

A decorative graphic featuring several overlapping circles in shades of orange, yellow, and grey, centered on a light green background. The text is overlaid on the central orange circle.

NEST Corporation  
Corporate Plan  
**2011 - 2014**

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“While our immediate focus is on shorter term delivery, we have set longer term critical success factors appropriate for a successful and vibrant business.”



## Foreword

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The next three years will be crucial to the success of NEST. This year, we will take on our first members and begin investing the first of their contributions.

Through 2012 and 2013, as the new employer duties are rolled out starting with the largest employers, we will gain practical experience of how the largest firms fulfil their new duties. NEST is available to them, and we anticipate many will wish to use NEST for some of their workers.

Our vision is to help millions to save confidently for their retirement. By the end of the period covered by this corporate plan we will have made significant steps towards achieving that vision.

NEST Corporation, the Trustee established to deliver and run NEST, is approaching its first anniversary, having been formed in July 2010 with the wind-up of our predecessor body, the Personal Accounts Delivery Authority (PADA). In this first year we have achieved a number of major delivery milestones including signing a loan agreement with the Department for Work and Pensions (DWP), signing a 10-year contract with our scheme administrator, Tata Consultancy Services (TCS), the launch of our investment approach, and our guide to simplifying the language of pensions.

During the past year, we have begun the transition from a delivery programme to becoming an operational business. This transition will happen over a significant period of time due to the staging period for the employer duties.

Our second corporate plan, which incorporates our 2011/12 business plan, reflects that transition. While our immediate focus is on shorter term delivery, we have set longer term critical success factors appropriate for a successful and vibrant business.

I look forward to the next three years. NEST is a bold and imaginative policy of unprecedented scope and scale, but one which has the potential to transform the retirement income landscape in the UK for generations to come. NEST is an essential component of the Government's strategy. The Trustee Members and staff are honoured to have this heavy burden of responsibility on their shoulders.



Lawrence Churchill CBE  
Chair  
NEST Corporation  
6 July 2011

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# Introduction

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## Background

NEST is a low-cost, trust-based occupational pension scheme designed for a target market that is largely new to pension saving and who do not currently have access to a pension at work. It is an essential component of DWP's Enabling Retirement Savings Programme (ERSP), which leads in delivering the Government's workplace pensions reform agenda.

NEST Corporation is the Trustee of the NEST pension scheme and has a governing body of currently ten Trustee Members. The Trustee Members are responsible for taking decisions based on the established principles of trust law and fiduciary duties, and for setting the strategic direction and objectives of the organisation in a way that ensures NEST is developed and run in scheme members' interests.

NEST Corporation was established by government and is a public corporation. It operates at arm's length from government and is accountable to Parliament through the Secretary of State for Work and Pensions. DWP is NEST Corporation's sponsoring department.

This is NEST Corporation's second corporate plan, covering the period from April 2011 to March 2014. It also contains details of our business plan from April 2011 to March 2012.

## Purpose

The corporate plan sets out the strategic direction for NEST over the next three years, identifying those areas where we will need to be successful if we are to achieve our vision of helping millions to save confidently for their retirement.

The plan then goes on to set out the more specific deliverables and metrics through which we will measure our success over the three years in question, and into some further detail for 2011/12 through the business plan set out in section 2.

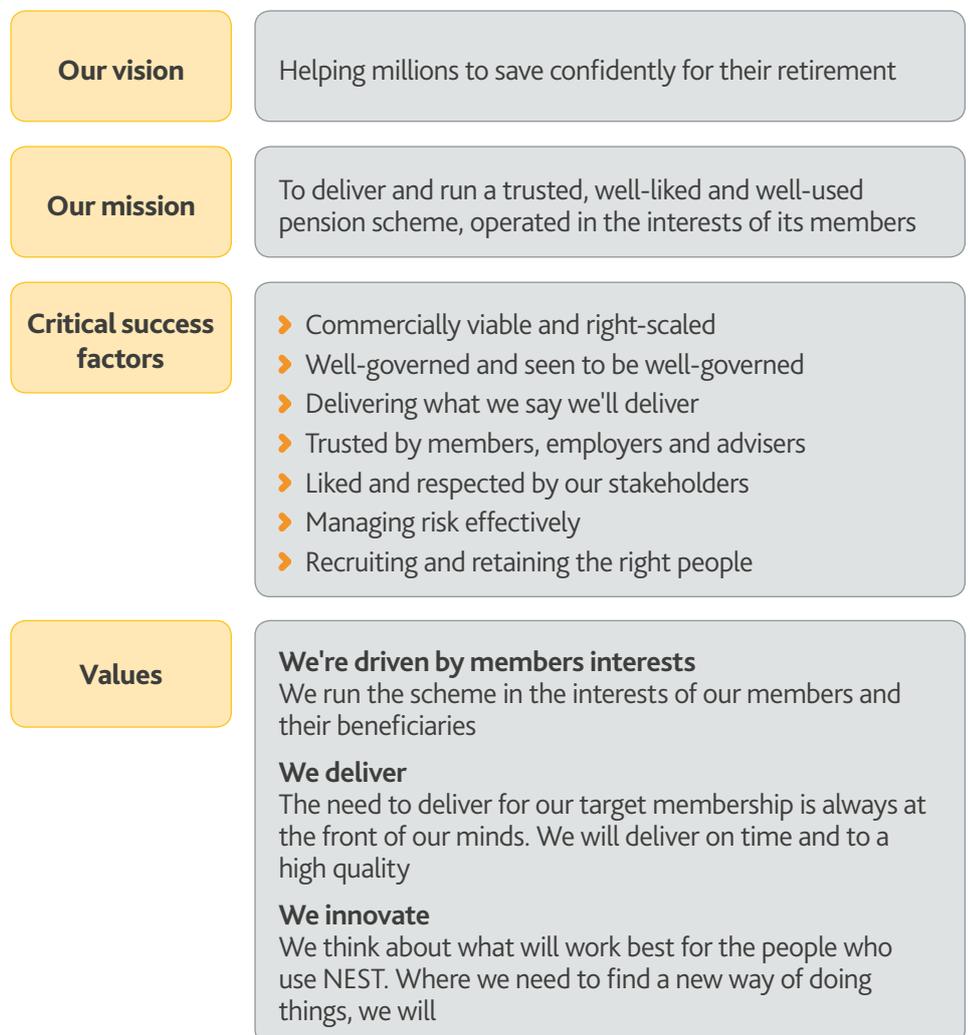
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# High-level framework

## NEST's corporate strategy

Trustee Members have agreed a high-level strategic framework for NEST, which sets out our vision, mission and the critical success factors that we believe will define the overall success of the scheme in the years to come. This framework is summarised in the diagram below and explained in more detail over the pages that follow. It is intended to highlight how, over time, Trustee Members believe we can best deliver on our role as an occupational pension scheme set out in our scheme order and rules.

**Figure 1** Summary of NEST's strategic framework



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## The vision

NEST Corporation's vision is to help millions to save confidently for their retirement. NEST is designed to provide a high-quality, low-cost pension scheme to the millions of people not currently saving for their retirement. Many of these people have limited or no experience of investment products or pensions and low trust and confidence in pension saving and financial services.

The policy of automatic enrolment relies heavily on inertia to nudge people over the initial hurdle of starting saving, giving them the option to opt out if they want to. This is a starting point for them. It provides a good foundation that individuals can choose to build on should they be able to afford to contribute more in light of other outstanding financial commitments.

Over time we want to move beyond an inert, default and low-engagement relationship with members to one where people are not just saving, but are doing so actively. As retirement saving becomes more commonplace and normal, and as savers have the opportunity to engage directly with the scheme, the aim is for members to have the confidence to take the decisions that will lead them to the outcomes they want in later life.

This will not be achieved overnight. NEST, and retirement saving more broadly, start with little or no normative basis among this group. We will need to take some care in the degree to which we seek to engage members of NEST actively as retirement saving becomes more widespread.

## The mission

To achieve this vision NEST will need to be trusted. We will need to become a respected part of the UK's financial system. Reflecting this trust, we will need to deliver the volumes of members required to build scale. Underpinning all of this, we must deliver on the promise of, and intent behind, our establishment as a trust-based pension scheme run in the interests of its members.

Our mission summarises these challenges – to deliver and run a trusted, well-liked and well-used pension scheme, operated in the interests of its members.

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## Critical success factors

Our critical success factors reflect the areas in which we believe it is most important for us to be successful if we are to remain on track to achieving our vision. They are the starting point from which we have constructed our performance management approach and indicators, and against which we will monitor progress throughout the period of this corporate plan. This section sets out the critical success factors and describes in more detail why we consider each of them to be important.

To be successful NEST must:

### A) Be trusted by members, employers and advisers

Trust in the scheme is important because of the role trust plays in people's attitudes to saving. For NEST this is more important still because of the starting point in our relationship with our customers. They won't know what to expect from NEST - as a completely new pension scheme we start without an existing reputation to point to.

YouGov research<sup>1</sup> suggests that the most important drivers of customer trust in financial services providers are their reputation, the quality of the service they provide and the appropriateness of their product offering. The same research suggests that trust in the sector is low. Added to this, many of our potential members and employers have little or no experience of pensions.

**The challenge:** building trust in NEST among our customer base is therefore likely to be particularly difficult from this standing start as we have no pre-existing relationship and little or no reputational basis or track record. We intend to build trust by using simple language, offering a high quality, reliable service and by being accessible and transparent.

### B) Be well governed, and be seen to be well governed

Our focus on governance is driven by the important role that a transparent and member-focused governance approach can play in sustaining trust. If we are to build trust we must demonstrate to our members and all of our stakeholders that we have the people, expertise, governance structures and processes in place to successfully run the scheme in the interests of our members.

**The challenge:** the debate around, and identification of, good practice in the governance of defined contribution (DC) pension schemes is still relatively underdeveloped. We will need to actively engage with the industry and regulators in advancing understanding of effective governance.

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<sup>1</sup> Baber Smith/YouGov (2010) The insight survey <http://www.theinsightsurvey.co.uk/2010/assets/IS2010%20Baber%20Smith.pdf>

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### C) Be commercially viable and right-scaled

Successfully delivering scale is critical to achieving the Government's policy intent in establishing NEST and to delivering best value for our members.

The intention of the Government in establishing NEST was that it would be self-financing in the long term through member charges. The initial set-up and operational costs are funded by a government loan. Becoming self-financing therefore means that we will need to generate sufficient revenue not only to cover our running costs but to repay that debt while continuing to keep member charges low.

**The challenge:** the nature of our target market is such that many of our members are likely to have the characteristics - in particular around income level and propensity to move jobs – that have traditionally made it more difficult for existing providers to serve them. We must serve these members while remaining low cost and meeting the self-financing challenge. This will require us to attract business from a range of participating employers.

### D) Be liked and respected by our stakeholders

No institution can be successful in the long run without the support of its major stakeholders. The perceptions of our stakeholders are particularly important to NEST because of its role as part of a social policy reform established by government. That reform agenda has attracted a broad consensus among stakeholders to date.

**The challenge:** we need to play a full part in maintaining and developing the consensus as we move through the implementation stage.

### E) Deliver what we say we'll deliver

NEST's approach has been developed through thorough testing with our target audiences of potential members, employers and advisers. What is clear from our research is that people will not take our claims at face value. Their message is clear – 'show me, don't tell me'.

**The challenge:** we will need to deliver the things we say that we will deliver. These are ease of use, transparency and empowerment for our customers, freshness and innovation, and investment returns in line with our investment objectives.

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**F) Manage risk effectively**

There are clearly short-term delivery and operational risks, but we also recognise the need to focus on our longer term strategic risks, identifying and managing the threats to our longer term ability to deliver and identifying clearly and proactively our appetite and tolerance for risk in those areas. The Trustee Members are particularly conscious of those risks which impinge on our members.

**The challenge:** we need to continue to build effective risk management systems, preventative controls and risk mitigation strategies as well as develop capability in effective recovery from those risks which will inevitably come to pass.

**G) Recruit and retain the right people**

NEST has been able to attract extremely high-calibre staff during the delivery phase of its existence. Once we have accepted members and are looking after their pension savings, we need to have equally high-calibre people, skilled in running a fast-growing business, in place. The first years of this plan will require both sets of skills working alongside each other.

**The challenge:** we need to successfully migrate to a fully fledged and high-performance business culture from the programme delivery focus of the original delivery authority.

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## Our values

The 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.

### 1) We are driven by our members' interests

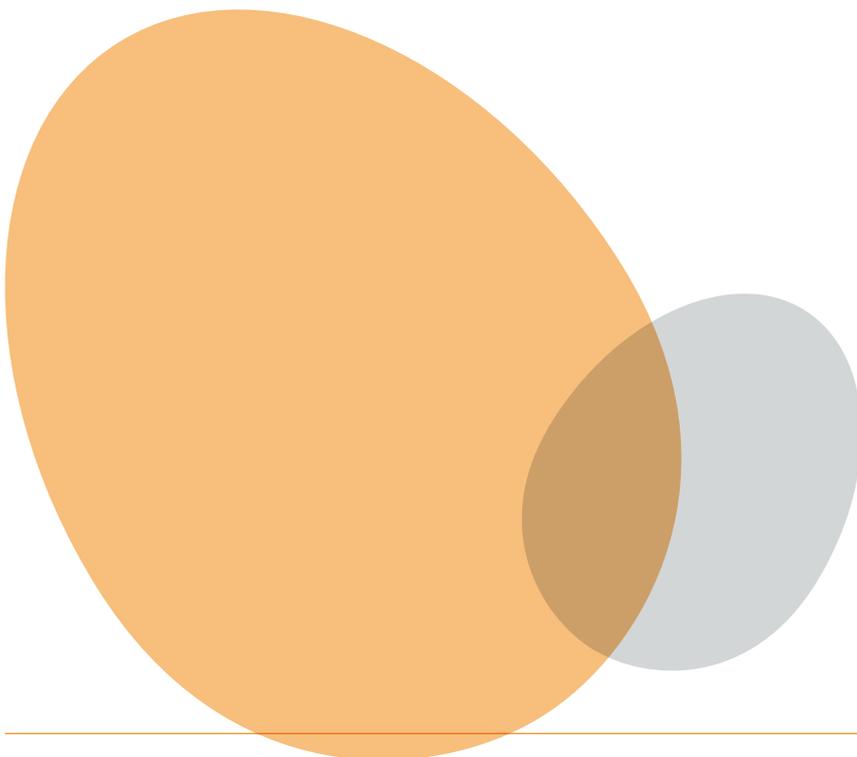
This is at the heart of the fiduciary duty placed on NEST, but more than this it needs to be at the heart of our corporate culture if we are to be successful.

### 2) We deliver

Delivering NEST is a significant undertaking and one of the largest and most complex delivery programmes in government of recent years. For the scheme to be a success we need our people to be highly focused on delivering a service to our members that is hassle-free, accessible and that gives them the confidence to trust us with their savings.

### 3) We innovate

NEST will bring the opportunity of pension saving to a market that has hitherto had little or no such opportunity and limited or no experience of long-term investment. We will sometimes need to think differently, based on research about our members' needs, and the needs of their employers, rather than purely on the conventions of the existing pensions industry.



## Delivering our strategy

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In order to be successful in the areas set out earlier in this document, we will need to deliver success across the key areas of our business. We have established 11 business objectives for the period covered by this corporate plan, and in particular for the next 12 months. They are drawn from the critical success factors, and are discussed in more detail in this section of the document.

Key performance indicators and metrics for each business objective are then set out in more detail for 2011/12 in the business plan later in this document.

### Ensure NEST is available for employers to use in order to fulfil their new duties

NEST will be delivered through an outsourced business model, with key components of the scheme delivered by third party suppliers. Our customers will interact with a single NEST product but under the surface of that product, different components of the service will be outsourced to third party providers. NEST Corporation will retain responsibility for the end-to-end supply chain. Much of our focus since the establishment of NEST has been on the procurement of those providers, which is now complete.

Currently, our focus is on the testing of different elements of the scheme and of the integration between those elements. This process is almost complete and we expect the scheme to be ready during 2011, well ahead of the onset of employer duties (OED). The first transactions between the scheme and participating employers will then follow.

Once the initial service has gone live, we will roll out a programme of service improvements over the remainder of the year. We are taking the first members into the scheme around a year ahead of OED so that, with a small number of volunteer employers, we can test how well the product works and refine it to ensure it is the best it can possibly be at the point when we begin to scale up in line with the OED. Our focus for the first part of the period covered by this corporate plan will therefore be on the build, test and launch of further service updates. This includes significant anticipated changes arising from the Pensions Bill 2011 and the addition of automatic enrolment functionality to the systems and processes in time for OED.

For the remainder of this period we would expect there to be further changes as we learn more about employer and member behaviour and needs and in response to further regulatory changes.

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## Successfully accept volunteer employers

NEST was developed to help employers to meet the new duties which begin to apply from October 2012<sup>2</sup>. Ahead of this, we will launch the scheme with a small number of volunteer employers starting in 2011. This will enable us to fully test and validate our processes in readiness for OED and to build credibility in the scheme.

Our focus in this year will be on admitting volunteer employers in sufficient scale to meet these objectives for the scheme launch period.

## Bring in sufficient members to set the scheme on the path to financial self-sufficiency

From 2012 onwards, NEST will need to grow rapidly if it is to be on track to deliver the scale needed to realise the ambition of financial self-sufficiency in the longer term. The nature of the staging of employer duties over four years, starting with the largest first, is such that the duty will not yet have fallen on smaller (less than 50 workers) employers within the timeframe of this plan.

By their nature these are greater in number, and as a result over this timeframe the total number of employers using NEST will be relatively low compared to what we expect the number to be by the end of staging. However a significant proportion of the target market for NEST is found in larger firms. By the end of the period covered by this corporate plan, we would expect to already be operating with considerable volumes and to be on track towards achieving the scale eventually anticipated for the scheme.

As members begin to join, our focus will be on supporting them through the enrolment process in order to minimise inappropriate opt-out and support the development of a persistent savings habit. Persistency of saving will be important both to retirement outcomes for our individual members and to the overall financial health of the scheme.

Many employers are already making decisions about how to comply with the new obligations falling on them from October 2012. We have built relationships directly with a number of employers in order to help them to understand how the duties will affect them and their options for complying with them. We are also working closely with the employer advisory community and existing pensions providers to ensure there is a clear understanding of the role that NEST might play.

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<sup>2</sup> Subject to changes proposed in the Pensions Bill 2011, employers may be able to bring their duty date forward to July 2012.

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## Develop a positive reputation and relationship with our customers

As we bring members into the scheme, we will want to ensure that their experience of the product is a positive one and enhances their attitudes towards and trust in NEST. We will do this largely through providing an excellent quality of service as set out below in the section on operational delivery. Over the period of this corporate plan, we will also monitor satisfaction and complaints levels among our customers as well as tracking, through research, the overall levels of trust and confidence in NEST among consumers, employers, advisors and the stakeholder community.

## Provide an effective service to customers in line with the service level agreements we set out for them

Underpinning the attitudes and experience of our customers and the reputation of the scheme will be our approach to service delivery.

NEST aims to offer an excellent level of service to our customers. We will deliver this through the service level agreements and requirements written into our contracts with the main outsourced providers of services to the scheme.

The vast majority of our services will be available online and through interactive voice recognition (IVR) technology over the phone. These services will normally be available all day throughout the year, with calls to the IVR system answered within 5 seconds. These will be underpinned by a UK call centre operating extended operating hours from 8am-8pm and open 360 days a year. Calls forwarded to the call centre will be answered within 60 seconds.

The critical measures of our success in this area will be found not only in our actual performance against these service level commitments but also in the satisfaction and complaints levels recorded among our customers, as set out above.

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## Deliver investment performance consistent with the long-term investment objectives

The detail of our investment approach is set out in full on our website. Members of NEST will have a choice of a range of funds. We expect most members to remain in the default option, NEST Retirement Date Funds, which will be a target date approach set according to a member's planned retirement date.

NEST Retirement Date Funds will use three phases as a member builds up their retirement pot. These phases, Foundation, Growth and Consolidation, recognise that members' needs and therefore their tolerance of risks differs at different ages.

Our principal focus on the performance of our funds in these early stages of the life of the scheme will be on adherence to the risk budgets we have set in relation to the various funds.

## Successfully implement our people strategy, ensuring we have the right people and culture in place to support NEST in successful development and operation

As we shift our focus from programme delivery to also incorporate the longer term view of our business, the culture of the organisation and the people within it will change. This year we are taking a significant step in recognising this transition by moving from a structure of entirely fixed-term appointees to one where appropriate posts are filled on a permanent basis. This process is currently underway, starting with identifying those roles that we can already say should be permanent and, where appropriate, transitioning current employees onto permanent contracts.

Over the remainder of the period of this corporate plan we will develop and implement a corporate transformation programme to deliver the cultural changes necessary to support the transition to a business-as-usual organisation. These include changes to our individual performance management approach to ensure we reward behaviours in line with our desired culture.

Since our last corporate plan we have also continued to make progress in other key aspects of our people strategy. We have implemented the first phase of a corporate social responsibility strategy and will continue to roll out more components to that over this period. We will also continue to roll out further infrastructure improvements including those to our IT and facilities.

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## Continue to develop our corporate governance structure

In the period of this corporate plan we will move beyond the core governance structures set up since NEST Corporation was established to complete the corporate governance framework for NEST.

The DWP has recently appointed three further Trustee Members of NEST, which takes us to a total complement of 10 – within the range of 9-15 set out as the intention for Trustee Members in legislation. The committee structure supporting our Trustee Members remains in place, incorporating separate 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, managing risk, assuring our compliance with regulatory obligations, and our remuneration policy.

The membership of these committees is set out in the governance structure diagram in Appendix A. The terms of reference for each of these committees are available on our website.<sup>3</sup>

Chairs for our two panels – the Member Panel and the Employer Panel – were appointed in May this year. We are in the process of recruiting for the initial membership of these panels. Over the remainder of this year we will work with the panels to establish their operating processes and to ensure they have the necessary support available to enable them to fulfil their terms of reference, which are also available on our website.

Underpinning these top-level governance structures the Chief Executive Officer has delegated responsibility from the Trustee Members for the day-to-day operations and management of NEST Corporation. We will review the table of delegations at least annually to ensure it meets our changing needs.

## Effectively manage risk

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 the core of NEST.

Since our last corporate plan we have continued to implement and refine our risk and control management framework. As we have focused more on the longer term components of our success we have also focused increasingly on identifying the key strategic risks to the success of NEST. Over the next few months Trustee Members will be working to develop a statement of risk appetite for these key strategic risks, identifying the trade-offs between them and establishing the tolerances for each.

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<sup>3</sup> <http://www.nestpensions.org.uk/schemeweb/NestWeb/public/aboutUs/contents/terms-of-reference.html>

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## Meet our compliance obligations

We have established an effective ongoing dialogue with The Pensions Regulator to ensure that issues are identified early and to support them in the challenge of regulating a scheme of the scale that NEST will eventually reach.

Throughout the period covered by this plan, the live processes will be reviewed regularly to ensure we maintain appropriate levels of controls and compliance and fulfil our statutory and regulatory duties as Trustee of the scheme and as a public corporation.

To support our compliance activity, NEST appointed Deloitte as the internal auditor for the scheme in November 2010. They have undertaken a first round of internal audits and we have agreed with them the programme for internal audit for the financial year 2011/12.

## Implement effective financial and non-financial controls and information flows

Over the longer term, member and employer volumes and contribution and persistency behaviours will drive the vast bulk of our costs, through our outsourced contracts, and our revenues through member charges.

In the first part of the period covered by this corporate plan, however, costs and revenues driven by member volumes will be small, with only the small number of members coming in from volunteer employers before OED. Our focus in this period will be on establishing and refining the financial procedures, processes and controls that will need to be in place as scheme revenues begin to build up.

Throughout the period of this corporate plan we will continue to focus on ensuring that the administrative costs of running NEST Corporation, and the change costs driven through our contracts, are kept to the minimum necessary.

It will also be vital for us to focus on the accuracy of our non-financial information and record-keeping. For example, ensuring that we retain up-to-date customer contact information will ensure that where we are required or wish to contact members we can do so in an effective way that minimises cost.

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## 2011/12 business plan

The earlier sections of this document set out the Trustee Members' longer term view of success, and then looked at NEST's objectives proposed to build the foundation for achieving that success over the three years covered by this plan.

This section looks in further detail at the specific business plans for NEST for the financial year 2011/12, setting out how we will measure our performance over this period. Where appropriate, KPIs are set out as targeted outcomes. However, the nature of the scheme launch period, working with a small number of volunteer employers while we test our processes in live running, is such that it would not be appropriate for all of the KPIs to have targeted values for this performance period.

**Figure 2** NEST's 2-11/12 KPIs

Business objectives	Metrics	KPIs
Effectively roll the scheme out to employers and deliver appropriate service updates	<ul style="list-style-type: none"> <li>operational readiness for scheme launch</li> <li>performance against programme delivery milestones and version launch readiness measures</li> </ul>	<ul style="list-style-type: none"> <li>operational readiness for accepting business during 2011</li> <li>service release two – year-end processing – delivered by end March 2012</li> <li>at year end, on track for further service releases incorporating MAEW review changes and readiness for OED by June 2012</li> </ul>
Successfully accept volunteer employers	<ul style="list-style-type: none"> <li>performance against targets</li> </ul>	<ul style="list-style-type: none"> <li>around 100 volunteer employers, including a small number of very large employers, brought in during the period before OED</li> </ul>
Bring in sufficient members to set the scheme on the path to financial self-sufficiency	<ul style="list-style-type: none"> <li>awareness and expected usage data from brand tracker</li> </ul>	<ul style="list-style-type: none"> <li>95% of employers of 5,000 or more workers are aware of NEST</li> <li>50% of 5,000+ employers report positive overall perception of NEST</li> </ul>
Deliver and develop a positive relationship with our customers	<ul style="list-style-type: none"> <li>customer satisfaction data</li> <li>complaints</li> </ul>	<ul style="list-style-type: none"> <li>written acknowledgement of complaints provided within 5 days</li> <li>written responses to complaints received within 8 weeks</li> </ul>
Provide an effective service to customers in line with our targeted service level agreements	<ul style="list-style-type: none"> <li>key service-level performance by supplier</li> </ul>	<ul style="list-style-type: none"> <li>web and IVR available 24 hours a day, 365 days a year except for during planned maintenance</li> <li>call centre available as per advertised hours</li> <li>calls answered within service levels               <ul style="list-style-type: none"> <li>5 seconds for IVR</li> <li>60 seconds for call centre</li> </ul> </li> </ul>
Deliver investment performance consistent with the long-term investment objectives	<ul style="list-style-type: none"> <li>performance vs risk budget</li> </ul>	<ul style="list-style-type: none"> <li>portfolios remain within their allocated risk budget</li> <li>pricing errors are eliminated</li> </ul>

Business objectives	Metrics	KPIs
Successfully implement our people strategy, ensuring we have the right people and culture in place	<ul style="list-style-type: none"> <li>staff survey performance against leading UK companies</li> <li>Investors in People accreditation</li> </ul>	<ul style="list-style-type: none"> <li>total turnover of staff in permanent roles is consistent with or below industry standards<sup>4</sup></li> <li>overall staff satisfaction measures compared to leading UK companies</li> </ul>
Continue to develop our corporate governance structure and performance	<ul style="list-style-type: none"> <li>recruitment milestones met</li> </ul>	<ul style="list-style-type: none"> <li>support provided to DWP to ensure additional Trustee Members recruited by summer 2011</li> <li>initial panels complete by summer 2011</li> <li>effectiveness reviews conducted for each committee and for the Trustee Member meetings</li> </ul>
Effectively manage risk	<ul style="list-style-type: none"> <li>status of mitigation progress</li> <li>explicit risk consideration for all key decisions</li> <li>framework application maturity</li> </ul>	<ul style="list-style-type: none"> <li>statement of risk appetite agreed by end March 2012</li> <li>total portfolio average residual risk severity reducing over time</li> <li>all individual risks mitigated within residual risk tolerance.</li> </ul>
Meet our compliance obligations	<ul style="list-style-type: none"> <li>effectiveness of internal controls</li> <li>number of regulatory and security breaches</li> </ul>	<ul style="list-style-type: none"> <li>trend in number of priority 1 findings and audits rated limited assurance is falling over time, taking into account their scope and scale</li> <li>trend in total number of regulatory and security breaches is falling over time (relative to the total number of scheme members)</li> </ul>
Implement effective financial controls	<ul style="list-style-type: none"> <li>performance against loan profile</li> <li>running cost performance run-rate</li> </ul>	<ul style="list-style-type: none"> <li>total borrowing remains within agreed limits set out within the loan agreement</li> <li>in-month run-rate at year end consistent with loan agreement for following year</li> <li>annual accounts for the scheme and NEST Corporation meet best practice reporting requirements</li> </ul>

<sup>4</sup> At the time of publication NEST is in the process of making its first permanent appointments and as such this indicator will only be measurable from July onwards.

## Resource summary

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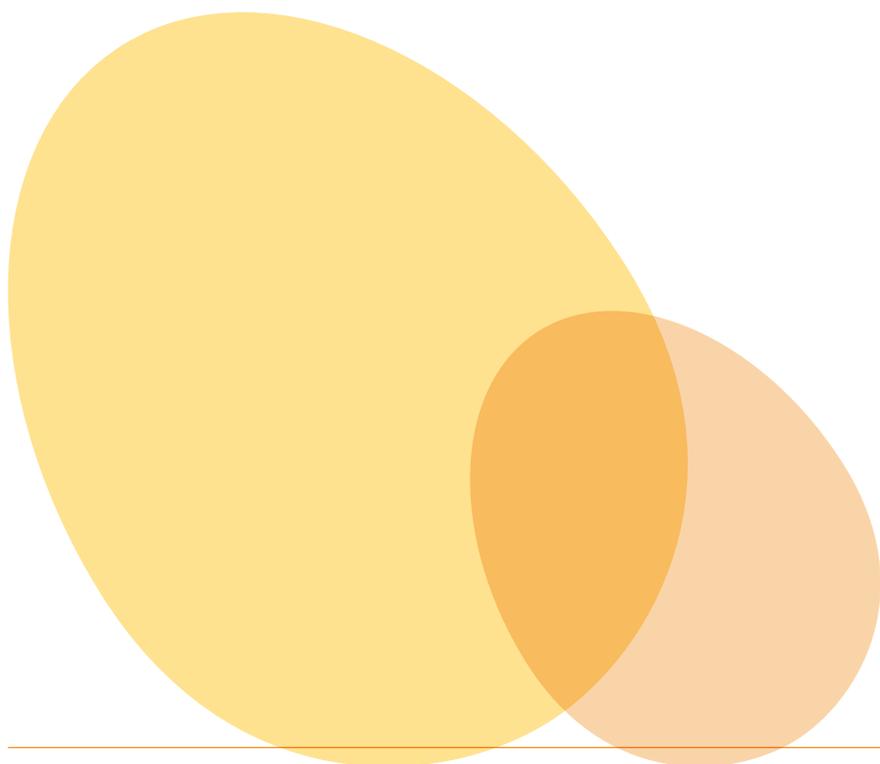
This section of the corporate plan provides information on the resources required to deliver our strategic goals and desired outcomes as well as information on resource planning for the period April 2011 to March 2014.

### Funding

NEST Corporation is funded principally by a loan from DWP and also by grant-in-aid in respect of activities required because it is a public corporation. 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 incurs two types of expenditure. These are:

- Chargeable expenditure - expenditure that is specifically related to the setting up and management of the scheme (which is funded by the loan).
- Non-chargeable expenditure - expenditure that relates to its public functions (which is funded by grant-in-aid).

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



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## Financial resources

The agreed budget for 2011/12 amounts to £69.6 million excluding loan interest. This breaks down into £29.8 million associated with the scheme administration contract and £39.8 million for NEST Corporation and other contract costs, which are analysed in further detail below.

The budget reflects different funding streams, which have not yet been finalised. However our latest forecasts suggest funding streams comprising £68.6 million for chargeable expenditure and £1.0 million for non-chargeable expenditure.

Developments of this scale are subject to significant uncertainty about the amount and timing of future costs. The total budget for next year is £3.7 million or 5.7 per cent ahead of the amount forecast in last year's plan, which is well within the expected range of variance. However, underlying this total, there are significant movements in the detail, in line with undertakings of this size and complexity.

Loan interest coming off a lower base and incorporating state aid is £12 million lower than last year's estimate, depreciation costs are included for the first time following a review of accounting treatment and stand at £7 million. Timing effects reduced last year's actual expenditure by £5 million and this amount is carried forward to this year, and the cost of the scheme administration contract, including set-up costs, is forecast to be £4 million higher than forecast last year.

Similarly, at a macro level, costs in the previous year came in around £28 million below forecast, again in large part due to timing effects and interest calculation. Such variance is a normal characteristic of developments of this scale and complexity, and is well within the parameters for variance we would expect.

The Pensions Act 2008 requires NEST Corporation to produce an annual report and accounts which 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 who lays them before Parliament. Financial control is supplemented by the terms of the framework document between NEST Corporation and the Department for Work and Pensions, which outlines the delegated spending authorities and reporting requirements.

We have developed budgetary controls in order to manage our costs within our funding limits. NEST Corporation regularly reviews current financial performance and the impact of current developments on future years' expenditure.

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## 2011/12 forecast

NEST Corporation is working to a budget of £69.6 million, excluding loan interest, for 2011/2012, drawn from the budget for the Government's wider programme for introducing automatic enrolment. This budget is broken down as described in the table below. The table also describes NEST Corporation's latest forecast of expenditure for the 2011/12 financial year.

**Figure 3** NEST Corporation forecast expenditure 2011/12

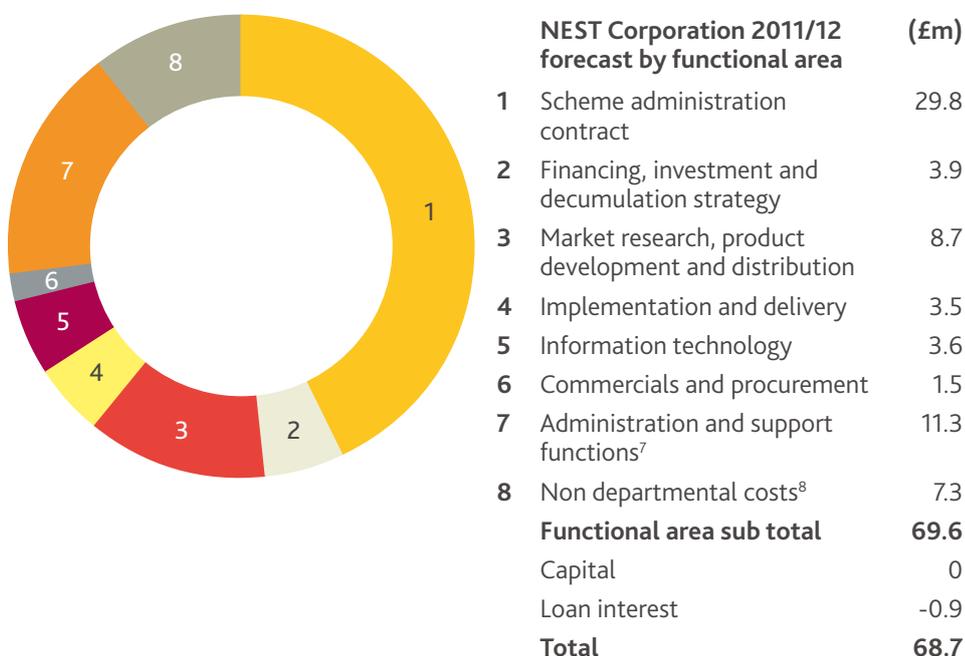
	Budget £(m)	2011/12 forecast £(m)
Directly employed	14.7	14.4
Secondees	1.7	1.6
Interim staff	2.9	2.7
<b>Total staff costs</b>	<b>19.3</b>	<b>18.7</b>
Consultancy	2.7	2.6
Other costs <sup>5</sup>	17.8	18.5
Capital	0.0	2.0
<b>Total - non staff</b>	<b>20.5</b>	<b>21.1</b>
<b>Scheme administrator contract</b>	<b>29.8</b>	<b>29.8</b>
<b>Total costs excluding loan interest</b>	<b>69.6</b>	<b>69.6</b>
Loan interest net <sup>6</sup>	-0.9	-0.9
<b>Total costs including loan interest</b>	<b>68.7</b>	<b>68.7</b>

Of the total forecast expenditure for 2011/12, we calculate that approximately £67.7 million (net of loan interest and state aid) specifically relates to the implementation of the scheme and will therefore be financed by a loan from DWP. The remainder, approximately £1.0 million, is classified as non-chargeable and is therefore funded by grant-in-aid. This is still subject to review.

The allocation of resources across NEST Corporation's functional areas is described in Figure 4.

<sup>5</sup> Other costs include expenditure for estates, research and comms costs, information technology, telephony, professional services, legal fees and expenses, staff travel, recruitment costs, auditors' remuneration, investment advice, fund administration costs and depreciation.

<sup>6</sup> This is net of state aid in the form of a grant to reduce the effective rate of interest on the loan.

**Figure 4** NEST Corporation 2011/12 forecast expenditure by functional area

## Future years

The table below sets out the expenditure estimates for the period covered by this corporate plan, based on NEST Corporation's middle-range projection of costs, adjusted for inflation.

**Figure 5** Future years expenditure estimates

	2012/13 £(m)	2013/14 £(m)
<b>Administration cost</b>		
Directly employed	16.1	15.1
Secondees	0.3	0.2
Interim staff	-	-
Consultants	0.7	0.7
Other	10.6	12.1
<b>Total administration costs</b>	<b>27.7</b>	<b>27.8</b>
<b>Total administration contract</b>	<b>31.8</b>	<b>37.2</b>
<b>Sub-total costs excluding loan interest</b>	<b>59.5</b>	<b>65.0</b>
Loan interest (net)	6.9	9.6
<b>Total costs including loan interest</b>	<b>66.4</b>	<b>74.6</b>

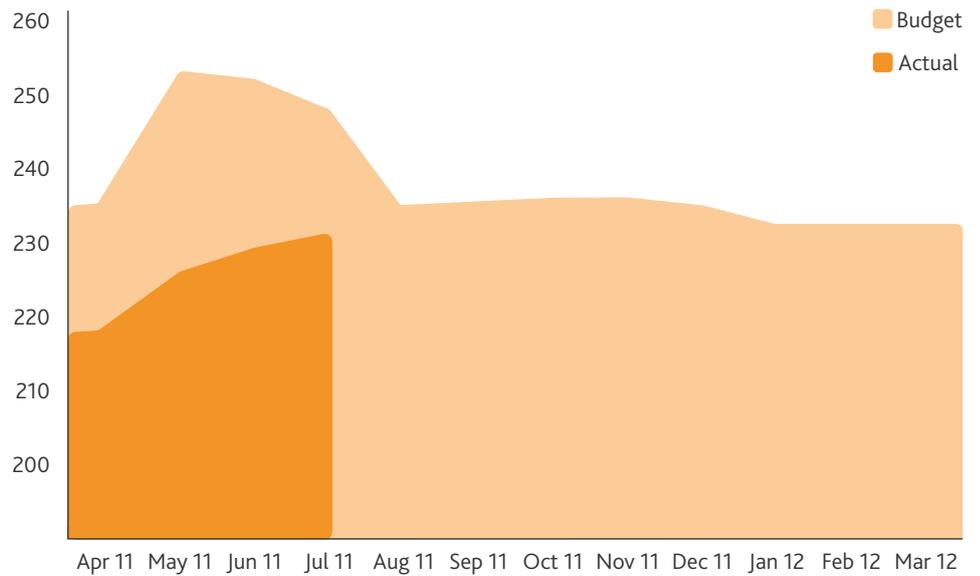
<sup>7</sup> Administration and support function expenditure includes costs for HR, Programme Management Office, legal costs, risk and compliance, facilities, executive office and secretariat.

<sup>8</sup> Non departmental costs are predominantly depreciation.

## Human resources

Our forecast staffing levels for the 2011/12 are set out in the graph below, which also shows the total headcount to date this year.

**Figure 6** Staffing forecast 2011/12



Staffing for the years following this one are expected to remain broadly at a similar level until the end of the scheme staging period, which is expected to last until 2016/17.

# Appendices

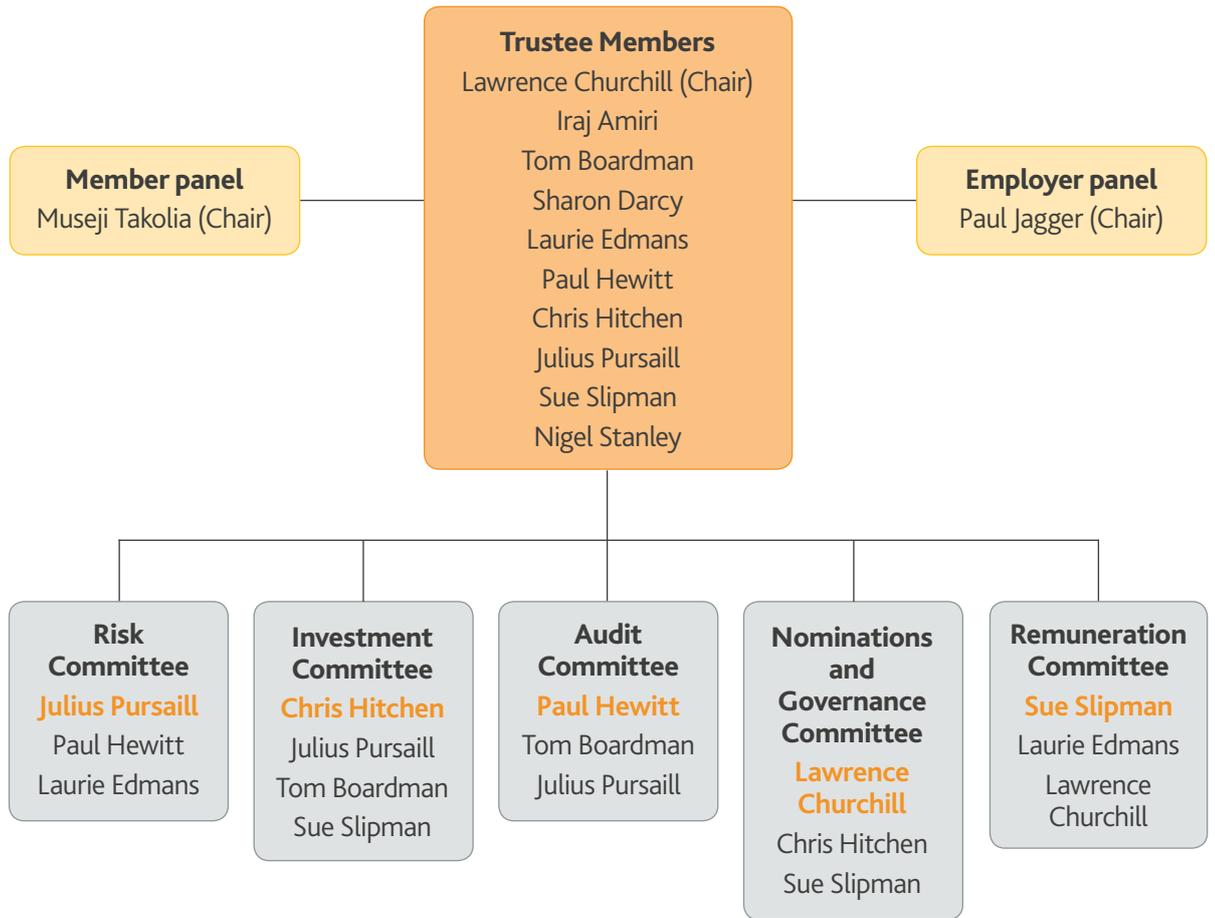


# Appendix A

## Governance

The diagram below sets out details of NEST Corporation's Trustee Members, and members of the various current committees that support governance of NEST Corporation. Further details are available on the NEST website<sup>9</sup>.

**Figure 7** NEST's governance structure<sup>10</sup>



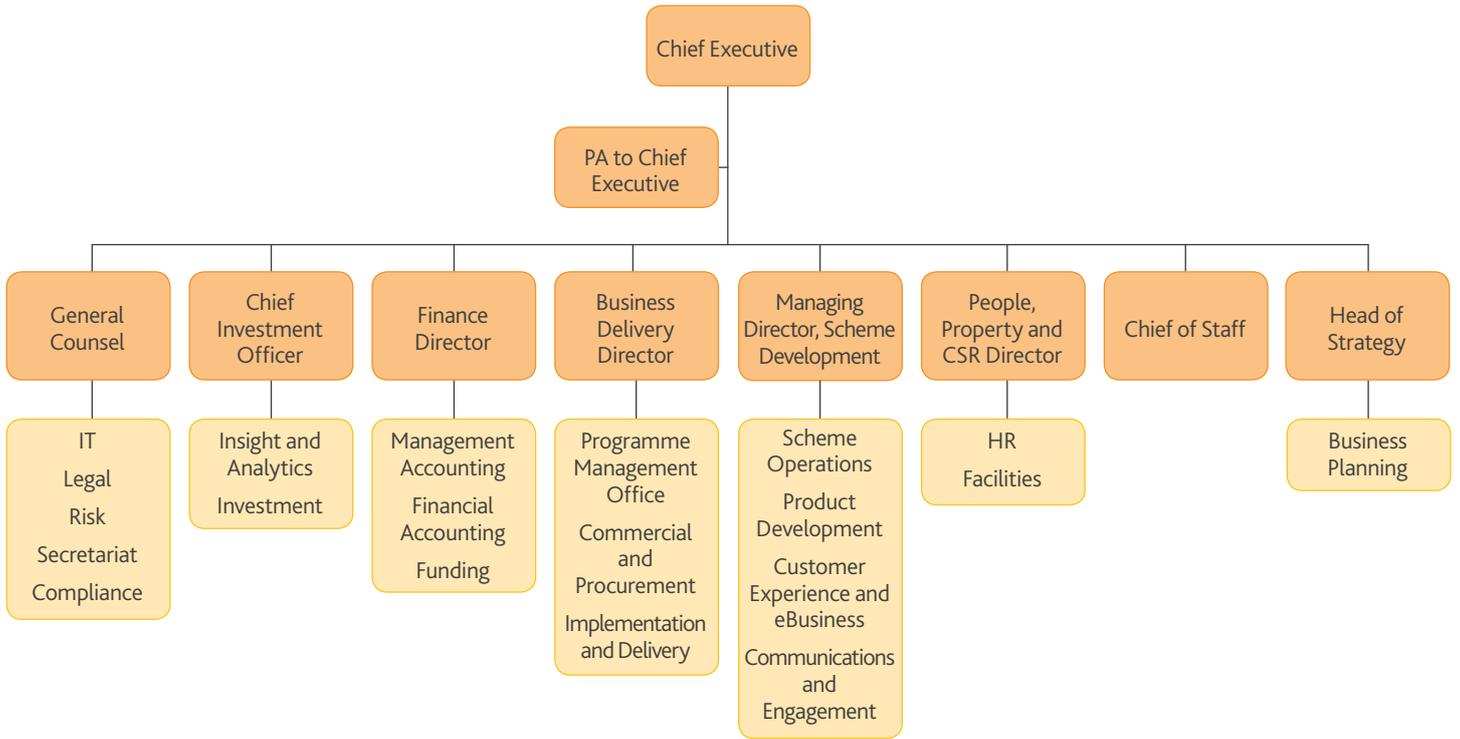
<sup>9</sup> <http://www.nestpensions.org.uk/trustee-members.aspx>

<sup>10</sup> At the time of publication, the three newly appointed trustee members (Iraj Amiri, Sharon Darcy and Nigel Stanley, had not yet been appointed to committees

# Appendix B

## Organisation structure and responsibilities

Figure 8 NEST Corporation's executive organisation structure



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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 CEO, the Executive 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.
- **Risk** – develops, implements and maintains the risk management framework, providing oversight to the application of this framework across all parts of NEST.
- **Secretariat** – provides support to the Chair, Trustee Members and committees and the panels in their work for NEST Corporation to ensure that NEST Corporation operates to its agreed standards of governance.
- **Information Technology (IT)** – 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.

## Investment

The Investment Directorate has a wide variety of responsibilities covering:

- **Decumulation** – develops and procures solutions to enable members to access their retirement incomes.
  - **Insight and Analytics** – provides internal consultancy to meet the quantitative and qualitative research needs of the organisation.
  - **Investment Operations** – ensures member 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.
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## 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 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 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 (PMO).

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

## 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.
  - **Product Development** – responsible for specifying the NEST product, working with the Implementation and Delivery Team and suppliers to assure its delivery and preparing for its ongoing management, including our trading performance as a scheme.
  - **Scheme Operations** – supports NEST Corporation's strategic objectives by managing tactical and day-to-day processes and procedures. They are 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 and accurately, and assessed against precedents and best practice.
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- **Scheme Launch** – provides NEST Corporation’s focus on ensuring that everybody is ready and prepared for running the scheme from 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 is responsible for recruitment and induction, learning and development, plus the full range of employee services.

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

## **Strategy**

The Strategy Team works with our Trustee Members to define and refine our strategy, including our vision, values and strategic objectives. The team also works with the Executive Team to ensure that our operations are driven by and aligned with that strategy. The Strategy Team is also responsible for our business planning activity, ensuring NEST Corporation has an appropriate corporate plan and business plan in place, and reports on performance.

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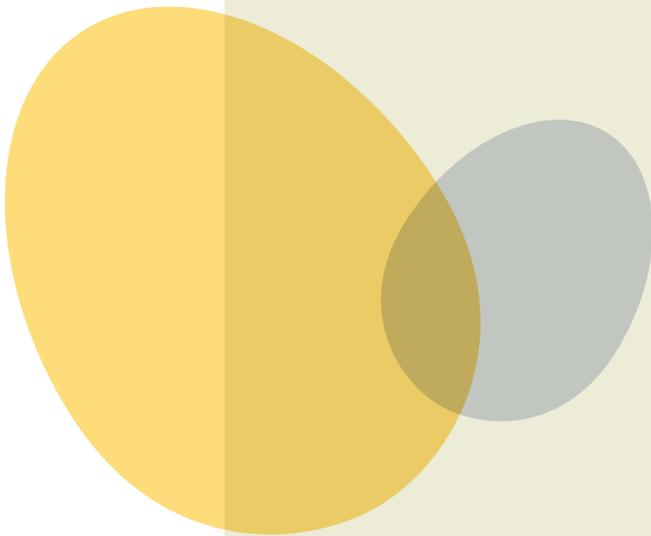


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