members who use NEST and the behaviours they will exhibit; this allowed it to plan and build further capacity into its systems and administrative functions to deal with this demand and manage the risk.

It continues to test its systems to make sure they have sufficient capacity to cope with predicted demand. On a monthly basis it meets with its scheme administrator to review previous capacity trends and monitor delivery against contractual service level standards including those relating to the time taken to handle calls and correspondence from our customers to satisfy itself that suitable capacity is in place.

This year saw the last of the auto enrolment employer staging dates. This will change the nature of NEST's operational capacity risk going forward and should result in less volume uncertainty. Additionally, it will monitor the impact from the increase in contribution rates on operational capacity.

Outsourcing risk

Outsourcing risk is the risk that NEST could be adversely affected by the actions and decisions of its outsourced providers.

Outsourced providers deliver the majority of the resource required to operate the NEST pension scheme. This reliance on providers has the potential to leave NEST in a position where it could be adversely affected by their actions and decisions.

NEST's relationship with its outsourced providers needs to be strong. This is important for mutual success. Contracts set out NEST's requirements and service level standards, and it has contract management procedures to track adherence to these contracts.

Key outsourced providers are required to provide NEST with independent assurance reports on their controls. NEST reviews these reports and follows up on weaknesses or control failures if any have been identified.

One of NEST's key outsourced contracts, the scheme administration contract, will come to an end in 2023 requiring procurement for the next contract. A programme has been established to consider NEST's future scheme administration requirements to ensure that it continues to meet its scheme and statutory duties, and remains effective and efficient.

Investment risk

The principal risk regarding investment is the risk that NEST's members, stakeholders and commentators lose trust in NEST's investment performance. NEST's approach to investment is underpinned by its investment beliefs which provide its trustees with a transparent framework for consistent and good quality decision making.

NEST's investment beliefs and investment strategy are reviewed at least every three years by its investment committee to ensure they continue to be appropriate, and in 2017/18, it carried out its three-yearly review of the Statement of Investment Principles. NEST's funds have been diversified across different asset classes and fund managers. It continually monitors its investment performance and risk, and where appropriate makes changes to its investment portfolios. Oversight of investment risk is primarily the responsibility of the investment committee.

Revenues and funding risk

Revenues and funding risk is the risk that NEST Corporation is unable to achieve sufficient revenue income and control outgoing expenditure to enable it to repay its loan within the terms of the state aid agreement.

NEST generates revenue from its 1.8 per cent contribution charge and 0.3 per cent annual management charge. Its public service obligation requires it to accept all employers that wish to use it to meet their auto enrolment obligations. This means it has to accept business that potentially generates a loss.

However, overall NEST aims to be profitable through having a diverse membership base which will offset unprofitable employers.

Now that staging has completed, the main uncertainty is the change to revenue from the two phasing increases to contribution rates in April 2018 and April 2019. Each will take three to four months to assess after the contribution increase takes place.

NEST continually strives to deliver value for money for members by investing in improvements to our service and keeping our costs as low as possible. It has a strategic plan, three-year plan and annual budget setting process where every department outlines their resource requirements for the forthcoming year, consistent with NEST's strategic priorities. These are challenged by the chief finance officer and the chief executive officer and approved by the Trustee. A funding requirement is then submitted to the Department for Work and Pensions (DWP) which provides additional scrutiny and challenge. Senior NEST managers meet with DWP colleagues on a regular basis to provide them with oversight of NEST's finances and assurance of value for money for the taxpayer.

Organisational capability risk

Organisational capability risk is the risk that NEST fails to recruit, develop and retain the appropriately skilled, motivated and engaged staff needed to deliver its strategy. NEST Corporation has been able to attract talented individuals who want to work with it to help millions enjoy a better retirement. If it fails to continue to do so it could face higher operating costs, increases in mistakes, errors and losses and the associated reputational consequences.

NEST Corporation's staff handbook, including its code of conduct, sets out the behaviours and standards it expects from all of its employees, along with the core policies and procedures that its staff should follow.

NEST Corporation has an induction process to ensure these expectations are understood at the outset of employment and they are reinforced through the performance management and appraisal process. The handbook is supported by a line manager's toolkit. Managers and staff are required to attend mandatory training relating to equality and diversity and complete e-learning modules relating to financial crime, information security and competition law. An annual staff engagement survey is conducted to gauge feeling across the workforce. NEST Corporation holds an annual staff conference to ensure core messages are communicated and understood by everyone at NEST Corporation along with quarterly town hall briefings.

Legislative and regulatory compliance risk

Legislative and regulatory compliance risk is the risk that NEST does not comply with its regulatory and legal obligations.

NEST Corporation and the scheme are required to comply with pension-specific legislation including the Pensions Act 2008 and The Pensions Regulator's codes of practice. NEST Corporation has a compliance and assurance function which undertakes an annual plan of assurance activity to monitor compliance with pensions legislation. The function also undertakes assurance activities over compliance with the Data Protection Act 2018, the General Data Protection Regulation (GDPR) and financial crime legislation. For further information about NEST's compliance with the GDPR, please see the 'Information Security and Data Protection' section on page 58.

Legislative and regulatory change risk

Legislative and regulatory change risk is the risk that legislative and regulatory changes, such as the Occupational Pension Schemes (Master Trust) Regulations 2018 and the General Data Protection Regulation (GDPR), impact on NEST's business model and require NEST to make changes to its processes and systems in an unplanned and ineffective way. Such changes may have to be prioritised over others that would benefit members.

NEST's ability to manage and respond effectively to legislative and regulatory change will prevent this from impacting on its members and will minimise associated costs. NEST continually scans the legislative, regulatory or policy landscape for potential change. This allows it to identify change early and plan ahead as far as possible, to manage and incorporate it into its systems and processes.

Changes to the external environment are primarily incorporated into the NEST product via a service release. These are carried out twice a year. There is a product roadmap which sets out the changes that NEST is likely to make over the next three years. This incorporates legal and regulatory change. NEST works alongside its scheme administrator to plan, design and build these changes into its software systems and processes.

Decumulation proposition risk

Decumulation proposition risk is the risk that NEST fails to deliver an appropriate range of solutions that meet the needs of members wishing to take money out of NEST at the point they retire.

NEST continues to work with policy makers, regulators and the wider industry to help find solutions which will meet the needs of its members both now and in the future. NEST continues to assess and monitor the needs of its members and make improvements to its retirement processes.

Whistleblowing

NEST has a whistleblowing policy which is published on its intranet.

The audit committee has reviewed the policy and procedures and is satisfied with the plan and the approach taken.

An external whistleblowing hotline service also enables employees to report concerns anonymously.

Any whistleblowing concerns are reported and discussed with the audit committee and NEST is satisfied that there is an effective framework in place to deal with staff whistleblowing.

Modern Slavery Act

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

Any commercial organisation in the UK with a turnover in excess of £36 million is required to produce a slavery and human trafficking statement, under section 54(9) of the Act. Although NEST Corporation does not exceed this turnover threshold, it publishes a statement in the interests of public transparency.

The NEST code of conduct sets out its organisational standards and the ethical principles that its employees are required to uphold. Its corporate responsibility statement (See Appendix two) reflects NEST Corporation's commitment to acting ethically and with integrity in all its business relationships. Further information can be found on the website.

In 2016 NEST Corporation carried out a risk-based assessment across the organisation to identify the impact of the MSA on its activities and supply chain, and the potential exposure to modern slavery and human trafficking activity.

NEST Corporation carried out a due diligence exercise, contacting its main suppliers to monitor their compliance with section 54 of the MSA by requesting, where applicable, a copy of their published MSA statements and to notify NEST of any actual or suspected breaches of modern slavery that have occurred within their organisations in the last 12 months.

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

Internal audit

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

EY 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 a public body and the Trustee of an occupational pension scheme. EY has provided the head of internal audit opinion for the period 2017/18.

Head of internal audit opinion

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

Compliance and assurance

The Compliance Assurance team (CAT) is responsible for monitoring compliance. It provides ongoing assurance to the chief executive officer and Trustee that NEST Corporation is compliant with internal controls, with statutory and regulatory requirements for pension schemes and monitors controls governing information security and financial crime prevention.

CAT follows an annual compliance plan that is agreed with the audit committee, and which covers provision of assurance against the internal control framework, regulation and legislation. It ensures that key risk activities are identified, and that sufficient monitoring is undertaken. The service management teams ensure that NEST receives adequate assurance from external providers where tasks are outsourced.

NEST Corporation will soon publish its fourth control assurance report against the AAF 02/07 master trust assurance framework, for the period 1 April 2017 to 31 March 2018. This framework, established by The Pensions Regulator and the Institute of Chartered Accountants of England and Wales (ICAEW), sets out a series of control objectives relating to governance and administration of master trust schemes. Trustees should be able to demonstrate that their schemes meet these objectives.

Members of the executive team provide an annual personal assurance statement to the chief executive officer relating to risk, governance and internal controls within their area of responsibility. This is in addition to external assurance reporting.

Owners of key policies also report on regulatory requirements, compliance obligations, monitoring processes and the management of key risks addressed in their policies. These statements are designed to highlight any significant internal control issues. In 2017/18 there were none.The Pension Schemes Act 2017 introduced significant changes to the governance requirements of master trust pension schemes. NEST Corporation will implement these regulations which are designed to protect the members of these schemes.

Information security and data protection

NEST Corporation is committed to supporting a secure electronic environment to conduct its business. It has a comprehensive information security management system (ISMS) that is certified against the International Standards Organisation (ISO) 27001:2013.

NEST Corporation also has a data protection policy, which sets out its approach to the protection of personal data and associated training. The policy has been updated to comply with the EU General Data Protection Regulation (GDPR) and other regulations designed to ensure the security and use of personal data. Recognising the impact of the new GDPR requirements, NEST Corporation has undertaken a full review of the data that it controls and processes, and has taken steps to ensure that all appropriate processes, for both scheme and Corporation data, are compliant with the new regulations. In addition, training on the new regulations has been delivered to the whole Corporation and we have engaged with suppliers who process personal data on our behalf.

As a public body, NEST Corporation has provided information on its management of information risk and compliance to the Department for Work and Pensions (DWP) Information Security and Assurance Report for the DWP senior information risk owner.

There have been no information and personal data breaches reported to the Information Commissioner's Office in 2017/18.

Complaints to the Parliamentary Ombudsman

There have been no complaints to the Parliamentary Ombudsman in 2017/18.

Business continuity

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

Regularity of expenditure (subject to audit)

There have been no individual losses or special payments over £300,000 in 2017/18 (2016/17: nil). Total losses and special payments do not exceed £300,000 in 2017/18 (2016/17:nil).

Remote contingent liabilities (subject to audit)

There are no remote contingent liabilities of which NEST Corporation is aware at the time of signing of the report and accounts.

Charges

There is no charge for employers to set up or use NEST. There is also no charge for delegates who are acting on behalf of an employer, for example a third party that the employer has asked to administer the scheme for them. NEST has the same charge for all members, no matter who their employer is, what their level of contributions is or which retirement fund they invest in. This charge is made up of two parts: a contribution charge of 1.8 per cent on the value of each new contribution into a member's pension pot and an annual management charge (AMC) of 0.3 per cent on the total value of a member's pension pot each year, which is reflected in the unit price.

Following the lifting of the restrictions on transfers in and out of NEST in April 2017, there are no specific charges applied to transfers in or out. Any funds transferred in will be subject to the ongoing 0.3 per cent annual management charge.

The Trustee also produces a value for members report in each year. This brings together information from investment reports and market data to assess the quality of service provided against the costs and charges applied to members[1].

1 **nestpensions.org.uk/schemeweb/NestWeb/includes/public/docs/value-for-money,PDF.pdf**

2.2 Remuneration and staff report

2.2.1 Remuneration policy

This report has been prepared in accordance with relevant Employer Pensions Notice (EPN); Treasury guidance and chapter 6 of the Companies Act 2006 and schedule 8 of SI 2008 No. 410 as interpreted for the public sector.

NEST's remuneration policy was implemented in July 2015 in line with civil service guidelines and a review of current market data supplied by external providers (Hay Korn Ferry and McLagan). The job architecture policy covered wider remuneration across the organisation at all levels up to non-executive director.

Its main objectives were:

- to review pay across the organisation
- to provide a transparent pay model and framework/governance for changes to remuneration for both managers and employees.

These disclosures relate to NEST Corporation Trustee Members and the chief executive officer. Those are the only individuals that make decisions spanning the entire organisation.

Otto Thoresen was appointed Chair of NEST Corporation by the Secretary of State for Work and Pensions. His appointment began on 1 February 2015. Under his terms of appointment he is required to commit to work 2.5 days a week for NEST. Tom Boardman was appointed deputy chair of NEST Corporation on 1 June 2014. Under his terms of appointment he was required to commit to 40 days a year. He retired from the Board on 31 May 2017.

All other NEST Corporation Trustee Members are required to commit to working for NEST for 30 days a year. Trustee Members are appointed by the Secretary of State for a period of initially between four to five years. In accordance with paragraph 7 of schedule 1 to the Pensions Act 2008, the remuneration of Trustee Members is determined by the Secretary of State. The terms of appointment allow for extra days to be remunerated on a pro-rata basis.

Up to November 2017 NEST Corporation's remuneration committee provided oversight, review and advice to the Trustee Members on remuneration of senior executives and staff. This committee was disbanded and a nominations and remuneration committee created, merging NEST Corporation's nominations and governance committee and remuneration committee. This was a response to a recommendation following an internal governance review. The new nominations and remuneration committee is now responsible for advising on the appropriateness of remuneration strategies and setting the remuneration of the chief executive officer.

A report on the activities of the committee and of the remuneration committee prior to the merger can be found in section 2.1.3.

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

- a job architecture and pay policy
- pension arrangements
- other benefits.

Performance-related pay

The chief executive officer approves the performance-based approach to reward. This recognises staff who perform well and contribute more.

For 2017/18 consolidated pay awards, NEST Corporation used 1 per cent of its overall salary bill to provide consolidated pay awards to its staff on a performance-related basis.

For 2017/18 non-consolidated pay, NEST Corporation allocated 2 per cent of its overall salary bill to provide non-consolidated awards to its staff. Additional caps in line with the Department for Work and Pensions (DWP) approach to senior civil service pay bands or equivalents were applied.

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.

Internal comparisons

The ratio between the median remuneration of NEST Corporation's staff and that of the chief investment officer, being the highest paid director, is 4.1 to 1 for 2017/18. In 2016/17 it was 4.2 to 1. For this comparison, total remuneration includes salary and benefits in kind as well as non-consolidated performance related bonuses. It does not include severance pay. It does not include employer pension contributions or the cash equivalent transfer value of pensions.

Pensions

NEST Corporation's active defined contribution pension arrangements comprises investment into the NEST pension scheme.

NEST Corporation renewed the Pension Quality Mark (PQM) Plus standard accreditation in March 2018. This demonstrates that NEST Corporation offers increased employer contributions for increased employee contributions.

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

Employees can increase their contributions as follows:

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

The chief executive officer is the only individual included in the remuneration disclosures to be a member of the NEST pension scheme.

Exit packages

There were eight redundancy payments in 2017/18, totaling £178,964 (2016/17: £1,437).

Redundancy and other departure costs are paid in accordance with the provisions of the Civil Service Compensation Scheme, a statutory scheme made under the Superannuation Act 1972. Exit costs are accounted for in full in the year of departure. Where NEST Corporation has agreed early retirements, the additional costs are met by NEST Corporation and not by the Civil Service Pension Scheme. Ill-health retirement costs are met by the pension scheme and are not included in the table. This table has been audited.

Exit package cost band	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band
<£10,000	4	N/A	4
£10,000 - £25,000	2	N/A	2
£25,000 - £50,000	1	N/A	1
£50,000 - £100,000	N/A	1	1
£100,000 - £150,000	N/A	N/A	N/A
£150,000 - £200,000	N/A	N/A	N/A
Total number of exit packages			8
Total cost	£178,964		

One ex-gratia payment was made to an individual who left NEST Corporation during the year. The amount paid was determined through communications with the Department for Work and Pensions (DWP) and with approval from HM Treasury.

Off payroll engagements

For all off-payroll engagements as of 31 March 2018, for more than £245 per day and that last for longer than 6 months:

Number of existing engagements as of 31 March 2018	**11**
Of which	
Number that have existed for less than one year at time of reporting	**8**
Number that have existed for between one and two years at time of reporting	**2**
Number that have existed for between two and three years at time of reporting	**0**
Number that have existed for between three and four years at time of reporting	**0**
Number that have existed for four or more years at time of reporting	**1**

For all new off-payroll engagements, or those that reached six months in duration, between 1 April 2017 and 31 March 2018, for more than £245 per day and that last for longer than six months:

Number of new engagements, or those that reached six months in duration, between 1 April 2017 and 31 March 2018	**9**
Of which	
Number assessed as caught by IR35	**8**
Number assessed as not caught by IR35	**1**
Of which	
Number engaged directly (via PSC contracted to department) and are on the departmental payroll	**0**
Number of engagements reassessed for consistency / assurance purposes during the year	**0**
Number of engagements that saw a change to IR35 status following the consistency review	**0**

Summary of staff costs for 2017/18

The information in the tables below has been audited.

	Year ended 31 March 2018 £000	Year ended 31 March 2017 £000
Directly employed staff		
Wages and salaries	15,525	14,412
Social security costs	1,830	1,680
Pension costs	1,105	1,067
Subtotal	**18,460**	**17,159**
Secondees	239	140
Interim staff	2,084	1,241
Total	**20,783**	**18,540**

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

	Year ended 31 March 2018	Year ended 31 March 2017
	Average full time equivalents	Average full time equivalents
Directly employed staff	240	233
Secondees	1	2
Interim staff	12	8
Total average number of staff	**253**	**243**

2.2.2 Other

Staff composition and gender analysis

The following table shows the total number and gender breakdown of the Trustee, executive team and all other staff at NEST as at 31 March 2018.

Title	Male	Female	Total
Trustee Members (inc Chair)	**6**	**4**	**10**
Executive board (inc CEO)	**8**	**1**	**9**
All other staff			
(Excluding executive board)	**130**	**119**	**249**
Total	**144**	**124**	**268**

Diversity

Overall, NEST Corporation's black, asian and minority ethnic (BAME) and gender diversity is strong, However, it is committed to promoting diversity in other characteristics such as disability.

Sickness absence

The average amount of time lost to sickness per employee in 2017/18 was 5.1 days compared to 7.0 days in 2016/17. The reduction is a result of more proactive management of sickness within NEST, and a change to sickness absence process. Staff policies are documented in the staff handbook and are available to all staff via NEST Corporation's intranet.

Staff policies

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

Women in Finance

NEST is committed to the Government's Women in Finance charter. Its aim is to improve gender balance across financial services.

Further details on its involvement are available on NEST's website.

NEST Corporation has until autumn 2019 to achieve its target of 30 per cent of executive and director roles held by women. As at 31 March 2018, it has achieved 24.1 per cent.

Further details of NEST Corporation's diversity and inclusion activities are available in Appendix two.

2.2.3 Remuneration tables

The information in the tables below has been audited.

	Contract details			2017/18						2016/17					
Name and Position	Contract start date	Unexpired term as at 31 March 2018	Notice period	Full-year equivalent salary and allowances (£000)	Salary and allowances paid (£000)[1]	Performance related payments (£000)[2]	Pension benefits (to nearest £1000)[6]	Taxable expenses (to nearest £100)[3]	Total (£000)	Full-year equivalent salary and allowances (£000)	Salary and allowances paid (£000)[1]	Performance related payments (£000)[2]	Pension benefits (to nearest £1000)[6]	Taxable expenses (to nearest £100)[3]	Total (£000)
Otto Thoresen Chair	01-Feb-15	1 years 10 months	6 months	90-95	90-95	0	0	10,700	100-105	90-95	90-95	-	-	4,900	95-100
Tom Boardman Deputy chairman	01-Jun-14	Contract expired 31/05/17	n/a	25-30	0-5	0	0	0	0-5	25-30	25-30	-	-	0	25-30
Iraj Amiri Trustee Member	20-Jun-11	1 year 3 months	3 months	15-20	15-20	0	0	6,100	25-30	15-20	15-20	-	-	5,200	20-25
Ian Armfield Trustee Member	01-Apr-14	3 months	3 months	20-25	20-25	0	0	0	20-25	20-25	20-25	-	-	0	20-25
Carolan Dobson Trustee Member	01-Apr-14	3 months	3 months	20-25	20-25	0	0	4,000	20-25	20-25	20-25	-	-	4,600	20-25
Karen Silcock Trustee Member	01-Apr-14	Resigned 10/10/17	n/a	20-25	5-10	0	0	700	5-10	20-25	20-25	-	-	1,800	20-25
Graham Berville Trustee Member	01-Jun-14	3 months	3 months	20-25	20-25	0	0	5,200	25-30	20-25	20-25	-	-	5,800	25-30
Sally Bridgeland Trustee Member	01-Apr-15	1 year 3 months	3 months	15-20	15-20	0	0	0	15-20	15-20	15-20	-	-	0	15-20
Caroline Rookes Trustee Member	01-Apr-15	1 year 3 months	3 months	15-20	15-20	0	0	0	15-20	15-20	15-20	-	-	0	15-20
Jill Youds Trustee Member	01-Apr-15	1 year 3 months	3 months	15-20	15-20	0	0	6,400	25-30	15-20	15-20	-	-	4,900	20-25
Ron Jarman Trustee Member	01-Jul-16	3 years 3 months	3 months	15-20	15-20	0	0	0	15-20	15-20	10-15	-	-	0	10-15
Tomas Carruthers Trustee Member	01-Jul-16	3 years 3 months	3 months	15-20	15-20	0	0	0	15-20	15-20	10-15	-	-	0	10-15
Helen Dean Chief executive	21-Sep-15	Permanent contract	6 months	220-225	220-225	15-20	7,000	0	245-250	210-215	210-215	10-15	21,000	0	240-245

	2017/18	2016/17
Midpoint of banding of highest paid director's total remuneration excluding pension benefits (£)	237,500	222,500
Median total remuneration (£)	57,262	52,500
Ratio[4]	4.1	4.2

Helen Dean
Chief executive and accounting officer
NEST Corporation
28 June 2018

Notes

1. Trustee Members' terms of engagement allows them to claim for time in excess of their contractual obligation. No excess time was claimed
2. The Trustee Members do not receive any performance related payments.
3. Taxable expenses relate to travel and subsistence.
4. The ratio has decreased by 0.1%, compared to 2016/17, primarily due to a rise in the median remuneration. The median remuneration has increased due to the recruitment of specialist staff to aid in the procurement of our next scheme administration service.
5. In 2017/18, 1 (2016/17: 2) employee received remuneration in excess of the highest-paid director. Remuneration ranged from £23,000 to £255,000 (2016/17: £25,000 to £245,000).
6. Pension benefits comprise employer contributions into the NEST Corporation defined contribution scheme.

2.3 Parliamentary accountability and audit report

THE CERTIFICATE AND REPORT 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 (NEST) Corporation for the year ended 31 March 2018 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, including the significant accounting policies. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Accountability Report that is described in that report as having been audited.

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 2018 and of net expenditure for the year then ended; and
- the financial statements have been properly prepared in accordance with the Pensions Act 2008 and Secretary of State directions issued thereunder.

Opinion on regularity

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

Basis of opinions

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

Responsibilities of the Corporation and accounting officer for the financial statements

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.

Auditor's responsibilities for the audit of the financial statements

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

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

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

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the National Employment Savings Trust Corporation's internal control.

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the National Employment Savings Trust Corporation's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.

- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

Other Information

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

Opinion on other matters

In my opinion:

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

Matters on which I report by exception

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

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

Report

I have no observations to make on these financial statements.

Sir Amyas C E Morse
5 July 2018

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

Chapter three

Financial statements

3 NEST Corporation financial statements

National Employment Savings Trust Corporation
Statement of comprehensive net expenditure

for the year ended 31 March 2018

	Note	Year ended 31 March 2018 £000	Year ended 31 March 2017 £000
Expenditure			
Staff costs	2a	20,783	18,540
Depreciation and amortisation	3	10,898	10,886
Other expenditure	3	75,356	61,362
		107,037	**90,788**
Income			
Grant income	4	(20,046)	(17,700)
Other income	5	(42,650)	(15,197)
Net expenditure		**44,341**	**57,891**
Interest payable	6	32,159	29,087
Net expenditure after interest deducted from general reserve		**76,500**	**86,978**
Other comprehensive net expenditure			
Net gain on revaluation of non-current intangible assets	8	(152)	(1,581)
Release from lease incentive reserve	3	77	73
Total comprehensive expenditure for the period		**76,425**	**85,470**

All income and expenditure is derived from continuing operations.
The accounting policies and notes on pages 78 to 103 form part of these financial statements.

National Employment Savings Trust Corporation
Statement of financial position
as at 31 March 2018

		As at 31 March 2018 £000	As at 31 March 2017 £000
Non-current assets	Note		
Property, plant and equipment	7	9,854	6,809
Intangible assets	8	40,736	39,139
Prepayments: amounts falling due over one year	9a	3,933	6,627
Total non-current assets		**54,523**	**52,575**
Current assets			
Trade and other receivables	9b	16,815	14,367
Other current assets	9c	53	63
Cash and cash equivalents	10	12,935	5,346
Total current assets		**29,803**	**19,776**
Total assets		**84,326**	**72,351**
Current liabilities			
Interest payable	11a	(14,582)	(13,337)
Trade and other payables	11b	(13,238)	(8,519)
Other liabilities	11c	(2,109)	(1,614)
Provisions for liabilities and charges	13	(1,303)	-
Total current liabilities		**(31,232)**	**(23,470)**
Non-current assets plus net current assets		**53,094**	**48,881**
Non-current liabilities			
DWP loan	12	(622,747)	(539,147)
Other liabilities	12	(6,248)	(8,327)
Provisions for liabilities and charges	13	-	(883)
Total non-current liabilities		**(628,995)**	**(548,357)**
Assets less liabilities		**(575,901)**	**(499,476)**
Taxpayers' equity			
General reserve		(579,001)	(502,501)
Revaluation reserve		3,068	2,916
Lease incentive reserve		32	109
Total taxpayers' equity		**(575,901)**	**(499,476)**

The financial statements, including the accounting policies and notes, on pages 78 to 103 were approved by the Trustee on 26 June 2018.

Helen Dean, chief executive officer & accounting officer
28 June 2018
The accounting policies and notes on pages 78 to 103 form part of these financial statements.

National Employment Savings Trust Corporation Statement of cash flows

for the year ended 31 March 2018

		Year ended 31 March 2018 £000	Year ended 31 March 2017 £000
Cash flows from operating activities	Note		
Expenditure	2a, 3	(107,037)	(90,788)
Other income	5	42,650	15,197
Grant income for non-chargeable costs	4	407	450
Adjustment for non-cash items	21	8,815	13,347
Increase in trade and other receivables	9	(5,221)	(1,422)
Increase in trade and other payables	11	6,544	3,038
Increase in provisions	13	420	300
Net cash outflow from operating activities		**(53,422)**	**(59,878)**
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets	21	(747)	(30)
Payments towards imputed lease liability of TCS assets	21	(9,322)	(10,045)
Net cash outflow from investing activities		**(10,069)**	**(10,075)**
Cash flows from financing activities			
Loan interest	6	(32,159)	(29,087)
Public service obligation offset	4	19,639	17,250
Loan received from parent department	12	83,600	79,500
Net cash inflow from financing activities		**71,080**	**67,663**
Net increase/(decrease) in cash and cash equivalents in the period	10	**7,589**	**(2,290)**
Cash and cash equivalents at the beginning of the period	10	5,346	7,636
Cash and cash equivalents at the end of the period	10	**12,935**	**5,346**

In the Statement of cash flows the amounts related to loan interest and the public service obligation offset have been reclassified from cash flows relating to operating activities, to cash flows relating to financing activities. The reason for the reclassification is that these headings better reflect the nature of the cash flows. Amounts reclassified in the comparative figures can be seen in the Statement of cash flows.

The accounting policies and notes on pages 78 to 103 form part of these financial statements.

National Employment Savings Trust Corporation Statement of changes in taxpayers' equity

for the year ended 31 March 2018

	Lease incentive reserve £000	Revaluation reserve £000	General fund £000	Total reserves £000
Total taxpayers' equity as at 1 April 2016	182	1,335	(415,523)	(414,006)
Changes in taxpayers' equity 2016/17				
Release of reserves to the statement of comprehensive net expenditure	(73)	-	-	(73)
Net gain on revaluation of non-current assets	-	1,581	-	1,581
Net expenditure after interest	-	-	(86,978)	(86,978)
Total charges for 2016/17	**(73)**	**1,581**	**(86,978)**	**(85,470)**
Total taxpayers' equity as at 31 March 2017	**109**	**2,916**	**(502,501)**	**(499,476)**
Changes in taxpayers' equity 2017/18				
Release of reserves to the statement of comprehensive net expenditure	(77)	-	-	(77)
Net gain on revaluation of non-current assets	-	152	-	152
Net expenditure after interest	-	-	(76,500)	(76,500)
Total charges for 2017/18	**(77)**	**152**	**(76,500)**	**(76,425)**
Total taxpayers' equity as at 31 March 2018	**32**	**3,068**	**(579,001)**	**(575,901)**

The accounting policies and notes on pages 78 to 103 form part of these financial statements.

Notes to the financial statements

1 Statement of accounting policies

These financial statements have been prepared in accordance with the 2017/18 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. NEST Corporation is required, under the Pensions Act 2008, to prepare its accounts for the year ended 31 March 2018, 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 and the Trustee of NEST; NEST's Pension Scheme accounts are prepared separately.

1.1 Basis of preparation

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

1.2 Going concern

NEST Corporation was established in 2010 to ensure the smooth running of the NEST pension scheme. The financing of the 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, the corporation signed a loan agreement with the 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. There is a further statement on going concern included in Chapter 1, The Performance Report: 1.5 Principal risks and uncertainties. It has been concluded as appropriate to adopt a going concern basis of preperation for these accounts.

1.3 Changes in accounting policy and disclosures

a) Changes in accounting policies

There have been no changes to accounting policies.

b) New and amended standards adopted

There have been no new nor amended standards adopted from 1 April 2017 to 31 March 2018.

c) New standards, amendments and interpretations issued but not effective for the financial year beginning 1 April 2017 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.

IFRS 9: Financial instruments

Effective 1 January 2018 (financial year 2018/19): IFRS 9 (replaces IAS 39) aims to simplify financial instrument accounting and more closely align accounting and practices with how instruments are used in the business specifically around classification, measurement and impairments. There will be no material impact to the financial statements as the Corporation does not have any material trade receivables, hedges nor loan receivable.

IFRS 15: Revenue from contracts with customers

Effective 1 January 2018 (financial year 2018/19): IFRS 15 aims to replace a significant amount of existing guidance and reduce inconsistencies by setting a new principles-based standard. The step by step process in IFRS 15 involves identifying contractual performance obligations, allocating the transaction price to those obligations, and recognising revenue only when those obligations are satisfied. While this may affect future research revenue contracts, these contracts are not forecast to be high value.

IFRS 16: Leases

Effective 1 January 2019 (financial year 2019/20): IFRS 16 eliminates the operating/finance lease distinction and imposes a single model geared towards the recognition of all but low-value or short term (<£12 million) leases. These will now be recognised on the statement of financial position (SoFP) as a 'right of use' asset and lease liability. The lease liability will be measured at initial recognition as the value of future lease payments, with the asset additionally including any initial direct costs incurred by the lessee, plus an estimate of any dismantling/restoration costs. Subsequent measurement of both asset and liability will need to respond to any changes in lease terms, and the accounting for the asset can be on a cost less depreciation and impairment model or a revaluation (fair value) model. NEST Corporation will recognise a 'right of use' asset and related liability for the remaining commitment on lease arrangement for the rented office space at Canary Wharf.

1.4 Accounting estimates and judgements

The development, selection and disclosure of significant accounting estimates and judgements and the application of these estimates and judgements has been discussed and agreed with NEST's audit committee. Below are the significant accounting estimates and judgements:

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

Service concession arrangement

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

1.4 b) Critical accounting estimates and assumptions

Revaluation of intangible assets

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

Scheme software and Corporation software licences

Management believe there is no accurate currently available software licences index or trend information on the specific licences held by NEST Corporation. As the next best alternative, the index seen as most appropriate in achieving the requirement of IAS 38 and the FReM to establish a suitable proxy for fair value is JV5(a): Computers and peripheral equipment, as although it 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 the best available proxy to establish fair value for IT-related assets.

Asset refresh prepayment

NEST has adopted the 'prepayment lifecycle approach', which means that a portion of the monthly scheme administration charge paid to TCS is set aside as a prepayment to fund future replacement assets within the life of the scheme administration services contract. The rate at which the assets are replaced is assessed annually and where the carrying amount of the prepayment is greater than the estimated total of the future assets to be refreshed the prepayment is impaired. If, conversely, where the carrying amount is lower, the prospective amounts set aside in future years are adjusted to reflect the changes in estimate. The value of assets to be refreshed over the remainder of the scheme administration services contract (i.e. to June 2023) is an estimate, based on the latest available, reliable information provided by TCS.

1.5 Employee benefits

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

1.6 Pension costs

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

Up to April 2017 NEST operated a top-up DC scheme with Aviva for employees wishing to contribute more than NEST's previous annual contribution limits, which were lifted in April 2017.

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

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

1.7 Value Added Tax (VAT)

In 2014 the European Court of Justice ruling in the ATP (Danish pension fund) case concluded that for VAT purposes DC pension schemes with certain characteristics should be treated as a 'Special Investment Fund' and therefore all costs associated with the management of those funds should be exempt from VAT. Consequently NEST Corporation should be treated as a Special Investment Fund and all UK based scheme administration services (provided by TCS), investment funds administration (provided by State Street) and fund managers fees are now treated as exempt from VAT. In 2017/18 the Corporation received a historical reclaim of VAT for its fund administration charges, and the reclaim has been classified as income.

In 2017/18 NEST Corporation received a new revenue stream to help fund its pension research (NEST Insight), and as a result has registered for VAT with effect October 2017, as it is expected to have a turnover in excess of £85,000. The revenue and expenses related to this research will be vatable, however the rest of the Corporation's revenue and cost activities are classified as either exempt of VAT or out of scope of VAT.

1.8 Income

Income is reflected in the Statement of Comprehensive Net 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 0.3 per cent of assets under management. This income to NEST Corporation 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 the Department of work and pensions (DWP).

Following NEST's classification as a public corporation, the grant received from DWP is treated as income, rather than financing.

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

NEST Corporation pays a commercial rate of interest on the loans to the DWP. It also receives from the DWP a grant sufficient, in effect, to reduce the interest payable on the loans from the commercial rate to the government rate of borrowing. This grant income is allowable under a ruling from the European Commission in July 2010. The grant is treated as income and accounted for on an accruals basis and known as the public service obligation offset payment.

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

In 2017/18 the Corporation received a historical reclaim of VAT for its fund administration charges, which are now classified as exempt (See note 1.7). The reclaim has been classified as income as it meets the recognition criteria prescribed in IAS 18 Income rather than a credit to the expenditure that generated them.

1.9 Loan funding from DWP

Loan funding is provided by the DWP to meet the scheme implementation and running costs until the scheme reaches a suitable scale for the Corporation to be self-funding. Interest is charged at a commercial rate and is determined by the interest rate prevailing at the time of each drawdown. Interest payments are made twice a year in April and October and the principal will be repaid on a series of repayment dates commencing 21 October 2020, as set out in the loan agreement signed in 2010. Work with the DWP is progressing to agree future funding arrangements from June 2020.

1.10 Property, plant and equipment

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

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

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

1.11 Intangible assets

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

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

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

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

1.12 Depreciation

Depreciation is charged on property, plant and equipment using the straight-line method as this reflects the expected pattern of consumption of economic benefits. The rates used are calculated to write down each asset to its estimated residual value over its expected useful life, as follows:

- furniture and fittings: 2 to 5 years
- information technology and telecoms equipment: 3 to 5 years
- scheme administration IT hardware assets are expected to be replaced after 5 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.

1.13 Amortisation

Amortisation is calculated on intangible assets using the straight-line method as this reflects the expected pattern of consumption of economic benefits.

The rates used are calculated to write down each asset to its estimated residual value over its expected useful life, as follows:

- software licences: 3 to 5 years or period remaining on licence if less than 3 years
- scheme software licences used by Tata Consulting Services (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 - 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.

1.14 Revaluation and impairment of non-current assets

NEST Corporation carries out an annual valuation review of its non-current intangible assets. Increases in value are credited to a revaluation reserve. Downwards revaluations of revalued assets that do not result from a clear consumption of economic benefits are debited to the revaluation reserve up to the level of depreciated historical cost. Any excess downwards revaluation is charged to the Statement of Comprehensive Net Expenditure.

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 reserve to ensure consistency with IAS 36: Impairment of assets.

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

1.15 Financial instruments

Recognition

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

De-recognition

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

Classification and measurement – financial assets

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

Loans and receivables

Loans and receivables comprise trade receivables, other receivables and loans that have fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially recognised at fair value and are subsequently measured at amortised cost.

Impairment of financial assets

At the end of each reporting period, NEST Corporation assesses whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred if there is:

- objective evidence of impairment as a result of a loss event that occurred after the initial recognition of the asset and up to the end of the reporting period
- the loss event had an impact on the estimated future cash flows of the financial asset or the group of financial assets
- a reliable estimate of the amount can be made.

Classification and measurement – financial liabilities

NEST Corporation has one category of financial liability:

Other financial liabilities

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

1.16 Provisions for liabilities and charges

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

1.17 Leases

Payments in relation to operating leases are charged to the Statement of Comprehensive Net Expenditure on the basis of rentals payable in the year.

NEST Corporation has one finance lease as set out under Service Concession Arrangements, see note 1.19 below.

Payments in relation to lease premiums are recognised as an asset in accordance with IAS 17 and amortised on a straight-line basis over the remaining term of the lease and credited to the Statement of Comprehensive Net Expenditure.

1.18 Operating segments

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

1.19 Service concession arrangements

Service concession arrangements are accounted for in accordance with IFRIC 12, as adapted for the public sector context by the FReM. Where NEST Corporation controls the services provided and retains a significant residual interest in the asset, the asset is recognised on NEST Corporation's Statement of Financial Position.

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

2 Staff costs

a) Staff costs

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

	Year ended 31 March 2018 £000	Year ended 31 March 2017 £000
Directly employed staff		
Wages and salaries	15,525	14,412
Social security costs	1,830	1,680
Pension costs	1,105	1,067
Subtotal	**18,460**	**17,159**
Secondees	239	140
Interim staff	2,084	1,241
Total	**20,783**	**18,540**

b) Pension arrangements

NEST Corporation operates one defined contribution pension scheme for its directly employed staff. There were 234 workers in this pension scheme as at 31 March 2018 (31 March 2017: 215).

NEST Corporation recognises the employer's costs in the period to which they relate. At 31 March 2018 there was one month's contributions outstanding amounting to £154k (31 March 2017: £137k).

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

Further staffing details are analysed in section 2.2.1

3 Depreciation, amortisation and other expenditure

	Note	Year ended 31 March 2018 £000	Year ended 31 March 2017 £000
Depreciation and amortisation	7,8	**10,898**	**10,886**
Other expenditure			
Scheme administration expenses		57,065	43,545
Information technology and telecoms equipment		3,256	3,213
Research, marketing and communications		3,026	3,440
Scheme investment costs		2,815	1,579
Professional fees and advice		2,206	1,307
Rentals under operating leases		1,865	1,565
Accommodation		1,700	1,178
Recruitment and other staff costs		1,176	946
Legal fees and expenses		828	453
Movements in property repair provisions in the year	13	420	300
Insurance		347	73
Business travel		247	214
Industry engagement		130	102
Auditor's remuneration - statutory audit - scheme		90	72
Auditor's remuneration - statutory audit - corporation		83	83
Loss on disposal of non-current assets	7,8	5	63
Impairment of scheme assets	7,8	-	3,157
Release of lease incentive reserve		(77)	(73)
Other running costs		174	145
Sub total		**75,356**	**61,362**
Total		**86,254**	**72,248**

Of the £83,000 Corporation audit remuneration, the cost for the work performed by the National Audit Office (NAO) as part of the statutory audit is £80,000 (2016/17: £80,000). £3,000 is for an information security management system audit which was not conducted by the NAO.

Scheme administration expenses shown here are exclusive of £0.6 million (2016/17: £0.4 million) set aside for asset refresh prepayment in 2017/18.

4 Grant income

	Year ended 31 March 2018 £000	Year ended 31 March 2017 £000
Grant income for non-chargeable costs	407	450
Public service obligation offset payment	19,639	17,250
Total	**20,046**	**17,700**

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 is due from DWP which has the effect of reducing the cost of servicing the loan to the government cost of borrowing. This offset payment is received on the date of the first loan interest payment

5 Other income

	Year ended 31 March 2018 £000	Year ended 31 March 2017 £000
Interest received and receivable	20	10
Sponsorship and research revenue receivable	121	-
VAT recovery	16,905	-
Members' contribution and annual management charge	25,604	15,187
Total	**42,650**	**15,197**

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 on invested contributions from members of NEST pension scheme and the 0.3 per cent annual management charge on the value of NEST pension scheme investments under management.

The sponsorship and research revenue receivable is revenue to partly fund NEST's pension research (NEST Insight).

In 2014 the European Court of Justice ruling in the ATP case concluded that for VAT purposes DC pension schemes with certain characteristics should be treated as a 'Special Investment Fund' and therefore all costs associated with the management of those funds should be exempt from VAT. NEST Corporation concluded it should be treated as a Special Investment

Fund and all UK based scheme administration Services provided by Tata Consultancy Services (TCS) be treated as exempt from VAT.

In 2017/18 NEST has recovered from HMRC all VAT paid in respect of services provided to NEST by TCS for the period commencing four years prior to the submission of the first claim in October 2014 (i.e. from October 2010) to the date TCS ceased charging VAT (i.e. to 30 November 2016). The total amount of the claim amounted to £16.9m.

6 Interest payable

	Year ended 31 March 2018 £000	Year ended 31 March 2017 £000
Loan interest paid and payable	32,159	29,087
Total	**32,159**	**29,087**

Interest payable relates to interest charged on balances outstanding on the loan from DWP (see note 12). NEST's weighted average cost of capital (WACC) is the effective cumulative interest rate on the loan from DWP. Under the terms of the loan agreement, NEST borrows at a fixed commercial rate of interest prevailing at the time of each drawdown. NEST receives a grant from DWP (Public Service Obligation Offset Payment) which effectively reduces the rate to the government borrowing rate. The cumulative WACC up to 31 March 2018, net of the grant, is 2.63 per cent (2016/17: 2.73 per cent).

7 Property, plant and equipment

NEST Corporation's property, plant and equipment assets comprise of furniture & fittings, and information technology are used directly by NEST employees. Purchased scheme hardware is used by TCS for scheme administration.

2017/18	Furniture & fittings £000	Information technology* £000	Scheme hardware £000	Total £000
Cost				
As at 1 April 2017	276	2,444	19,969	22,689
Additions	14	532	5,747	6,293
Disposals	(46)	(441)	(4,245)	(4,732)
As at 31 March 2018	**244**	**2,535**	**21,471**	**24,250**
Depreciation				
As at 1 April 2017	(194)	(1,948)	(13,738)	(15,880)
Charged in period	(48)	(364)	(2,831)	(3,243)
Disposals	44	439	4,244	4,727
As at 31 March 2018	**(198)**	**(1,873)**	**(12,325)**	**(14,396)**
Net book value at 31 March 2018	**46**	**662**	**9,146**	**9,854**
Net book value at 31 March 2017	**82**	**496**	**6,231**	**6,809**
Asset financing:				
Owned	46	662	9,146	9,854
Net book value at 31 March 2018	**46**	**662**	**9,146**	**9,854**

2016/17	Furniture & fittings £000	Information technology* £000	Scheme hardware £000	Total £000
Cost				
As at 1 April 2016	280	2,962	21,544	24,786
Additions	-	30	2,791	2,821
Impairments	-	-	(3,436)	(3,436)
Disposals	(4)	(548)	(930)	(1,482)
As at 31 March 2017	**276**	**2,444**	**19,969**	**22,689**
Depreciation				
As at 1 April 2016	(148)	(2,108)	(13,980)	(16,236)
Charged in period	(49)	(352)	(3,126)	(3,527)
Impairments	-	-	2,438	2,438
Disposals	3	512	930	1,445
As at 31 March 2017	**(194)**	**(1,948)**	**(13,738)**	**(15,880)**
Net book value at 31 March 2017	**82**	**496**	**6,231**	**6,809**
Net book value at 31 March 2016	**132**	**854**	**7,564**	**8,550**
Asset financing:				
Owned	82	496	6,231	6,809
Net book value at 31 March 2017	**82**	**496**	**6,231**	**6,809**

*Information technology includes telecoms equipment.

8 Intangible assets

NEST Corporation's intangible assets comprise of 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.

2017/18	Note	Corporation software licences £000	Scheme software licences £000	Scheme developed software £000	Total £000
Cost					
As at 1 April 2017		1,175	28,691	54,216	84,082
Additions		201	4,366	4,533	9,100
Impairments		-	-	-	-
Disposals		(251)	(1,336)	-	(1,587)
Revaluation	a	4	199	1,309	1,512
As at 31 March 2018		**1,129**	**31,920**	**60,058**	**93,107**
Amortisation					
As at 1 April 2017		(1,162)	(20,623)	(23,158)	(44,943)
Charged in period		(77)	(2,723)	(4,855)	(7,655)
Impairments		-	-	-	-
Disposals		251	1,336	-	1,587
Revaluation	a	(1)	(245)	(1,114)	(1,360)
As at 31 March 2018		**(989)**	**(22,255)**	**(29,127)**	**(52,371)**
Net book value at 31 March 2018		**140**	**9,665**	**30,931**	**40,736**
Net book value at 31 March 2017		**13**	**8,068**	**31,058**	**39,139**

2016/17	Note	Corporation software licences £000	Scheme software licences £000	Scheme developed software £000	Total £000
Cost					
As at 1 April 2016		1,216	28,817	50,192	80,225
Additions		-	2,593	5,138	7,731
Impairments		-	(3,220)	(3,956)	(7,176)
Disposals	a	(109)	(788)	-	(897)
Revaluation		68	1,289	2,842	4,199
As at 31 March 2017		**1,175**	**28,691**	**54,216**	**84,082**
Amortisation					
As at 1 April 2016		(1,156)	(19,781)	(19,293)	(40,230)
Charged in period		(47)	(2,930)	(4,382)	(7,359)
Impairments		-	2,458	1,935	4,393
Disposals	a	109	762	-	871
Revaluation		(68)	(1,132)	(1,418)	(2,618)
As at 31 March 2017		**(1,162)**	**(20,623)**	**(23,158)**	**(44,943)**
Net book value at 31 March 2017		**13**	**8,068**	**31,058**	**39,139**
Net book value at 31 March 2016		**60**	**9,036**	**30,899**	**39,995**

a. Intangible assets were revalued to fair value by applying an appropriate Office of National Statistics index. The revaluation or devaluation gain or charge reflects movements in the index since the date the licences were purchased or the software development recognised as an intangible asset.

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

	As at 31 March 2018 £000	As at 31 March 2017 £000
a) Amounts falling due over one year		
Lease premium London property	3,923	-
Prepayments in respect of asset refresh	-	6,611
Prepayments	10	16
	3,933	**6,627**
b) Amounts falling due within one year		
Advance payments to TCS	-	2,000
Accrued income public sector obligation offset payment	8,950	7,988
Accrued grant income for non-chargeable costs	211	215
Lease premium London property	292	-
Prepayments in respect of asset refresh	5,900	2,766
Other prepayments and accrued income	1,462	1,398
	16,815	**14,367**
c) Other current assets		
Staff loans	53	63
	53	**63**

Included in the prepayments is £5.9 million (2016/17: £11.4 million) of prepayments for scheme administration services made up of £0 million (2016/17: £2.0 million) for advance payments to TCS relating to the scheme build and £5.9 million (2016/17: £9.4 million) for amounts set aside from service charges to fund future asset replacement. It is estimated that £12.2 million of scheme replacement hardware and software will be funded out of this prepayment and an additional amount to be set aside from future scheme administration services payments between April 2018 and June 2023. As this is a management estimate, reassessed annually, the set aside is not built up evenly over the life of the scheme administration services contract.

A lease premium has been recognised for advanced payments made to the landlord of the property the Corporation will be relocating to in 2018/19.

10 Cash and cash equivalents

	Year ended 31 March 2018 £000	Year ended 31 March 2017 £000
Opening balance	5,346	7,636
Net change in cash balances	7,589	(2,290)
Balance at end of year	**12,935**	**5,346**

11 Current liabilities

	As at 31 March 2018 £000	As at 31 March 2017 £000
a) Interest payable		
Accrued interest payable to DWP	14,582	13,337
	14,582	**13,337**
b) Trade and other payables		
Trade payables	488	219
Accruals	12,750	8,300
	13,238	**8,519**
c) Other liabilities		
Other taxation and social security	585	22
Pension costs liability	154	137
Imputed finance lease element of TCS assets	1,370	1,455
	2,109	**1,614**
Total	**29,929**	**23,470**

12 Non-current liabilities

	As at 31 March 2018 £000	As at 31 March 2017 £000
DWP loan	622,747	539,147
Imputed finance lease element of TCS assets	6,248	8,327
Total	**628,995**	**547,474**

Loan funding from DWP is provided to meet the scheme implementation and running costs and will subsequently be repaid from charges levied on scheme members. The interest rate on each loan drawdown is determined by the interest rate prevailing at the time of taking out the loan. At 31 March 2018, the weighted cost of capital on loan funding was 2.63 per cent (31 March 2017: 2.73 per cent) (see note 6). Interest on loans is payable in April and October each year. The loan principals fall due for settlement on a series of repayment dates commencing 21 October 2020.

In total, an imputed finance lease of £7.6 million (2016/17: £9.8 million) has been recognised, mainly reflecting the shortfall between the scheme administration assets recognised and cash payments made to TCS.

13 Provisions for liabilities and charges

	Note	Year ended 31 March 2018 £000	Year ended 31 March 2017 £000
Balance at 1 April 2017		883	583
Provided in the year	3	420	300
Balance as at 31 March 2018		**1,303**	**883**
Classified as:			
Amounts falling due within one year		1,303	-
Amounts falling due over one year		-	883
		1,303	**883**

The provision of £1,303,000 (2016/17: £883,000) relates to property repairing liabilities for Riverside House which NEST Corporation will exit in August 2018.

14 Capital and other financial commitments

a) Capital and other financial commitments

	As at 31 March 2018 £000	As at 31 March 2017 £000
Contracted financial commitments at 31 March 2018 not otherwise included in these financial statements	90	670
Balance	**90**	**670**

The contracted commitment relates to a five year contract for banking services ending in December 2018.

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

b) Commitments under service concession arrangements reflected in the Statement of Financial Position

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

In December 2015 NEST Corporation signed a three year contract extension with TCS for scheme administration, extending the commitment from 2020 to 2023.

Total obligations under service concession arrangements reflected in the SoFP for the following periods comprise:	As at 31 March 2018 £000	As at 31 March 2017 £000
Not later than one year	67,460	56,783
Later than one year and not later than five years	338,099	318,671
Later than five years	26,191	122,376
Total gross obligation	**431,750**	**497,830**
Less interest element discount	(25,146)	(37,395)
Present value of obligations	**406,604**	**460,435**

Present value of obligations under service concession arrangements reflected in the SoFP for the following periods comprise:	As at 31 March 2018 £000	As at 31 March 2017 £000
Not later than one year	67,460	56,783
Later than one year and not later than five years	316,141	297,250
Later than five years	23,003	106,402
Total present value of obligations	**406,604**	**460,435**

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

The total amount charged to the Statement of Comprehensive Net Expenditure in 2017/18 in respect of the service element of this service concession was £57.1 million (2016/17: £43.5 million) and the payments to which NEST Corporation is committed (subject to the conditions of the contract, particularly volume levels) is as follows:

	As at 31 March 2018 £000	As at 31 March 2017 £000
Not later than one year	61,492	47,984
Later than one year and not later than five years	329,715	302,971
Later than five years	25,802	120,245
Total	**417,009**	**471,200**

15 Commitments under leases

Operating leases

	As at 31 March 2018 £000	As at 31 March 2017 £000
Future minimum lease payments comprise:		
Buildings		
Within one year	4,362	2,450
Between one year and five years	12,907	1,253
Over 5 years	36,910	-
Total	**54,179**	**3,703**

In May 2018 NEST finalised and exchanged a lease with the Cabinet Office to occupy part of a newly fitted building in South Colonnade, Canary Wharf. The prescribed term for the lease concludes in June 2032 and there is no break clause.

The future minimum lease payments represent a lease for NEST Corporation's offices at Riverside House from the 1st April to the 24th August 2018 and a building at South Colonnade from the 10th May 2018 to 27th June 2032.

16 Financial instruments

	Note	As at 31 March 2018 £000	As at 31 March 2017 £000
Financial assets			
Cash and cash equivalents	10	12,935	5,346
Staff loans	9	53	63
Total		**12,988**	**5,409**

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

	Note	As at 31 March 2018 £000	As at 31 March 2017 £000
Financial liabilities			
Trade payables	11	488	219
Accruals	11	27,332	21,637
Total		**27,820**	**21,856**

The above figures exclude statutory payables and imputed finance lease elements.

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

NEST Corporation has no exposure to foreign currency risk at the period-end date (2016/17: nil).

NEST Corporation has no exposure to interest rate risk for current loans as the rates are fixed.

The net book value of NEST Corporation's financial assets and liabilities as at 31 March 2018 and 31 March 2017 are not materially different from their fair values.

17 Contingent liabilities disclosed under IAS 37

There are no contingent liabilities to disclose.

18 Contingent assets disclosed under IAS 37

There are no contingent assets to disclose for 2017/18.
In 2016/17 NEST disclosed a contingent asset of between £15 million to £20 million with the most likely settlement being £16.9 million. In September and October 2017 NEST received a total of £16.9 million being the final total of all VAT recovered.

19 Losses and special payments

There are neither losses nor special payments to disclose for 2017/18 nor 2016/17.

20 Related-party transactions

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

	Note	Year ended 31 March 2018 £000		Year ended 31 March 2017 £000	
		Income	Expenditure	Income	Expenditure
Loan funding and repayment	12	83,600	-	79,500	-
Loan interest	6	-	32,159	-	29,087
Other transactions	4	20,046	3,384	17,700	2,931
Total		**103,646**	**35,543**	**97,200**	**32,018**

At 31 March 2018 excluding the liability to repay the loan which does not come into effect for more than 12 months, NEST Corporation had £14.8 million outstanding liability with DWP (2016/17: £13.4 million).

This relationship with DWP includes provision to NEST Corporation of:

a) loan funding

b) public service obligation offset payments and grant income

c) property operating lease and secondees.

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 period NEST Corporation received income from the NEST Pension Scheme of £25.6 million (2016/17: £15.2 million) see note 5 for details. At the year end, NEST Corporation's accrued income balances with NEST Pension Scheme are included within 'Other prepayments and accrued income' (see note 9.2b), comprised of an annual management charge balance of £638,000 (2016/17: £412,000) and an accrued income balance of £137,000 (2016/17: £46,000).

NEST Corporation is a participating employer in the scheme. Contributions of £1,731,000 (2016/17: £926,000) were payable by NEST Corporation to the scheme during the period.

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

21 Cashflow analysis

	Note	Year ended 31 March 2018 £000	Year ended 31 March 2017 £000
Non Cash items			
Depreciation and amortisation incl. non-TCS	3	10,898	10,886
Impairment of scheme assets	3	-	3,157
Release of lease incentive reserve	3	(77)	(73)
Loss on disposal of assets	3	5	63
Prepayment asset refresh		(589)	(386)
Reduction of asset refresh prepayment due to change in VAT status		-	1,276
Offset for lease liability		(1,680)	(1,881)
Finance credit charge		258	305
Total non cash items		**8,815**	**13,347**
Purchase of property plant equipment (PPE) and Intangible assets			
Purchase of software licences	8	(201)	-
Purchase of furniture and fittings	7	(14)	-
Purchase of IT	7	(532)	(30)
Total PPE and intangible assets		**(747)**	**(30)**
Payments towards imputed lease liability of TCS assets			
Total lease liability payments made in the year		**(9,322)**	**(10,045)**

22 Political and charitable donations

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

23 Events after the reporting period

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

There were no reportable events after the reporting period.

The annual report and accounts were authorised by the accounting officer for issue on the date of the Comptroller and Auditor General's audit certificate.

Appendices

Appendix one

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

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

1. In exercise of the powers conferred by paragraphs 17(2)(b) and 20(2) of Schedule 1 to the Pensions Act 2008 (c.30), the Secretary of State hereby directs the National Employment Savings Trust Corporation (NEST Corporation), as follows:

2. NEST Corporation shall prepare accounts for the 12 month Year ended 31 March 2012, and subsequent financial years, in compliance with the accounting principles and disclosure requirements of the edition of the Government Financial Reporting Manual issued by HM Treasury (FReM) which is in force for the financial year for which the accounts are being prepared.

3. These accounts shall be prepared so as to:

a. give a true and fair view of the state of affairs of NEST Corporation at 31 March 2012 and subsequent financial year-ends, and of the income and expenditure, changes in taxpayers' equity and cash flows for the financial year then ended, and

b. provide disclosure of any material expenditure or income that has not been applied to the purposes intended by Parliament or material transactions that have not conformed to the authorities which govern them.

4. Compliance with the requirements of the FReM will, in all but exceptional circumstances, be necessary for the accounts to give a true and fair view. If, in these exceptional circumstances, compliance with the requirements of the FReM is inconsistent with the requirement to give a true and fair view, the requirements of the FReM should be departed from only to the extent necessary to give a true and fair view. In such cases, informed and unbiased judgement should be used to devise an appropriate alternative treatment which should be consistent with both the economic characteristics of the circumstances concerned and the spirit of the FReM. Any material departure from the FReM should be agreed with the Department for Work and Pensions and HM Treasury.

5. NEST Corporation must disclose in its accounts:

a. the loan from the DWP and any other loans for which NEST Corporation is responsible for and on behalf of NEST, together with interest charges related to those loans

b. contracts for scheme services, for example scheme administration, entered into for and on behalf of NEST

c. receipt of deductions made from members' accounts to contribute to the general costs of the setting up, administration and management of NEST.

6. NEST Corporation's accounts will not consolidate the accounts of the NEST pension scheme.

7. In its annual report, referred to in paragraph 17 of Schedule 1 to the Pensions Act 2008, NEST Corporation is to include the report on NEST Corporation's proceedings during the year.

8. In accordance with paragraph 20 of Schedule 1 to the Pensions Act 2008, NEST Corporation is to prepare an annual statement of accounts for NEST Corporation. The accounts will include the certificate and report of the Comptroller and Auditor General on the NEST Corporation Accounts.

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

9. This Direction revokes and supersedes the Accounts direction issued to PADA on 29 April 2009. This Direction is signed by the authority of the Secretary of State for Work and Pensions.

Jos Joures

3 March 2011

Report and Accounts of the National Employment Savings Trust Corporation

Appendix two

Overview of environmental performance

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

NEST Corporation is located at Riverside House, a modern, multi-tenanted building in central London. The building management has control of energy usage for example through:

- an onsite technical manager with responsibility for energy management and reduction
- ensuring that the building management system is running efficiently and correctly with monthly meetings held to review energy management progress
- use of energy meters on large pieces of equipment to monitor usage
- an energy policy designed to guide energy-related decision making and to support an effective energy management strategy
- use of motion-activated low energy LED lighting.

Tenants are not provided with accurate energy usage data, as a part of the multi-tenant arrangement. The data NEST Corporation is provided with is for the building as a whole. As a result, the level of detail that can be reported on scope 2 emissions is reduced. Calculations are based on the amount of space NEST Corporation occupies within the building as advised by the building management firm.

The overall percentage of space occupied has remained at 17.95 per cent and this has been used for the relevant 2017/18 calculations, to provide an indicator of NEST's environmental impact.

During the period 2017/18 the building management firm that provides NEST Corporation with its data from has changed, meaning some of the emissions and usage has been estimated in consultation with the respective building management firm.

Summary

There has been an increase in emissions from last year mainly due to the following:

- Additional energy consumption - this year NEST Corporation must bear financial and emission increases for the common areas of the buildings on the floors that it uses (which are separate to the 17.95 per cent it occupies), coupled with increased consumption due to a period of unseasonably cold weather

- Decrease in emissions for air travel - this has been due to a decrease in international travel and new conversion factors from the Department for Business, Energy and Industrial Strategy[1].

- Increases in private hire - private vehicle usage has increased as this is the primary method used by the team that visits customers and potential customers.

- Other - The initiatives put in place to reduce the use of paper, such as wider use of laptops, have resulted in a reduced consumption of paper over the year.

1 Please note, we have updated our business travel emissions for the past three years.

Summary of 2017/18 year performance		
Area	**Actual performance**	**Normalising data (per FTE)**
Average annual full-time equivalent staffing figure: 253[1]		
Estate energy and emissions		
GHG emissions from offices	296 tonnes CO_2e	1.17 tonnes CO_2e
Total organisation energy consumption	881,739 kWh	3,485 kWh
Total energy expenditure	£85,002	£335.98
Travel emissions[3]		
CO^2e emissions from business travel	270 tonnes CO_2e	1.07 tonnes CO_2e
Total expenditure on business travel	£227,875	£900.69
Waste		
Total waste produced	26.5 tonnes	0.11 tonnes
Total recycled/reused	14.3 tonnes	0.06 tonnes
Total incinerated	12.2 tonnes	0.05 tonnes
Total to landfill	0	Nil
Total waste expenditure	£3,736	£14.77
Paper		
Total paper usage	3 tonnes CO_2e	0.01 tonnes CO_2e
Total paper expenditure[2]	£3,483	£13.77
Water		
Total water consumption	2,722 m^3	10.8 m^3
Total water expenditure	£5,089	£20.11

[1]This figure includes employees, Trustees, interims, secondees and panel members.

[2]Total waste expenditure does not include cost of confidential waste recycling. We are issued with an overall service charge by our facilities management provider and it is not possible to disaggregate this cost.

Greenhouse gas emissions

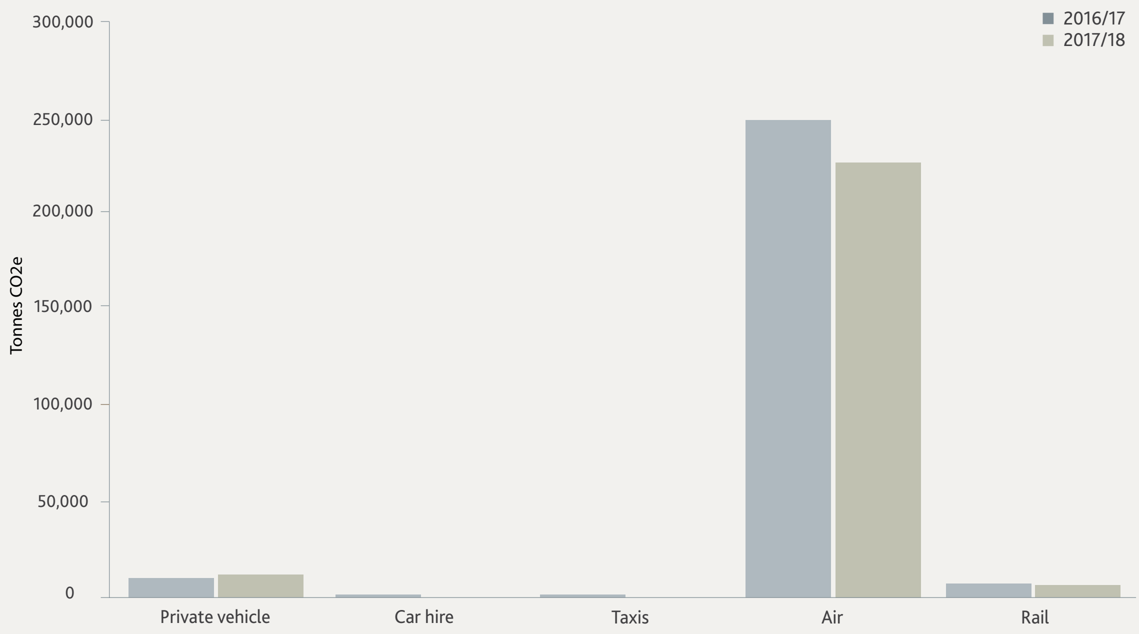
The data for the scope 1 and 2 emissions for 2017/18 are taken as a percentage of the overall data for the building based on our 17.95 per cent occupancy. This provides NEST with an indication of performance.

The scope 3 data is captured directly from expense claims and/or contract costs/reporting. We have only reported on paper purchased directly through our stationery suppliers.

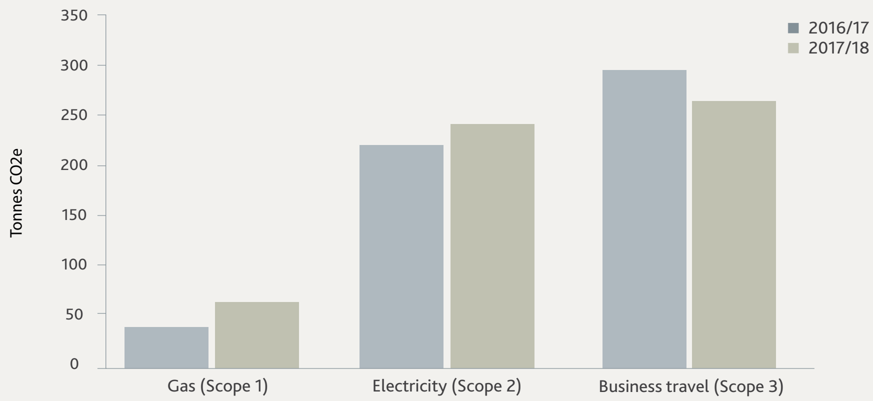
Greenhouse gas emissions		2015/16	2016/17	2017/18
	Scope 1 – Gas			
	Gas	46.4	36.6	54.3
	Total scope 1	**46.4**	**36.6**	**54.3**
	Scope 2 – Electricity			
	Electricity: brown	244.9	164.9	181.4
	Electricity: green	32.7	22.0	24.2
	Electricity: CHP	49.0	33.0	36.3
Non-financial indicators (tonnes CO^2e)	**Total scope 2**	**326.6**	**219.9**	**241.9**
	Scope 3 – Business travel			
	Private vehicle	13.7	14.3	16.9
	Car hire	1.1	0.4	0.0
	Taxis	2.1	1.0	0.9
	Air	321.7	259.5	243.2
	Rail	18.2	10.3	9.0
	Total scope 3	**356.8**	**285.5**	**270.0**
	Total emissions	**729.8**	**542.0**	**566.2**
	Scope 3 – Paper			
	Paper	4.7	5.0	3.5

Greenhouse gas emissions		2015/16	2016/17	2017/18
Related energy consumption (kWh)	Scope 1 - Gas			
	Gas	251,447	199,020	294,854
	Scope 2 – Electricity			
	Electricity: brown	529,816	400,150	440,165
	Electricity: green	70,642	53,353	58,688
	Electricity: CHP	105,963	80,029	88,032
	Total electricity	**706,421**	**533,532**	**586,885**
Financial indicators (£)	Scope 1 and 2 – Gas and electricity			
	Gas	7,857	4,544	8,311
	Electricity: brown	n/a	52,289	57,518
	Electricity: green	n/a	6,972	7,669
	Electricity: CHP	n/a	10,458	11,504
	Scope 3 – Business travel			
	Private vehicle	19,897	21,592	29,075
	Car hire	1,588	561	85
	Taxis	8,448	7,612	7,962
	Air	94,407	84,147	109,252
	Rail	69,525	75,734	81,501
	Scope 3 – Paper			
	Paper	3,298	3,483	3,483
Volume of paper in reams	Scope 3 – Paper			
	A4	1,150	1,290	945
	A3	65	40	30

Business travel emissions



Greenhouse gas emissions



GHG performance commentary including target

NEST Corporation is located in a well maintained, energy efficient building. Although it does not have any direct influence on building management it will continue to work with the landlord on any energy management initiatives. Due to this it feels that a scope 1 and 2 emissions reduction target is currently unachievable.

There was an increase in private vehicle use. This reflects the increase in the visits to employers and business related events for employees that are required to use private vehicles as part of their job function.

There has been a decrease in A4 paper consumption due to initiatives such as scanning of invoices instead of copying, keeping hard copies and the deployment of laptops to most staff reducing print requirements for meeting papers.

Use of finite resources

Water consumption (scope 2)		2015/16	2016/17	2017/18
Non-financial indicators (m^3)	Water consumption	2,055.0	2,125.0	2,722.0
Financial indicators (£)	Total water costs	Unknown	4,985.0	5,088.6

Performance commentary

Greening Government Commitments state that typical usage for an organisation of our size and structure is 4 to 6m^3 per person. NEST Corporation's current usage is 7.7m^3 per person which is a 11 per cent decrease from the previous year. This is an approximation as the building landlord has supplied the total consumption for the whole building. NEST Corporation has used 17.95 per cent of those totals as that is the amount of space we occupy.

Waste management

Waste		2015/16	2016/17	2017/18
Non-financial indicators (tonnes)	Waste to landfill	0.0	0.0	0.0
	Waste recycled/ reused	11.4	7.9	14.3
	Waste incinerated	12.9	11.4	12.2
	Total waste	24.3	19.3	26.5
Financial indicators (£)	Total waste costs[1]	Unknown	4,750	3,736

Performance commentary

NEST Corporation can recycle all of its waste streams and it has a one waste bin system to aid the recycling rates. Non-recyclable waste is incinerated for energy recovery.

The figure for recycled/reused and incinerated waste is an approximation based on 17.95 per cent occupancy. There has been an 81 per cent increase in waste being recycled / reused, due to added efforts of the buildings management firm to separate waste and recycling. There was a 7 per cent increase in the amount of waste incinerated due to a rise in confidential waste. Incinerated waste is part of a "waste to energy" system whereby the process of incinerating waste produces energy (electricity).

[1]Total waste costs do not include cost of confidential waste recycling. NEST Corporation is charged an overall service charge by its facilities management provider and it is not possible to disaggregate this cost.

Corporate Social Responsibility

NEST Corporation aims to be an example of good corporate social responsibility (CSR). Its objective is to provide a better future for:

- its business partners
- its employees
- the wider community.

The following sections detail its 2017/18 activity in these three areas:

Business partners

NEST Corporation wants to ensure that its business partners treat their employees as fairly as NEST Corporation treats its own employees. This includes:

- Making sure that staff employed by business partners are paid the National Living Wage or London Living Wage as appropriate. This is done through an annual review.
- Requiring that business partners and their own supply chains adhere to the Modern Slavery Act 2015. This is managed through our procurement and contracts.

Employees

NEST Corporation believes in equality of treatment and opportunity for all employees. In 2017/18, it has committed increased time and resource to diversity and inclusion across the workforce in general, and through the following activities:

Gender pay gap reporting

NEST Corporation is not required legally to make its gender pay gap public, as the company has less than 250 staff. However, it has decided to publish this both internally and externally. Further information on gender pay gap and NEST's plans to address it can be found here:

nestpensions.org.uk/.../dam/nestlibrary/Gender_Pay_Report_2017_2.pdf

National Inclusion Week

In September 2017, NEST Corporation participated in National Inclusion Week for the first time. It organised five days of activities aimed at raising awareness of the importance of inclusion across its workforce, through encouraging everyone to meet with different employees and learn from each other's diverse experiences.

The activities it hosted included Mental Health Monday, a Disability Confident workshop, and a 'women in work' debate with both NEST Corporation and external speakers discussing career progress to date.

Disability Confident

NEST Corporation has signed up to the Department of Work and Pensions (DWP)-led Disability Confident campaign. This is a voluntary scheme which aims to make the most of talents that disabled people bring to the workforce. There are three stages to the scheme:

- Level 1: Disability Confident Committed
- Level 2: Disability Confident Employer
- Level 3: Disability Confident Leader

NEST Corporation has signed up at level 1 and it aims to achieve levels 2 and 3 in the next six to 12 months.

Women in Finance Charter

NEST signed up to HM Treasury's Women in Finance Charter in July 2016. Its aim is to improve gender balance across financial services. In line with the charter, NEST set itself the following goals:

- To improve gender diversity, so that 30 per cent of executive and director roles are held by women by autumn 2019.
- To drive improved gender diversity in all management roles, through:
  - Clear, flexible working policies and procedures
  - A well-publicised internal mentoring programme
  - A NEST women's network focusing on delivering the recommendations in the charter.

In September 2017, NEST submitted its first-year report to HM Treasury. Its review showed that in the last year it has built the foundations of a work programme that will develop its pipeline of female leaders. It has:

- Set up an internal diversity network which is now independently run, and not explicitly linked to meeting its Women in Finance objectives. The network makes recommendations to improve gender balance. It also shares opportunities for women in NEST to network and learn by, for example, going to external events.
- Created clearer flexible working policies and practices which include job sharing options, compressed hours and localised arrangements to suit individuals.

The wider community

In 2017/18 NEST Corporation employees took part in volunteering projects to support local community groups. It also ran fundraising campaigns for national and local charities.

Employee volunteering

All employees can take up to four volunteering days a year. Projects that they have supported include:

Richard House Hospice, Beckton, London

Richard House supports around 300 families and cares for children in East London who have life-limiting illnesses. Each year they need to raise £3 million to continue running the hospice.

In November 2017, 25 NEST Corporation employees volunteered their time to help tidy up 2.5 acres of land, including garden space for the children and their families, and creating props for the hospice's Christmas pantomime.

First Love Foodbank, Tower Hamlets, London

First Love Foodbank supports individuals and families who are going through hardship.

NEST employees contributed donations of non-perishable foods, toiletries and cash for Christmas 2017 and delivered the donations to First Love.

Volunteering day at Age UK

Seven NEST volunteers took part in a full day of volunteering at Age UK's Southwark and Lewisham day centre in November 2017. The team sat with day centre visitors to talk, play board games and serve lunches.

Bankside's Together at Christmas campaign

Six NEST volunteers spent half a day at St Mungo's in Southwark. They helped to wrap 1,858 Christmas presents for vulnerable, elderly and homeless people in London.

NEST Corporation will further develop its volunteering work during 2018/19, to benefit charity projects and contribute to staff development.

Fundraising

During 2017/18 NEST Corporation staff also raised money for and donated to charities including:

- Bankside's Together at Christmas campaign – donations of warm clothing and other essentials for rough sleepers
- Save the Children – Christmas jumper day and bake sale, raising over £100
- Raffle and bingo – NEST Corporation staff sold raffle and bingo tickets over the Christmas period, which raised over £580. Employees voted on which charity should receive the proceeds. Richard House won the vote, and they have received the money.

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