



NEST Corporation corporate plan

2014-2017





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01 Foreword



2014/15 will be a significant year in NEST's development: the first year in which we will both be helping to set up large numbers of new employers with the scheme, and serving the month-to-month needs of more than a million existing members.

In 2013/14, we welcomed around 4,700 employers of every size to the scheme, from volunteer employers with just two workers to major corporations with more than 20,000 employees. We have also successfully processed several million contributions from our members.

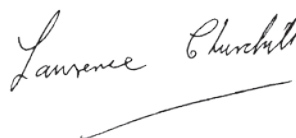
2014/15 will bring new challenges. We will add far larger numbers of employers to our scheme, and these employers will be smaller with fewer of the specialist staff and resources that larger employers have used to meet the challenges of automatic enrolment.

We will meet this challenge by building a robust, efficient and easy to use online service, as well as helping market intermediaries such as independent financial advisors and accountants support their clients in implementing automatic enrolment. At the same time we are aware that we can only succeed if we are a healthy organisation with a strong culture of compliance and controls implemented by an engaged workforce.

Our fifth corporate plan shows what we need to achieve, and how we intend to achieve it.

The next three years will see contributing toward a pension become a part of everyday life for millions of workers, many of whom will be saving for retirement for the first time. NEST is preparing for the challenge and we're committed to giving all those who use our services the support they need to make automatic enrolment a success.

Lawrence Churchill CBE

A handwritten signature in cursive script that reads "Lawrence Churchill". The signature is written in black ink and is positioned above a horizontal line.

Chair

NEST Corporation

02 About us

NEST (National Employment Savings Trust) is an occupational pension scheme. It's run as a trust-based scheme on a not-for-profit basis in the interests of its members. NEST Corporation is the Trustee of the NEST pension scheme and currently has a governing body of 12 Trustee Members. The Trustee Members are responsible for taking decisions based on established principles of trust law and for setting the strategic direction and objectives of the organisation.

NEST Corporation was established by statute and is a non-departmental public body. NEST was set up to support the Government's Auto-Enrolment Programme. As employers across the country are required to automatically-enrol their eligible staff into a qualifying pension scheme, NEST is available for any employer who wishes to use it to meet their auto-enrolment duties. We work with Tata Consultancy Services (TCS) to administer the NEST scheme. TCS has been successfully providing administration services for pension schemes and other financial clients for many years, so has exactly the right mix of technology and experience that we need.



03 What's the purpose of the corporate plan?

This is NEST Corporation's fifth corporate plan. It covers the period from April 2014 to March 2017 and includes details of our business plan for April 2014 to March 2015. The plan identifies those areas where we'll need to be successful if we're to achieve our vision of helping millions to save confidently for their retirement. It sets out the areas of priority we will be focusing on in the financial year 2014/15.



04 What value are we here to deliver?

NEST is a trust-based occupational pension scheme. This means that we administer, safeguard and invest employer and member pension contributions entirely in the members' interest. We're not the only scheme which does this. But we are specifically designed to provide a high-quality, great-value pension scheme for the millions of people not currently saving for their retirement; and who otherwise might not be able to find a provider to save with.

This should, in turn, mean that millions more people will have a better retirement income than if they hadn't saved, and a retirement income is one important component of an overall better retirement. In the long term it's therefore hard to separate the role we play in running a pension scheme with the broader, positive social impacts of this step-change in saving.

But every journey starts with a single step. And we need to start by building a truly robust and sustainable scheme.

What's changed?

The evolution of our priorities for 2014-2017

The corporate plans we have published since 2010 could be seen as iterations of the same strategy. We needed to design and build a scheme that worked, build a credible brand in the marketplace and start to work with some of the earliest employers to hit their automatic enrolment staging dates, achieving sufficient take-up to get on a path to being financially self-sustaining. These gave rise to the following objectives:

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

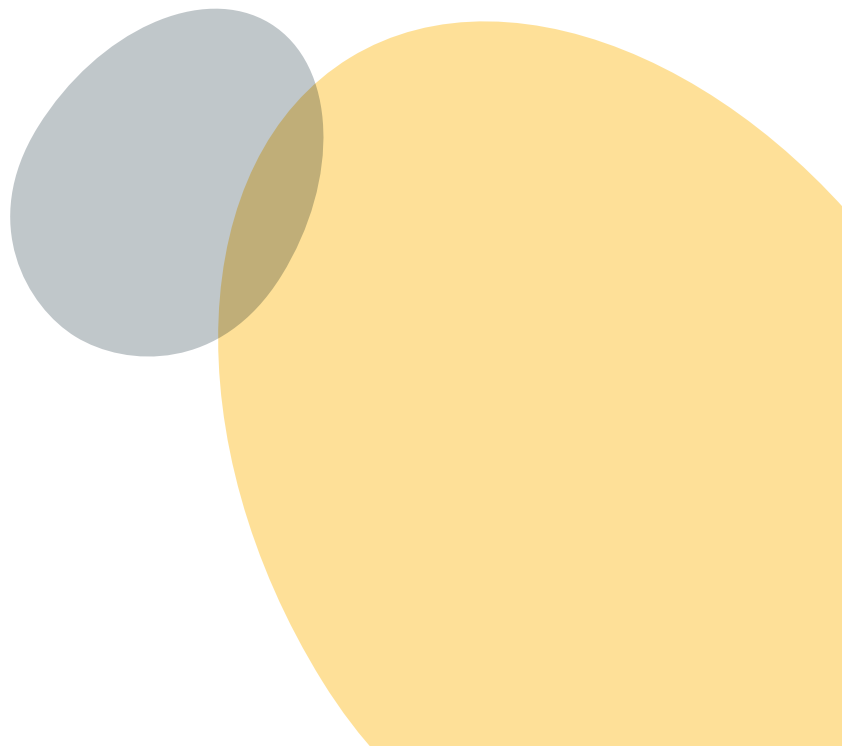
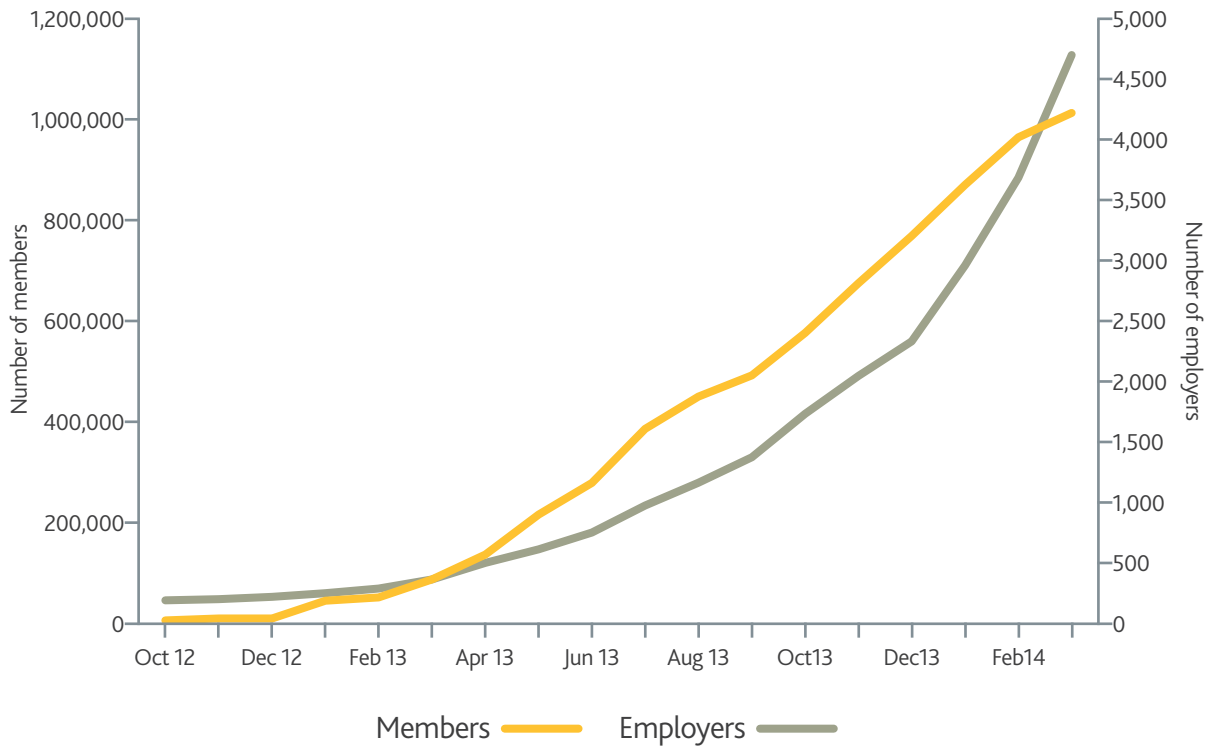
These objectives reflected a time in NEST's development where we were really just getting going - automatic enrolment duties only began to affect employers from late 2012.

We have made substantial progress in 2013/14. We are a big, well-known scheme which is up and running and delivering for its members every day. The graph opposite illustrates how we have grown in size since our early days.

Our scale and the ways in which our operating environment has evolved have driven us to re-evaluate our priorities for the remainder of staging. Our priorities for 2014-2017 are listed below. These are the areas we think we need to focus on in order to develop a truly robust and sustainable scheme. We'll discuss each of them in turn, and how we'll know if we're successful in the remainder of this document.

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

Member and employer growth from 2012 to March 2014



06 Priorities in 2014 - 2017

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

By March 2014 NEST had helped around 4,700 employers meet their automatic enrolment duties since the onset of employer duties in autumn 2012, and, with our partner TCS, we are already administering the pensions of over one million members.

However, many more employers are forecast to come our way in 2014-17 as they reach their staging date, and the size and nature of these employers is changing. We will need to be absolutely sure that our scheme can grow smoothly to meet these challenges.

Our model is that of a self-serve e-business. We'll need to focus on getting this right by working with TCS to make sure that the infrastructure isn't overloaded, and continuing to improve our online services. Importantly, we must create a service through which employers can set up their scheme with us, make contributions in each pay period, and be reassured that they are doing the right thing, all with minimum intervention from NEST or TCS staff.

We also recognise that lots of employers will be supported by other service providers as they begin to automatically enrol their staff, for example payroll providers, accountants or other intermediaries. So we will also be making sure our service meets the needs of these users by, for example, developing targeted online materials and improving the ways intermediaries can use our product on behalf of employers.

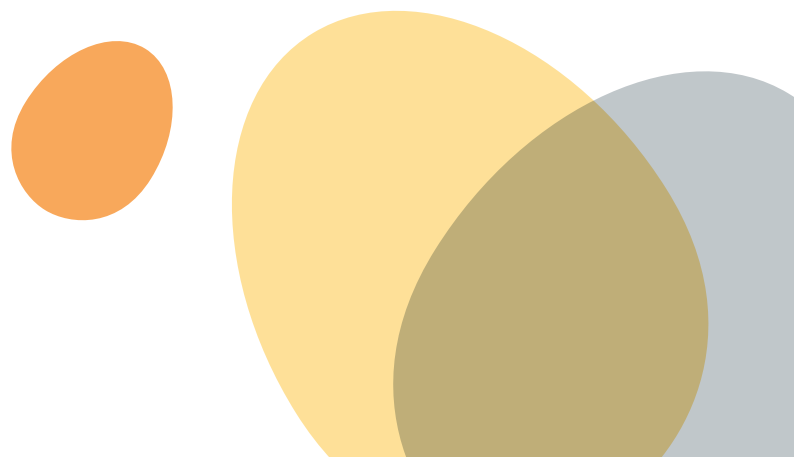
We will do all of this with a view to making sure we can keep operational costs - which ultimately fall to our members - as low as possible in the long term.

Build an organisation (NEST Corporation) which is culturally fit for the challenge of delivering the NEST scheme

At NEST we are responsible for the security of our customers' money and data. And we are continuing to grow at a pace. Very quickly, this has meant that we are operating beyond the scale of many more 'mature' organisations. This priority reflects how seriously we take the need to make sure that our corporation is culturally as mature as it needs to be, regardless of how new the challenges are.

In practice, this means spending time instilling a robust controls framework in 2014/15. We already have a full set of controls in place but they need to become part of the fabric of how we operate. Specifically, we will make sure our staff are a truly robust 'first line of defence', alive to the scale of their responsibilities. We will also make sure that we have comprehensive and insightful 'second line of defence' compliance monitoring processes that will identify issues and help us continually improve.

Secondly, we need to develop a corporate culture that not only values security and control, but also creates an engaged workforce for the longer term. Engaged staff are a critical part of providing security and control, but no less essential to achieving every other priority that we have. We will work towards high levels of staff engagement through helping our managers become great people managers, supporting staff in their career progression (whether here or elsewhere), improving our internal communications, and by maintaining a fair and honest pay and reward programme.



Maintain the ongoing functions of a leading pensions business

Our first two priorities focus our efforts on addressing some big threats to our ability to deliver a value for money pension for our members in a sustainable way. Our third priority recognises that in several key respects we are already an established and successful pension scheme. But we need to keep going, targeting resource to make sure we maintain the things we do well against an ever-changing external environment. These could be labelled our 'Business As Usual' activities, but they are more dynamic than this might imply. Key elements are discussed below.

Delivering a leading investment approach for our members

NEST has been investing on its members behalf for over two years now. Whilst many of the principles underpinning the original investment approach have remained in place we have continued to refine the delivery of our strategy and sought to drive greater efficiency in the way we invest. We have led the UK market in the implementation of single year target date funds in a pension product, and our member-centric research-led approach drove the development of our investment return objectives and the amount of risk we are prepared to take to meet those objectives. Maintaining this aspect of our product requires that we continually monitor and assess global risks and opportunities; and invest with the objective of capturing global growth to deliver steady and sustainable returns for all of our members.

We've set clear risk budgets for our retirement funds to help us consistently deliver our investment objective of returns in excess of inflation over an economic cycle. For example, for the Foundation and Growth phases of saving within the NEST Retirement Date Funds and for most of our fund choices, we'll actively manage the risk our portfolios are exposed to and report quarterly on their performance. By managing within these risk budgets we're likely to deliver on our additional investment objectives to reduce short-term volatility and extreme downside risk. For members close to retirement and for members in the NEST Pre-retirement Fund and NEST Lower Growth Fund our objectives are to manage conversion risk in accordance with how our members want to take their incomes in retirement, and provide capital protection.

Beyond this we continue to seek out opportunities to refine and improve the execution of our investment approach. In 2013/14 we've further developed our ability to access specific asset classes through the addition of a direct UK commercial property fund and listed global real estate fund. This takes the number of building block funds used to construct the NEST Retirement Funds from five when we started in 2011 to 10 now, allowing us to provide a more sophisticated approach to risk management for all of our members. We will continue to look at adding other asset classes that will help us lower costs and increase returns within our risk budget.

Additionally, like other pension providers, NEST has been affected by the 2014 Budget's changes to legislation regarding pensions. In particular, we are examining what the Budget changes will mean for likely member behaviour when it comes to accessing their savings and how we can provide greater flexibility, choice and guidance that meet the needs of all our members. NEST will be looking to design efficient, value for money and innovative solutions to meet the new opportunities the Budget announcement has provided for Defined Contribution savers.

Maintain a compliant scheme

The external environment is not static and neither are the regulatory requirements we need to meet. It's therefore important that we continue to recognise the need to remain compliant - especially since in some cases this impacts the operations of our scheme and therefore interacts with our focus on delivering a fully stable and scalable product and service.

This objective anticipates a need to deliver some changes to remain compliant - both to our scheme and to activities in the corporation. For example, the regulatory framework around Defined Contribution schemes continues to evolve, creating new reporting and assurance requirements which we commit to meet.

At the same time we will maintain our high-quality approach to risk management by keeping our frameworks up and running, but also by improving in line with industry best practice.

Maintain our voice and our brand

Our focus on delivering in members' interests is at the core of our brand. Our brand values - transparency, ease and empowerment - define the platform we need to build if we are going to be able to deliver the best possible pension for our members in retirement in a sustainable way.

Living these values - and earning them - takes work. We will continue to exert our voice in relevant policy debates, make evidence-based contributions to policy makers, and share our experiences with the wider market to help develop best practice around the delivery of value-for-money pension schemes.

07 Prepare for the challenges and opportunities of 2017

Our first three areas of focus relate to immediate, pre-2017 business needs. But we also need to start, with a responsible use of resource, preparing for a post-2017 landscape. At the end of staging the challenges for NEST start to look different.

In July 2013 the Government committed to remove two restrictions which are in place on the NEST scheme. The current restrictions on individual transfers of pension pots into and out of the scheme will be lifted in line with the implementation of the Government's new automatic transfers regime¹, and the contribution cap² will be lifted in April 2017. This creates a different landscape for NEST. On a practical level, we'll need to make sure that we are ready to start accepting transfers in and out of the scheme. More broadly, we need to ensure that we can continue to offer a great service to members and employers in this new post-restriction landscape.

¹The Pensions Act 2014 and subsequent secondary legislation will introduce a "pot follows member model" for Automatic Transfers, where an individual's small pension pot will move as they change employment or scheme and be consolidated into their pension pot with their new employer.

² In 2014/15, NEST members cannot contribute more than £4,600 per annum into the NEST scheme and other than in some limited circumstances (such as reaching age 55) NEST members currently cannot transfer a pension pot into or out of NEST.

08 Monitoring success

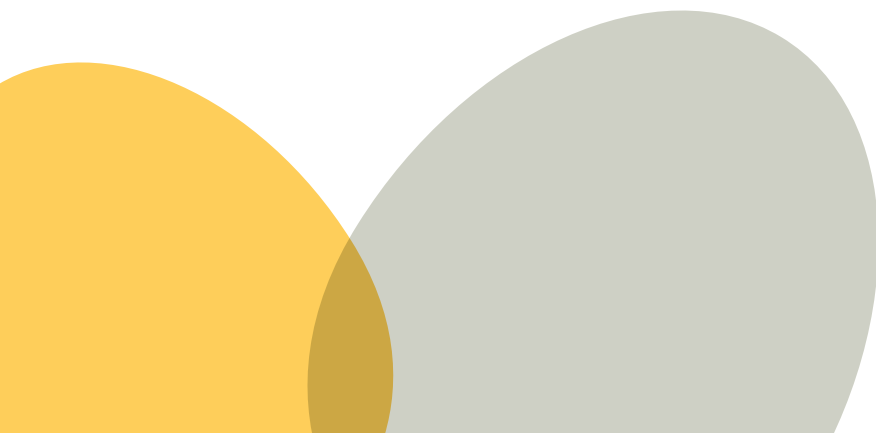
The following table summarises what our revised priorities mean for our activities over the next year and sets out some examples of the indicators we will monitor. Not all of these lend themselves to quantification, but they paint a picture of the information we will use to understand our progress and the challenges we face. Crucially, these objectives define what we think we need to focus on in order to deliver a truly robust and sustainable scheme. Being on the right trajectory to be financially self-sustaining is an important part of this, so we will consider these measures alongside an overarching focus on our costs, our revenues and the numbers of employers and members whose needs we are meeting.

Strategic priority 1	Actions we will undertake	What we will monitor
Develop scalable, efficient and secure operations supported by a self-service model which enables employers to get it right, enabling us to safely manage peaks of demand and to minimise the costs of BAU operations.	<p>Continue to develop our product to provide an easy-to-use, self-serve experience for employers, both as they set up the scheme, and on an ongoing basis.</p> <p>Work with market intermediaries to ensure that they have the support and training that they need to support smaller employers.</p> <p>Work with our administrator, TCS, to make sure we deliver change which supports the stability and scalability of the scheme.</p>	<p>Performance against our expectations of the service, including:</p> <ul style="list-style-type: none"> - website availability, and contact centre availability - speed with which we answer calls to the contact centre. <p>The queries our members and employers ring us with, and the amount of time it takes us to deal with them.</p> <p>The nature of complaints and the time taken to deal with them.</p> <p>Indications of scheme efficiency - including error rates.</p>

Strategic priority 2	Actions we will undertake	What we will monitor
Build an organisation which is culturally fit for the challenge of delivering the NEST scheme.	<p>Further embed a robust control framework.</p> <p>Undertake a programme of work to nurture high levels of staff engagement.</p>	<p>Evidence of how well our financial and information security policies and processes are working.</p> <p>Our progress against our audit actions.</p> <p>Indicators of our staff engagement, including our annual staff survey and the reasons our people give for leaving.</p> <p>Staff diversity.</p> <p>Our progress towards Investors In People accreditation.</p>

Strategic priority 3	Actions we will undertake	What we will monitor
Maintain the ongoing functions of a leading pensions business.	Continue to maintain and evolve our investment approach, investing NEST retirement funds according to their risk budgets and relevant ethical principles.	Investment performance. Making sure our funds are run in line with our investment principles, including our responsible investment policy. The results of a NEST consultation on how we should evolve the scheme in light of the 2014 Budget changes offering savers greater flexibility.
	Maintain a compliant scheme.	Compliance with relevant regulations and other legal requirements and codes of conduct.
	Maintain our brand and our voice by: <ul style="list-style-type: none"> - continuing to engage constructively in external policy debates, and with stakeholders across the industry - developing and delivering insight into our members and the employers who use us. 	Our assessment of how employers, members, media organisations and other stakeholders view NEST. Strong, co-operative and constructive relationships with other stakeholders involved with pensions and automatic enrolment.

Strategic priority 4	Actions we will undertake	What we will monitor
Prepare for the challenges and opportunities of 2017.	Assess and understand the challenges and opportunities presented by 2017; take early steps to prepare for the lifting of restrictions and the end of staging.	The volume of employers and members using the NEST scheme. Our overall financial performance. Our operational readiness for the lifting of restrictions.



09 How we will deliver our priorities

So far in our plan we have talked about what we want to achieve, why we want to achieve it, and how we are going to monitor our progress in achieving it.

But how we achieve our goals matters as much to us as what we achieve. This section talks about our values and our code, which underpin the culture we need to build to be successful.

In 2013/14 we devised and implemented the NEST code. This complements the NEST value statements of:

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

NEST code

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

- › Do the right thing.
- › Don't walk by.
- › Learn from our mistakes.

10 Resource summary

Funding

While we work to deliver our strategic objectives, it's essential to keep a clear line of sight between our spending and the interests of our members. When we spend money in pursuit of these objectives we must do so prudently, and recognise that our costs are ultimately borne by scheme members.

The following section provides information on the resources required to deliver business activities for 2014/15, as well as information on resource planning for the period April 2015 to March 2017.

Financial resources

The key elements of the financial plan are set out below.

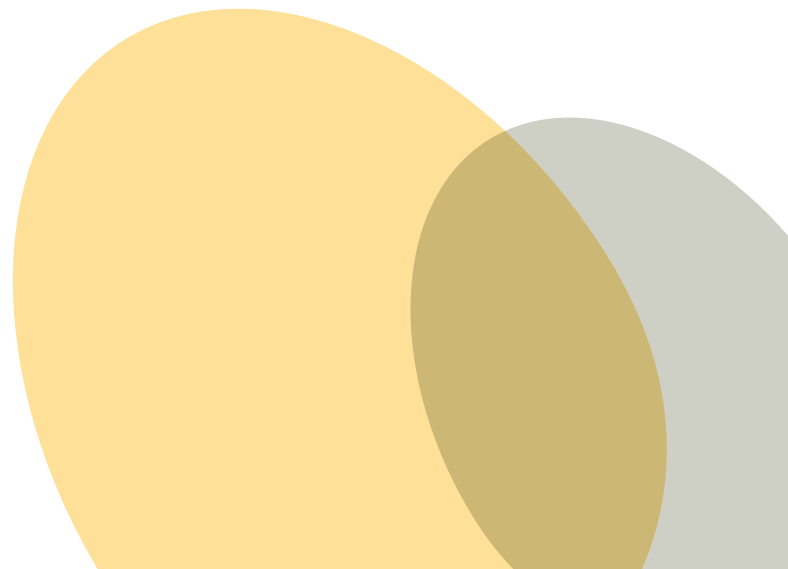
	Figures from 2013/14 corporate plan £(m)	2013/14 provisional outturn (subject to audit) £(m)	2014/15 plans £(m)	2015/16 plans £(m)	2016/17 plans £(m)
Expenditure					
Scheme administration including change requests, fund administration, fund management and The Pensions Regulator levy	23.3	23.4	35.6	34.2	51.6
Costs of running NEST Corporation	37.3	35.1	34.5	33.0	34.1
Depreciation	10.9	11.5	12.4	12.4	12.4
Interest on loans	17.3	17.2	22.1	27.2	33.2
Resource expenditure	88.8	87.2	104.5	106.8	131.3
Income					
Income from member charges	2.4	1.9	7.0	11.3	17.3
Grant in respect of public service obligation	9.8	10.0	12.5	14.0	16.6
Grant-in-aid for non-chargeable expenditure	0.8	0.6	0.6	0.6	0.6
Total income	13.1	12.5	20.1	25.9	34.5
Total comprehensive expenditure for the year	75.8	74.6	84.4	80.9	96.5
Capital expenditure	8.5	9.2	11.8	10.2	8.1

*Generally scheme administration costs will grow as the scheme grows, however you will see from the table above that we anticipate a reduction in scheme administration costs in 2015/16. This is due to the fact that at the point we achieve a particular number of members, the charging mechanism in the scheme administration contract changes from a minimum charge to a per member charge meaning that the overall cost per member reduces.

Analysis

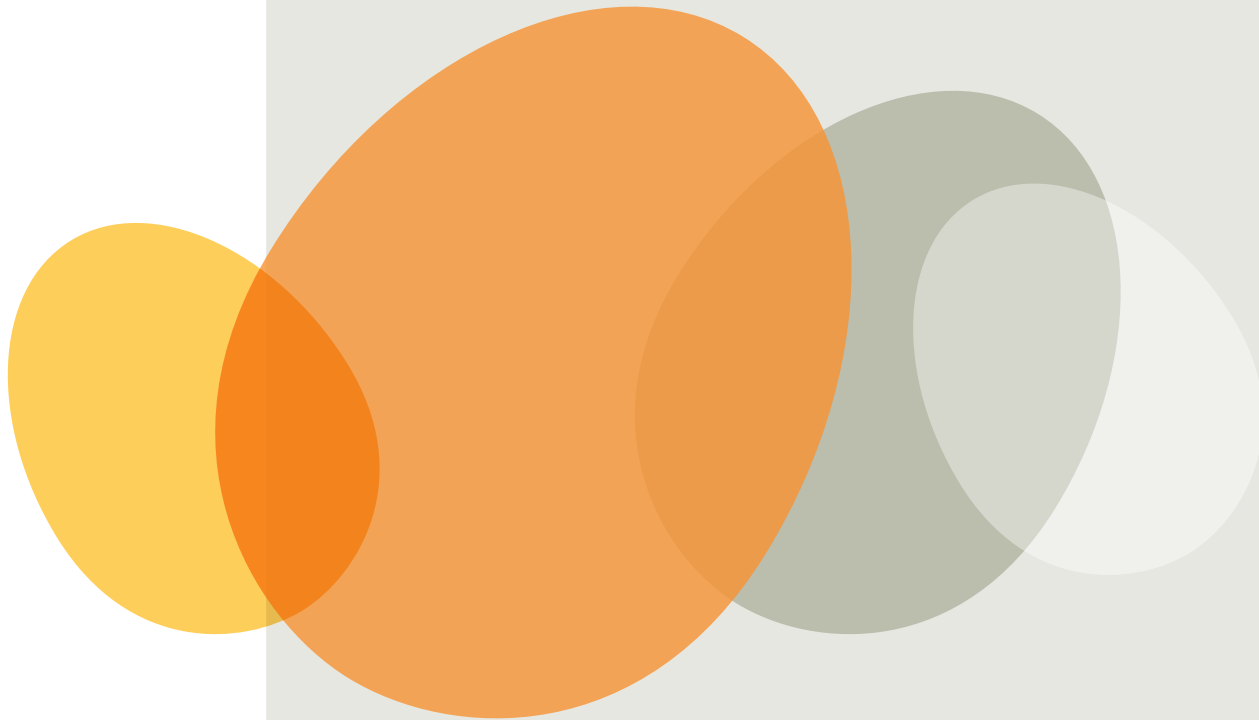
Total comprehensive expenditure for 2013/14 was broadly in line with expectations although within this there were a number of smaller variances. Spend on running NEST Corporation was c£2m lower than budgeted - this was primarily driven by lower than anticipated costs in relocating offices and a continuous drive to minimise costs. Actual revenue was £0.5m lower than anticipated due to actual contribution rates being lower than those anticipated in the original budget.

Total comprehensive expenditure for 2014/15 is expected to be £84.4m. The increase from 2013/14 is primarily driven by increased operational costs as the scheme grows.



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