



# NEST Corporation Corporate Plan

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2010-2013

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“This is the first three year Corporate Plan for NEST Corporation, which also includes our current year Business Plan.”

# Contents

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|   |    |   |    |
|---|----|---|----|
| Foreword  | 2  | Appendix A  |    |
| Introduction  | 3  | Organisational structure and current responsibilities | 26 |
| Background  | 3  |   |    |
| Purpose   | 4  | Appendix B  |    |
|   |    | Governance structure                                  | 30 |
| High level framework  | 5  |   |    |
| NEST vision statement   | 5  |   |    |
| Values  | 5  |   |    |
| High level objectives   | 6  |   |    |
| Core themes 2010-2013   | 7  |   |    |
| Build the scheme  | 7  |   |    |
| Build the organisation to support the scheme  | 8  |   |    |
| Implement excellent governance structures, controls and information flows to ensure we are well managed | 10 |   |    |
| Performance management  | 16 |   |    |
| Summary of key objectives   | 16 |   |    |
| Business Plan   | 18 |   |    |
| Introduction  | 18 |   |    |
| Business performance tables   | 19 |   |    |
| Resource summary  | 22 |   |    |
| Funding   | 22 |   |    |
| Financial planning and control  | 22 |   |    |
| 2010/11 forecast  | 23 |   |    |
| Future years  | 25 |   |    |
| Cost drivers  | 25 |   |    |

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# Foreword

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NEST is being established to provide a high quality, low cost workplace pension scheme for the millions of people currently without access to one. NEST Corporation is the corporate trustee responsible for establishing and operating NEST, and came into being on 5 July 2010.

NEST Corporation took over from its predecessor body, the Personal Accounts Delivery Authority (PADA). This change in governance was a key step in moving towards delivery of the scheme and means the scheme is governed by Trustee Members with a duty to run NEST in our members' interests.

Through this transition to a new governance structure we have retained the things that made PADA a success – a strong team with credibility and significant experience led by Tim Jones, NEST CEO; a strong administrator for the scheme in Tata Consultancy Services (TCS); and a clear focus on the target market who do not have access to good value retirement savings today.

This is the first three year Corporate Plan for NEST Corporation, which also includes our current year Business Plan. This period will see a significant journey for NEST Corporation, including the launch of the scheme in 2011, through to the start of the employer duties in 2012.

At the time NEST Corporation was established, an independent review team set up by the incoming coalition Government was undertaking a review into the scope of automatic enrolment and how NEST would take a role in this. The review team published the Making Automatic Enrolment Work review on 27 October 2010. The Government has accepted its recommendations, confirming the future role for NEST as part of the 2012 reforms.

Throughout the review period, we have continued to make progress towards launch through activities necessary to deliver the scheme. Work to develop our longer term corporate strategy was, by necessity, put on hold until the conclusion of the review. This work will form part of the Corporate Plan published in the next financial year.



*Lawrence Churchill*

Lawrence Churchill, CBE  
Chair  
NEST Corporation  
28 February 2011

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# Introduction

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## Background

NEST is a low cost, trust-based occupational pension scheme designed for workers in the UK who are currently without access to a high quality pension scheme at work.

NEST Corporation is a trustee corporation that was established on 5 July 2010 as a successor organisation to PADA. It takes responsibility for delivering the scheme as a partner in the Enabling Retirement Savings Programme, which leads in delivering the government's pensions reform agenda. The programme is run within the Department for Work and Pensions (DWP). However, NEST Corporation has a primary ongoing responsibility as a trustee body to operate the scheme.

NEST Corporation is responsible for ensuring that the scheme is delivered and run in the interests of its members. It is made up of a Chair and currently six other Trustee Members, all of whom work part time. These Trustee Members will set the strategic direction and objectives for NEST in a way that is for its members.

This is NEST Corporation's first Corporate Plan covering the period from July 2010 to the end of March 2013. It also contains details of our Business Plan from July 2010 to March 2011.

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## Purpose

The purpose of this Corporate Plan is slightly narrower in scope than the Corporate Plans we will publish in future.

This is because the policy agenda of which NEST is a part has been subject to an independent review – *Making Automatic Enrolment Work* – which addressed questions regarding the scope of workplace pension reform and NEST’s role in this. We needed to wait for the outcome of that review in order for us to begin to solidify our overall strategy.

In addition, our predecessor body, PADA, was a programme delivery body charged with setting up the NEST scheme. NEST Corporation succeeded PADA at a key point in the programme’s delivery. We inherited the programme delivery functions of PADA and our early priority has therefore been to ensure continuity in those areas. Programme delivery forms the bulk of our work for the period covered by the 2010/11 Business Plan and will be a significant element of it for some time to come. In parallel, we are now establishing the longer term strategic framework that will ensure our members are placed at the heart of our organisation.

Alongside the programme delivery functions, meeting this strategy will require NEST Corporation to establish the business as usual functionality needed for us to run a pension scheme on a day to day basis.

Because the work on our longer term strategy is evolving, the Corporate Plan remains relatively silent on NEST’s strategic intent and objectives and focuses on the programme deliverables inherited from PADA. It sets out the main business deliverables that NEST must meet in the period covered by the plan. One of the key deliverables in the months to come is for Trustee Members to settle this longer term strategic framework. The results of this work will set the framework for our future Corporate and Business Plans allowing us to measure its success.

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# High level framework

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## NEST vision statement

As an occupational pension scheme NEST is designed to enable workers to save and have an income in retirement that helps them to maintain their independence in later life. Our corporate vision, agreed by the Trustee Members, reflects this:

*Helping millions more to save confidently for their retirement.*

## Values

Trustee Members have agreed the NEST Corporation values:

**We're driven by members interests**

We run the scheme in the interests of our members and their beneficiaries

**We deliver**

The need to deliver for our target membership is always at the front of our minds. We will deliver on time and to a high quality

**We innovate**

We think about what will work best for the people who use NEST. Where we need to find a new way of doing things, we will

These values define what NEST Corporation Stands for and support the evolving culture of the organisation. They are intended to be complementary to our brand values of ease, transparency and empowerment.

As set out earlier in this document, the transition from PADA to NEST Corporation means we will focus on each of these values at different times. This financial year the focus is primarily on delivery. Much of this document is therefore focused on meeting the delivery challenges needed to get the scheme up and running. However, while necessarily concentrating on delivery in year one, we will also embed from the outset our commitment to innovation and being member driven.

Before members join we will define how we are set up to meet their interests.

Critical to our success will be to embed all of these values in our organisation and make sure everyone understands and demonstrates them. They will form the basis against which we will measure the quality of our performance.

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## High level objectives

By the end of the period covered by this plan, NEST will have several hundred thousand participating members. Between now and then, NEST's activity breaks down into three periods:

- preparing for launch
- voluntary participation and readiness for the onset of employer duties (from July 2012 participating employers can bring forward their duty date<sup>1</sup>)
- onset of the employer duties for large employers (10,000 plus workers) and a rapid increase in the number of employers using the scheme.

This means the plan will go through several distinct phases of activity as our focus shifts.

Our high level objectives for this period reflect this: remaining relevant throughout the three years while enabling, through annually set business objectives, the flexibility necessary given these shifts of focus.

The objectives also reflect the parallel elements of our delivery in this period. First and foremost we are delivering the NEST scheme – a pension scheme that will enable us to deliver our vision. However we are also developing a new organisation, NEST Corporation, which supports this vision by meeting its obligations as a Public Corporation.

All of this must be delivered in the context of, and measured by, NEST Corporation's overarching duty to act in members' interests.

To this end, the Trustee Members have agreed to organise around the following high level objectives:

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

<sup>1</sup> This is subject to further legislation being passed by Parliament.

# Core themes 2010 - 2013

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This section summarises our key priorities for the current year and the following years to March 2013 taking into account each of our high level objectives.

## Build the scheme

### Financial year 2010 to 2011<sup>2</sup>

Our focus for the current year is to make sure everything is in place to deliver the scheme and take on our first members from spring 2011.

NEST is being delivered through an outsourced business model, with key components of the scheme delivered by third party suppliers. We are supporting our scheme administrator, TCS, and our fund administrator, State Street Corporation, through user acceptance testing and by making sure the interfaces between these providers work smoothly. This will support our intention to ensure the scheme is accessible, simple and straightforward for employers and members from the very beginning.

The Programme Management Office (PMO) provides assurance to the Executive Team and Trustee Members that appropriate activities are being managed in a coherent and planned manner, and 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.

Another key area of activity is procuring further necessary services and managing our relationships with suppliers, both those supplying scheme services and those supplying products and services to NEST Corporation. Our current focus is on managing the relationship with our scheme administrator and fund administrator, procuring investment management services and ensuring the readiness of these services for scheme launch.

We continue to raise awareness of NEST and its key features among employers and advisers. To make sure that our communications are easy to understand and effective, we have run the first in a series of tracking surveys in January 2011. The outcomes will help us establish a baseline from which we can measure members' opinions of NEST as a trusted pension scheme focused on our target market.

We are also preparing for new business after scheme launch. This involves developing relationships with employers that have expressed an interest in joining NEST in advance of the onset of employer duties (OED) and making sure that operations during the launch period fully test and validate our processes and systems in readiness for the OED.

Following extensive consultation on our investment approach, we are also continuing to develop the main recommendations and infrastructure for delivering NEST's investment approach. This will focus in particular on the different types of investment within the default fund. We are also examining the demand for and potential designs of ethical and religious compliant fund choices, such as a Sharia compliant fund option.

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<sup>2</sup> Commenced on 5 July 2010.

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We are continuing to build on the results of the previous consultation and ongoing research to further define our annuity approach so Trustee Members can agree the products that should be made available through NEST's panel of annuity providers.

### Financial years 2011 to 2013

From April 2011 into early 2012 we will work with the scheme administrator and suppliers of other scheme services throughout the scheme launch period to test, validate and improve our processes during this operational phase. We will continue with contract management of those suppliers providing scheme services and the ongoing procurement of NEST Corporation services.

From April 2012 to October 2012 work will be dedicated to ensuring readiness for, and managing the early stages of, the OED from July 2012. The work programme for the second half of the year will focus on validating the scheme operations in the new automatic enrolment environment.

From scheme launch onwards we will continue to measure the impact of our communications and events on how the NEST brand is being received. This will allow us, over time, to establish lead indicators of scheme usage.

We will also continue throughout the period of this corporate plan to work closely with DWP on any proposed change to legislation or regulations that may impact NEST.

## Build the organisation to support the scheme

### Financial year 2010 to 2011

This is NEST Corporation's first year in existence. The aim for the current financial year is to have in place the key building blocks that will support the development of the organisation. We need also to make sure NEST has the capacity to deliver and run the scheme in the best interests of members.

A critical component will be to begin recruiting our Employer and Member Panels. They will play a key role in acting as the voice of the employer and member respectively within the organisation. By the end of this financial year we will have made significant progress in recruiting the Chairs of these panels.

We have structured the organisation in a way that helps us to achieve our business objectives. An organisation chart and description of the responsibilities of each department within NEST Corporation are included in Appendix A.

To support the development of an organisation capable of running NEST effectively, we will deliver functional strategies and plans in the following areas:

- A comprehensive HR People Strategy. This will ensure we recruit and retain people with the necessary knowledge and skills to successfully deliver our high level objectives. Our HR Strategy will also help to develop our culture, based around both our strategic framework and our brand values.

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- A Location Strategy. NEST Corporation obtained HM Treasury approval to remain at our current London location for the duration of the current lease. However, work is already under way to identify a long term location for NEST Corporation.
  - A Corporate Social Responsibility Strategy. NEST Corporation is fully committed to meeting its social responsibilities. Our aim is to contribute to a sustainable society while providing a low cost scheme for our members. Our Corporate Social Responsibility approach will be based on workplace, environment and community.
  - An IT Strategy. This will build on our current contract with our delivery and managed services partner, Northgate Managed Services. Their initial remit was to ensure we have the appropriate technology to carry out our functions effectively, and this was delivered on 5 July 2010. We are now beginning to implement our comprehensive IT strategy that sets out how we will continue to work closely with Northgate Managed Services to develop services that meet our evolving requirements. In particular we will focus on integration and information sharing with our suppliers as we prepare for scheme launch and beyond. We will also deliver a data strategy and seek ISO27001 accreditation.

Underpinning these functional strategies is an infrastructure consisting of our information systems, facilities and financial resources. Further details of our financial status and plans are set out in the Resource Summary.

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### Financial years 2011 to 2013

As we start the scheme and over the remaining period of this Corporate Plan, we will evolve to meet requirements and after OED from October 2012. The HR People Strategy will act as the guide for this. We will ensure our organisational structure supports the business needs at each stage and that we have people with the right skills and knowledge. We will put the interests of members at the heart of everything we do as we move from a delivery organisation to an occupational pension scheme with our members' assets under management.

We will also work to achieve a culture in NEST that we are proud of, ensuring individual performance targets relate to both our business and high level objectives. This will enable all our people to see where and how their efforts support the delivery of NEST Corporation's strategy.

We will continue to refine and implement our IT Strategy to ensure it supports the outsourced business model of the scheme. This will set out how we intend to develop our infrastructure as the organisation matures.

We will continue to identify and agree a permanent location for NEST Corporation and ensure all necessary plans are in place to enable a seamless organisational move when the time comes.

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

This objective takes into account a number of functions and activities that together provide assurance to Trustee Members, our members, our regulator and DWP that we are operating effectively. We believe that being recognised as a well managed organisation through the quality of our governance is an essential component of delivering a scheme that inspires trust in its members.

### Corporate governance

We are implementing a series of robust and effective systems.

A full complement of Trustee Members was appointed as designates prior to the launch of NEST Corporation. Subsequently, two Trustee Members designate have been appointed to the House of Lords and have resigned. Further recruitment activities are planned to ensure that the appropriate breadth of knowledge and skills are maintained.

All our Trustee Members are working towards The Pension Regulator's Trustee Toolkit certification. In addition, they have received a series of briefings on trustee knowledge and understanding including aspects specific to NEST, such as the scheme order and rules. This helps them to be fully versed and ready 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, our remuneration policy and the recruitment of Trustee Members.

The membership of these committees is set out in the governance structure diagram in Appendix B. The terms of reference for each of these committees are available on our website. In particular, 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. He is then responsible for delegations to the Executive Team and the day to day operations and management of NEST Corporation with oversight by the Trustee Members.

NEST Corporation operates at arm's length from government. We are accountable to Parliament through the Secretary of State for Work and Pensions. As such, we will operate within the boundaries of an agreed Framework Document and when agreed, a Memorandum of Understanding. Our CEO has been appointed as the accounting officer for NEST Corporation in its capacity as a Public Corporation. He is personally responsible for safeguarding the public funds for which he has charge and for ensuring propriety and regularity in handling those public funds.

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## Risk management

The effective management of risk is at the heart of our ability to act in the interests of members. Therefore the process for identifying and assessing risk is an integral and inseparable part of the management skills, performance culture and processes which are at the core of NEST. Our approach to risk and risk management is to support the achievement of our high level objectives and Business Plan priorities in order to protect and enhance the benefits and commitments we have made to our beneficiaries.

### Risk framework

NEST classifies its risks in line with good practice across the financial services and public sectors and other occupational pension schemes. The main categories of risk that we focus on are listed below with a brief description. Given the nature of the programme we are delivering, these areas will 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 political and stakeholder risks arising from the Making Automatic Enrolment Work review. As we shift into live running, other risks, such as those around investment and operations, will begin to take precedence.

- *Member risk* - all those risks that directly impact on members' pension pots, including market volatility/investment risk, inflation, interest rates and liquidity.
  - *Financial risk* - funding arrangements, budgets, change costs, tax regime, interest rates and internal financial control.
  - *Political risk* - risks associated with our status as a non-departmental public body and changing government policy and interest.
  - *Stakeholder risk* - relationships and reputation with the government, The Pensions Regulator, employers, workers, advisers and the media given the start-up nature of NEST.
  - *Fulfilment risk* - competition from other providers, employer and worker behaviour in respect of automatic enrolment.
  - *Operational risk* - relationships with and performance of our key service providers, contract management, supplier dependency, information integrity and business continuity.
  - *Regulatory risk* - compliance with legal and regulatory requirements.
  - *Product risk* - the design and build of the NEST product, the NEST website and the user experience this provides.
  - *Programme risk* - risks associated with delivering the scheme for launch and the onset of employer duties.
  - *People risk* - attraction and retention of key staff, performance management, accountability, human resource policy, internal communication, accommodation and location.
  - *Governance risk* - organisational structures, management information and disclosure.
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## Key areas of risk

In total, at any one time we will be managing a significant volume of risks across these different areas. The major high level risks that we currently face are:

### Member risk

The onset of employer duties in October 2012 will introduce a significant volume 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 persistency. These members may also make what turn out to be inappropriate investment decisions regarding fund choice and switching during the accumulation period and make poor decisions or no decisions at all 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.

At present, our focus is on developing our approaches to managing these risks ahead of those first members joining later this year. We continue to develop our investment approach which has been designed after extensive research of the potential scheme membership taking into account their 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 scheme members who do not wish to take an active role in how their contributions are invested can do so in confidence.

The availability of a well constructed default fund is an essential part of automatic enrolment and is central to NEST's investment approach. Some members may wish to choose an alternative to the default fund. The Trustee Members will ensure that NEST provides a suitable level of choice to meet these members' needs. In addition we will develop a Retirement Income Options tool to guide members through the decumulation process.

### Scheme delivery

The onset of employer duties from July 2012<sup>3</sup> 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 in 2011 will build credibility in our product and services, and increase understanding of employer and member behaviour. The path to launch is therefore critical and delivery of the scheme may be impacted by resource constraints, the procurement and performance of our key service providers, and policy uncertainties created by the implementation of recommendations from the Making Automatic Enrolment Work review.

We continue to drive ourselves and our suppliers according to a detailed delivery plan that stimulates the close co-operation model we have established. Funding arrangements are in place with the government and key service provider contracts continue to be awarded in line with the plan. 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.

<sup>3</sup> This is subject to further legislation being passed by Parliament.

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### Scheme volumes

The number of employers that choose to use NEST, the manner in which they fit it 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 the detailed shape of automatic enrolment becomes clear once the recommendations from the Making Automatic Enrolment Work review are implemented. All of this may influence the numbers who will participate through staging and in turn, impact our ability to meet the conditions of our funding arrangements with the government.

We continue to shape our product proposition 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

Like all businesses, NEST and our key service providers face the potential for significant unplanned interruption to scheme delivery and ongoing operational continuity. Major interruption may cause delays to scheme launch, 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. In addition, critical business processes are identified and subject to increased operational scrutiny across all parts of NEST.

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### Key staff retention and attraction

As an organisation still in start-up, NEST Corporation must attract a mixture of resources and skills needed for delivery of the scheme at launch and beyond. This requires autonomy and flexibility to respond to these changing requirements and there is a risk that further resource constraints could seriously impact NEST's ability to acquire the skills needed for delivery. In addition, decisions regarding the future location of NEST, and our employer brand as a whole, have an impact on our ability to attract and retain the talent needed.

We are in the process of creating a set of policies and strategies, for example learning and development and reward and recognition, that will ensure we develop a compelling employer brand and enable us to attract and retain the right talent.

### Risk management process

Our risk management approach is delivered in practice through the application of the NEST Risk Management and Control Framework.

The core components are outlined here:

- Key and emerging risks are identified and assessed on a continuous basis across all parts of NEST and our key service providers through an ongoing review of the business, economic, regulatory, operational environment and NEST's evolving risk landscape.
- The strength and effectiveness of the NEST 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.

- Key risks and the status of business improvement actions are monitored by risk owners and the NEST Risk Function and PMO for delivery risk.
- Regular reporting of key risks, mitigation status and the effectiveness of our approach to risk management is provided to the Executive Team and the Risk Committee by Risk owners, the Risk Function and PMO in order to achieve more informed decision making.
- The Trustee Members are ultimately responsible for risk management and internal controls across NEST, although responsibility for risk and control oversight is principally delegated to the Risk Committee and the Audit Committee.

Risk and risk management on a day to day level forms a key part of the Executive Team's responsibility. As such, the Executive Team, assisted by the NEST Risk Function, oversees the management of all risks and the application of the NEST Risk Management and Control Framework. The Risk Committee, Audit Committee and Trustee Members provide dialogue, review and challenge the portfolio of NEST risks.

To support the Executive Team in this, the NEST Risk Function works with NEST management, the Executive Team and the Risk Committee to ensure that all key risks are identified and managed and that this framework remains fit for purpose and aligned to NEST's business objectives.

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## Compliance

The compliance function is responsible for monitoring our compliance with internal, statutory and regulatory requirements. It is also responsible for information security. This includes:

- developing and managing NEST's relationship with its key regulatory stakeholders, including The Pensions Regulator and DWP
- developing and executing an annual compliance monitoring programme
- creating and managing the NEST Information Security Management System (ISMS)
- procuring and overseeing the internal audit supplier.

The focus for this financial year is to establish relationships and implement the compliance and control frameworks for scheme launch. One of the most critical activities is to ensure that the ISMS is in place, effective and ready for scheme launch.

## Internal audit

The internal audit function has been procured through a third party supplier that reports to the Audit Committee. Key activity has included the:

- development of an audit universe, covering NEST Corporation and its suppliers
- creation and execution of a pre-scheme launch internal audit programme
- provision of independent control assurance to NEST Corporation and the scheme, together with an annual opinion on governance, risk management and internal control.

For 2011/12 and 2012/13 the control environment will be reviewed on an ongoing basis by the internal audit and compliance functions to ensure we maintain appropriate levels of control, comply with our regulatory obligations, and fulfil our statutory and regulatory duties as trustee of the scheme and as a Public Corporation.

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# Performance management

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As trustee of the scheme, NEST Corporation has a legal duty to act in the interests of its scheme members and to ensure it complies with all regulatory requirements relating to pension schemes. In addition, as a Public Corporation, we are accountable to Parliament through our sponsoring department, DWP. We need to demonstrate on both counts that we provide value for money in everything we do. To meet these requirements, we regularly monitor progress of delivery against our Business Plan.

NEST Corporation believes that being recognised as a well managed organisation through the quality of our governance is an essential part of delivering a scheme that inspires trust in its members. We are developing our governance structure and monitoring and control procedures to provide assurance of effective control and compliance with legislative and regulatory requirements to our Trustee Members, members and regulator.

In addition, we report on project progress and business performance to DWP.

## Summary of key objectives 2011-2013

This plan covers three phases of delivery.

The table opposite sets out the business objectives, based on our current assumptions and known factors, for each of the financial years covered by this plan. These are mapped against the relevant high level objective to support achievement of our vision. Objectives are reviewed annually as part of the business planning process.

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| High level objectives  | 2010-2011   | 2011-2012  | 2012-2013  |
|--|---|--|--|
| <b>Build the scheme</b>  | To establish and begin implementation of NEST Investment Strategy                                       | To have fully implemented the Investment Strategy and developed capability to deliver it   | To provide assurance to Trustee Members on the level of return on investment in line with agreed targets   |
|  | To sign the loan agreement with DWP to cover NEST funding requirements in the early years of the scheme | To ensure the development of the product is fit for purpose and that the development of NEST processes/procedures are legally compliant, including liaising with our partners to understand the impact of any legislative or regulatory changes relevant to NEST | To complete activities in preparation for the onset of employer duties   |
|  | To deliver operational readiness for scheme launch  | To successfully oversee scheme launch and implementation of additional functionality in advance of the onset of employer duties, and monitor core service delivery over the initial implementation period  | To successfully oversee the transition into the onset of employer duties, and monitor core service delivery as large employers join the scheme   |
| <b>Build the organisation to support the scheme</b>  | To develop NEST Corporation into an enduring and effective organisation ready to run the scheme         | To gain approval and implement the NEST approach to Corporate and Social Responsibility, so that we fulfil our commitment around the three principles of workplace, environment and community  | To continue to attract and retain the right skills so that NEST Corporation can deliver its business objectives and move from being project based to an operational organisation.            |
|  |   | To develop and implement a long term holistic people strategy and build a sustainable organisational culture   |  |
| <b>Implement excellent governance structures, controls and information flows to ensure we are well managed</b> | To complete and integrate the business operating model and supporting infrastructure                    | To implement and operate strong governance reporting and reviews, security processes and compliance frameworks, both internally and to monitor performance of the scheme's service providers   | To implement and operate strong governance reporting and reviews, security processes and compliance frameworks, both internally and to monitor performance of the scheme's service providers |
|  | To implement sound risk management, security processes and compliance frameworks                        | To operate sound risk management covering financial and non-financial processes  | To operate sound risk management covering financial and non-financial processes  |

# Business Plan

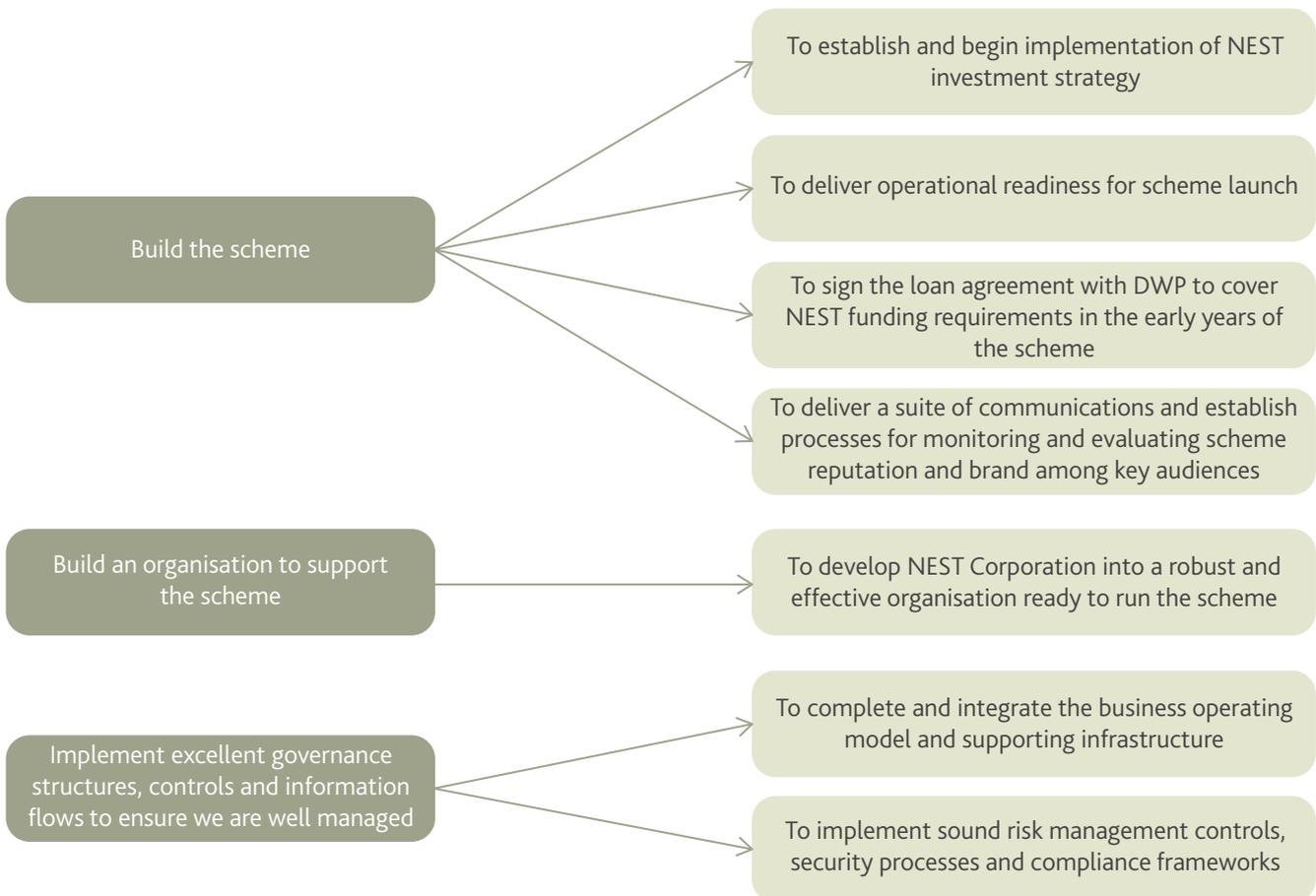
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## Introduction

This section sets out our current year Business Plan deliverables, associated activities and corporate performance indicators and milestones for the period from July 2010 to March 2011. It demonstrates how these objectives relate to and support our high level objectives.

The period for this Business Plan covers the first year of existence for NEST Corporation and concludes before the scheme is launched. Because of this, the business objectives from July 2010 to March 2011 mostly focus on elements of delivery rather than live operation.

Our primary focus in this period will be to establish the organisation through its initial stages and to ensure we are ready to launch the scheme. During this period those (largest) employers with the earliest duty dates will begin to formalise decisions around their longer term provision. However they will not come into the scheme until much later. Because of this, the Business Plan for 2010/11 will have a much greater focus on some of our business objectives than on others. The relationship between our business objectives and the deliverables that flow from them for this financial year is mapped out in the diagram below.



## Business performance tables

The following tables include a summary of our activities, performance indicators and milestones set against our business objectives for the financial year from July 2010 to March 2011.

A report on our overall performance for this financial year will be published retrospectively in our Annual Report and Accounts.

Quarters align to the fiscal year: Q1 - April to June, Q2 - July to September, Q3 – October to December, Q4 - January to March.

| High level objectives  | Business objectives  | Activities  | KPI/milestones   |
|------------------------|--|---|--|
| 1.<br>Build the scheme | 1.1<br>To establish and begin implementation of NEST Investment Strategy | 1.1.1<br>Complete procurement of Fund Administrator and test services to meet investment objective in line with overall procurement approach  | Procurement due for completion - Q3<br>Testing due to be complete - Q4 |
|                        |  | 1.1.2<br>Finalise initial investment objectives, beliefs and approach; sign off Statement of Investment Principles  | Statement of Investment Principles – Q4<br>Asset allocation - Q4       |
|                        |  | 1.1.3<br>Appoint fund managers and complete procurement of required ancillary services  | Contract award due – Q4  |
|                        |  | 1.1.4<br>Perform integration and testing  | Testing due to be carried out – Q4                                     |
|                        | 1.2<br>To deliver operational readiness for scheme launch                | 1.2.1<br>Sign stage 2 of scheme administration contract to cover the period to end June 2020  | Q3   |
|                        |  | 1.2.2<br>Support the scheme administration services contractor in delivery of the solution, working closely with the contractor to assure that the plan for delivery is credible and that the solution delivered meets our requirements | Q1 – Q4  |
|                        |  | 1.2.3<br>Continue procurement of services for NEST Corporation, including signature of contracts for legal advice services and investment risk management services  | Legal advice services – Q4<br>Investment risk management – Q4          |
|                        |  | 1.2.4<br>Carry out testing including functional testing, system testing, integrated testing and User Acceptance Testing of the solution   | Q4   |

| High level objectives  | Business objectives   | Activities  | KPI/milestones   |
|--|---|---|--|
|  | <b>1.3</b><br>To sign the loan agreement with DWP to cover NEST funding requirements in the early years of the scheme   | <b>1.3.1</b><br>Sign loan agreement with DWP<br><b>1.3.2</b><br>Set the charge level for the scheme   | Q3<br>Q3   |
|  | <b>1.4</b><br>To deliver a suite of scheme communications and establish processes for monitoring and evaluating scheme reputation and brand among key audiences | <b>1.4.1</b><br>Produce and test all scheme communications<br><b>1.4.2</b><br>Complete brand tracking surveys with our initial key audiences (advisers and employers ) to understand awareness of and attitude to the NEST brand  | Trustee Members agree approach to scheme vocabulary – Q3<br>Production and testing – Q4<br>Appoint agency for brand monitoring – Q3<br>Fieldwork starts – Q4 |
| <b>2.</b><br>Build the organisation to support the scheme  | <b>2.1</b><br>To develop NEST Corporation into an enduring and effective organisation ready to run the scheme   | <b>2.1.1</b><br>Corporate Social Responsibility plan agreed<br><b>2.1.2</b><br>Carry out staff survey to get a baseline satisfaction level for the future<br><b>2.1.3</b><br>Build NEST Corporation's reputation for credibility in delivery of the scheme<br><b>2.1.4</b><br>Location Strategy agreed by Trustee Members<br><b>2.1.5</b><br>Agree NEST Corporation reward strategy | Q2<br>Q3<br>Ongoing assessment through annual stakeholder survey – baseline performance measures to be agreed Q4<br>Q4<br>Q4                                 |
| <b>3.</b><br>Implement excellent governance structures, controls and information flows to ensure we are well managed | <b>3.1</b><br>To complete and integrate the business operating model and supporting infrastructure  | <b>3.1.1</b><br>Define an effective corporate governance structure. Trustee Members inducted and sub-committees defined and agreed<br><b>3.1.2</b><br>Governance arrangements in place to monitor and review the requirements of the loan agreement and Framework Document<br><b>3.1.3</b><br>Framework Document agreed and signed by Trustee Members and DWP                       | Q2<br>Q3<br>Q3   |

| High level objectives | Business objectives  | Activities  | KPI/milestones  |
|-----------------------|--|---|---|
|                       |  | <b>3.1.4</b><br>Policy and Procedures manual developed  | Q3  |
|                       |  | <b>3.1.5</b><br>Committee structure fully in place and operating effectively  | Q3  |
|                       |  | <b>3.1.6</b><br>Comprehensive policy framework established to encompass key control requirements for NEST Corporation   | Q4  |
|                       |  | <b>3.1.7</b><br>Chairs for both Employer and Member Panels recruited  | Q4  |
|                       | <b>3.2</b><br>To implement sound risk management, security processes and compliance frameworks | <b>3.2.1</b><br>Develop a portfolio of the key risks we face as an operational scheme and manage on an ongoing basis  | Q3  |
|                       |  | <b>3.2.2</b><br>Establish and implement an agreed risk and controls framework and policy  | Q3  |
|                       |  | <b>3.2.3</b><br>Implement monitoring and oversight processes, providing assurance that statutory and regulatory obligations are being met   | Q3  |
|                       |  | <b>3.2.4</b><br>Appoint internal auditors   | Q3  |
|                       |  | <b>3.2.5</b><br>Establish an internal audit framework that provides independent audit control assurance to the NEST Audit Committee   | Q3  |
|                       |  | <b>3.2.6</b><br>Agree and implement internal audit plan   | Q3 (Pre-March 2011 plan)<br>Q4 (Annual audit plan: April 2011–March 2012)     |
|                       |  | <b>3.2.7</b><br>Develop a supplier governance framework that allows NEST Corporation to exercise appropriate oversight of its suppliers and show supplier compliance with regulatory requirements | Q4  |
|                       |  | <b>3.2.8</b><br>Define and deliver Information Security Management Systems framework, controls and policy and achieve certification   | Framework controls and policy implemented – Q4<br>ISO27001 certification – Q4 |

# Resource summary

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This section of the Corporate Plan provides information on the resources required to deliver our strategic goals and desired outcomes as well as information on resource planning for the financial years 2011/12 and 2012/13.

## Funding

NEST Corporation is funded principally by a loan from DWP and also by grant-in-aid in respect of activities relating to its public corporation status. Annual budget allocations are agreed prior to the start of the financial year and NEST Corporation's funding requirement is kept under review throughout the year. NEST Corporation records its expenditure under two headings:

- chargeable expenditure being all of its expenditure that is specifically related to the implementation of the scheme
- non-chargeable expenditure being its expenditure that relates to its public functions.

The loan plus accumulated interest will be repaid through income generated from members' fees.

## Financial planning and control

The agreed budget for 2010/11 amounts to £84.6m, excluding loan interest. This is £51.7m associated with the scheme administration contract and £32.9m for NEST Corporation costs that are analysed in further detail below. The budget includes identification of different funding streams, comprising £83.8m for chargeable expenditure which is funded via a loan, and £0.8m for non-chargeable expenditure, funded via grant-in-aid.

The Pensions Act 2008 requires NEST Corporation to produce an Annual Report and Accounts that must be sent to the Comptroller and Auditor General, who then examines, certifies and reports on each year's financial statements. They are then submitted to the Secretary of State for Work and Pensions who lays them before Parliament. Financial control is supplemented by the terms of the loan agreement and Framework Document between NEST Corporation and DWP. This outlines the delegated spending authorities and reporting requirements.

NEST Corporation will publish its first Annual Report and Accounts during summer 2011 for the financial year 2010/11. These will incorporate PADA expenditure during the period 1 April to 4 July 2010, and assets and liabilities that transferred to NEST Corporation when PADA was wound up. NEST Corporation is also responsible for producing scheme accounts that will be made available to NEST members. The first set of NEST scheme accounts will be in respect of the year ended 31 March 2012.

We have developed budgetary controls to manage our costs within our funding limits and these are regularly reviewed. We also regularly review current financial performance and the impact of current developments on future years' expenditure. Financial control is supplemented by the terms of the loan agreement and Framework Document between NEST Corporation and DWP. This outlines the delegated spending authorities and monthly reporting requirements.

This resource summary reflects the most up to date forecast for 2010/11 and forecasts for the periods beyond.

## 2010/11 forecast

NEST Corporation was given an initial allocation of £84.6m (excluding loan interest) from DWP for 2010/11. This allocation was broken down as described in the table below. The table also describes NEST Corporation's latest forecast of expenditure for the 2010/11 financial year. The total current forecast, including loan interest, is about £17m below the allocation, which reflects the impact on implementation activity of the Making Automatic Enrolment Work review and of spending controls introduced by the Coalition Government. The financial consequences of this for future year forecasts are still being worked through.

|   | <i>Allocation</i> | <i>2010/11<br/>forecast</i> |
|---|-------------------|-----------------------------|
|   | <i>£(m)</i>       | <i>£(m)</i>                 |
| <i>Directly employed</i>                          | 15.5              | 11.4                        |
| <i>Secondees</i>                                  | 1.3               | 2.0                         |
| <i>Interim staff</i>                              | 1.8               | 2.4                         |
| <b><i>Total staff costs</i></b>                   | <b>18.6</b>       | <b>15.8</b>                 |
| <i>Consultancy</i>                                | 1.6               | 2.3                         |
| <i>Other costs<sup>4</sup></i>                    | 11.5              | 8.5                         |
| <i>Capital</i>                                    | 1.2               | 1.1                         |
| <b><i>Total - non staff</i></b>                   | <b>14.3</b>       | <b>11.9</b>                 |
| <b><i>Scheme contracts</i></b>                    | <b>51.7</b>       | <b>41.6</b>                 |
| <b><i>Total costs excluding loan interest</i></b> | <b>84.6</b>       | <b>69.3</b>                 |
| <i>Loan interest</i>                              | 6.3               | 4.9                         |
| <b><i>Total costs including loan interest</i></b> | <b>90.9</b>       | <b>74.2</b>                 |

<sup>4</sup> This is subject to further legislation being passed by Parliament

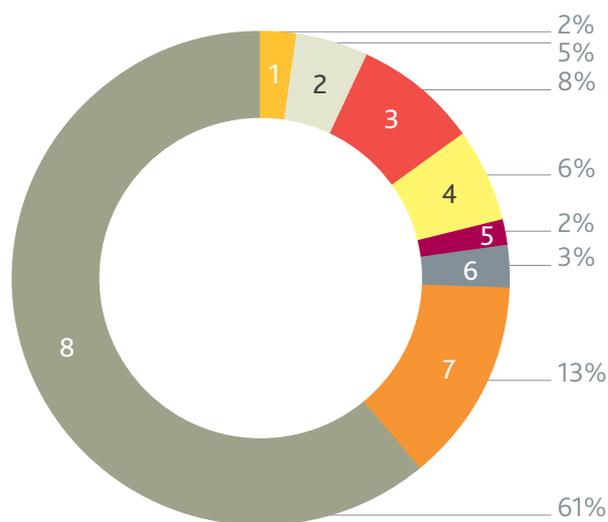
Within the 2010/11 forecast is £15.5m of expenditure that was incurred by PADA during the period 1 April to 4 July 2010. This includes £8.3m relating to the scheme administration contract. PADA expenditure will be shown separately from NEST Corporation's in the accounts for 2011/12.

Most of the expenditure for 2010/11 relates to the implementation of the scheme and will therefore be financed by a loan from DWP. Loan interest is charged at a commercial rate, determined at the date of each draw down. In recognition of the scheme's extra costs due to its public policy role, the government has indicated that it will provide NEST Corporation with State Aid by paying interest relief so the loan interest reflects the government's own cost of borrowing.

The allocation of resources across NEST Corporation's functional areas is described in figure 1.

The scheme administration contract that was awarded to Tata Consultancy Services in January 2010 represents the largest single area of expenditure during 2010/11. The costs to be incurred during 2010/11 relate to scheme set-up costs of NEST, in advance of the launch.

**Figure 1 - Allocation of resources across NEST Corporation's functional areas**



| <b>NEST Corporation 2010/11 forecast by functional area</b> |  | <b>(£m)</b> |
|---|--|-------------|
| 1   | NEST Corporation establishment and corporate affairs | 1.7         |
| 2   | Financing, investment and decumulation strategy      | 3.1         |
| 3   | Market research, product design and distribution     | 5.6         |
| 4   | Scheme implementation and delivery                   | 4.0         |
| 5   | Information technology                               | 1.3         |
| 6   | Commercials and procurement                          | 1.9         |
| 7   | Administration and support functions <sup>5</sup>    | 9.0         |
| 8   | Scheme administration contract                       | 41.6        |
| <b>Functional area sub total</b>                            |  | <b>68.2</b> |
|   | Capital  | 1.1         |
|   | Loan interest  | 4.9         |
| <b>Total</b>  |  | <b>74.2</b> |

<sup>5</sup> Administration and support function expenditure includes costs for HR, Programme Management Office, legal costs, estates, Executive Office and Secretariat.

## Future years

The table opposite sets out the expenditure estimates for the whole period covered by this Corporate Plan, based on NEST Corporation's middle range projection of costs, adjusted for inflation. The projections for second and third years are clearly less firm than the forecast for the current year.

## Cost drivers

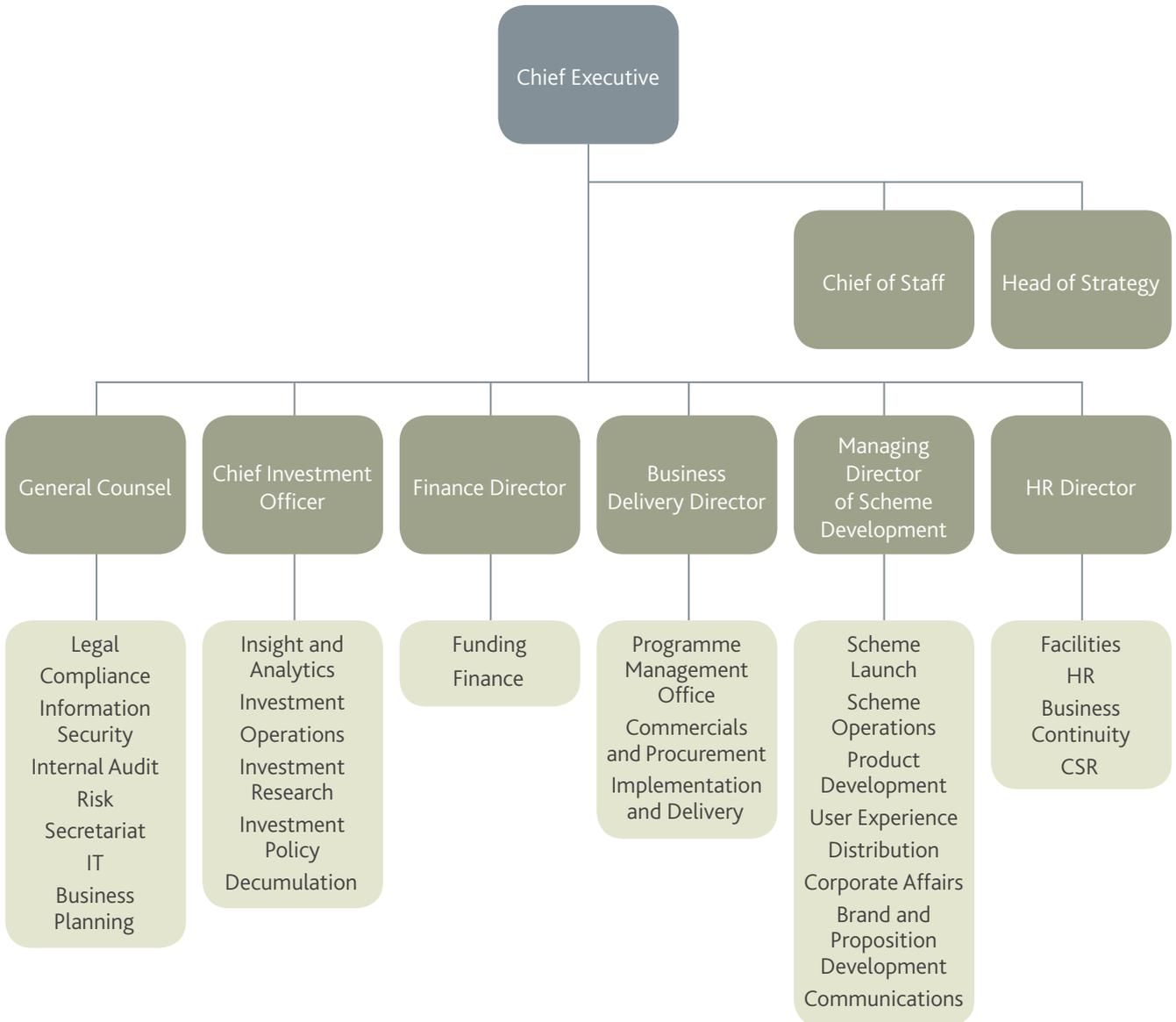
As noted above, our costs are dominated by the costs associated with the scheme administration contract. The principal cost driver is the number of members. In terms of administration costs, staffing is one of our main cost drivers. Staffing numbers are expected to peak during the launch period of the scheme when programme management activities need to run alongside the administration of a live pension scheme, but then numbers should fall to a little over 200 FTE by the end of this planning period. Staffing will be primarily through direct workers.

|  | <b>2010/11</b><br><i>(incl. PADA)</i> | <b>2011/12</b> | <b>2012/13</b> |
|--|---------------------------------------|----------------|----------------|
|  | <b>(£m)</b>                           | <b>(£m)</b>    | <b>(£m)</b>    |
| <b>Administration costs</b>                                |                                       |                |                |
| <i>Directly employed</i>                                   | 11.4                                  | 16.2           | 17.0           |
| <i>Secondees</i>   | 2.0                                   | 0.6            | 0.3            |
| <i>Interim staff</i>                                       | 2.4                                   | 0.1            | -              |
| <i>Consultants</i>   | 2.3                                   | 1.3            | 0.7            |
| <i>Other</i>   | 9.6                                   | 8.7            | 9.5            |
| <b>Total administration costs</b>                          | <b>27.7</b>                           | <b>26.9</b>    | <b>27.5</b>    |
| <i>Scheme administration contract - capital</i>            | 41.3                                  | 11.0           | 14.5           |
| <i>Scheme administration contract - resource</i>           | 0.3                                   | 16.4           | 18.5           |
| <b>Total scheme administration contract</b>                | <b>41.6</b>                           | <b>27.4</b>    | <b>33.0</b>    |
| <b>Fund administration and investment management costs</b> | <b>-</b>                              | <b>1.0</b>     | <b>1.1</b>     |
| <b>Sub total costs excluding loan interest</b>             | <b>69.3</b>                           | <b>55.3</b>    | <b>61.6</b>    |
| <i>Loan interest</i>                                       | 4.9                                   | 11.1           | 15.6           |
| <b>Total costs including loan interest</b>                 | <b>74.2</b>                           | <b>66.4</b>    | <b>77.2</b>    |
| <b>Funding classification</b>                              |                                       |                |                |
| <i>Chargeable</i>  | 73.4                                  | 65.6           | 76.3           |
| <i>Non chargeable</i>                                      | 0.8                                   | 0.8            | 0.9            |
| <b>Total</b>   | <b>74.2</b>                           | <b>66.4</b>    | <b>77.2</b>    |

# Appendix A

## Organisational structure and current responsibilities

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## General Counsel

The General Counsel Directorate consists of a number of departments covering a broad set of responsibilities:

- Legal - provides legal advice to the Trustee Members, the management team and to other internal customers as well as managing our external legal advisers.
- Compliance - monitors compliance with all statutory and regulatory requirements including information security and internal audit. It also manages NEST's relationship with its regulator and the DWP.
- Risk - develops, implements and maintains the NEST Risk Management Framework, providing oversight to the application of this framework across all parts of the NEST organisation.
- Secretariat - provides support to the Chair, Trustee Members and Committees in their work for NEST Corporation to ensure that NEST Corporation operates to its agreed standards of governance.
- Information Technology - ensures the organisation has the appropriate technology to carry out its functions effectively and to support cohesive working with its delivery and managed services partner.
- Business Planning - ensures NEST Corporation has an appropriate Corporate Plan and Business Plan in place and reports on performance.

## Investment

The Investment Directorate has a wide variety of responsibilities across all elements of the investment and decumulation of members' money:

- Investment operations - ensure members' contributions are invested as efficiently as possible.
  - Investment policy - currently focused on NEST's future role as a major institutional shareholder.
  - Investment research team - develops recommendations and infrastructure to deliver NEST's investment approach, with a particular focus on asset allocation within the default fund.
  - Decumulation - develop and procure solutions to enable members to access their retirement incomes.
  - Insight and analytics - provide internal consultancy to meet the quantitative and qualitative research needs of the organisation.
-

## Finance

The Finance Directorate manages the funding necessary for NEST Corporation to carry out its functions and ensure there is an effective system of financial controls. It ensures that NEST Corporation makes good use of its resources and spends its money in the most effective way.

The Finance Directorate is responsible for planning and forecasting resource consumption and providing monthly management accounts information to the Executive Team and to the Trustee Members. It is also responsible for publishing the certified annual financial statements.

## Business Delivery

The Directorate has responsibility for the delivery of the scheme in time for scheme launch in spring 2011.

This aspect of the Directorate's work is focused on supporting the work of the scheme administrator, performing User Acceptance Testing and ensuring that interfaces between the providers of scheme services work smoothly. The Directorate has responsibility for NEST's programme management function.

The Directorate is also responsible for managing the organisation's procurements and its contractual relationships with suppliers – both those supplying scheme services and those supplying products and services to the NEST Corporation.

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## Scheme Development

Areas of responsibility include Communications and Engagement, Product Development, Scheme Launch and Scheme Operations.

- Communications and Engagement - responsible for NEST's external presence wherever, whenever and however we might engage with the outside world, as well as working with DWP on communications arising from the workplace pension reforms.
- Product Development - responsible for specifying the NEST product, working with the Implementation and Delivery Team and contractors to ensure its delivery and preparing for its ongoing management, including our trading performance as a scheme.
- Scheme Operations - support NEST Corporation's strategic objectives by managing tactical and day to day processes and procedures. Responsible for making sure that the scheme services, processes and controls work effectively and efficiently. Scheme Operations also provides a casework function to ensure key operational decisions for escalation to Trustee Members are processed consistently, accurately and assessed against precedents and best practice.
- Scheme Launch – provide the NEST Corporation focus on ensuring that everybody is ready and prepared for running the Scheme from spring 2011. They track, assess and report readiness against four general areas – key suppliers, employers and members, NEST Corporation and assurance approvals. During the scheme launch period they promptly analyse information and implement improvements to services and processes to ensure that the scheme is ready for the onset of employer duties.

## HR

The HR Directorate provides a business focused service as needed in a programme delivery organisation. HR is responsible for recruitment and induction, learning and development, plus the full range of staff services.

The integral facilities department looks after all aspects of health and safety in the working environment. HR also manages business continuity and the NEST Corporation corporate social responsibility programme.

## Strategy

The Head of Strategy is a dedicated resource working with our Trustee Members to define and refine our strategy, including our vision, values and strategic objectives, and with our Executive to ensure that our operations are driven by and aligned with that strategy.

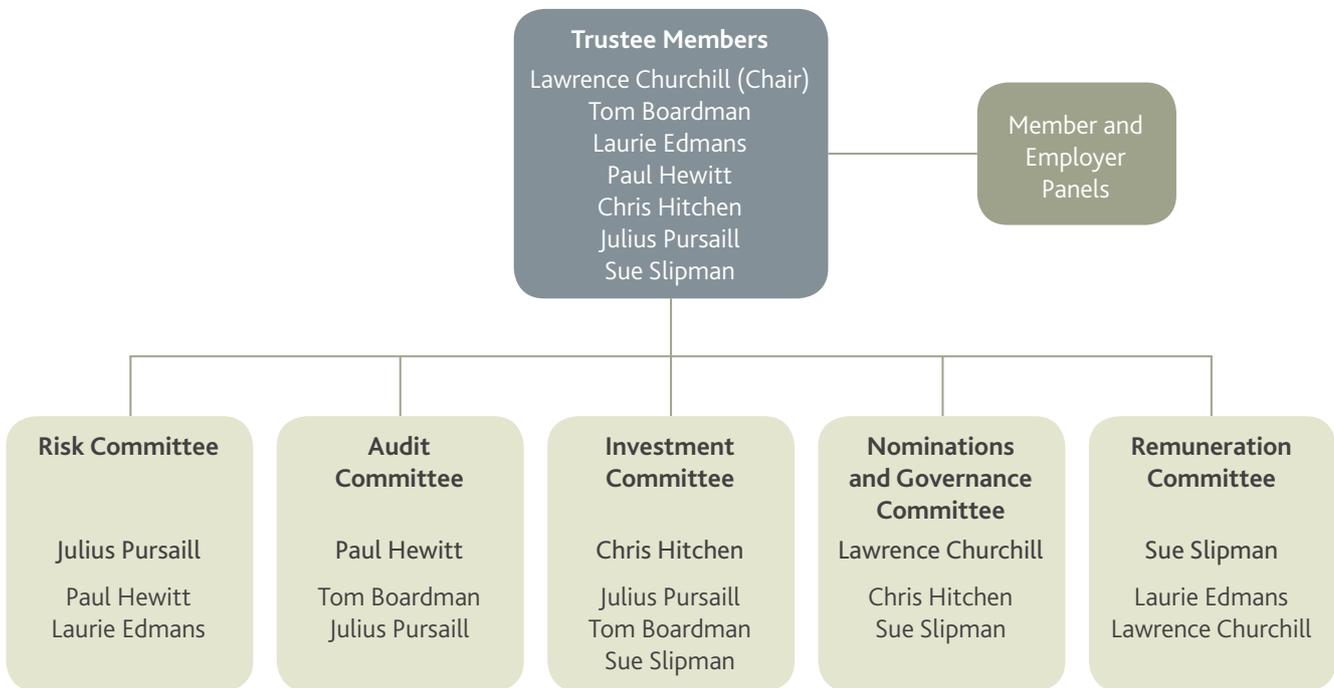
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# Appendix B

## Governance structure

The diagram below sets out details of our Trustee Members and members of the various current committees that support governance of NEST. A Discretions Committee will be established at an appropriate time.

Further details are available on the NEST website.<sup>6</sup>



<sup>6</sup> <http://www.nestpensions.org.uk/trustee-members.aspx>





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