NATIONAL
EMPLOYMENT
SAVINGS TRUST

Annual report and accounts 2010/11

National Employment Savings Trust Corporation

Annual report and accounts 2010/11

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01 Foreword

NEST is an essential component of the Government's strategy to tackle the dual problems of increasing longevity and widespread under saving for retirement and I'm pleased to present NEST Corporation's first Annual report and accounts.

This annual report, covering the period 1 April 2010 to 31 March 2011, contains the financial statements for NEST Corporation and also for the final three months of existence of our predecessor organisation, the Personal Accounts Delivery Authority (PADA), which was wound up when NEST was created.

There have been a number of significant events during the year.

Following the election of a new Coalition Government in May 2010, the *Making automatic enrolment work review* was launched. This review examined areas of policy, including recommending the scope of auto-enrolment and consistent with this, whether NEST continued to be necessary. We were pleased to engage with the reviewers and welcomed the opportunity to share our prototype systems with them. The review recommended a number of changes to the scope and rules for auto-enrolment. It concluded that NEST is a necessary part of ensuring universal access to pensions. We welcomed the conclusions of the review, notwithstanding that some of the detailed recommendations have put pressure on the schedules for legislative and systems development.

The early focus of the Trustees included finalising the terms of the Government loan from DWP to provide the initial working capital, establishing governance controls for NEST, and determining NEST's investment approach, including the Statement of Investment Principles. We have also set out NEST's Vision, Values and Critical Success Factors to drive strategy and our corporate plan.

One of the early tasks for NEST Corporation was to establish a Framework Document and Memorandum of Understanding with DWP to set out how we would work effectively together. We are grateful to DWP for their support and help in agreeing the approach to potential conflicts which could in theory arise between the fiduciary duties of the Trustee and the responsibilities of a governing body of a Public Corporation.

The year ahead will be busy:

- we will complete our Governance structure through the appointment of further Trustee Members and the establishment of the Members' and Employers' Panels
- we will begin to take on volunteer employers in advance of their statutory duties
- we will work with the DWP on a number of consultations for change and on the regulations to give effect to the conclusions of the *Making automatic enrolment work review*

- we will engage employers whose new duties arise in 2012 and 2013 and their advisers, to ensure that they are aware of NEST as a potential mechanism for fulfilling their new duties.

I would like to pay tribute to the work done by PADA, so ably chaired by Baroness Jeannie Drake, in laying the groundwork for developing NEST prior to 5 July 2010.

On its creation, NEST Corporation inherited all of PADA's assets and liabilities. The assets included the substantial human capital which the Chief Executive, Tim Jones, had assembled to underpin the delivery of the NEST pension scheme. I was delighted that Tim agreed to stay for a second three year term of office on the expiry of his first year term. I would like to pay tribute to the skill and dedication of NEST Corporation staff, without whose efforts NEST could not be launched.

Two of our colleagues, Jeannie Drake (Trustee Member Designate) and Dianne Hayter (Trustee Member), have been appointed to the House of Lords and in consequence have given up their roles with NEST Corporation. We will miss their input and insight and are grateful to them both for their contributions in getting NEST started.

NEST is a bold and imaginative policy of unprecedented scope and scale, but one which, if and when successful, has the potential to transform the retirement income landscape in the UK for generations to come. The Trustee Members and staff are honoured to have this heavy burden of responsibility on their shoulders.

Lawrence Churchill

Lawrence Churchill CBE
Chair
NEST Corporation

5 July 2011

02 Chief Executive's report

This has been a significant year for us, which started with preparations for the transition from PADA to NEST Corporation. This transition, part-way through a delivery project of this scale, has not been without its challenges, however it is another significant milestone in establishing NEST. NEST Corporation has gained significant benefit from the expertise of the Trustee Members, under Lawrence Churchill CBE as Chair.

The period following the election and while the *Making automatic enrolment work review* was ongoing was naturally one of some uncertainty, which generated an increase in staff turnover. This coincided with spending controls which were implemented to reduce public sector spending, including restrictions on recruitment and other types of spend such as the use of consultants. The resulting resourcing position for NEST impacted the work programme and increased overall risk. With the conclusion of the review, we are past this period and we have agreed specific controls on spending for NEST which are consistent with the aims of Government in exercising control over public expenditure and with achievement of our delivery objectives.

The 2010/11 year for NEST Corporation has seen us focus on getting our delivery partners in place and developing, building and testing our systems and processes in readiness for live operation in 2011. In November 2010 we signed the second stage contract with Tata Consultancy Services Ltd (TCS) for scheme administration services and we have been putting in place other contracts with delivery partners including State Street for fund administration and custodianship. We have recently procured our panel of retirement income (annuity) providers.

At the end of March we announced our Investment Approach, including the structure of the NEST Retirement Date Funds (the default offering) and the alternative fund choices that we will be offering at launch. We procured fund management services from Blackrock, State Street Global and UBS which will form the building blocks of the NEST Retirement Date Funds and the Higher Risk and Lower Growth funds, and we recently appointed HSBC to provide a Sharia equities fund and F&C to provide our Ethical equities mandate. We thank all of those who have engaged with us on these procurements throughout the year and our delivery partners for the commitment and expertise they have demonstrated.

We are on track to establish the scheme this year with volunteer employers, over a year before the onset of employer duties in October 2012. Launching a new product like NEST is not without risk. Whilst a thorough design, build and test process will mean that the product we launch should work well for our customers, launching with volunteer employers allows us to refine the service in line with real customer needs and experiences. We are delighted with the engagement we have had with employee benefit consultants and employers in wanting to work with us in this initial period. Over the 2011/12 financial year NEST will progressively roll-out in readiness for the onset of the employer duties.

Tim Jones
Chief Executive and Accounting Officer
NEST Corporation

5 July 2011

03 Trustee Members' report

3.1 About NEST Corporation

NEST Corporation is the trustee body responsible for setting up and running the NEST scheme. It was set up under the Pensions Act 2008 as a non-departmental public body (NDPB) that operates at arm's-length from government and is accountable to Parliament through the Department for Work and Pensions (DWP).

NEST Corporation was established by statute on 5 July 2010, taking over from the Personal Accounts Delivery Authority (PADA) which was wound up having delivered its objectives of designing the scheme and creating NEST Corporation. This report covers the period from 1 April 2010 to 31 March 2011, where appropriate commenting specifically on the period to 4 July 2010 when PADA was wound up.

NEST Corporation is the Trustee of the scheme. The Trustee currently has a Chair and nine other Trustee Members who have a fiduciary duty to act in the interests of scheme members.

Trustee Members set the strategic direction and objectives for NEST, overseeing the running of NEST to ensure it delivers value for scheme members' money.

The appointments of the Chair and the initial Trustee Members were made by the Secretary of State for Work and Pensions. Although these appointments do not come within the remit of the Commissioner for Public Appointments, they were made using a process which took into account the Commissioner's Code of Practice as best practice.

Key priorities

In 2010/11, NEST Corporation was created and staff, contracts, assets and liabilities were successfully transferred from PADA. We completed the procurement exercises for scheme administration services, fund administration services and much of the fund management required for the scheme. We signed a loan agreement with DWP to fund the setting up and operation of the scheme during its early years. At the end of the year we published our Statement of Investment Principles (SIP). All this was against the backdrop of a change of government and the Government's *Making automatic enrolment work review*, to which NEST Corporation contributed.

Looking ahead

In 2011/12 we will launch the NEST scheme. By making the scheme available to employers in advance of their employer duties (the requirement to automatically enrol employees into a qualifying pension scheme and make pension contributions) we will not only bring the benefits of NEST to scheme members sooner but we will also help to smooth the task of implementation.

We will also need to respond to any changes decided by Parliament during the passage of the Pensions Bill 2011.

3.2 Organisational structure and governance

NEST's strategy and objectives are set by the Trustee, comprising the Chair, Lawrence Churchill CBE, and currently nine other Trustee Members. As well as full meetings of Trustee Members, there are five supporting Trustee Member committees:

- Audit Committee
- Risk Committee
- Investment Committee
- Nominations and Governance Committee
- Remuneration Committee.

The terms of reference for each of these committees are published on our website at: **www.nestpensions.org.uk**

Trustee Members

Trustee Member profiles

Lawrence Churchill CBE, Chair

Lawrence is a member of the Board of BUPA, the Board for Actuarial Standards and the Good Energy Group. He is also a Trustee of the International Longevity Centre UK and a Governor of the Pensions Policy Institute.

Previous appointments have been as Chairman of the Pension Protection Fund, Senior Independent Director at The Children's Mutual, Chief Executive of Zurich Financial Services UK and International Life, Executive Chairman of UNUM and CEO of NatWest Life and Investments.

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

Tom Boardman, Trustee Member

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

He is a Fellow of the Institute of Actuaries, Honorary Visiting Professor at the Cass Business School and a Governor of the Pensions Policy Institute. Tom is a member of the Investment Governance Group chaired by the Pensions Regulator. Tom is also a Life Insurance Senior Adviser at the Financial Services Authority.

Laurie Edmans CBE, Trustee Member

Laurie is Deputy Chairman of MGM Assurance. This is a long established mutual that has become a specialist annuity provider. He is also Chairman of SHIP, the trade association for providers of equity release products, a director of the Money Advice Service and Chairman of the Trinity Mirror Defined Contribution pension scheme.

He is on the council of the Pensions Policy Institute and is a Director of Bdifferent, a specialist financial services branding and research agency. He is a Trustee of two charities, the Quest School for autistic children and the Family and Parenting Institute, where he is Treasurer.

Before joining NEST Corporation, Laurie was a Non-Executive Director of the Pensions Regulator, following three years on the board of its predecessor, OPRA.

He is a Fellow of the Pensions Management Institute and of the Chartered Insurance Institute.

Paul Hewitt, Trustee Member

Paul is currently Non-Executive Chairman of a number of companies including RJ Kiln & Co, The Good Care Group and Four Times Enterprises. Paul is also Non-Executive Director of Collins Stewart, Kiln Group and Co-operative Financial Services, where he is Chairman of the Audit and Regulatory Compliance Committee.

Paul was previously a Non-Executive Director of NEST Corporation's predecessor the Personal Accounts Delivery Authority (PADA).

He joined the Co-operative Group in 2003 where initially he was Chief Financial Officer before becoming Acting Chief Executive of Co-operative Bank, CIS and Smile and later, Deputy Group Chief Executive.

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

Chris Hitchen, Trustee Member

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

The scheme has assets of £17bn and Chris also chairs the group's FSA-authorised investment subsidiary Railpen Investments. Before joining the rail scheme as Chief Investment Officer in 1998, he worked for 12 years as an investment consultant and actuary to a number of UK pension plans.

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

Julius Pursaill, Trustee Member

Julius retired from full-time employment in 2001 and has since acted as a Non-Executive Director and consultant for a number of technology-based companies. These have predominantly been in the financial services sector including Barrie & Hibbert, Quay Software and Capita.

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

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

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

Sue Slipman, Trustee Member

Sue has been the Director of the Foundation Trust Network since October 2004. She was previously Chair of the Financial Ombudsman Service and was also Executive Director with Camelot Group where she was responsible for social responsibility and external affairs.

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

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

She has also chaired the Financial Services Authority's Schools Working Group on financial capability and was a Non-Executive Director of Thames Water until 2008.

Since the period end Iraj Amiri, Sharon Darcy and Nigel Stanley have been appointed as Trustee Members. Their appointments commenced on 20 June 2011 for terms of five years.

The Trustee Members are supported by an Executive Team led by the Chief Executive Officer (CEO) Tim Jones, who is also the Accounting Officer for NEST Corporation.

The tables below set out the membership of NEST Corporation committees, the Executive Team of NEST Corporation, and the Directors of PADA until the date of wind-up.

Details of meetings attended by Trustee Members during the year:

	Trustee Member meetings	Audit Committee	Risk Committee	Investment Committee	Nominations and Governance Committee	Remuneration Committee
Number of meetings	**10**	**6**	**6**	**10**	**3**	**5**
Lawrence Churchill	10	–	–	–	3	4
Tom Boardman	10	6	–	9	–	–
Laurie Edmans	10	–	6	–	–	4
Paul Hewitt[(1)]	8	6	6	–	–	–
Chris Hitchen	8	–	–	10	3	–
Julius Pursaill	10	6	6	9	–	–
Sue Slipman[(2)]	9	–	–	10	2	5
Dianne Hayter[(3)]	4	–	1	–	1	–

The above table shows the number of meetings individual Trustee Members have attended against the number of meetings held in the year. Trustee Members often attend meetings of committees for which they are not committee members. Such attendances are not included in the above figures. The information in the table reflects committee membership attendances only.

1 Paul Hewitt was also a Non-Executive Director of PADA.

2 Sue Slipman was appointed to the Nominations and Governance Committee following Dianne Hayter's resignation.

3 Dianne Hayter resigned on 1 October 2010.

Executive Team

The day-to-day management of NEST Corporation is the responsibility of the CEO who is supported by the Executive Team.

NEST Corporation: Executive Team	Position
Tim Jones[1]	Chief Executive
Nick Carter	General Counsel
Helen Dean[1]	Managing Director of Scheme Development
Mark Fawcett	Chief Investment Officer
Paul Greening	Finance Director
Sam Hainsworth	Chief of Staff
Simon Richards[1]	Business Delivery Director
Will Sandbrook	Head of Strategy
Clare Smithson	People, Property and Corporate Social Responsibility Director

1 Tim Jones, Helen Dean and Simon Richards were also members of the PADA Board.

PADA (1 April – 4 July 2010)

PADA was established as a non-departmental public body (NDPB) under the Pensions Act 2007. The Authority was responsible for providing advice and making recommendations to Government on the design of NEST and the creation of NEST Corporation. PADA was led by the Board which consisted of the Chair, Chief Executive, two Executive Directors and three Non-Executive Directors.

Details of meetings attended by PADA Board members during the period:

	Board meetings	Non-Executive Committee	Audit and Risk Committee	Remuneration Committee	Nominations Committee
Number of meetings	**3**	**3**	**2**	**1**	**0**
Jeannie Drake[1] (Acting Chair)	3	3	–	1	–
Paul Hewitt (Non-Executive Director)	3	3	2	1	–
Chris Willford (Non-Executive Director)	3	3	2	1	–
Alison Wright (Non-Executive Director)	3	3	–	1	–
Tim Jones (CEO)	3	–	–	–	–
Simon Richards (Executive Director)	2	–	–	–	–
Helen Dean (Executive Director)	3	–	–	–	–

The above table shows the number of meetings individual directors attended against the number of meetings held during the period 1 April to 4 July 2010. The information in the table reflects committee membership attendances only.

1 Jeannie Drake was appointed Deputy Chair Designate on 1 April but resigned prior to the establishment of NEST Corporation.

Trustee Members' meetings

Trustee Members held ten meetings during 2010/11. These meetings have focused on:

- the strategic direction of NEST and its programme of work
- development of key investment strategies
- establishing the financial arrangements for NEST Corporation

- ensuring appropriate governance
- providing support, challenge and guidance to the Executive
- actively reviewing scheme launch readiness.

As Trustee of the scheme, NEST Corporation has a legal duty to act in the interests of its scheme members and other beneficiaries and to comply with all regulatory requirements relating to pension schemes. Members of NEST Corporation – the Trustee Members – are responsible for the strategic direction of the Corporation and the scheme. Trustee Members also ensure that NEST Corporation complies with its duties as an NDPB.

At their inaugural meeting, NEST Trustee Members accepted an *Inheritance and Adoption Report* from PADA; this included details of the transfer of property, rights and liabilities to NEST Corporation. The report also set out the items that had been prepared for NEST Corporation to allow continued operations from 5 July 2010 including a work plan, budget for 2010/11, policies, controls, and a section on retained risk. The PADA Board had given its assurance that the items contained in the paper were fit for purpose.

Strategy

During their induction sessions, which took place before the launch of NEST Corporation, Trustee Members Designate reviewed in detail the vision and mission for NEST, which they adopted at their inaugural meeting as Trustee Members.

The Trustee Members approved the Corporate Plan for 2010-2013 and the business plan for 2010/11, both of which are published on our website **www.nestpensions.org.uk**. In the spring of 2011, Trustee Members agreed the budget for 2011/12 and this will be set out in the business plan for 2011/12. This will be available on the website in July 2011.

A two-day event was held with Trustee Members to initiate discussions on the long-term strategy, with further events to be held during 2011 to continue this work.

Loan agreement and framework document

Trustee Members gave detailed consideration to the proposed loan agreement with DWP to ensure that there was a sustainable funding solution for the future of NEST Corporation that was also in the interests of the future scheme members. This culminated in the signing of a loan agreement and framework document in November 2010.

Investment strategy and Statement of Investment Principles

During the year Trustee Members set out their investment strategy and published their first Statement of Investment Principles. This was the culmination of extensive research and wide consultation to ensure scheme members are at the heart of our investment approach.

Governance

Trustee Members adopted a governance framework, which continues to be refined to ensure it remains appropriate for the business.

Fundamental to NEST Corporation's governance is the work undertaken by the five committees established by the Trustee Members. Full reports on committee decisions and actions are reported to the Trustee Members' meetings. The work of each of these committees is presented below.

Trustee Members have delegated to the CEO responsibility for ensuring that the main day-to-day functions of NEST Corporation are carried out efficiently and effectively.

Investment Committee

At the Trustee Members' meeting in July 2010, the Investment Committee was established to provide an advisory and oversight role for Trustee Members on all investment matters relating to the NEST scheme. The Investment Committee, chaired by Chris Hitchen, also has decision making responsibilities which are set out in a table of delegations.

The Investment Committee and Trustee Members were integral to the development of the investment strategy and Statement of Investment Principles (SIP). The Investment Committee carried out the initial oversight of their development, including in relation to:

- investment beliefs
- development of the strategy for the default fund and alternative fund choices
- selection of fund managers
- approach to 'Responsible Investment'.

Audit Committee

The Audit Committee, chaired by Paul Hewitt, has provided an independent oversight, review and advisory role to the Trustee Members on all audit and control issues across NEST Corporation. The Committee has also advised on the structure of Internal Audit and compliance during the start up of the organisation and has been actively involved in assuring Trustee Members on these issues. Key areas of focus for the Committee included:

- the appointment of Deloitte as Internal Auditor to NEST Corporation and to the NEST scheme
- approval of the internal audit methodology and framework
- approval of the internal audit plans for 2010/11 and 2011/12 and oversight of their delivery
- approval of the compliance framework and the 2010/11 and 2011/12 compliance plans

- review of the assurance framework prior to scheme launch
- NEST Corporation's finance and treasury policy and procedures
- the National Audit Office (NAO) audit plan for 2010/11. NAO representatives attended all the Audit Committee meetings as statutory auditors for NEST Corporation.

Risk Committee

The Risk Committee, chaired by Julius Pursaill, has provided an independent review on all aspects of risk and risk management through engagement, oversight and challenge. The Committee has been active in reviewing the risk environment, risks associated with scheme development, and carrying out regular in-depth analysis of key risks. The Committee facilitated the development of a risk framework and the ongoing review of NEST's risk appetite by the Trustee Members.

Nominations and Governance Committee

The Nominations and Governance Committee, chaired by Lawrence Churchill, has been responsible for developing a governance structure which delivers a well run and controlled organisation. The Nominations and Governance Committee has led the recruitment of the Chairs of the Employer Panel and the Member Panel and recommended candidates to the Trustee Members. The Committee has noted the progress with the latest Trustee Member recruitment, and reviewed the progress of Trustee Members' knowledge and understanding (TKU) in line with the statutory requirements for all trustees.

Trustee Members were able to demonstrate compliance with these requirements through a combination of the Pensions Regulator's TKU online modules, other professional trusteeship competencies and a series of detailed in-house briefings.

Remuneration Committee

The Remuneration Committee, chaired by Sue Slipman, has provided oversight, review and advice to the Trustee Members on remuneration of senior executives and staff. The Committee is not responsible for reviewing the remuneration of the Trustee Members, which is determined by the Secretary of State in accordance with Schedule 1 to the Pensions Act 2008.

During the year the Committee:

- made recommendations for the terms of reference (based on the statutory functions of the panel as set out in the Pensions Act 2008, NEST Order 2010 and the NEST Rules) and the terms of appointment for the Chairs of the Employer Panel and Member Panel
- oversaw production of a draft strategy for the long-term location for NEST Corporation
- agreed the terms of the CEO's new contract
- agreed the travel and expenses policy for the Trustee Members.

Executive reporting

The CEO reported regularly to the Trustee Members on key matters, risks and the financial status of NEST, together with plans and progress towards scheme readiness. The Trustee Members used this information which, together with assurances from committees, helped to ensure they were satisfied that the Executive was carrying out the strategy and plans as anticipated. The CEO also reported informally to Trustee Members to keep them appraised of any upcoming business in between meetings.

Lawrence Churchill

Lawrence Churchill CBE
Chair

NEST Corporation

5 July 2011

Tim Jones
Chief Executive and
Accounting Officer
NEST Corporation

5 July 2011

04 Management commentary

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

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

The management commentary also discloses information about:

- principal risks and uncertainties
- information about persons with whom the organisation has contractual or other arrangements which are essential to its business
- environmental matters
- employee, social and community matters.

4.1 Statutory background

NEST Corporation presents its accounts for the year ended 31 March 2011. The financial statements for NEST Corporation are prepared in accordance with the requirements of Schedule 1 (part 3 paragraph 20) to the Pensions Act 2008, and in the form set out in the Accounts Direction issued by the Secretary of State for Work and Pensions. The Accounts Direction is presented at Annex 1 of this Annual report and accounts.

4.2 Principal activities

Details of NEST Corporation's statutory background and its primary activities are disclosed in the 'About NEST Corporation' section of this Annual report and accounts.

4.3 Business review

Current and future development and performance

By 4 July 2010, PADA had fulfilled its responsibility for the design of the NEST scheme and planning for the transition to NEST Corporation.

NEST Corporation's primary function as Trustee of NEST is to deliver and maintain the scheme. It has focused on three high-level objectives which support the overarching duty to act in scheme members' interests. These high-level objectives, which have been discussed with DWP, are:

- build the scheme
- build the organisation to run the scheme
- implement excellent governance structures, controls and information flows to ensure we are well managed.

Delivery against 2010/11 business plan

NEST Corporation made significant progress during 2010/11, keeping us on course to bring the first employers and members on board during 2011.

In line with the business objectives set out in our last Corporate Plan, this section sets out the key highlights of our delivery over this period.

Build the scheme:

- successfully completed the initial development work on our investment approach and launched the approach publicly
- procured the fund administration and fund management services to deliver our approach
- signed the second stage of our scheme administration contract and began testing the systems
- agreed funding for the scheme with the Government and signed the loan agreement
- made significant progress developing and producing a range of scheme communications materials, including launching *The NEST phrasebook*.

Build the organisation to run the scheme:

- made progress towards a final decision on NEST Corporation's long-term location
- moved towards a remuneration strategy for NEST Corporation that enables us to begin appointing permanent members of staff
- implemented a Corporate Social Responsibility strategy.

Implement excellent governance structures, controls and information flows to ensure we are well managed:

- established the corporate governance structure for NEST Corporation including agreeing the table of delegations to the Chief Executive and committees, and establishing the committee structure
- carried out a comprehensive induction programme for our incoming Trustee Members
- agreed and signed the *Framework Document* and *Memorandum of Understanding* with DWP
- established our policy framework
- established our risk and control framework
- appointed an Internal Auditor and established and implemented an internal audit plan
- defined and delivered an Information and Security Management Systems (ISMS) framework and, following independent audit, received approval to proceed to ISMS certification.

At the same time, there were some areas in which we recognise that we did not make as much progress as we would have wished. In particular, during the period of the *Making automatic enrolment work review* there were a number of constraints that affected our ability to procure services and recruit new people to replace leavers and fill newly arising needs.

While these constraints no longer hold us back, they did cause some delays to elements of our procurement, communications production and customer insight and research. These delays mean that some costs originally planned to fall in the period covered by this Annual report and accounts are likely to fall into the 2011/12 financial year.

Strategy for the future

In June 2011 we published our Corporate Plan for 2011-2014, setting out our key areas of focus for this period and our detailed business plan for 2011/12.

For this period, we have identified 11 business objectives around which we will organise our activity. They are to:

- ensure NEST is available for employers to use in order to fulfil their new duties
- successfully accept volunteer employers
- bring in sufficient members to set the scheme on the path to financial self-sufficiency
- develop a positive reputation and relationship with our customers
- provide an effective service to customers in line with the service level agreements we set out to them
- deliver investment performance consistent with the long-term investment objectives
- successfully implement our people strategy, ensuring we have the right people and culture in place to support successful delivery
- continue to develop our corporate governance structure
- effectively manage risk
- meet our compliance obligations
- implement effective financial and non-financial controls and information flows.

Further information on each of these, and the more detailed key performance indicators that sit beneath them, will be set out in our Corporate Plan, which will be published in summer 2011.

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

Going concern

The financing of NEST Corporation is met through a combination of loan and grant-in-aid funding via supply to DWP, which is approved annually by Parliament. During the year, we signed a loan agreement with DWP that provides future funding to NEST Corporation until income from scheme charges is sufficient to meet future costs and settle the loan liability. Our sensitivity analysis and modelling to support the loan indicate that available loan funding during 2011/12 will be sufficient to meet our financial obligations as they fall due. Consequently, the accounts accompanying this report have been prepared on a going concern basis.

Financial performance

NEST Corporation incurred expenditure of £30.8m during 2010/11 (2009/10: £34.5m). This was within the allocation set by DWP at the start of the financial year. This included staff costs of £15.2m (2009/10: £15.1m) and interest on the loan from DWP of £5.0m (2009/10: £1.7m). During the year we received grant-in-aid funding of £1.2m (2009/10: £1.8m) and drew down net loan funding of £78.9m (2009/10: £35.4m). At 31 March 2011, the balance on the loans from DWP was £120.0m (2009/10: £41.1m).

For the period 1 April to 4 July 2010, PADA incurred expenditure of £7.4m and received grant-in-aid funding of £0.3m and loan funding of £7.8m. The balance on the DWP loan at 4 July 2010 was £48.9m.

Overall expenditure during 2010/11 was lower than originally budgeted for in this period. This was partly because some key deliverables were not fully completed by the end of the financial year, due partly to the policy review and the expenditure controls introduced across the public sector. As a result, expenditure in 2011/12 will be higher than anticipated, but still within the framework set by the loan agreement with DWP.

By the end of the 2010/11 year, NEST Corporation had made advance payments totalling £27.6m to TCS for the setting up of scheme administration services, subject to TCS satisfying a number of outstanding milestone requirements. The Corporation held a cash balance of £22.9m at year-end to meet anticipated forthcoming payments to TCS and other planned expenditure.

4.4 Principal risks and uncertainties

NEST Corporation classifies its risks in line with good practice across the financial services and public sectors and other occupational pension schemes. Given the nature of the programme we are delivering, the areas of risk that we face assume different degrees of importance over time. In particular, this year our focus has been on the key programme risks associated with launching the scheme and risks arising from the *Making automatic enrolment work review*. As we move into live running, other risks, such as those around investment and operations, will begin to take precedence.

Key areas of risk

In total, at any one time we will be managing a significant volume of risks across different areas. The major high-level risks that we have faced during the reporting period are outlined below.

Member risk

The first members will join the scheme in 2011. The onset of employer duties in October 2012[1] will result in the enrolment of a significant number of members who will be new to pensions and savings.

There are a number of risks directly relating to member outcomes. There will be uncertainty regarding members' behaviour, in particular the levels of opt-out and savings persistency. These members may also make what turn out to be inappropriate investment decisions regarding fund choice and switching during the accumulation period and may make poor decisions when they come to open their retirement pot. The level of opt-out, persistency and the decisions taken by members may have a significant impact on their retirement incomes.

Our focus has been on developing our approaches to managing these risks ahead of those first members joining. We continue to develop our investment approach, which has been developed after extensive research into the potential scheme membership. The investment approach takes into account potential scheme members' attitudes to saving and risk as well as their likely risk capacity and expectations of incomes in retirement.

The investment approach will be designed to ensure that those scheme members who choose not to take an active role in how their contributions are invested can make that choice with confidence.

The availability of a well-constructed default fund is an essential part of automatic enrolment and is central to NEST's investment approach. NEST default funds are designed to be suitable for most members, however, some members may wish to choose an alternative fund. The Trustee will endeavour to ensure that NEST provides a suitable level of choice to meet these members' needs. In addition we will develop a web based process to guide members through opening their retirement pot.

Scheme delivery risk

The onset of employer duties in October 2012 requires us to deliver a fully operational and resilient scheme capable of supporting pension reforms that affect millions of potential members and their employers. The launch of the scheme during 2011 will build credibility in our product and services, and increase understanding of employer and member behaviour. We do not underestimate the scale of this challenge.

[1] *Subject to changes proposed in the Pensions Bill 2011, employers may be able to bring their duty date forward to July 2012.*

We continue to drive ourselves and our suppliers against a detailed delivery plan that stimulates the close co-operation model we have established. Funding arrangements are established with the Government and the key service provider contracts necessary for the 2011 launch are in place. In addition, strong governance is in place to monitor progress against the plan, key programme risks and outside factors that may impact the delivery of the scheme.

Scheme volume risk

The number of employers that choose to use NEST, the manner in which they fit NEST around existing arrangements and the likelihood of their workers opting out are all uncertain. These decisions will be affected by the quality of our proposition, by the attitudes of pension providers, other employers, the media and advisers. These attitudes are unlikely to settle until after the onset of employer duties. All of this may influence the numbers who will participate throughout staging (the process specified in legislation which determines when each tranche of employers will be impacted by the employer duties) and in turn, impact our ability to meet the conditions of our funding arrangements with the Government.

We continue to shape our product around customer requirements, ensuring that NEST delivers for workers in our target market, for their employers and for the advisers who will guide employer choices. Close and ongoing engagement with employers, advisers, the media and a broader community of stakeholders ensures that this proposition is well understood and enables us to respond quickly to any negative sentiment.

Operational continuity risk

Like all organisations, NEST and our key service providers face the potential for significant unplanned interruption to scheme delivery and ongoing operational continuity. Major interruption may cause failure of critical business and operational processes, damage to our reputation as a safe and secure scheme and exposure to market risks.

NEST has in place clear business continuity plans that are the subject of continued focus, review, testing and audit. Service provider business continuity is a core contractual requirement. It is also subject to rigorous review and testing to ensure plans remain fit for purpose as NEST develops ahead of scheme launch and the onset of employer duties in 2012. In addition, critical business processes are identified and subjected to increased operational scrutiny across all parts of NEST.

Key staff retention and attraction

NEST Corporation must attract a mixture of resources and skills needed for delivery of the scheme at launch and beyond. This requires flexibility to respond to these changing requirements and there is a risk that further resource constraints could seriously impact NEST Corporation's ability to acquire the skills needed for delivery.

By moving towards a job family structure with transparent grades and salary bands, as well as longer-term contracts, and in some cases permanent roles, we will move away from the uncertainty within a fixed term workforce, towards a more stable talent pool. Permanent contracts will also be more attractive in the external market improving our employer brand proposition. In addition, we are developing a compelling retention approach which will incorporate learning and development policies and our employee recognition scheme.

Further information on NEST Corporation's risk and control framework, including processes for identifying, assessing and managing risk, is provided in the *Statement on Internal Control* (page 40).

4.5 Key relationships

Key business relationships

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

Stakeholders

NEST Corporation values the input of our stakeholders highly. These stakeholders include potential scheme members and participating employers, members of the public, financial organisations, other providers, intermediaries and government bodies, as well as representatives from employer, employee and consumer groups.

In order to help design NEST in the best way, PADA regularly sought the views of interested parties and experts. It gathered views on various topics in a number of ways including carrying out consultations. What PADA learnt from these consultations has been used for a range of different purposes including:

- helping make decisions on creating NEST
- advising Government on designing NEST
- informing recommendations to NEST Corporation.

The areas PADA consulted on included the charging structure for NEST, how NEST funds will be invested and how scheme members will secure their retirement income. PADA and DWP issued a joint consultation paper setting out proposals on the legal framework for NEST. These consultations are available online at **www.nestpensions.org.uk**

Employer Panel and Member Panel

In spring 2011 NEST Corporation began recruitment for the Chairs of the Employer Panel and Member Panel required under the Pensions Act 2008 and the scheme Order. Recruitment for members of both panels is progressing and it is hoped that the panels will be in place by July 2011.

Employer Panel

A panel of employer representatives will be set up to represent employers' views to NEST Corporation. This will allow employers to have some influence on the decision making process of the scheme.

Member Panel

A Member Panel will represent the scheme members' views to NEST Corporation. This will give members an opportunity to express views that can have a practical effect on the scheme.

4.6 Towards a Corporate Social Responsiblility strategy

NEST Corporation is developing a Corporate Social Responsibility strategy to define the full range of its corporate responsibilities. This year we report against a limited range of these including some environmental, employee and social investment issues. We are committed to reporting fully against a much more developed set of commitments next year.

4.7 Environmental matters

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

We are also committed to promoting and developing our Environmental policy. We formally review our office procedures every six months to ensure we are actively reducing our environmental impact. The policy also ensures that we are focused on environmental issues by:

- increasing the proportion of recyclable waste while aiming to reduce our total waste volume
- maximising the use of public transport in preference to other forms of transport

- ensuring electricity usage is kept to a minimum
- working towards increasing environmentally friendly office supplies
- seeking to continually improve the sustainability of our supply chain.

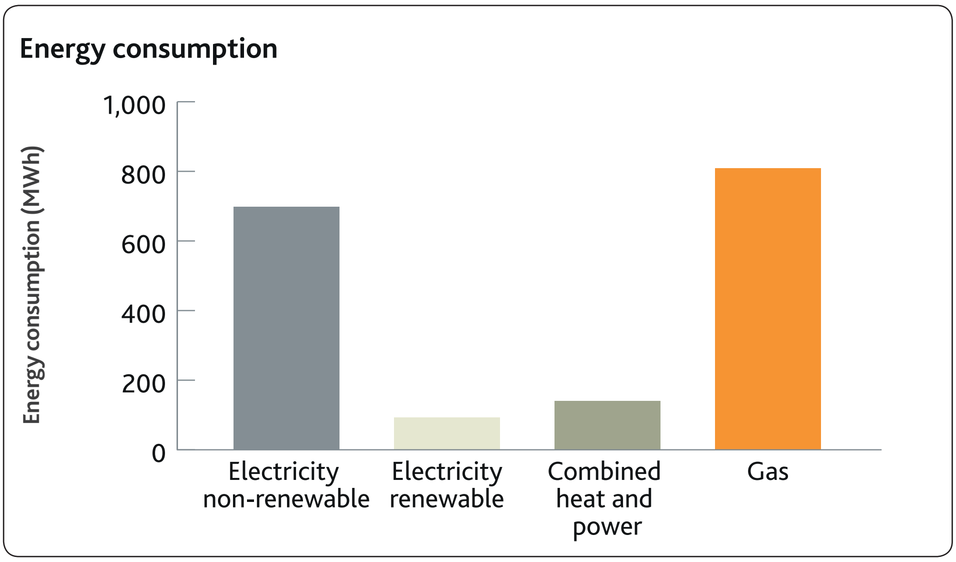
From 2011/12, HM Treasury is introducing a requirement for most public sector bodies covered by the *Government Financial Reporting Manual (FReM)* to prepare a sustainability report. Although NEST Corporation falls outside of this requirement, in keeping with its commitment towards a sustainable environment, the Corporation intends to produce a full sustainability report for 2011/12. In preparation for a full report next year, presented below is our environmental data and associated financial costs for 2010/11. Comparative data for 2009/10 is not available.

The data presented below represents NEST Corporation functions located at its head office, St Dunstan's House. NEST Corporation also had two small operations located within other goverment estate. The data for these sites will be covered within the relevant Departmental reports.

Energy consumption and emissions

Energy consumption

	MWh	£000
Electricity non-renewable	698	
Electricity renewable	93	88.2
Combined heat and power	140	
Gas	809	20.7
Total	**1,740**	**108.9**



NEST Corporation has replaced many high energy consuming spot lights with LED spot lights. We have changed over to a sustainable green energy supplier and we have implemented procedures to ensure that plant equipment and internal lighting is not running outside of core office hours. The heating boilers are also completely switched off over the summer months to reduce gas usage. NEST Corporation's total energy consumption was 1,740MWh and currently falls outside of the *Carbon Reduction Commitment* full requirement.

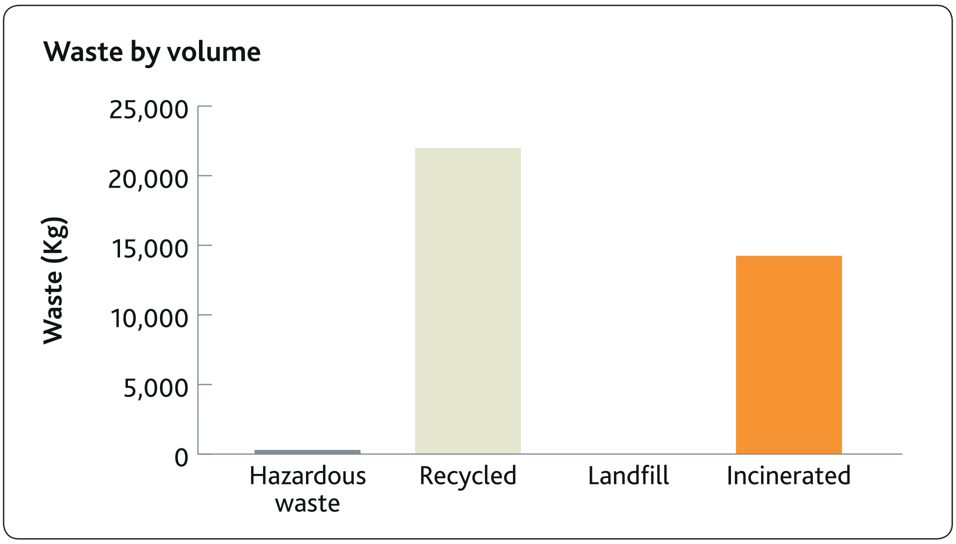
Travel emissions

	CO_2 Kg*
Rail	30,745
Air	93,595
Total	**124,340**

* *Travel emissions include only emissions on travel arranged via our corporate travel supplier.*

Waste

		Kg	£000
Non-hazardous waste	Recycled	21,984	
	Landfill	0	
	Incinerated	14,253	
Hazardous waste		308	
Total		**36,545**	**12.5**



NEST Corporation's recycling rate for 2010/11 was 61%. We undertook two waste audits during this period to help us reduce our waste streams and we are looking at introducing a one bin recycling scheme for 2011/12, which will make recycling easier in the workplace. The Corporation currently operates below the Environment Agency's hazardous waste exemption threshold of less than 500Kg.

Water consumption

	Meters³	£000
Water consumption	4,462	6.2
Waste water	4,462	2.5
Total		**8.7**

We have a number of internal checks to ensure that our systems and infrastructure are operating correctly and without leaks. Through this process a problem was identified with the water softener make up tank which resulted in an unacceptable level of water being wasted. This issue was rectified and the level of water being wasted was reduced.

Throughout 2011/12 NEST Corporation will also take all necessary steps to ensure it can report on further data streams. The Corporation will also look to set itself future sustainability targets and use the data above as a benchmark for future years.

4.8 Employee, social and community matters

Health and safety

NEST Corporation, and its predecessor PADA, have aimed to promote a healthy and harm free environment. We have established a Health and Safety policy which sets out to promote high standards of health, safety and welfare at work at all times. NEST Corporation believes that the workforce deserves the highest standards of health and safety and that we will exceed the standards required by regulations and legislation wherever possible. To this end, NEST Corporation has established a health and safety framework which details the arrangements for health and safety.

There were no reportable accidents in our offices under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations (RIDDOR). Three accidents of a minor nature were recorded in the accident books in St Dunstan's House and one in Newcastle. No accidents were reported in the Leeds office.

Equality and diversity

NEST Corporation is committed to promoting equal opportunities and diversity thereby ensuring that the human resources, talent and skills of all our people are maximised. We do this by applying policies and procedures that are consistent and fair and recognise the expertise of each individual. NEST Corporation is covered by its public duties to promote equality: the Race Equality Duty; the Gender Equality Duty and the Disability Equality Duty. We carry out our duties with due regard to the need to eliminate unlawful discrimination, promote equality of opportunity and promote good relationships between people of different racial groups. As part of the staff induction process, new employees are introduced to NEST Corporation's Single Equality Scheme and are made aware of the Harassment and Bullying policy.

Succession planning

As we transition from a fixed term to a permanent workforce, our new employment contracts will have a three month notice period for all managers at Head of Department level and above. In addition, Executive Managers are going through a process with the People, Property and Corporate Social Responsibility Director to identify our key/critical skills and to put appropriate succession plans in place.

Sickness absence

NEST Corporation has built on PADA's commitment to its people. We have created a supportive environment where individuals are encouraged to perform to their full potential. The high levels of motivation that exist within NEST Corporation contribute to a very low rate of sickness absence. In 2010/11, the average amount of time per employee which was lost to sickness was 3.3 days (2009/10: 4.1 days).

Pension arrangements

Pension arrangements for NEST Corporation employees are provided in the Remuneration report, accounting policy note 1.9 and note 2b to the financial statements.

Support for social and community issues

We strive to be a responsible partner within the local community by supporting community initiatives and local charities. Through our Employee Volunteering policy we encourage our people to find new ways to have a positive impact on the communities in which we live and work.

Many staff members were involved in the *Bring a Better Christmas* initiative, donating and then wrapping presents to be distributed to charities around St Dunstan's House.

We ran a Christmas card competition with a local school, where the winning entry in both paper and electronic formats was chosen and sent out on behalf of NEST Corporation.

We launched our Community Investment policy in October 2010 on *Jeans for Genes Day* and we have subsequently held a number of charitable events which have raised almost £2,000 by way of donations from staff.

We now have community dedicated pages on our intranet and have also recently introduced a Give As You Earn scheme and childcare vouchers for NEST Corporation.

We support the *Better Bankside wellbeing @ work initiative*. In December 2010 staff were invited to attend free *wellbeing @ work* sessions which included a free health check and a package of treatments covering nutrition, mental well being and physical exercise. Demand for this was so high we organised a further session in March 2011.

4.9 Register of interests

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

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

The Board of PADA also maintained a register of interests and declared any potential conflict with their responsibilities to PADA/NEST. This register was published on the PADA website.

4.10 Auditors

The Comptroller and Auditor General is the statutorily appointed auditor for NEST Corporation under the provisions of Schedule 1 (part 3 paragraph 20) to the Pensions Act 2008. The cost for the work performed by the auditors for the year-ended 31 March 2011 is £85,000.

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

During the year, neither NEST Corporation nor PADA made any payments to their respective auditors for non-audit work.

4.11 Political and charitable donations

Neither NEST Corporation nor PADA made any political or charitable donations in the year.

4.12 Information and data management

NEST Corporation is committed to establishing and supporting a secure electronic environment to conduct its business and has established a comprehensive Information Security Management System (ISMS) that has been recommended to proceed to certification against ISO 27001:2005. The Corporation has also established a Data Protection policy. The policy complies with the Data Protection Act 1998 and other regulations for the purpose of ensuring the security and use of personal data.

As an NDPB, NEST Corporation is required to provide detailed information on our management of information risk, and compliance with the relevant aspects of the Security Policy Framework for the Department for Work and Pensions, which is incorporated within the DWP submission to the Department's Senior Information Risk Officer.

During 2010/11, there was no loss or compromise of personal data.

4.13 Payments to suppliers

In accordance with HM Treasury's publication *Managing Public Money*, NEST Corporation complies with the British Standard for Achieving Good Payment Performance in Commercial Transactions and with the Late Payment of Commercial Debts (Interest) Act 1998, as amended. We aim to pay all undisputed invoices within 30 days of receipt (or other terms as may be applicable). It is NEST Corporation practice to:

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

During 2010/11 the average time taken to pay suppliers was 18 days, compared to 30 days in 2009/10. At the time PADA was wound-up (4 July 2010), the average time taken to pay suppliers was 29 days.

The value of debt owing to creditors at 31 March 2011 amounted to five days' invoices (31 March 2010: 21 days).

4.14 Events after the reporting date

On 20 April 2011, NEST Corporation received ISMS certification, providing independent assurance on the effectiveness of our information security management systems governance and control framework

Since 31 March 2011, NEST Corporation has appointed three new Trustee Members and the Chairs of the Employer Panel and the Member Panel.

Tim Jones
Chief Executive and Accounting Officer
NEST Corporation

5 July 2011

05 Remuneration report

This Remuneration report covers the period from 1 April 2010 to 31 March 2011, showing separately the period covered by PADA (1 April 2010 to 4 July 2010). For the period since 5 July 2010, the remuneration disclosures include only NEST Corporation Trustee Members and the CEO, being the only individuals that make decisions spanning the entire organisation. For the period 1 April 2010 to 4 July 2010, PADA decision making was performed by the PADA Board for which separate disclosures are made.

Jeannie Drake was the Acting Chair of PADA, appointed to the role by the Secretary of State for Work and Pensions. She was contracted to work five days per calendar month. Lawrence Churchill was appointed Chair of NEST Corporation by the Secretary of State for Work and Pensions. He is contracted to work 2.5 days per week. All other NEST Corporation Trustee Members (of which there were seven in the period) were appointed initially as Trustee Members Designate and then became Trustee Members of NEST on 5 July 2010. All are contracted to work 30 days per annum. Trustee Members were appointed by the Secretary of State for an initial period of either four or five years.

PADA's Remuneration Committee comprised three independent Non-Executive Members. These were Alison Wright, Paul Hewitt and the Committee Chair, Chris Willford. During the period 1 April to 4 July 2010 this Committee met on one occasion.

NEST Corporation's Remuneration Committee was established in September 2010 with the inaugural meeting being held on 7 September 2010. The Committee comprises three Trustee Members; Sue Slipman (Chair), Lawrence Churchill and Laurie Edmans. The Committee met five times in the period to 31 March 2011. Key issues discussed during this period were:

- the adoption of the terms of reference
- payment of the PADA bonuses (the liability to pay bonuses for the 2009/10 review year had been transferred from PADA to NEST Corporation under the Transfer of Undertakings (Protection of Employment) Regulations)
- recruitment of panel members
- the retention strategy
- the location strategy
- the reward strategy.

NEST Corporation's Remuneration Committee reviewed the options available to them to make a decision to pay bonuses using the model adopted by PADA. In doing so the Committee took into account the additional caps that Ministers had imposed on DWP and their sponsored NDPBs for people in Senior Civil Service (SCS) pay bands (PB):

- for SCS PB1 on a salary of £58,200 to £80,000 the bonus cap is £7,000
- for SCS PB2 on a salary of £80,000 to £135,000 the bonus cap is £8,500
- for SCS PB3 on a salary above £135,000 the bonus cap is £10,000.

The bonuses included in the table on pages 37 and 38 reflect these caps.

The Chief Executive and Executive Directors of PADA were eligible to join the PADA Group Personal Pension Plan, a defined contribution pension scheme which transferred to the NEST Corporation Group Personal Pension Plan, on 5 July 2010. Simon Richards was the only member of the PADA Board to join the scheme and during the period 1 April to 4 July 2010, PADA made contributions totalling £4,184 to Simon's pension fund (2009/10: £16,140).

There have been no compensation payments made in respect of early contract termination or loss of office to any former senior managers of PADA or NEST Corporation. Neither PADA nor NEST Corporation provided Directors with any benefits other than those listed in the table below.

NEST Corporation has continued with the remuneration strategy that was established by PADA for directly employed, fixed-term contract staff in accordance with section 4.20 of the current Framework Document.

The strategy applied to all directly employed staff and consisted of:

- participation in a non-consolidated annual bonus scheme of up to 20% of basic salary, subject to the bonus caps mentioned above
- an invitation (upon appointment) to join the NEST Corporation (formerly PADA) defined contribution pension scheme, to which employer contributions were 8% for those who participate
- 25 days paid holiday per annum*
- critical illness cover
- death in service life cover of three times salary.

* *Holiday entitlement for Tim Jones has been negotiated as 30 days per annum.*

Remuneration

The information in the table below has been audited.

	Contract details			1 April 2010 – 4 July 2010		2010/11			2009/10		
Name and position#	Contract start date	Unexpired term as at 31 March 2011	Notice period	Salary and allowances paid (£000)	Taxable expenses (to nearest £100)	Full-year equivalent salary and allowances (£000)	Salary and allowances paid (£000)	Taxable expenses (to nearest £100)	Salary and allowances paid (£000)	Bonuses paid (£000)	Taxable expenses (to nearest £100)
Lawrence Churchill Chair[1]	01-Feb-10	3years 10 months	6 months	N/A	N/A	95-100	70-75	13,600	N/A	N/A	N/A
Paul Hewitt[2,7] Trustee Member	01-Apr-10	3 years	6 months	5-10	1,800	20-25	20-25	3,800	20-25	N/A	–
Sue Slipman[3] Trustee Member	01-Apr-10	4 years	6 months	N/A	N/A	20-25	15-20	–	N/A	N/A	N/A
Laurie Edmans[3] Trustee Member	01-Apr-10	3 years	6 months	N/A	N/A	20-25	10-15	–	N/A	N/A	N/A
Julius Pursaill[3] Trustee Member	01-Apr-10	3 years	6 months	N/A	N/A	20-25	15-20	800	N/A	N/A	N/A
Tom Boardman[3] Trustee Member	01-Apr-10	4 years	6 months	N/A	N/A	20-25	20-25	500	N/A	N/A	N/A
Chris Hitchen[3] Trustee Member	01-Apr-10	4 years	6 months	N/A	N/A	20-25	10-15	–	N/A	N/A	N/A
Diane Hayter[3] Trustee Member	01-Apr-10	N/A	Resigned Oct 2010	N/A	N/A	20-25	5-10	–	N/A	N/A	N/A
Tim Jones[4] Chief Executive	08-Oct-07	2 years 9 months	3 or 6 months[5]	60-65	–	235-240	235-240	–	235-240	5-10[6]	–
Jeannie Drake[7] Acting Chair (PADA)	17-Sep-07	N/A	N/A	20-25	–	85-90	20-25	–	85-90	N/A	–
Chris Willford[7] Non-Executive Member (PADA)	15-May-08	N/A	N/A	5-10	100	20-25	5-10	100	20-25	N/A	–

Name and position[#]	Contract details			1 April 2010 – 4 July 2010		2010/11			2009/10		
	Contract start date	Unexpired term as at 31 March 2011	Notice period	Salary and allowances paid (£000)	Taxable expenses (to nearest £100)	Full-year equivalent salary and allowances (£000)	Salary and allowances paid (£000)	Taxable expenses (to nearest £100)	Salary and allowances paid (£000)	Bonuses paid (£000)	Taxable expenses (to nearest £100)
Alison Wright[7] Non-Executive Member (PADA)	15-May-08	N/A	N/A	5-10	–	20-25	5-10	–	20-25	N/A	–
Simon Richards[8] Director (PADA)	10-Sep-08	N/A	N/A	50-55	–	200-205	50-55	–	200-205	5-10[6]	–
Helen Dean[8] Director (PADA)	01-Feb-09	N/A	N/A	25-30	16,700	105-110	25-30	16,700	105-110	5-10[6]	40,100

[1] Lawrence Churchill was appointed NEST Corporation Chair Designate on 1 February 2010, taking up the post as Chair on 5 July 2010. During the period of his tenure as Chair Designate he was paid by DWP.

[2] Paul Hewitt was appointed a Trustee Member Designate on 1 April 2010 but remained a Non-Executive Member of the PADA Board until 4 July 2010. On 5 July 2010 he became a Trustee Member of NEST Corporation.

[3] Trustee Members were appointed with effect from 1 April 2010. During the period 1 April 2010 to 4 July 2010 they held the position of Trustee Members Designate and were remunerated by DWP. They took up their posts as NEST Trustee Members on 5 July 2010. Trustee Members' salaries shown as being paid in the period are for days worked that were paid by NEST Corporation since 5 July 2010 with the exception of Paul Hewitt (see note 2).

[4] Tim Jones' contract was extended from January 2011 to January 2014.

[5] Depending on circumstances.

[6] These bonuses were paid in 2010/11 but relate to the 2009/10 performance year. Bonus payments for Tim Jones and Simon Richards, paid in October 2010, were capped at £10,000. Helen Dean's bonus, paid in January 2011, was capped at £8,500. Bonuses for 2010/11 may become payable once they have been determined and agreed by NEST Corporation's Remuneration Committee and approved by the Trustee Members. Such bonuses will be reported in the first financial statements approved by the Trustee after payment has been agreed by the Remuneration Committee.

[7] The contracts for Acting Chair Jeannie Drake, Paul Hewitt, Chris Willford and Alison Wright automatically came to an end when PADA was wound up on 4 July 2010. Paul Hewitt was appointed a NEST Corporation Trustee Member on 5 July 2010.

[8] Simon Richards and Helen Dean were Directors of PADA. Helen Dean, who is seconded from DWP, ceased her secondment with PADA on 2 July 2010. DWP agreed a new secondment to NEST Corporation from 5 July 2010 to 31 December 2011. The salary and allowances reported as paid to Helen Dean include a secondment allowance. In addition to the amounts disclosed in the table for the period 1 April to 4 July 2010 in respect of Helen Dean, PADA also paid DWP for Employer's National Insurance costs of £3k (2009/10: £11k) and employer pension contributions of £5k (2009/10: £19k). The amounts shown for Helen Dean and Simon Richards for 2010/11 relate solely to the period 1 April 2010 to 4 July 2010 – the period during which they were Members of the PADA Board.

[#] During the period 1 April until 4 July 2010, £54.7k (2009/10: £231k) was paid to Michael Page International, a third party agency, for the services of John Crilly, interim Finance Director. John Crilly attended PADA Board meetings, however, he was not appointed by the Secretary of State as a Member of the PADA Board.

Tim Jones
Chief Executive and Accounting Officer
NEST Corporation

5 July 2011

Statement of Accounting Officer's responsibilities

Under Schedule 1 (part 3 paragraph 20) to the Pensions Act 2008, the Secretary of State has directed NEST Corporation to prepare for each financial year a statement of accounts in the form and on the basis set out in the Accounts Direction. The Accounts Direction requires that the accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of NEST Corporation and of its income and expenditure, changes in taxpayers' equity and cash flows for the financial year.

In preparing the accounts, the Accounting Officer is required to comply with the requirements of the *Government Financial Reporting Manual* and in particular to:

- observe the Accounts Direction issued by the Secretary of State, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards as set out in the *Government Financial Reporting Manual* have been followed, and disclose and explain any material departures in the financial statements; and
- prepare the financial statements on a going concern basis.

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

Tim Jones
Chief Executive and Accounting Officer
NEST Corporation

5 July 2011

Statement on Internal Control

Scope of responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of National Employment Savings Trust (NEST) Corporation policies, aims and objectives, whilst safeguarding the public funds and assets for which I am personally responsible, in accordance with the responsibilities assigned to me in *Managing Public Money.*

NEST Corporation operates at arm's-length from government and is accountable to Parliament through the Secretary of State for Work and Pensions. As such, NEST Corporation operates within the boundaries of an agreed Framework Document and a Memorandum of Understanding. The CEO has been appointed as the Accounting Officer for NEST Corporation.

Background

NEST Corporation is a trustee corporation that was established on 5 July 2010 as a successor organisation to the Personal Accounts Delivery Authority (PADA). NEST Corporation has taken responsibility for delivering the scheme as a partner in the Workplace Pension Reform programme. NEST Corporation is sponsored by the Department for Work and Pensions (DWP) and its working relationship with the Department is set out in a Framework Document and in a Memorandum of Understanding; these were agreed between both parties on 11 November 2010 and 19 April 2011 respectively. The function of NEST Corporation is to act as the Trustee of NEST.

NEST Corporation is responsible for ensuring that the scheme is delivered and run in the interests of its members. It comprises individual Trustee Members, all of whom provide their services part time, consisting of a Chair and currently nine other Trustee Members. These Trustee Members will set the strategic direction and objectives for NEST Corporation in a way that is best for scheme members.

In accordance with the Accounts Direction, this Statement on Internal Control covers the year to 31 March 2011, including the activities of PADA during the period 1 April to 4 July 2010. On 5 July 2010 PADA's functions were transferred to NEST Corporation, under the Pensions Act 2008. I was also the Accounting Officer for PADA from 1 April to 4 July 2010, and the Authority had its own governance and assurance arrangements, which I have drawn on in preparing this Statement on Internal Control. Specific reference has been made in my statement where internal control systems have changed during the course of the year.

The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of NEST Corporation policies, aims and objectives; evaluate the likelihood of those risks being realised and the impact should they be realised; and manage risk efficiently, effectively and economically.

The system of internal control has been in place in NEST Corporation for the year ended 31 March 2011 and up to the date of approval of the Annual report and accounts, and accords with Treasury guidance.

Control environment

NEST Corporation inherited the programme delivery functions of PADA at a key point in the programme's delivery and early priority has been to ensure continuity in those areas. Programme delivery has therefore formed the bulk of our work in 2010/11 and will be a significant element of it for some time to come.

Although the control activities in place throughout the year have focused on managing the successful delivery of the programme, NEST Corporation began establishing the business as usual functionality needed to run a pension scheme on a day-to-day basis. This functionality will need to be ready quickly, with the first members of the NEST scheme due to join in the 2011/12 financial year.

Organisation structure

A full complement of Trustee Members was appointed, each as designate prior to the launch of NEST Corporation. Subsequently, one Trustee Member Designate and one Trustee Member resigned their positions. Further recruitment activities are currently underway to ensure that the appropriate breadth of knowledge and skills are maintained.

All our Trustee Members have completed or are working towards the Pensions Regulator's Trustee Toolkit certification. In addition, they have received a series of briefings on trustee knowledge and understanding including aspects specific to NEST Corporation, such as the scheme Order and Rules. This helps them to govern the scheme in live operation.

We have set up a number of sub-committees, each chaired by a Trustee Member, to focus on key aspects of monitoring and control. These are Audit, Risk, Investment, Nominations and Governance, and Remuneration Committees. Their remits include:

- verifying and auditing the accuracy of the accounting records and processes
- preparing our investment strategy and principles
- overseeing the management of risk
- ensuring our compliance with regulatory obligations and our Remuneration policy.

The Nominations and Governance Committee is responsible for setting the overall design of our governance approach for the CEO to implement. This is achieved through a schedule of delegations established by the Trustee Members to the CEO, who is responsible for the day-to-day operations and management of NEST Corporation with oversight by the Trustee Members.

Under the NEST Order 2010, Article 8, Trustee Members are required to consult members of the scheme and participating employers about the operation, development or amendment of the scheme through an Employer Panel and a Member Panel. They must be established within twelve months of the first contribution being received by the scheme. At the year-end, NEST Corporation was in the process of recruiting the Chairs of each panel and it is envisaged that they will commence in summer 2011. The panels will, for example, comment on any proposed changes on the Statement of Investment Principles, provide advice on the operation of the scheme and be consulted on any changes to the NEST Order.

NEST Corporation policy

Policies that set out how we operate are a core element of our governance and internal control system. A suite of policies was in place across PADA and has remained in place across NEST Corporation since 5 July 2010. These policies provide transparency in how we respond to legal and regulatory requirements and how we operate on matters of importance in support of a culture of accountability. These policies cover a wide range of risks including human resource matters, workforce strategy, finance, procurement, information technology, governance and risk management.

During the course of the year, early work has been conducted to ensure that NEST Corporation has in place a robust framework for setting and applying policies. The Risk Committee is responsible for reviewing the effectiveness of this framework and that NEST Corporation has a suite of policies that remain appropriate for NEST as an operational pension scheme. The Audit Committee reviews the adequacy of compliance with policies in place supported by the Compliance function and Internal Audit.

Financial management and reporting

Building on the policies and procedures that existed in PADA, NEST Corporation has put in place a comprehensive Financial Policy and Procedures document which was signed off by the Trustee Members in October 2010. The document takes account of HM Treasury's publication *Managing Public Money*, but is augmented to reflect the structures and delegations that exist within NEST Corporation. The financial policies and procedures established by NEST Corporation place a strong emphasis on delivering value for money and ensuring proper stewardship of funds. Controls and accountabilities, including strict segregation of duties and system access controls, are integrated in the end-to-end process of procurement to supplier payment.

An established budget process ensures all departments submit their requirements which are reviewed and challenged by the Finance department, culminating in a star chamber process, led by the CEO, to critically evaluate expenditure and headcount against required deliverables. Budgets are agreed with DWP and a formal allocation letter issued to each department. Monthly forecast reviews take place between each department head and their Finance Business Partner ensuring the Finance department is forecasting NEST Corporation costs in accordance with latest assumptions. A mid-year review is carried out to ensure expenditure forecasts remain as accurate as possible. Checkpoint meetings between NEST Corporation's Finance department and DWP's Sponsorship team occur monthly to discuss the management accounts and key financial issues.

Management accounts are issued monthly to each department head detailing expenditure and headcount incurred within the period, forecast expenditure and variance analysis. Reports summarising all NEST Corporation spend, forecasts, statement of financial position, key risks and opportunities are issued monthly to the Executive Team members, Trustee Members and to DWP.

People, accountability and performance management

A star chamber process has been in place since 1 April 2010 which is used for forecasting headcount requirements department by department and is completed on a quarterly basis. Line managers submit resourcing requirements to their department director and once agreed these are approved by the CEO. Previously these submissions were sent to DWP for final sign off prior to recruitment, however, since February 2011 the CEO for NEST Corporation has been given delegated authority to recruit business critical roles without the need for DWP approval in advance.

NEST Corporation has a comprehensive performance review process in place with employees being evaluated from 1 April to 31 March each year. All employees agree performance objectives with their line manager and these are revisited, discussed and reviewed on a monthly basis. Objectives are agreed for both the probationary period of employment and then for the ongoing employment of staff once they have completed their probation. Formal reviews are completed at mid-year (September/October) and end of year (March/April). The Director of People, Property and CSR carries out a full review of scores across the organisation to ensure that fair practices are maintained. A final review of ratings is carried out by the Executive Team members and this information is used to allocate bonus payments.

We regularly produce a series of metrics on a monthly, quarterly, annual and ad hoc basis according to requirements. These demonstrate a variety of human resource measures including: resourcing data; starters; leavers; various absence levels; equality and diversity; pay; pension statistics and employment status.

The risk and control framework

Risk is a fundamental part of everything we do as an organisation. The process for identifying and assessing risk is an integral and inseparable part of the management skills, performance culture and processes which are the core of our business. Our approach to risk management is delivered in practice through the application of NEST Corporation's Risk Management Framework, the core components of which are explained in the following sections.

Risk management approach, structure and accountability

Trustee Members are responsible for ensuring that there is a continuous process for indentifying, evaluating and managing any material risks faced by the organisation and for ensuring that it is effectively implemented and managed. As such, Trustee Members are responsible for overseeing risks including:

- the extent and categories of risk the Trustees Members regard as acceptable for the organisation to bear
- the likelihood of those risks materialising
- the organisation's ability to reduce the incidence or impact of any risks that do materialise
- the costs of operating particular controls relative to the benefit from managing the related risk
- reviewing and approving the Risk Management policy
- reviewing and approving the Risk Management Framework
- reviewing and approving the organisation's risk appetite
- monitoring the organisation's risk profile and recommending actions as they see appropriate.

In common with best practice in financial services, NEST Corporation operates the 'three lines of defence' model. Business management provides the first line of defence and is responsible for the identification and assessment of risks and controls. The second line is provided by the Risk function together with risk policy owners who provide support and challenge the completeness and accuracy of risk assessment and the adequacy of mitigation plans. Internal Audit constitutes the third line, by providing independent and objective assurance on the robustness of the risk management framework and the appropriateness and effectiveness of internal controls. In line with the recommendation of the Walker Review, NEST Corporation has a dedicated Risk Committee composed entirely of Trustee Members, which focuses on risk issues on behalf of the Trustee Members as a whole.

In addition, the CEO has in place a management structure – Scheme Steering Group (SSG) and an Executive Team (ET) – that meets at least monthly to oversee and discuss key risks. The CEO is supported in doing this by NEST Corporation's Risk function, the Programme Management Office (PMO) and weekly programme delivery governance structures (Programme Delivery Governance Group (PDGG)), where risk management forms a formal part of their standing agendas.

Risk and risk management on a day-to-day level forms a key part of the Executive Team members' responsibilities. As such, they have continued to oversee the management of all risks and the application of NEST Corporation's Risk Management Framework. Each business area is responsible for identifying, assessing and managing risks within its own area of responsibility, as well as implementing the requirements of the Risk Management Framework and providing assurance that it has done so.

Risk identification and assessment

Key and emerging risks are identified on a continuous basis across all parts of NEST Corporation and our key service providers. This takes place through an ongoing review of the business, economic, regulatory and operational environment and NEST Corporation's evolving risk landscape. Each identified risk is assigned a risk owner, who is usually a member of the Executive Team.

The severity of each risk is assessed taking into account a set of pre-defined criteria for determining the likelihood of the risk occurring and the potential impact of the risk on our business. The severity of the risk determines the appropriate level of oversight and ongoing monitoring.

The strength and effectiveness of NEST Corporation's control environment is considered for all identified risks to determine the most effective mitigation strategy and to ensure that residual risks are tolerable within our overall appetite for risk.

In addition to ongoing risk identification and assessment, NEST Corporation management conducts regular bottom-up and top-down assessments to ensure the totality and transparency of programme, operational and strategic risks.

Risk monitoring and reporting

Responsibility for monitoring identified key risks, the effectiveness of current controls and the progress of mitigating actions is that of the risk owner. The risk owner is supported in doing this by other monitoring/assurance processes and oversight exercised by the NEST Corporation Risk function, PMO, Internal Audit, the Compliance function, other support functions, the Executive Team, the Risk Committee and the Audit Committee. Monitoring and assurance processes and activities undertaken by the risk owner are subject to review by the Risk function, PMO and Internal Audit.

Continuous monitoring is conducted for more significant risks. Key programme risks, including those of our key suppliers (particularly TCS and State Street), are monitored weekly by the PDGG and monthly by the SSG with corrective action taken when appropriate.

The emphasis of NEST Corporation's Risk Management Framework is very much focused on continuous, proactive engagement on key risk issues as part of everyday business management. One output of this ongoing process is risk and control reporting, which promotes oversight, challenge and business engagement that seeks to improve risk management and performance. Regular reporting of key risks and the effectiveness of our approach to risk management is provided in order to assist decision making at all levels. This includes:

- weekly risk reporting of new, changed and escalated programme risks to the PDGG
- monthly reporting of risks and mitigation status to the SSG and the Executive Team
- standing formal reporting to the Risk Committee and Trustee Members on the status of identified key risks and previous to 5 July 2010 to the PADA Audit and Risk Committee
- periodic reporting of specific risks to the Risk Committee and Trustee Members for more in-depth review, challenge and assessment.

In addition, NEST Corporation's PMO feeds into the Enabling Retirement Savings Programme (ERSP) risk process to ensure key NEST risks are fully considered within DWP and wider government.

Embedding risk management across NEST Corporation

Embedding risk management into our day-to-day activities is a key objective of Trustee Members, and is put into practice through the application of NEST Corporation's Risk Management Framework. During the course of the year and to further support the practical application of risk management we have:

- defined and documented NEST Corporation's approach to risk management, policy requirements, structures, processes and explicit risk management responsibilities. These are published on NEST Corporation's intranet where they are available to all staff
- appointed Project Planners and Risk Co-ordinators in each part of the business to assist with the application of risk management. Training and ongoing awareness is provided
- provided regular communication from the CEO to all staff on specific risk issues, progress against our business plan and the importance of managing risk

- required that all papers prepared by the business for Trustee Member consideration have been extended to include explicit commentary on risks associated with key decisions
- monitored scheme readiness criteria and plan progress through a review of linked key risks.

Information security

NEST Corporation has established an Information Security Management System (ISMS) to identify, manage and control information security risks. This includes the establishment of an information assets register, an information security risk register and a risk treatment plan to mitigate and manage those risks. A policy suite is also in place that covers the key ISMS requirements for data security.

The ISMS Manager works closely with NEST Corporation's key suppliers to ensure that their information security risks are managed and controlled effectively. NEST Corporation has also built key ISMS requirements into the supplier contracts, which are closely monitored.

Following an independent audit of our ISMS, during 2010/11 NEST Corporation received approval to proceed to ISMS certification. Certification will provide further independent assurance with regard to the ISMS governance and control framework.

In the Statement on Internal Control for 2009/10, PADA reported that it was non-compliant with Cabinet Office guidelines with regard to the position of the Senior Information Risk Officer (SIRO), as the accountable individual was not a 'Board-level' representative. Upon the transfer of responsibilities to NEST Corporation, the role of SIRO was assigned to the General Counsel, who attends Trustee Members' meetings in an advisory capacity.

Business continuity

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

Key service providers

Service providers play a key role in managing the totality of risk faced by NEST Corporation and the importance of this is recognised in the contracts that are in place with all providers. Service providers maintain their own risk management systems and provide NEST Corporation with information about the management of key risks and the risk management processes that are used. These reports, together with associated dialogue, are discussed within the governance forums described earlier in this section.

While it is difficult to enforce our risk management principles on our service providers beyond specific contractual arrangements that are in place, NEST Corporation continues to influence their activities where possible to improve alignment. Appropriate challenge of service provider key risks and risk management processes is provided by the Programme Management Office and NEST Corporation's Risk function.

Compliance

The Compliance function is responsible for monitoring our compliance with internal, statutory and regulatory requirements. This includes developing and managing NEST Corporation's relationship with its key regulatory stakeholders, including DWP and the Pensions Regulator (tPR). It also includes building the required relationships with key suppliers, such as the scheme administrator and developing and executing an annual compliance monitoring programme.

During 2010/11, NEST Corporation established the required compliance framework for the scheme, implementing the requirements above. NEST is not required to register as a pension scheme with tPR until the first two members are registered.

NEST Corporation has been developing its regulatory relationship with tPR in advance of registration and has sought to provide the regulator with assurance with regard to NEST's control environment, prior to the formal launch of the scheme.

The Compliance function also manages the relationship with DWP's Sponsorship team and is responsible for ensuring that NEST Corporation complies with its duties as an NDPB.

Internal Audit

Internal audit services were provided by DWP's Risk Assurance Division (RAD) until 4 July 2010, after which the functions of PADA were assumed by NEST Corporation.

Internal audit services are now provided by Deloitte, who were appointed in November 2010 following a formal procurement process. In the intervening period between July and November, RAD was available to perform internal audit work in the event of specific concerns arising with regard to internal controls but the Audit Committee did not consider that this was necessary during this period. Deloitte are accountable to the Audit Committee for the work that they perform at NEST Corporation.

Key activities carried out by Internal Audit during 2010/11 included the:

- development of an assessment of the audit universe, covering NEST Corporation and its suppliers
- creation and execution of an internal audit programme for 2010/11, covering the key areas of risk
- provision of independent control assurance to NEST Corporation, together with an annual opinion on governance, risk management and internal control.

Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the Internal Auditors and the executive management within NEST Corporation who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the PADA board, NEST Trust Members, the Audit Committee and the Risk Committee and a plan to address weaknesses and ensure continuous improvement of the system is in place.

Risk Committee

The PADA Audit and Risk Committee and subsequent to 5 July 2010, the NEST Corporation Risk Committee, has considered whether current and proposed changes in our approach to risk management are fit for purpose. Both bodies have, throughout the reporting period, received reports from the Accounting Officer, the Risk function, PMO and business management that have enabled the Committee to deliberate on the key risks and the current strength and appropriateness of our mitigating controls.

Audit Committee

The PADA Audit and Risk Committee and subsequently, under NEST Corporation from 5 July 2010, the Audit Committee have been responsible for providing assurance to the PADA Board (until 4 July 2010) and the Trustee Members (from 5 July 2010) with regard to internal and financial controls. This has included approving the internal audit and compliance plans for 2010/11 and reviewing the National Audit Office external audit plan. The Committee has also received updates from the Head of Internal Audit and Head of Compliance with regard to the delivery of their plans.

Executive Team and Scheme Steering Group

The SSG and the Executive Team have throughout the reporting period discussed and reviewed the effectiveness of risk management activities on a regular basis and as a standing agenda item. Throughout the reporting period SSG and the Executive Team have received reports from PMO and business management. This enables them to provide assurance to the CEO that appropriate activities are being managed in a coherent and planned manner that seeks to drive forward the programme against the plan. This is crucial to us successfully meeting the timescales for delivery and supports our confidence that we will deliver this complex and challenging programme on time.

In order to ensure risk management systems and processes, fit for a fully operational scheme, develop ahead of scheme launch and the onset of employer duties, NEST Corporation appointed a Head of Risk in June 2010 to oversee these activities. Since that time, the Head of Risk has produced regular reports on risk management effectiveness.

Internal Audit

Throughout the year, the Internal Audit function has been responsible for developing and conducting a risk-based annual internal audit plan. Internal Audit has also been responsible for identifying risks associated with key control areas under review, reviewing the effectiveness of controls in place to manage key risks identified and, in conjunction with the Head of Risk, reviewing the adequacy of assurance provided. On behalf of the Audit Committee, Internal Audit reviews the effectiveness of the Risk Management Framework and its application and report findings. Internal Audit also attend the Risk Committee on request, to provide updates on risk implications identified during the course of audits conducted.

The following opinions have been received from DWP Risk Assurance Division (RAD) and Deloitte with respect to the periods that they served as Internal Auditors.

Head of Internal Audit opinion (1 April 2010 – 4 July 2010)

Based on the scope and results of the assurance work undertaken between 1 April 2010 and 4 July 2010, in my opinion the PADA governance, risk management and control arrangements continued to provide reasonable assurance that material risks were identified and managed effectively.

Head of Internal Audit opinion (5 July 2010 – 31 March 2011)

In summary based on the internal audit plan for the period to 31 March 2011, with the exception of the control weaknesses identified in the detailed reports, none of which we considered to be major, in our opinion NEST has adequate and effective systems over governance, risk management and internal control.

Management assurance statement from senior management

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

Significant control issues

As Accounting Officer, I can confirm that there are no significant internal control issues that merit inclusion in this Statement on Internal Control for the reporting period 1 April 2010 to 31 March 2011. In providing my assurance, I can confirm that I have engaged with my management team and made appropriate additional enquiries.

In my opinion, where remedial action had been recommended to address control weaknesses, I am satisfied that appropriate action had been taken or planned to effect reasonable management of risks within an acceptable period of time.

Tim Jones
Chief Executive and Accounting Officer
NEST Corporation

5 July 2011

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 Corporation for the year ended 31 March 2011 under the Pensions Act 2008. These comprise the Statement of Comprehensive Net Expenditure, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Taxpayers' Equity and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Corporation, Accounting Officer and auditor

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

Scope of the Audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the National Employment Savings Trust Corporation's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the National Employment Savings Trust Corporation; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

In addition, I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income 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.

Opinion on Regularity

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

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 2011 and of its net expenditure after interest for the year then ended; and
- the financial statements have been properly prepared in accordance with the Pensions Act 2008 and the Secretary of State directions issued thereunder.

Opinion on other matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with the Pensions Act 2008 and the Secretary of State directions issued thereunder; and
- the information given in the Trustee Members' Report and the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

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

- adequate accounting records have not been kept; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records; or
- I have not received all of the information and explanations I require for my audit; or
- the Statement on Internal Control does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Amyas C E Morse
Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP

Date: 15 July 2011

National Employment Savings Trust Corporation Statement of Comprehensive Net Expenditure

for the year ended 31 March 2011

	Note	Year ended 31 March 2011 £000	Restated Year ended 31 March 2010 £000
Expenditure			
Staff costs	2a	(15,230)	(15,086)
Depreciation and amortisation	3,6,7	(299)	(51)
Other expenditure	3	(10,369)	(17,642)
		(25,898)	**(32,779)**
Income			
Other income	4	11	3
Net expenditure		**(25,887)**	**(32,776)**
Interest payable	5	(4,952)	(1,682)
Net expenditure after interest		**(30,839)**	**(34,458)**
Other comprehensive expenditure		–	–
Total comprehensive expenditure for the year		**(30,839)**	**(34,458)**

This statement should be read in conjunction with notes 1.1 and 20.

The accounting policies and notes on pages 58 to 83 form part of these financial statements.

National Employment Savings Trust Corporation Statement of Financial Position

as at 31 March 2011

	Note	31 March 2011 £000	31 March 2010 £000
Non-current assets			
Property, plant and equipment	6	1,159	1,078
Intangible assets	7	378	3
Total non-current assets		**1,537**	**1,081**
Current assets			
Trade and other receivables	8	28,148	260
Other current assets	8	34	13
Cash and cash equivalents	9	22,912	439
Total current assets		**51,094**	**712**
Total assets		**52,631**	**1,793**
Current liabilities			
Trade and other payables	10a	(5,076)	(3,541)
Other liabilities	10a	(481)	(409)
DWP Loan	11	–	(41,059)
Total current liabilities		**(5,557)**	**(45,009)**
Non-current assets plus net current assets		**47,074**	**(43,216)**
Non-current liabilities			
DWP Loan	11	(119,957)	–
Provisions	12	(660)	(682)
Total non-current liabilities		**(120,617)**	**(682)**
Assets less liabilities		**(73,543)**	**(43,898)**
Taxpayers' equity			
General reserve		(73,596)	(43,971)
Other reserves	3d	53	73
		(73,543)	**(43,898)**

This statement should be read in conjunction with notes 1.1 and 20.

The financial statements on pages 54 to 57 were approved by the Trustee on 24 June 2011 and were signed on its behalf by Tim Jones.

Tim Jones
Chief Executive and Accounting Officer
NEST Corporation
5 July 2011

The accounting policies and notes on pages 58 to 83 form part of these financial statements.

National Employment Savings Trust Corporation Statement of Cash Flows

for the year ended 31 March 2011

	Note	Year ended 31 March 2011 £000	Restated Year ended 31 March 2010 £000
Cash flows from operating activities			
Net deficit after interest		(30,839)	(34,458)
Adjustment for non-cash items	3	337	45
(Increase)/decrease in trade and other receivables	8	(27,909)	424
Increase/(decrease) in trade and other payables	10	1,607	(2,823)
Increase/(decrease) in provisions	12	(22)	(248)
Net cash outflow from operating activities		**(56,826)**	**(37,060)**
Cash flows from investing activities			
Purchase of property, plant and equipment	6	(283)	(269)
Purchase of intangible assets	7	(530)	(2)
Net cash outflow from investing activities		**(813)**	**(271)**
Cash flows from financing activities			
Grant-in-aid from parent department		1,214	1,773
Loan received from parent department	11	148,757	35,436
Loan repaid to parent department	11	(69,859)	–
Net cash inflow from financing activities		**80,112**	**37,209**
Net increase/(decrease) in cash and cash equivalents in the period		**22,473**	**(122)**
Cash and cash equivalents at the beginning of the period	9	439	561
Cash and cash equivalents at the end of the period	9	**22,912**	**439**

This statement should be read in conjunction with notes 1.1 and 20.

The accounting policies and notes on pages 58 to 83 form part of these financial statements.

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

for the year ended 31 March 2011

	Note	Lease incentive reserve £000	General fund £000	Total reserves £000
Balance at 1 April 2009		**93**	**(11,286)**	**(11,193)**
Changes in taxpayers' equity 2009/10				
Release of reserves to the Statement of Comprehensive Net Expenditure	3d	(20)	–	(20)
Net expenditure after interest		–	(34,458)	(34,458)
Total recognised income and expense for 2009/10		**(20)**	**(34,458)**	**(34,478)**
Grant-in-aid from parent department		–	1,773	1,773
Total taxpayers' equity as at 31 March 2010		**73**	**(43,971)**	**(43,898)**
Changes in taxpayers' equity 2010/11				
Release of reserves to the Statement of Comprehensive Net Expenditure	3d	(20)	–	(20)
Net expenditure after interest		–	(30,839)	(30,839)
Total recognised income and expense for 2010/11		**(20)**	**(30,839)**	**(30,859)**
Grant-in-aid from parent department		–	1,214	1,214
Total taxpayers' equity as at 31 March 2011		**53**	**(73,596)**	**(73,543)**

This statement should be read in conjunction with notes 1.1 and 20.

The accounting policies and notes on pages 58 to 83 form part of these financial statements.

Notes to the accounts

1 Statement of accounting policies

1.1 Basis of preparation and statement of compliance

These financial statements have been prepared in accordance with the 2010/11 *Government Financial Reporting Manual (FReM)* issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context.

Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of NEST Corporation for the purpose of giving a true and fair view has been selected. The particular policies adopted by NEST Corporation are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

All amounts included in these financial statements have been rounded to the nearest thousand pounds unless stated otherwise.

NEST Corporation is required, under the Pensions Act 2008, to prepare its accounts for the period from 1 April 2010 to 31 March 2011, and in accordance with 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. NEST Corporation was established on 5 July 2010 and took on the functions of the Personal Accounts Delivery Authority (PADA) on that day.

The FReM requires this transfer of functions to be reported under the principles of merger accounting in accordance with IFRS 3: *Business Combinations*. As a result these financial statements present the 12 month position and include the former PADA activities now undertaken by NEST Corporation, along with comparative figures for those activities for the previous 12 months carried out wholly by PADA. Full details are set out in note 20.

These financial statements relate to NEST Corporation, the Trustee of NEST, and do not present the accounts of the NEST scheme, which is scheduled to launch in 2011.

1.2 Going concern

The financing of NEST Corporation is met through a combination of loan and grant-in-aid funding via supply to the Department for Work and Pensions (DWP), which is approved annually by Parliament. During the year, we signed a loan agreement with DWP that provides assurance that future funding will be provided to NEST Corporation until income from scheme charges is sufficient to meet future costs and settle the loan liability. Consequently, the going concern basis has been adopted for the preparation of these accounts.

1.3 Accounting Standards, Interpretations and Amendments

Adopted in these financial statements

All International Financial Reporting Standards, Interpretations and Amendments to published standards, effective at 31 March 2011, have been adopted in these financial statements, taking into account the specific interpretations and adaptations included within the FReM.

NEST Corporation has adopted the following new and amended IFRSs as of 1 April 2010:

IFRS 5 *Non-current Assets Held For Sale and Discontinued Operations* (effective for periods beginning on or after 1 January 2010). Required disclosures for non-current assets classified as held for sale or discontinued operations are now specified within IFRS 5. The disclosure requirements of other IFRSs only apply to such items if they require specific disclosures or relate to items not within the measurement scope of IFRS 5. There has been no impact on NEST Corporation's financial statements as a result of the IFRS 5 disclosure specification.

IAS 7 *Statement of Cash Flows* (effective for periods beginning on or after 1 January 2010). This requires that only expenditure which results in a recognised asset in the Statement of Financial Position can be classified within investing activities. NEST Corporation is compliant with IAS 7 in that the only recognised investing activities are the purchase of property, plant and equipment and intangible assets within the Statement of Financial Position.

IAS 17 *Leases* (effective for periods beginning on or after 1 January 2010). Prior to this amendment, land leases were generally classified as operating leases. The amendment requires that land leases are classified as either finance leases or operating leases in accordance with the principles of IAS 17. This is significant where property is held under long-term leases which are, in effect, little different to property purchase. As NEST Corporation does not hold any long-term property leases and as land leases held by the Corporation remain to be classified as operating leases there is no impact.

The HM Treasury Clear Line of Sight Project aims to align budgets, Estimates and accounts. As a result of amendments to the budgetary regime and the requirements of the 2010/11 FReM, the cost of capital charge has been removed from financial statements with effect from 1 April 2010 in line with corresponding changes to budgets and Estimates. Note 21 presents extracts of the relevant prior year financial statements affected by this change of accounting policy.

An additional amendment to the FReM, effective from 1 April 2010, has been made in respect of IAS 36 *Impairment of Assets.* This requires impairments of tangible and intangible assets that arise from a clear consumption of economic benefits to be taken direct to the Statement of Comprehensive Net Expenditure.

Effective for future financial years

The following IFRSs, International Financial Reporting Interpretations Committee (IFRIC) Interpretations and Amendments applicable to NEST Corporation, have been issued but are not yet effective and have not been early adopted by the Corporation.

IFRS 7 *Financial Instruments: Disclosures* (effective for periods beginning on or after 1 January 2011). The amendment clarifies requirements in respect of quantitative disclosures and exposure to credit risk. NEST Corporation will undertake an assessment in respect of the amendments in order to provide those additional disclosures required for the 2011/12 financial statements.

IFRS 7 *Financial Instruments: Disclosures* (effective for periods beginning on or after 1 July 2011). Detailed disclosures are required for financial assets transferred to another entity but not derecognised in their entirety and financial assets derecognised in their entirety but in which the reporting entity has an involvement. NEST Corporation does not expect there to be any transactions requiring disclosure but will assess further as appropriate for the 2012/13 financial statements.

IFRS 9 *Financial Instruments: Classification and Measurement* (effective for periods beginning on or after 1 January 2013). IFRS 9 is a replacement for IAS 39 *Financial Instruments: Recognition and Measurement* and introduced new requirements for the classification and measurement of financial assets, together with the elimination of two categories. Further proposals were introduced in October 2010 in respect of the derecognition of financial assets and liabilities. IFRS 9 is due to be expanded further in June 2011 with regard to the impairment of financial assets measured at amortised cost. NEST Corporation will undertake an assessment of the impact of IFRS 9 once the full requirements are known.

IAS 24 *Related Party Transactions* (effective for periods beginning on or after 1 January 2011). The amendment provides exemption for full disclosure of transactions with state-controlled entities and does not impact the current exemption allowed within the FReM. IAS 24 also clarifies the definition of a related party.

1.4 Accounting convention

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

1.5 Areas of judgement

The preparation of accounts in accordance with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenditure. These are based on historic and other factors that are believed to be reasonable, the results of which form the basis for making judgements. The estimates and underlying assumptions are reviewed on an ongoing basis. Specific areas of judgement include chargeable and non-chargeable estimates, depreciation and amortisation periods and provisions.

1.6 Estimation techniques

Revaluation of intangible assets

The FReM interpretation of IAS 38 *Intangible Assets* permits NEST Corporation to revalue its intangible assets to depreciated replacement cost as a proxy for fair value. As suggested by the FReM, NEST Corporation has applied an appropriate index to revalue software licence assets to fair value. The rationale to support the selection of the index is detailed below:

Software licences

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

1.7 Expenditure

All expenditure is recognised on an accruals basis.

1.8 Staff benefits

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

1.9 Pension costs

NEST Corporation operates the NEST Corporation Group Personal Pension Plan (formerly the PADA Group Personal Pension Plan), a defined contribution pension scheme for the Corporation's directly employed staff.
NEST Corporation recognises the employer costs in the period in which they are incurred.

The pension costs of civil servants on secondment to NEST Corporation are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS) which are described in DWP's Resource Accounts. PCSPS costs for civil servants on secondment to NEST Corporation are included in the payment made by NEST Corporation to the 'home' departments of the staff concerned as part of the reimbursement of their employment costs. There is no residual liability for NEST Corporation in respect of PCSPS.

1.10 Value Added Tax (VAT)

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

1.11 Insurance

NEST Corporation purchases appropriate commercial insurance. Previously, PADA's status as a delivery authority only required it to purchase insurance if required under the standard terms of a service contract. Any uninsured losses are charged directly to the Statement of Comprehensive Net Expenditure as incurred.

1.12 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. The only income received in the period was interest earned on balances on deposit with the Government Banking Service, accounted for on an accruals basis.

1.13 Funding

NEST Corporation is funded by DWP through the mechanisms of grant-in-aid and loan funding.

Costs associated with the functions of government are not chargeable to future NEST members and are met through grant-in-aid funding. The amount of grant-in-aid funding is determined by management estimates of the time spent and costs involved in non-chargeable activities. This estimate is subsequently agreed with DWP. All grant-in-aid payments are credited to the general reserve and considered to be contributions from a controlling party.

Those costs not associated with functions of government are funded by means of loans from DWP, which will subsequently be repayable from charges levied on scheme members. The loans are recognised as a liability within the Statement of Financial Position.

1.14 Property, plant and equipment

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

Assets are capitalised where they have an expected useful life of more than one year and where the original cost of the item exceeds NEST Corporation's capitalisation threshold of £1,000. Where an item costs less than the capitalisation limit, but forms an integral part of a package or pool of items whose total value is greater than the capitalisation level, the item is treated as a capital asset.

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

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

Scheme administration contract assets

These assets are being developed by the scheme administrator and will be used in delivering services to scheme members. In accordance with FReM requirements, the Corporation recognises as prepayments amounts paid to third parties for assets that will be used specifically for delivering NEST Corporation services or to fund pre-launch expenditure. These prepayments will be reclassified into the appropriate class of assets once the scheme administration assets are available for use by NEST.

1.15 Land and buildings

In the period, NEST Corporation occupied three properties, under a combination of operating leases and rental contracts; the costs for which are expensed as they are incurred.

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

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

1.17 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:

- information technology: 3-5 years
- furniture and fittings: 2-5 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, when 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 being recognised in the Statement of Comprehensive Net Expenditure over the remaining life of the asset.

1.18 Amortisation

Amortisation is calculated on intangible assets using the straight-line method as this reflects the expected pattern of consumption of economic benefits. The rates used are calculated to write down each asset to its estimated residual value over its expected useful life, or if shorter as follows:

- Major software licences and software development: 3 years or period remaining on licence if less than 3 years

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. 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 being recognised in the Statement of Comprehensive Net Expenditure over the remaining life of the asset.

1.19 Revaluation and impairment of non-current assets

NEST Corporation carries out an annual valuation review of its non-current intangible assets. Increases in value are credited to a revaluation reserve. Impairments of revalued assets that do not result from a clear consumption of economic benefits, are debited to the revaluation reserve to the extent that the impairment does not exceed the revaluation surplus of the impaired asset.

Impairment losses that result from a clear consumption of economic benefit are taken directly to the Statement of Comprehensive Net Expenditure. Where the impairment relates to a revalued asset, the balance on the revaluation reserve to which the impairment would have been charged is transferred to the General Fund to ensure consistency with IAS 36 *Impairment of Assets*.

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

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

1.20 Financial assets and financial liabilities

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

Loans and receivables

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

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

Fair value

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

Impairment of financial assets

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

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

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

1.21 Inventories

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

1.22 Provisions

Provisions are recognised when NEST Corporation has a present legal or constructive obligation arising as a consequence of past events and where it is probable that a transfer of economic benefit will be necessary to settle that obligation. These obligations, which are of uncertain timing or amount at the end of the reporting period, are included on the basis of the best estimate of the expenditure required to settle the obligation. Where the effect of the time value of money is significant, the estimated cash flows are discounted using NEST Corporation's weighted average cost of capital, currently 3.19% (2009/10: 4.69%). The increase in the provision due to unwinding of the discount is recognised as an expense in the Statement of Comprehensive Net Expenditure.

1.23 Leases

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

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

1.24 Lease incentives

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

1.25 Contingent liabilities

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

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

These comprise:

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

For the reporting period 1 April 2010 to 31 March 2011, NEST Corporation has no contingent liabilities meeting the above criteria (2009/10: nil).

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

1.26 Operating segments

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

2 Staff numbers and related costs

2a Staff costs

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

	Year ended 31 March 2011 £000	Year ended 31 March 2010 £000
Directly employed staff		
Wages and salaries	9,389	9,078
Social security costs	1,128	1,015
Pension costs	593	497
Sub-total	**11,110**	**10,590**
Secondees	1,913	2,889
Interim staff	2,207	1,607
Total	**15,230**	**15,086**

2b Pension arrangements

NEST Corporation operates a defined contribution pension scheme for the Corporation's directly employed staff. There were 120 employees in this pension scheme as at 31 March 2011 (31 March 2010: 105). NEST Corporation recognises the employer costs in the period in which they are incurred. At 31 March 2011 there was one month's contributions outstanding amounting to £113k (31 March 2010: £70k).

The pension costs of civil servants on secondment to NEST Corporation are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS) which are described in DWP's Resource Accounts. PCSPS costs for civil servants on secondment to NEST Corporation are included in the payment made by NEST Corporation to the 'home' departments of the staff concerned as part of the reimbursement of their employment costs and reflected in secondee costs in the table above. There is no residual liability for NEST Corporation in respect of PCSPS.

2c Average number of staff employed

	Year to 31 March 2011 Average full time equivalents £000	Year to 31 March 2010 Average full time equivalents £000
Directly employed staff	141	134
Secondees	25	41
Interim staff	18	11
Total average number of staff	**184**	**186**

3 Other expenditure

	Note	Year ended 31 March 2011 £000	Restated Year ended 31 March 2010 £000
Professional advice and support		2,472	8,503
Legal fees and expenses		2,262	3,888
Recruitment and other staff costs		1,570	1,471
Information technology and telephony	3a	1,095	496
Research costs		855	1,476
Accommodation	3b	841	733
Rentals under operating leases		650	646
Other running costs		325	321
Internal audit		116	44
Auditor's remuneration – statutory audit		85	67
Unwinding of discount on provisions	3c, 12a	60	3
Devaluation of intangibles	7	54	–
Loss on disposal of non-current assets		4	14
Release of reserve	3d	(20)	(20)
Sub total – *Other expenditure*		**10,369**	**17,642**
Depreciation and amortisation	6,7	299	51
Total		**10,668**	**17,693**

a During the period to 4 July 2010, NEST Corporation's predecessor, PADA relied on DWP's IT contracts for its fully serviced IT network, hardware, software and associated maintenance services. The assets used to provide the service were an integral part of assets serving DWP sites across the country and therefore PADA received its IT services via the overarching Departmental contracts. PADA had a rental arrangement with the Department for the supply of these services, costs for which were expensed as they were incurred. The arrangement with DWP was cancellable at one month's notice and PADA therefore had no operating lease commitment – the assets were recognised in the Department's financial statements. On 5 July 2010, NEST Corporation transitioned from this arrangement with DWP to its own contract with Northgate Managed Services and purchased its own assets. These are recognised as assets in the Statement of Financial Position. Monthly service costs relating to the contract with Northgate Managed Services are expensed as they are incurred.

b In addition to its primary location, NEST Corporation rented space from DWP in two fully serviced buildings up to August 2010, at which point it vacated one of the premises but continues to occupy space in the other. NEST Corporation has no lease commitment with the Department, the costs of occupancy of the two buildings being invoiced on a monthly basis and expensed as they are incurred. The Corporation also pays for office space occupied at the scheme administrator's UK premises. These costs are expensed as they are incurred.

c During 2008/09, PADA created a provision for property repairing liabilities. The provision is discounted at NEST Corporation's weighted average cost of capital, 3.19% (2009/10: 4.69%). The discount is unwound each year, resulting in an unwinding charge in the Statement of Comprehensive Net Expenditure.

d PADA created a lease incentive reserve in 2008/09 to recognise the value of assets received as consideration to facilitate the transfer of the lease for one of the properties now occupied by NEST Corporation. This reserve, together with all assets and liabilities, transferred to NEST Corporation on 5 July 2010. The lease incentive reserve is being amortised over the period of the lease (5.75 years) on a straight line basis.

4 Other income

	Year ended 31 March 2011 £000	Year ended 31 March 2010 £000
Interest receivable	11	3

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.

NEST Corporation's principal source of funding is provided directly by the DWP through loan financing and grant-in-aid. These resources are not accounted for as income (see note 11).

5 Interest payable

	Year ended 31 March 2011 £000	Year ended 31 March 2010 £000
Loan interest payable	4,952	1,682

Interest payable relates to interest charged on balances outstanding on the loan from DWP (see note 11).

6 Property, plant and equipment

	Note	Furniture & fittings £000	Information technology[a,b] £000	Assets under construction[a] £000	Total £000
Cost or valuation					
As at 1 April 2010		208	60	881	1,149
Additions		15	14	789	818
Disposals		(7)	(23)	–	(30)
Re-classified as tangible IT assets[a]		–	1,156	(1,156)	–
Transferred to intangible assets[a]	7	–	–	(514)	(514)
As at 31 March 2011		**216**	**1,207**	**–**	**1,423**
Depreciation					
As at 1 April 2010		(57)	(14)	–	(71)
Charged in period		(40)	(158)	–	(198)
Disposals		4	1	–	5
Accumulated depreciation as at 31 March 2011		**(93)**	**(171)**	**–**	**(264)**
Net book value at 31 March 2011		**123**	**1,036**	**–**	**1,159**
Net book value at 31 March 2010		**151**	**46**	**881**	**1,078**
Asset financing:					
Owned		123	1,036	–	1,159
Net book value at 31 March 2011		**123**	**1,036**	**–**	**1,159**

	Furniture & fittings £000	Information technology[a,b] £000	Assets under construction[a] £000	Total £000
Cost or valuation				
As at 1 April 2009	172	20	–	192
Additions	55	40	881	976
Disposals	(19)	–	–	(19)
As at 31 March 2010	**208**	**60**	**881**	**1,149**
Depreciation				
As at 1 April 2009	(21)	(5)	–	(26)
Charged in period	(41)	(9)	–	(50)
Disposals	5	–	–	5
Accumulated depreciation as at 31 March 2010	**(57)**	**(14)**	**–**	**(71)**
Net book value at 31 March 2010	**151**	**46**	**881**	**1,078**
Net book value at 31 March 2009	**151**	**15**	**–**	**166**
Asset financing:				
Owned	151	46	881	1,078
Net book value at 31 March 2010	**151**	**46**	**881**	**1,078**

a. PADA entered into a contract for the provision of domestic IT equipment for NEST Corporation. Assets provided under that contract are reflected in the PADA 2009/10 financial statements as assets under construction totalling £881k. At 4 July 2010 the assets under construction totalled £1,670k. The assets were re-classified as tangible non-current assets (IT) and intangible non-current assets (software licences) when they became available for use by NEST Corporation on 5 July 2010.

b. Information technology includes telecoms equipment.

The annual review of all tangible non-current assets verified that the carrying value approximated to the fair value of the assets. Consequently there was no revaluation or impairments in the period. Intangible assets were fair valued using an appropriate index (see accounting policy note 1.6).

7 Intangible assets

NEST Corporation's intangible assets comprise purchased software licences.

	Note	£000
Cost or valuation		
As at 1 April 2010		4
Additions		16
Disposals		–
Transferred from assets under construction	6	514
Revaluation	a	(54)
As at 31 March 2011		**480**
Amortisation		
As at 1 April 2010		(1)
Charged in period		(113)
Disposals		–
Revaluation		12
Accumulated amortisation as at 31 March 2011		**(102)**
Net book value at 31 March 2011	b	**378**
Net book value at 31 March 2010	b	**3**

	Note	£000
Cost or valuation		
As at 1 April 2009		2
Additions		2
Disposals		–
Revaluation	a	–
As at 31 March 2010		**4**
Amortisation		
As at 1 April 2009		–
Charged in period		(1)
Disposals		–
Revaluation		–
Accumulative amortisation as at 31 March 2010		**(1)**
Net book value at 31 March 2010	b	**3**
Net book value at 31 March 2009		**2**

a. Software licences were fair valued applying an appropriate ONS index. The devaluation charge reflects movements in the index since the date the licences were purchased.
b. The net book values reported above reflect the fair value of the assets using an appropriate index as basis for fair value. These same assets measured according to the cost model approach would be valued at £420k as at 31 March 2011 (31 March 2010: £3k).

8 Trade and other receivables

	31 March 2011 £000	31 March 2010 £000
Amounts falling due within one year:		
Prepayments	28,148	260
Other receivables – staff loans	34	13
Total	**28,182**	**273**

Included within prepayments is £27.6m (31 March 2010: nil) relating to advance payments paid to Tata Consultancy Services Ltd (TCS) for the setting up of scheme administration services. These prepayments will be reclassified once scheme administration assets are available for use by NEST.

9 Cash and cash equivalents

	31 March 2011 £000	31 March 2010 £000
Opening balance	439	561
Net change in cash balances	22,473	(122)
Balance at end of period	**22,912**	**439**
The following balances were held with:		
the Government Banking Service	**22,912**	**439**

10 Trade and other payables

10a Amounts falling due within one year

	Note	31 March 2011 £000	31 March 2010 £000
Trade payables		583	1,549
Other taxation and social security		368	339
Superannuation		113	70
Accruals		4,493	1,992
DWP loan	11	–	41,059
Total		**5,557**	**45,009**

10b Amounts falling due after one year

	Note	31 March 2011 £000	31 March 2010 £000
DWP loan	11	119,957	–
Total		**119,957**	**–**

10c Trade and other payables: analysis by amounts owing to central government

The following table identifies balances with other types of public sector organisation included within trade and other payables:

	31 March 2011 £000	31 March 2010 £000
Balances with other central government bodies	122,874	41,620
Amounts owing to bodies external to government	2,640	3,389
Total	**125,514**	**45,009**

Within the balance owing to other central government bodies is £119,957k loan funding (2009/10: £41,059k) owing to DWP and £368k (2009/10: £339k) owing to HM Revenue and Customs for employment-related tax and social security costs.

11 DWP loan

	31 March 2011 £000	31 March 2010 £000
Amounts falling due within one year	–	41,059
Amounts falling due after one year	119,957	–
Total	**119,957**	**41,059**

Loan funding from DWP is provided to meet the scheme implementation costs and will subsequently be repaid from charges levied on scheme members. Liability for the loan transferred to NEST Corporation on 5 July 2010. The loan taken out by PADA was repaid on 19 November 2010, with subsequent loan funding received under the terms of a loan agreement between NEST Corporation and DWP. The interest rate on each loan is determined by the interest rate prevailing at the time of taking out the loan. At 31 March 2011, the weighted average interest rate on loan funding was 7.3% (31 March 2010: 7.58%). Interest is payable on 21 April and 21 October each year. The loan principals fall due for settlement on six repayment dates between 21 October 2020 and 21 April 2023.

Following the European Commission's ruling in July 2010, a Public Service Obligation Offset Payment will be receivable from DWP which will have the effect of reducing the cost of servicing the loan to the Government cost of borrowing. This offset payment will become receivable on the first loan interest payment date following the practical commencement of the public service duty when NEST takes in its first members.

12 Provisions for liabilities and charges

12a Administration provisions

	Provision for property repairs £000
Balance at 1 April 2010	682
Provided in the period	–
Change in provision	–
Provisions not required, written back	(18)
Provisions utilised in the period	(64)
Unwinding of discount	60
Balance as at 31 March 2011	**660**

	Provision for property repairs £000
Balance at 1 April 2009	930
Provided in the period	–
Change in provision	–
Provisions not required, written back	–
Provisions utilised in the period	(251)
Unwinding of discount	3
Balance as at 31 March 2010	**682**

PADA received a contribution towards building repairs from a previous tenant upon taking over a lease in 2008. The previous tenant was another government body. PADA provided for these repairs during 2008/09. The liability transferred to NEST Corporation on 5 July 2010. £64k of this provision was utilised during 2010/11 (2009/10: £251k), with the remaining £17k expected to be utilised during 2011/12.

12b Analysis of expected timing of discounted flows

	Discount included in provision £000
In the remainder of the spending review period to 31 March 2012	20
Between 1 April 2012 and 31 March 2014	37
Balance as at 31 March 2011	**57**

The provision relates to building surveyors' estimates of amounts required to settle property repairing liabilities which may arise. The provision represents estimated future cash flows discounted at the Corporation's weighted average cost of capital of 3.19% (2009/10: 4.69%). The discount amounts to £57k (2009/10: £117k) and is expected to unwind as shown above over the remaining period of the lease up to 2013/14, the same period over which the expenditure is expected to be incurred.

13 Capital and other financial commitments

	Note	31 March 2011 £000	31 March 2010 £000
Contracted capital commitments at 31 March 2011 not otherwise included in these financial statements			
Property, plant and equipment	a	–	637
Scheme administration contract	b	45,708	23,259
Total		**45,708**	**23,896**

a. PADA entered into a contract for the provision of domestic IT equipment for NEST Corporation. This was to ensure NEST Corporation had a suitable IT platform from the date of its establishment on 5 July 2010. All PADA assets and liabilities transferred to NEST Corporation on that date.

b. PADA entered into a contract with TCS for the provision of NEST scheme administration services. This contract was novated to NEST Corporation on 5 July 2010. The contract, which lasts until June 2020, has an estimated total cost of £680m, of which the capital element is expected to be £46m. This is a significant contract with fixed and variable costs that vary with member volumes, which are inevitably uncertain. Advance payments of £27.6m have been made to TCS in respect of this contract and are classified as prepayments (see note 8). The advance payments are covered by a letter of credit and are refundable to NEST Corporation in certain circumstances. The capital commitment has not been reduced by the amount of the prepayments as these are recoverable.

14 Commitments under leases

Operating leases

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

	31 March 2011 £000	31 March 2010 £000
Future minimum lease payments comprise:		
Buildings:		
Within one year	648	648
Between one year and five years	1,118	1,782
Thereafter	–	–
Total	**1,766**	**2,430**

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

15 Financial instruments

Financial assets

	31 March 2011 £000	31 March 2010 £000
Cash and cash equivalents	22,912	439
Amounts due from other government bodies	–	–
Staff loans	34	13
Total	**22,946**	**452**

The above figures exclude statutory debtors and prepayments.

Financial liabilities

	31 March 2011 £000	31 March 2010 £000
Trade payables	583	1,549
Accruals	4,493	1,992
Total	**5,076**	**3,541**

The above figures exclude statutory payables.

It is, and has been, NEST Corporation's policy that no trading in financial instruments is undertaken.

Financial assets and liabilities generated by day-to-day operational activities are not held in order to change the risks facing NEST Corporation in undertaking its activities.

NEST Corporation borrows money from DWP to fund activities which will subsequently be repaid from revenue raised from charges to scheme members. The weighted average interest rate applicable to the loans is 7.3% (2009/10: 7.58%) (see notes 5 and 11).

NEST Corporation's financial assets and liabilities which are outside the scope of activities to be charged to scheme members have a cost of capital of 3.5% (2009/10: 3.5%).

NEST Corporation has no exposure to foreign currency risk at the year-end date (31 March 2010: nil).

The book value of NEST Corporation's financial assets and liabilities as at 31 March 2011 and 31 March 2010 are not materially different from their fair values.

16 Contingent liabilities disclosed under IAS 37

There are no contingent liabilities to disclose.

In its 2009/10 financial statements, PADA disclosed as a contingent liability the interest rate on the loan from DWP being provisional at 7.58%. It was not possible to assign a value to this contingent liablility. The rate was subsequently agreed at 7.58% and the contingent liability did not materialise.

17 Losses and special payments

	Year ended 31 March 2011		Year ended 31 March 2010	
	£000	Cases	£000	Cases
Losses:				
Contract termination payment	–	–	5	1

18 Related party transactions

NEST Corporation is a non-departmental public body accountable to the Secretary of State 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:

		Year ended 31 March 2011 £000		Year ended 31 March 2010 £000	
	Note	Received	Payable	Received	Payable
Loan funding and repayment	a	148,757	69,859	35,436	–
Loan interest		–	4,952	–	1,682
Other transactions		–	2,719	–	3,535
Total		**148,757**	**77,530**	**35,436**	**5,217**

a The loan funding received in 2010/11 included amounts to repay the PADA loan.

At 31 March 2011, excluding the liability to repay the loan which does not fall due for more than 12 months, NEST Corporation had an outstanding liability with DWP totalling £2.5m (2009/10: £0.1m) of which £2.3m related to loan interest (2009/10: nil).

This relationship with DWP includes provision to NEST Corporation of:

- office accommodation and some IT services
- secondees
- grant-in-aid and loan funding.

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

No Trustee Members, PADA Board Members, senior managers or other related parties have undertaken any material transactions with NEST Corporation during the year (2009/10: nil).

Chris Hitchen is a Board member of the National Association of Pensions Funds (NAPF), with which NEST Corporation purchased services in the year totalling £3.2k (2009/10: £3.3k).

A close relative of Paul Hewitt is a member of the Board of NCC Group. During 2010/11, NEST Corporation purchased services from NCC Services, a trading arm of NCC Group, totalling £1.2k (2009/10: £2.4k).

Tim Jones is a Board Member of the International Centre for Pension Management (ICPM). During 2010/11, NEST Corporation paid £16k to be a research partner of ICPM (2009/10: nil).

19 Late payment of commercial debt

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

During the year, NEST Corporation incurred £18 interest charges under the Late Payment of Commercial Debts (Interest) Act 1998 (2009/10: £146).

20 Reconciliation of total costs to the Statement of Comprehensive Net Expenditure for the period from 1 April 2010 to 31 March 2011

	Total for PADA for period 1 April 2010 to 4 July 2010 £000	Total for NEST Corporation for period 5 July 2010 to 31 March 2011 £000	Total expenditure and income for the 12 month period to 31 March 2011 £000
Expenditure			
Staff costs	(3,705)	(11,525)	(15,230)
Depreciation and amortisation	(16)	(283)	(299)
Other expenditure	(2,806)	(7,563)	(10,369)
	(6,527)	**(19,371)**	**(25,898)**
Income			
Other income	1	10	11
Net expenditure	**(6,526)**	**(19,361)**	**(25,887)**
Interest payable	(875)	(4,077)	(4,952)
Net expenditure after interest	**(7,401)**	**(23,438)**	**(30,839)**
Other comprehensive expenditure	–	–	–
Total comprehensive expenditure for the year	**(7,401)**	**(23,438)**	**(30,839)**

Transfer of functions

On 4 July 2010 the functions of PADA were transferred to NEST Corporation. The value of the assets and liabilities transferred at that date were as follows:

	4 July 2010 £000
Non-current assets	
Property, plant and equipment	1,856
Intangible assets	3
Total non-current assets	**1,859**
Current assets	
Trade and other receivables	355
Other current assets	101
Cash and cash equivalents	557
Total current assets	**1,013**
Total assets	**2,872**
Current liabilities	
Trade and other payables	(3,832)
Other liabilities	(431)
DWP loan	(48,859)
Total current liabilities	**(53,122)**
Non-current assets less net current liabilities	**(50,250)**
Non-current liabilities	
Provisions	(709)
Total non-current liabilities	**(709)**
Assets less liabilities	**(50,959)**
Taxpayers' equity	
General reserves	(51,027)
Other reserves	68
	(50,959)

21 Removal of cost of capital

In accordance with the HM Treasury Clear Line of Sight Project and the requirements of the 2010/11 FReM, cost of capital charges have been removed from financial statements with effect from 1 April 2010. Appropriate extracts of the 2009/10 primary financial statements affected by this change are presented below to illustrate the impact of this change.

Statement of Comprehensive Net Expenditure

for the year ended 31 March 2010

	Restated Year ended 31 March 2010 £000	Year ended 31 March 2010 £000
Net expenditure	(32,776)	(32,776)
Cost of capital	–	977
Interest payable	(1,682)	(1,682)
Net expenditure after cost of capital and interest	**(34,458)**	**(33,481)**
Reversal of cost of capital	–	(977)
Net expenditure after interest deducted from general reserve	**(34,458)**	**(34,458)**
Other comprehensive expenditure	–	–
Total comprehensive expenditure for the year	**(34,458)**	**(34,458)**

Statement of Cash Flows

for the year ended 31 March 2010

	Restated Year ended 31 March 2010 £000	Year ended 31 March 2010 £000
Cash flows from operating activities		
Net deficit after cost of capital and interest	(34,458)	(33,481)
Adjustment for cost of capital charge	–	(977)
Adjustment for non-cash items	45	45
(Increase)/decrease in trade and other receivables	424	424
Increase/(decrease) in trade and other payables	(2,823)	(2,823)
Increase/(decrease) in provisions	(248)	(248)
Net cash outflow from operating activities	**(37,060)**	**(37,060)**

22 Events after the reporting period

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

The authorised date for issue is 15 July 2011

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 Personal Accounts Delivery Authority for the period ended 4 July 2010 under the Pensions Act 2007. These comprise the Statement of Comprehensive Net Expenditure, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Taxpayers' Equity and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Authority, Accounting Officer and auditor

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Authority and the Accounting Officer are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the Pensions Act 2007. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the Audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Personal Accounts Delivery Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Personal Accounts Delivery Authority; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

In addition, I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income 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.

Opinion on Regularity

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

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the Personal Accounts Delivery Authority's affairs as at 4 July 2010 and of net expenditure after interest for the period then ended; and
- the financial statements have been properly prepared in accordance with the Pensions Act 2007 and the Secretary of State directions issued thereunder.

Opinion on other matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with the Pensions Act 2007 and the Secretary of State directions issued thereunder; and
- the information given in the Trustee Members' Report and the Management Commentary for the financial period 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
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records or returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Statement on Internal Control does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Amyas C E Morse
Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP

Date: 15 July 2011

Personal Accounts Delivery Authority Statement of Comprehensive Net Expenditure

for the period ended 4 July 2010

	Note	Period ended 4 July 2010 £000	Restated Year ended 31 March 2010 £000
Expenditure			
Staff costs	2	(3,705)	(15,086)
Depreciation and amortisation	3,6,7	(16)	(51)
Other expenditure	3	(2,806)	(17,642)
		(6,527)	**(32,779)**
Income			
Other income	4	1	3
Net expenditure		**(6,526)**	**(32,776)**
Interest payable	5	(875)	(1,682)
Net expenditure after interest		**(7,401)**	**(34,458)**
Other comprehensive expenditure		–	–
Total comprehensive expenditure for the period		**(7,401)**	**(34,458)**

The accounting policies and notes on pages 90 to 112 form part of these financial statements.

Personal Accounts Delivery Authority Statement of Financial Position

as at 4 July 2010

	Note	As at 4 July 2010 £000	As at 31 March 2010 £000
Non-current assets			
Property, plant and equipment	6	1,856	1,078
Intangible assets	7	3	3
Total non-current assets		**1,859**	**1,081**
Current assets			
Trade and other receivables	8	355	260
Other current assets	8	101	13
Cash and cash equivalents	9	557	439
Total current assets		**1,013**	**712**
Total assets		**2,872**	**1,793**
Current liabilities			
Trade and other payables	10a	(3,832)	(3,541)
Other liabilities	10a	(431)	(409)
DWP loan	11	(48,859)	(41,059)
Total current liabilities		**(53,122)**	**(45,009)**
Non-current assets less net current liabilities		**(50,250)**	**(43,216)**
Non-current liabilities			
Provisions	12	(709)	(682)
Total non-current liabilities		**(709)**	**(682)**
Assets less liabilities		**(50,959)**	**(43,898)**
Taxpayers' equity			
General reserve		(51,027)	(43,971)
Other reserves	3c	68	73
		(50,959)	**(43,898)**

The financial statements on pages 86 to 89 were approved by the Trustee on 24 June 2011 and were signed on its behalf by Tim Jones.

Tim Jones
Chief Executive and Accounting Officer
NEST Corporation

5 July 2011

The accounting policies and notes on pages 90 to 112 form part of these financial statements.

Personal Accounts Delivery Authority Statement of Cash Flows

for the period ended 4 July 2010

	Note	Period ended 4 July 2010 £000	Restated Year ended 31 March 2010 £000
Cash flows from operating activities			
Net deficit after interest		(7,401)	(34,458)
Adjustment for non-cash items	3	11	45
(Increase)/decrease in trade and other receivables	8	(183)	424
Increase/(decrease) in trade and other payables[1]	10	130	(2,823)
Increase/(decrease) in provisions	12	27	(248)
Net cash outflow from operating activities		**(7,416)**	**(37,060)**
Cash flows from investing activities			
Purchase of property, plant and equipment	6	(611)	(269)
Purchase of intangible assets	7	–	(2)
Net cash outflow from investing activities		**(611)**	**(271)**
Cash flows from financing activities			
Grant-in-aid from parent department		345	1,773
Loan from parent department	11	7,800	35,436
Net cash inflow from financing activities		**8,145**	**37,209**
Net increase/(decrease) in cash and cash equivalents in the period		**118**	**(122)**
Cash and cash equivalents at the beginning of the period	9	439	561
Cash and cash equivalents at the end of the period	9	**557**	**439**

[1] The movement in trade and other payables during the period excludes capital items of £183k (2009/10: £707k) included within assets under construction reported in Note 6.

The accounting policies and notes on pages 90 to 112 form part of these financial statements.

Personal Accounts Delivery Authority Statement of Changes in Taxpayers' Equity

for the period ended 4 July 2010

	Note	Lease incentive reserve £000	General fund £000	Total reserves £000
Balance at 1 April 2009		**93**	**(11,286)**	**(11,193)**
Changes in taxpayers' equity for 2009/10				
Release of reserves to the Statement of Comprehensive Net Expenditure	3c	(20)	–	(20)
Net expenditure after interest		–	(34,458)	(34,458)
Total recognised income and expense for 2009/10		**(20)**	**(34,458)**	**(34,478)**
Grant-in-aid from parent department		–	1,773	1,773
Total taxpayers' equity as at 31 March 2010		**73**	**(43,971)**	**(43,898)**
Changes in taxpayers' equity during period to 4 July 2010				
Release of reserves to the Statement of Comprehensive Net Expenditure	3c	(5)	–	(5)
Net expenditure after interest		–	(7,401)	(7,401)
Total recognised income and expense during period to 4 July 2010		**(5)**	**(7,401)**	**(7,406)**
Grant-in-aid from parent department		–	345	345
Total taxpayers' equity as at 4 July 2010		**68**	**(51,027)**	**(50,959)**

The accounting policies and notes on pages 90 to 112 form part of these financial statements.

Notes to the accounts

1. Statement of accounting policies

1.1 Basis of preparation and statement of compliance

These financial statements have been prepared in accordance with the 2010/11 *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 judged to be most appropriate to the particular circumstances of the Personal Accounts Delivery Authority (PADA) for the purpose of giving a true and fair view, has been selected. The particular policies adopted by PADA are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

All amounts included in these financial statements have been rounded to the nearest thousand pounds unless stated otherwise.

NEST Corporation is required to prepare accounts for PADA for the period from 1 April 2010 to 4 July 2010 in accordance with 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. NEST Corporation was established on 5 July 2010 and took on the functions of PADA on that day.

1.2 Going concern

PADA was wound-up on 4 July 2010, following which its functions, assets and liabilities were transferred to NEST Corporation, which was established on 5 July 2010. The transfer, which is regarded for accounting purposes as a *Machinery of Government* change, does not affect the basis of valuation of assets and liabilities disclosed in the financial statements. The future funding of NEST Corporation is to be met by loan and grant-in-aid via future supply to the Department for Work and Pensions (DWP) to be approved annually by Parliament. As there is no reason to suggest that future funding of NEST Corporation will not be forthcoming it has been deemed appropriate to adopt the going concern basis for the preparation of these accounts.

1.3 Accounting Standards, Interpretations and Amendments

Adopted in these financial statements

All International Financial Reporting Standards, Interpretations and Amendments to published standards, effective at 4 July 2010, have been adopted in these financial statements, taking into account the specific interpretations and adaptations included within the FReM.

PADA adopted the following new and amended IFRSs as of 1 April 2010:

IFRS 5 *Non-current Assets Held For Sale and Discontinued Operations* (effective for periods beginning on or after 1 January 2010). Required disclosures for non-current assets classified as held for sale or discontinued operations are now specified within IFRS 5. The disclosure requirements of other IFRSs only apply to such items if they require specific disclosures or relate to items not within the measurement scope of IFRS 5. There has been no impact on PADA's financial statements as a result of the IFRS 5 disclosure specification.

IAS 7 *Statement of Cash Flows* (effective for periods beginning on or after 1 January 2010). This requires that only expenditure which results in a recognised asset in the Statement of Financial Position can be classified within investing activities. PADA was compliant with IAS 7 in that the only recognised investing activities were the purchase of property, plant and equipment and intangible assets within the Statement of Financial Position.

IAS 17 *Leases* (effective for periods beginning on or after 1 January 2010). Prior to this amendment, land leases were generally classified as operating leases. The amendment requires that land leases are classified as either finance leases or operating leases in accordance with the principles of IAS 17. This is significant where property is held under long-term leases which are, in effect, little different to property purchase. As PADA did not hold any long-term property leases and as land leases held by the Authority remain to be classified as operating leases there is no impact.

The HM Treasury Clear Line of Sight Project aims to align budgets, Estimates and accounts. As a result of amendments to the budgetary regime and the requirements of the 2010/11 FReM, the cost of capital charge has been removed from financial statements with effect from 1 April 2010 in line with corresponding changes to budgets and Estimates. Note 20 presents extracts of the relevant prior year financial statements affected by this change of accounting policy.

An additional amendment to the FReM, effective from 1 April 2010, has been made in respect of IAS 36 *Impairment of Assets*. This requires impairments of property, plant and equipment that arise from a clear consumption of economic benefits to be taken direct to the Statement of Comprehensive Net Expenditure.

1.4 Accounting convention

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

1.5 Areas of judgement

The preparation of accounts in accordance with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenditure.

These are based on historic and other factors that are believed to be reasonable, the results of which form the basis for making judgements. The estimates and underlying assumptions are reviewed on an ongoing basis. Specific areas of judgement include chargeable and non-chargeable estimates, depreciation and amortisation periods and provisions.

1.6 Estimation techniques

Revaluation of intangible assets

The FReM interpretation of IAS 38 *Intangible Assets* permits PADA to revalue its intangible assets to depreciated replacement cost as a proxy for fair value. As suggested by the FReM, PADA applied an appropriate index to revalue software licence assets to fair value. The rationale to support the selection of the index is detailed below:

Software licences

There is a consensus of opinion that there is no index currently available that provides a flawless result and, due to organisational and pricing structure changes among software suppliers, no trend information is available on the specific licences held by PADA. As the next best alternative, the index viewed by management as most appropriate in achieving the requirement of IAS 38 and the FReM to establish a suitable proxy for fair value is JV5(a): Computers and peripheral equipment. The main assumption being that although this index includes movements in IT hardware as well as licence prices, it adequately reflects the movements in the costs of licences during changing market conditions experienced over the reporting period.

1.7 Expenditure

All expenditure is recognised on an accruals basis.

1.8 Staff benefits

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

1.9 Pension costs

PADA operated the Personal Accounts Delivery Authority Group Personal Pension Plan, a defined contribution pension scheme for the Corporation's directly employed staff. PADA recognised the employer costs in the period in which they were incurred. The scheme became the NEST Corporation Group Personal Pension Plan upon the winding up of PADA and the formation of NEST Corporation.

The pension costs of civil servants on secondment to PADA are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS) which are described in DWP's Resource Accounts. PCSPS costs for civil servants on secondment to PADA were included in the payment made by PADA to the 'home' departments of the staff concerned as part of the reimbursement of their employment costs. There was no residual liability for PADA in respect of PCSPS.

1.10 Value Added Tax (VAT)

PADA did not make taxable supplies and therefore was not registered for VAT. Consequently, where input VAT was incurred or payable, costs are shown inclusive of VAT.

1.11 Insurance

In accordance with HM Treasury guidance, PADA did not purchase commercial insurance unless it was required under the standard terms of a service contract. Uninsured losses arising from damage to or loss of assets, employer's liability and claims from third parties were charged directly to the Statement of Comprehensive Net Expenditure as incurred.

1.12 Income

Income is reflected in the Statement of Comprehensive Net Expenditure and was recognised when it was probable that future economic benefits would flow to the Authority and those benefits could be measured reliably. The only income received in the period was interest earned on balances on deposit with the Government Banking Service, accounted for on an accruals basis.

1.13 Funding

PADA was funded by DWP through the mechanisms of grant-in-aid and loan funding.

Costs associated with the functions of government are not chargeable to future NEST members and are met through grant-in-aid funding. The amount of grant-in-aid funding is determined by management estimates of the time spent and costs involved in non-chargeable activities. This estimate is subsequently agreed with DWP. All grant-in-aid payments are credited to the general reserve and considered to be contributions from a controlling party.

Those costs not associated with functions of government are funded by means of a loan from DWP, which will subsequently be repayable from charges levied on scheme members. The loan is recognised as a liability within the Statement of Financial Position.

1.14 Property, plant and equipment

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

Assets are capitalised where they have an expected useful life of more than one year and where the original cost of the item exceeds the Authority's capitalisation threshold of £1,000. Where an item costs less than the capitalisation limit, but forms an integral part of a package or pool of items whose total value is greater than the capitalisation level, the item is treated as a capital asset.

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

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

1.15 Land and buildings

PADA occupied three properties, under a combination of operating leases and rental contracts; the costs for which were expensed as they were incurred.

1.16 Intangible assets

Intangible assets are initially recognised at cost and subsequently measured and reported at 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 as intangible assets. Expenditure on annual software licences is recognised in the Statement of Comprehensive Net Expenditure.

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

1.17 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:

- Information technology: 3-5 years
- Furniture and fittings: 2-5 years

Depreciation commences once an asset is available for use and continues until the asset is derecognised or categorised as held for sale or written down to nil value. Depreciation is calculated from the month following that of acquisition or, if later, when 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 being recognised in the Statement of Comprehensive Net Expenditure over the remaining life of the asset.

1.18 Amortisation

Amortisation is calculated on intangible assets using the straight-line method as this reflects the expected pattern of consumption of economic benefits. The rates used are calculated to write down each asset to its estimated residual value over its expected useful life, or if shorter as follows:

- Major software licences and software development: 3 years or period remaining on licence if less than 3 years

Amortisation commences once an asset is available for use and continues until the asset is derecognised or categorised as held for sale or written down to nil value. Amortisation is calculated from the month following that of acquisition. 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 being recognised in the Statement of Comprehensive Net Expenditure over the remaining life of the asset.

1.19 Revaluation and impairment of non-current assets

PADA carried out a valuation review of its non-current intangible assets. Increases in value are credited to a revaluation reserve. Impairments of revalued assets, that do not result from a clear consumption of economic benefits, are debited to the revaluation reserve to the extent that the impairment does not exceed the revaluation surplus of the impaired asset.

Impairment losses that result from a clear consumption of economic benefit are taken directly to the Statement of Comprehensive Net Expenditure. Where the impairment relates to a revalued asset, the balance on the revaluation reserve to which the impairment would have been charged is transferred to the General Fund to ensure consistency with IAS 36 *Impairment of Assets*.

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

All non-current assets are tested 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.

1.20 Financial assets and financial liabilities

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

Loans and receivables

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

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

Fair value

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

Impairment of financial assets

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

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

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

1.21 Inventories

PADA held no inventories other than consumable items, the costs for which were expensed as they are incurred.

1.22 Provisions

Provisions were recognised when PADA had a legal or constructive obligation which arose as a consequence of past events and where it was probable that a transfer of economic benefit would be necessary to settle that obligation. Such obligations, which are of uncertain timing or amount at the end of the reporting period, are included on the basis of the best estimate of the expenditure required to settle the obligation. Where the effect of the time value of money is significant, the estimated cash flows are discounted using PADA's weighted average cost of capital, 4.04% (2009/10: 4.69%). The increase in the provision due to unwinding of the discount is recognised as an expense in the Statement of Comprehensive Net Expenditure.

1.23 Leases

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

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

1.24 Lease incentives

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

1.25 Contingent liabilities

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

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

These comprise:

- items over £250,000 (or lower, where required by specific statute) that do not arise in the normal course of business and which are reported to Parliament by Departmental Minute prior to the Authority entering into the agreement
- all items (whether or not they arise in the normal course of business) over £250,000 (or lower, where required by specific statute) which are required by the FReM to be noted in the accounts.

For the reporting period 1 April 2010 to 4 July 2010, the Authority had no contingent liabilities meeting the above criteria (2009/10: nil).

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

1.26 Operating segments

IFRS 8 *Operating Segments* applies in full to PADA. In preparing the financial statements, the Authority considered the requirements of IFRS 8 to report results by operating segment. The Authority concluded that it did not have separate operating segments as defined by the standard.

2 Staff numbers and related costs

2a Staff costs

The Authority was staffed by a combination of direct employees, staff seconded from other organisations (the majority from DWP), and a number of interim staff.

	Period ended 4 July 2010 £000	Year ended 31 March 2010 £000
Directly employed staff		
Wages and salaries	2,209	9,078
Social security costs	279	1,015
Pension costs	143	497
Sub-total	**2,631**	**10,590**
Secondees	542	2,889
Interim staff	532	1,607
Total	**3,705**	**15,086**

2b Pension arrangements

PADA operated a defined contribution pension scheme for the Authority's directly employed staff. There were 100 employees in this pension scheme as at 4 July 2010 (31 March 2010: 105). PADA recognised the employer costs in the period in which they are incurred. At 4 July 2010 there was one month's contributions outstanding amounting to £80k (31 March 2010: £70k).

The pension costs of civil servants on secondment to PADA are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS) which are described in DWP's Resource Accounts. PCSPS costs for civil servants on secondment to PADA are included in the payment made by the Authority to the 'home' departments of the staff concerned as part of the reimbursement of their employment costs and reflected in secondee costs in the table above. There was no residual liability for PADA in respect of PCSPS.

2c Average number of staff employed

	Period to 4 July 2010 Average full time equivalents	Year ended 31 March 2010 Average full time equivalents
Directly employed staff	145	134
Secondees	26	41
Interim staff	19	11
Total average number of staff	**190**	**186**

3 Other expenditure

	Note	Period ended 4 July 2010 £000	Restated Year ended 31 March 2010 £000
Professional advice and support		702	8,503
Legal fees and expenses		631	3,888
Research costs		250	1,476
Recruitment and other staff costs		449	1,471
Accommodation	3a	218	733
Rentals under operating leases		164	646
Information technology and telephony	3b	224	496
Other running costs		87	321
Auditor's remuneration – statutory audit		30	67
Internal audit		29	44
Loss on disposal of non-current assets		–	14
Release of reserve	3c	(5)	(20)
Unwinding of discount on provisions	3d	27	3
Sub total – *Other expenditure*		**2,806**	**17,642**
Depreciation and amortisation		16	51
Total		**2,822**	**17,693**

a In addition to its primary location, the Authority rented space from DWP in two fully serviced buildings. The Authority had no lease commitment with the Department, the costs of occupancy of the two buildings being invoiced on a monthly basis and expensed as incurred.

b During the reporting period, PADA relied on DWP's IT contracts for its fully serviced IT network, hardware, software and associated maintenance services. The assets used to provide the service were an integral part of assets serving DWP sites across the country and therefore PADA received its IT services via the overarching Departmental contracts. The Authority had a rental arrangement with the Department for the supply of these services, the costs for which were expensed as they were incurred. This arrangement was cancellable at one month's notice and the Authority therefore had no operating lease commitment. The network assets are recognised in the Department's financial statements.

c PADA created a lease incentive reserve in 2008/09 to recognise the value of assets received as consideration to facilitate the transfer of the lease for one of the properties occupied by the Authority. The lease incentive reserve is being amortised over the period of the lease (5.75 years) on a straight line basis.

d During 2008/09, the Authority created a provision for property repairing liabilities expected to arise on expiry of the lease on one of the buildings it occupies. The provision is discounted at the Authority's weighted average cost of capital, 4.04% (2009/10: 4.69%). The discount is unwound each year, resulting in an unwinding charge in the Statement of Comprehensive Net Expenditure.

4 Other income

	Period ended 4 July 2010 £000	Year ended 31 March 2010 £000
Interest receivable	1	3

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

The Authority's principal source of funding was provided directly by the DWP through loan financing and grant-in-aid. These resources are not accounted for as income (see note 11).

5 Interest payable

	Period ended 4 July 2010 £000	Year ended 31 March 2010 £000
Loan interest payable	875	1,682

Interest paid and payable relates to interest charged on balances outstanding on the loan from DWP (see note 11).

6 Property, plant and equipment

	Furniture & fittings £000	Information technology[a,b] £000	Assets under construction[a] £000	Total £000
Cost or valuation				
As at 1 April 2010	208	60	881	1,149
Additions	–	5	789	794
Disposals	–	–	–	–
As at 4 July 2010	**208**	**65**	**1,670**	**1,943**
Depreciation				
As at 1 April 2010	(57)	(14)	–	(71)
Charged in period	(11)	(5)	–	(16)
Disposals	–	–	–	–
Accumulated depreciation as at 4 July 2010	**(68)**	**(19)**	**–**	**(87)**
Net book value at 4 July 2010	**140**	**46**	**1,670**	**1,856**
Net book value at 31 March 2010	**151**	**46**	**881**	**1,078**
Asset financing:				
Owned	140	46	1,670	1,856
Net book value at 4 July 2010	**140**	**46**	**1,670**	**1,856**

	Furniture & fittings £000	Information technology[a,b] £000	Assets under construction[a] £000	Total £000
Cost or valuation				
As at 1 April 2009	172	20	–	192
Additions	55	40	881	976
Disposals	(19)	–	–	(19)
As at 31 March 2010	**208**	**60**	**881**	**1,149**
Depreciation				
As at 1 April 2009	(21)	(5)	–	(26)
Charged in period	(41)	(9)	–	(50)
Disposals	5	–	–	5
Accumulated depreciation as at 31 March 2010	**(57)**	**(14)**	**–**	**(71)**
Net book value at 31 March 2010	**151**	**46**	**881**	**1,078**
Net book value at 31 March 2009	**151**	**15**	**–**	**166**
Asset financing:				
Owned	151	46	881	1,078
Net book value at 31 March 2010	**151**	**46**	**881**	**1,078**

a. PADA entered into a contract for the provision of domestic IT equipment for NEST Corporation. This was to ensure NEST Corporation had a suitable IT platform from the date of its establishment on 5 July 2010. These assets were under construction at 4 July 2010.

b. Information technology includes telecoms equipment.

The review of all tangible non-current assets verified that the carrying value approximated to the fair value of the assets. Consequently there was no revaluation or impairments in the period.

7 Intangible assets

The Authority's intangible assets comprise purchased software licences.

	£000
Cost or valuation	
As at 1 April 2010	4
Additions	–
Disposals	–
Revaluation	–
As at 4 July 2010	**4**
Amortisation	
As at 1 April 2010	(1)
Charged in period	–
Disposals	–
Revaluation	–
Accumulated amortisation as at 4 July 2010	**(1)**
Net book value at 4 July 2010	**3**
Net book value at 31 March 2010	**3**

	Note	£000
Cost or valuation		
As at 1 April 2009		2
Additions		2
Disposals		–
Revaluation	a	–
As at 31 March 2010		**4**
Amortisation		
As at 1 April 2009		–
Charged in period		(1)
Disposals		–
Revaluation		–
Accumulated amortisation as at 31 March 2010		**(1)**
Net book value at 31 March 2010		**3**
Net book value at 31 March 2009		**2**

a. The net book values reported above reflect the fair value of the assets using an appropriate index as basis for fair value. These same assets measured according to the cost model approach would be valued at £3k as at 4 July 2010 (31 March 2010: £3k).

8 Trade and other receivables

	4 July 2010 £000	31 March 2010 £000
Amounts falling due within one year:		
Other current assets		
Other central government bodies	76	–
Staff loans	25	13
Prepayments	355	260
Total	**456**	**273**

9 Cash and cash equivalents

	4 July 2010 £000	31 March 2010 £000
Opening balance	439	561
Net change in cash balances	118	(122)
Balance at end of period	**557**	**439**
The following balances were held with:		
the Government Banking Service	**557**	**439**

10 Trade and other payables

10a Amounts falling due within one year

	Note	4 July 2010 £000	31 March 2010 £000
Trade payables		707	1,549
Other taxation and social security		351	339
Superannuation		80	70
Accruals		3,125	1,992
DWP loan	11	48,859	41,059
Total		**53,122**	**45,009**

10b Trade and other payables: analysis by amounts owing to central government

The following table identifies balances with other types of public sector organisation included within trade and other payables:

	4 July 2010 £000	31 March 2010 £000
Balances with other central government bodies	50,330	41,620
Amounts owing to bodies external to government	2,792	3,389
Total	**53,122**	**45,009**

Within the balance owing to other central government bodies is £48,859k loan funding (2009/10: £41,059k) and £351k (2009/10: £339k) owing to HM Revenue and Customs for employment-related tax and social security costs.

11 DWP loan

	4 July 2010 £000	31 March 2010 £000
Amounts falling due within one year	48,859	41,059
Amounts falling due after one year	–	–
Total	**48,859**	**41,059**

The loan from DWP was provided to meet the scheme implementation costs, and will subsequently be repaid from charges levied on scheme members. Liability for the loan transferred to NEST Corporation on 5 July 2010.

In March 2010, the interest rate applicable to the loan was confirmed with DWP at 7.58%. Interest on the loan was payable on 30 September and 31 March. The loan principal is due for repayment in November 2010.

12 Provisions for liabilities and charges

12a Administration provisions

	Provision for property repairs £000
Balance at 1 April 2010	682
Provided in the period	–
Change in provision	–
Provisions not required, written back	–
Provisions utilised in the period	–
Unwinding of discount	27
Balance as at 4 July 2010	**709**

	Provision for property repairs £000
Balance at 1 April 2009	930
Provided in the period	–
Change in provision	–
Provisions not required, written back	–
Provisions utilised in the period	(251)
Unwinding of discount	3
Balance as at 31 March 2010	**682**

The Authority received a contribution towards building repairs from a previous tenant upon taking over a lease in 2008. The previous tenant was another government body. The Authority provided for these repairs during 2008/09. The liability transferred to NEST Corporation on 5 July 2010. None of this provision was utilised during the period 1 April to 4 July 2010 (2009/10: £251k).

12b Analysis of expected timing of discounted flows

	Discount included in provision £000
In the remainder of the spending review period to 31 March 2011	18
Between 1 April 2011 and 31 March 2013	72
Balance as at 4 July 2010	**90**

The provision relates to building surveyors' estimates of amounts required to settle property repairing liabilities which may arise. The provision represents estimated future cash flows discounted at the Authority's weighted average cost of capital of 4.04% (2009/10: 4.69%). The discount amounts to £90k (2009/10: £117k) and is expected to unwind as shown above over the remaining period of the lease up to 2013/14, the same period over which the expenditure is expected to be incurred.

13 Capital and other financial commitments

	Note	4 July 2010 £000	31 March 2010 £000
Contracted capital commitments at 4 July 2010 not otherwise included in these financial statements			
Property, plant and equipment	a	331	637
Scheme administration contract	b	23,259	23,259
Total		**23,590**	**23,896**

a. PADA entered into a contract for the provision of domestic IT equipment for NEST Corporation. This was to ensure NEST Corporation had a suitable IT platform from the date of its establishment on 5 July 2010. All PADA assets and liabilities transferred to NEST Corporation on that date.

b. PADA signed a contract with Tata Consultancy Services Ltd (TCS) for the provision of NEST administration services; the contract being in two stages. The first stage of the contract, up to mid October 2010, was to cost no more than £25m, of which £23.3m was capital. The contract was novated to NEST Corporation on 5 July 2010.

14 Commitments under leases

Operating leases

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

	4 July 2010 £000	31 March 2010 £000
Future minimum lease payments comprise:		
Buildings:		
Within one year	648	648
Between one year and five years	1,599	1,782
Thereafter	–	–
Total	**2,247**	**2,430**

The future minimum lease payments represent a lease for offices occupied by PADA. Rent was fixed in the lease, based on normal market rates, and was payable quarterly in advance. The agreement imposed no restrictions on the Authority on how it conducted its business. There was no break clause remaining and the prescribed term concludes in December 2013. The lease commitment transferred to NEST Corporation on 5 July 2010.

15 Financial instruments

Financial assets

	4 July 2010 £000	31 March 2010 £000
Cash and cash equivalents	557	439
Amounts due from other government bodies	76	–
Staff loans	25	13
Total	**658**	**452**

The above figures exclude statutory debtors and prepayments.

Financial liabilities

	4 July 2010 £000	31 March 2010 £000
Trade payables	707	1,549
Accruals	3,125	1,992
Total	**3,832**	**3,541**

The above figures exclude statutory payables.

It was PADA's policy that no trading in financial instruments was undertaken.

PADA did not face the degree of exposure to financial risk that many commercial businesses do. In addition financial assets and liabilities generated by day-to-day operational activities were not held in order to change the risks faced by PADA in undertaking its activities.

The Authority borrowed money from DWP to fund activities which will subsequently be repaid from revenue raised from charges to scheme members. The interest rate applicable to the loan was 7.58% (2009/10: 7.58%) (see notes 5 and 11).

PADA's financial assets and liabilities which were outside the scope of activities to be charged to scheme members have a cost of capital of 3.5% (2009/10: 3.5%).

PADA had no exposure to foreign currency risk at 4 July 2010 (31 March 2010: nil).

The book value of PADA's financial assets and liabilities as at 4 July 2010 and 31 March 2010 are not materially different from their fair values.

16 Contingent liabilities disclosed under IAS 37

There are no contingent liabilities to disclose.

In its 2009/10 finanical statements, the Authority disclosed as a contingent liability the interest rate on the loan from DWP being provisional at 7.58%. It was not possible to assign a value to this contingent liability. The rate was subsequently agreed at 7.58% and the contingent liability did not materialise.

17 Losses and special payments

	Period ended 4 July 2010		Year ended 31 March 2010	
	£000	Cases	£000	Cases
Losses:				
Contract termination payment	–	–	5	1

18 Related party transactions

PADA was a non-departmental public body accountable to the Secretary of State for Work and Pensions. DWP is the Authority's sponsoring department and the two bodies were regarded as related parties. During the period the Authority had a number of material transactions with DWP. These are detailed in the table below:

	Period ended 4 July 2010 £000		Year ended 31 March 2010 £000	
	Funding	Expenditure	Funding	Expenditure
Loan funding	7,800	–	35,436	–
Loan interest	–	875	–	1,682
Other transactions	–	681	–	3,535
Total	**7,800**	**1,556**	**35,436**	**5,217**

At 4 July 2010, excluding the liability to repay the loan which does not fall due for repayment until November 2010, the Authority had an outstanding liability with DWP totalling £1.1m (2009/10: £1.79m) of which £875k related to loan interest (2009/10: nil).

This relationship with DWP included provision to the Authority of:

- information technology services, office accommodation and internal audit services
- secondees
- grant-in-aid and loan funding.

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

No Board members, senior managers or other related parties have undertaken any material transactions with the Authority during the period (2009/10: nil).

A close relative of Paul Hewitt is a member of the Board of NCC Group. During the period 1 April 2010 to 4 July 2010 PADA did not purchase any services from NCC Services, a trading arm of NCC Group (2009/10: £2.4k).

19 Late payment of commercial debt

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

During the period 1 April 2010 to 4 July 2010, PADA incurred no interest charges under the late Payment of Commercial Debts (Interest) Act 1998 (2009/10: £146).

20 Removal of cost of capital

In accordance with the HM Treasury Clear Line of Sight Project and the requirements of the 2010/11 FReM, cost of capital charges have been removed from financial statements with effect from 1 April 2010. Appropriate extracts of the 2009/10 primary financial statements affected by this change are presented below to illustrate the impact of this change.

Statement of Comprehensive Net Expenditure

for the year ended 31 March 2010

	Restated Year ended 31 March 2010 £000	Year ended 31 March 2010 £000
Net expenditure	**(32,776)**	**(32,776)**
Cost of capital	–	977
Interest payable	(1,682)	(1,682)
Net expenditure after cost of capital and interest	**(34,458)**	**(33,481)**
Reversal of cost of capital	–	(977)
Net expenditure after interest	**(34,458)**	**(34,458)**
Other comprehensive expenditure	–	–
Total comprehensive expenditure for the year	**(34,458)**	**(34,458)**

Statement of Cash Flows

for the year ended 31 March 2010

	Restated Year ended 31 March 2010 £000	Year ended 31 March 2010 £000
Cash flows from operating activities		
Net deficit after cost of capital and interest	(34,458)	(33,481)
Adjustment for cost of capital charge	–	(977)
Adjustment for non-cash items	45	45
(Increase)/decrease in trade and other receivables	424	424
Increase/(decrease) in trade and other payables	(2,823)	(2,823)
Increase/(decrease) in provisions	(248)	(248)
Net cash outflow from operating activities	**(37,060)**	**(37,060)**

21 Events after the reporting period

After the reporting period to which these financial statements relate, PADA was wound up and its functions, assets and liabilities transferred to NEST Corporation on 5 July 2010.

IAS 10 requires NEST Corporation to disclose the date on which the financial statements are authorised for issue. This is the date of the Certificate and Report of the Comptroller and Auditor General.

The authorised date for issue is 15 July 2011

Annex I

DIRECTION IN RELATION TO THE ANNUAL REPORT AND ACCOUNTS OF THE NATIONAL EMPLOYMENT SAVINGS TRUST CORPORATION

GIVEN BY THE SECRETARY OF STATE FOR WORK AND PENSIONS, UNDER SCHEDULE 1 TO THE PENSIONS ACT 2008.

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

2. NEST Corporation shall prepare accounts for the 12 month period ended 31 March 2011, and subsequent financial years, in compliance with the accounting principles and disclosure requirements of the edition of the Government Financial Reporting Manual issued by HM Treasury ("the FReM") which is in force for the financial year for which the accounts are being prepared.

3. These accounts shall be prepared so as to:

   a. give a true and fair view of the state of affairs of NEST Corporation at 31 March 2011 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.

[1] Paragraphs 17 and 20 were amended by the Personal Accounts Delivery Authority Winding Up Order 2010 (2010/911), article 9.

5. NEST Corporation must disclose in its accounts:
   a. The loan from DWP and any other loans for which NEST Corporation is responsible for and on behalf of NEST, together with interest charges related to those loans;
   b. Contracts for scheme services (e.g., scheme administration) entered into for and on behalf of NEST; and
   c. Receipt of deductions made from members' accounts to contribute to the general costs of the setting up, administration and management of NEST[2].
6. NEST Corporation's accounts will not consolidate the accounts of NEST (the pension scheme).
7. In its Annual Report, referred to in paragraph 17 of Schedule 1 to the Pensions Act 2008, NEST Corporation is to include the report on NEST Corporation's proceedings during the year.
8. In accordance with paragraph 20 of Schedule 1 to the Pensions Act 2008, NEST Corporation is to prepare an annual statement of accounts for NEST Corporation. The accounts will include the certificate and report of the Comptroller and Auditor General on the NEST Corporation Accounts.
9. NEST Corporation came into force on 5 July 2010, and simultaneously its predecessor body (The Personal Accounts Delivery Authority – PADA) was wound up. For the financial year 1 April 2010 to 31 March 2011 only, the Annual Report and Accounts, referred to in paragraphs 7 and 8 above, will cover the full financial year, incorporating the period relating to PADA. The financial statements will also clearly show a separate wind-up account for PADA for the period 1 April 2010 to 4 July 2010. However, there is no need to prepare a separate SIC or management commentary as these items can be included in the overall accounts and report for NEST Corporation.
10. This Direction revokes and supersedes the Accounts Direction issued to PADA on 29 April 2009.
11. This Direction is signed by the authority of the Secretary of State for Work and Pensions.

[2] The National Employment Savings Trust Order 2010; article 27.

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