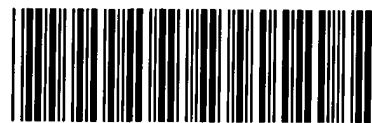


Nacro
WE CHANGE LIVES

ANNUAL REPORT

for the year ended 31 March 2020

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Contents

Who we are	3
Our values	4
Why our work is needed	5
Message from the Chair	6
Message from the CEO	7
Council members and professional advisers	8
Strategic review of the year	10
Safeguarding	14
Good governance	15
Statement of internal control	17
Financial narrative	19
Value for money statement	20
Reserves and liquidity policy	23
Environmental impact statement	24
Thanks and acknowledgements	26
Independent auditor's report	27
Financial statements	30

Who we are

We are a national social justice charity with more than 50 years' experience of changing lives, building stronger communities and reducing crime.

We house, we educate, we support, we advise and we speak out for and with disadvantaged young people and adults.

We are passionate about changing lives.
We never give up.

Our mission

We deliver social justice by positively changing lives, strengthening communities and preventing crime.

Our vision

A socially just country where people feel safe, are supported to reach their aspirations and communities are crime free.

Our values

We focus on outcomes

We work effectively to deliver the right results. We support people to achieve meaningful outcomes.

We are courageous

We have bold aims which we are determined to achieve. We seize opportunities and deliver results.

We are inspiring

We motivate and inspire people to reach their full potential and aspirations. We encourage people to think differently.

We are reliable

We keep our promises. We provide consistent support and we stick with people.

We are proud

We celebrate the collective strength that our diversity brings. We promote, celebrate and share the achievements of our team ahead of our own.

Why our work is needed

Some of the most vulnerable members of our society are not getting the help they need. Too many people still fall through the gaps and don't have access to the same opportunities. Poor mental health, inadequate education, drug and alcohol addiction, a low income, and a lack of affordable and secure housing all contribute to a life of chaos and hardship that can be very hard to change.

In 2019 Britain had higher income inequality and lower social mobility rates than many other European and OECD countries. The income of the richest 20% of people was over six times higher than the poorest 20%, and the richest 10% received 50% more income than the poorest 40%. Public sector budget cuts have drastically affected what can be delivered by local authorities to those most in need and many social problems have worsened in recent years.

The Covid-19 pandemic has shone a spotlight on many of the social and economic inequalities in our country. We are yet to see the full impact of the pandemic but with predictions of significant rises in unemployment and a recession, the economic and social need in the UK is only likely to grow.

England and Wales has the highest rate of imprisonment in Western Europe, with **83,189** people in prisons and young offender institutions at the end of March 2019. During the Covid-19 pandemic the number of people held in prison has reduced and on the 24th July 2020 the figure was **79,620**. Reoffending rates remain stubborn, with **47%** of adults going on to reoffend within a year of release. For those who served a sentence of less than 12 months this increases significantly to **63%**. Overcrowding, self-harm and suicides and assault remain a significant issue.

Homelessness continued to be high. According to Shelter, **280,000** people were living in temporary accommodation, sleeping rough or in a hostel in England in 2019, an increase of **23,000** since 2016. This means that one in every 230 people were without a home. We know that a lot of homelessness goes undocumented, including sofa-surfing and some rough sleeping, which means the true level of homelessness is even higher. The Government's drive to house rough sleepers during the Covid-19 pandemic has shown how we can make a real difference and how future action to eliminate homelessness is needed.

The mainstream education system continues to fail many young people whose specific needs are not being met. The most recent figures show that **42** permanent exclusions occurred a day; children eligible for free school meals were more than four times more likely to be excluded than those not eligible and children with special educational needs more than six times more likely. The knock-on effect is damaging – people with no qualifications are far more likely to spend time not in employment, education or training. And reports have highlighted that young people are most likely to have lost work or seen their income drop due to Covid-19.

We continue to do everything we can to offer support, stability and guidance, enabling people to open doors that were previously closed to them. We know that most people who come to us for help have a range of issues, not just one. We also know that, with the right support and guidance, people can be empowered to turn their lives around and move on to a future of success and independence.

Message from the Chair



This has been a very tough year for all of us at Nacro. The Covid-19 lock down and persistent financial challenges have meant a focus on change and re-building has dominated 2019/20. Despite this internal and external pressure, I have seen all across the organisation, from the Board to the frontline, a response that is determined to ensure the very best support and help is provided to our learners and service users. The resilience and innovation of our staff, the commitment and focus of the Council of Trustees and the leadership from the senior management team have ensured the organisation has emerged stronger from this period.

The significant financial challenges which Nacro faces means the Board and management have developed an 18 month plan to ensure the organisation is on a firmer footing. Alongside this, Campbell Robb, our new CEO, and the team have launched an agenda for change which will see a transformation of how we work over the coming years with an emphasis on inclusion, diversity and a much greater voice for our many service users.

Nacro's success, as always, is down to the skill and dedication of its workforce. We would be nothing without our staff. Feedback from service users time and again reflects that our teams across Education, Housing, Health and Justice go the extra mile to support people to turn their lives around, even when other people have given up on them. I would like to thank all staff – from front-line workers to those in central support roles – for their commitment to our work.

I would also like to thank our current Council of Trustees and the senior management team for continuing to lead Nacro with vision and passion. A number of Trustees have left the Council including Dominic McGonigal, who served a maximum term of nine years in a very committed way, and Brenda Shiels, who helped us secure an Ofsted Good for our education services.

We owe them a debt of gratitude for the time and energy they put into being Trustees especially recently when they have been called upon to give more support and stewardship than in normal times.

I remain extremely proud of all Nacro does for some of the most disadvantaged people in our society and look forward to working with a new set of trustees in the years ahead. As the UK begins to chart a path out of Covid, and face up to its economic consequences, charities like Nacro must do all we can to protect our most vulnerable citizens. Our focus on their hopes and their welfare will be stronger than ever at a time when Nacro is needed more than ever.

Nigel Chapman.

Nigel Chapman CMG

Message from our CEO

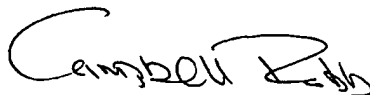


I knew as soon as I joined Nacro that I felt I had come home. My first year here has proved that over and over again. I could not be more proud to work alongside colleagues who have overcome every challenge that this year has thrown at them. The commitment to our service users and learners to each other and to making a difference no matter how difficult the situation has been incredible to be a part of.

It has been a difficult year in many ways. First the positives. As an organisation we adapted quickly and well to the lock down, whether it was our IT team making us virtual, our teaching staff creating online learning platforms or our frontline housing staff finding ways to support remotely, all across Nacro there was innovation, support, focus and commitment. Some long standing financial challenges meant that we had to initiate a change programme that has sadly resulted in redundancies. I am so grateful to the staff and the unions who worked alongside us to ensure that this was done in a collaborative, transparent way and I want to praise in particular all of the staff who continued to focus on their jobs despite facing uncertainty over their own future.

I am also proud of how we continued to hold the Government to account, in particular pushing for increased support for those leaving prison and for putting the voices of our service users at the centre of this debate.

As we try to draw breath we look around at a world where the most vulnerable and excluded are facing even more challenges, are being left even further behind and whose future is dominated by just surviving. As we develop our new long term strategy it will be this challenge that the Nacro family will be focusing on.



Campbell Robb

Council members and professional advisers

President

Lord Dholakia, OBE, JP

Vice President

Dame Linda Dobbs DBE

Trustees

Nigel Chapman CMG, Chair

Andrew Billany

Bob Booker

Ron Crank MBE

Jenni Douglas Todd

Lynn Emslie

Darren Hughes

(Resigned 9 December 2019)

Dominic McGonigal

Sarah Nelson-Smith

Victoria Prentis MP

(Resigned 14 February 2020)

Brenda Sheils OBE

(Resigned 29 February 2020)

Neil Spence

(Appointed 22 April 2019)

Helen Willis

(Resigned 25 September 2019)

Treasurer

Helen Willis

(1–22 April 2019)

Neil Spence

(23 April 2019 – March 2020)

Chief Executive Officer

Jacob Tas

(April 2019 – May 2019)

Azra Kirkby

(Acting CEO June 2019 - July 2019)

Campbell Robb

(July 2019-March 2020)

Company Secretary

Michael Coldwell

(March 2019-June 2019)

Susannah Glover

(June 2019-March 2020)

Registered Office

46 Loman Street

London, SE1 0EH

(March 2019 – December 2019)

Walkden House

16-17 Devonshire Square

London EC2M 4SQ

(December 2019- March 2020)

Charity number

226171

Regulator of Social

Housing number

4781

Company number

00203583

Bankers

National Westminster Bank Plc

Cavell House

PO Box 113

2A Charing Cross Road

London WC2H 0PD

Auditor

Mazars LLP, Midlands

45 Church Street

Birmingham

B3 2RT

Solicitors

Gateley plc

One Eleven Edmund St

Birmingham B3 2HJ

Pension consultants

Punter Southall

11 Strand

London WC2N 5HR

Information correct at 31 March 2020.

Trustee Attendance Record 2019/20

	1	2	3	4
Nigel Chapman CMG	4 of 4	-	-	2 of 3
Andrew Billany	4 of 4	4 of 4	-	-
Bob Booker	3 of 4	-	4 of 4	-
Ron Crank MBE	4 of 4	-	4 of 4	3 of 3
Jenni Douglas-Todd	4 of 4	-	3 of 4	3 of 3
Lynn Emslie	4 of 4	4 of 4	-	-
Darren Hughes ¹	0 of 2	1 of 2	-	0 of 2
Dominic McGonigal	2 of 4	-	1 of 4	-
Sarah Nelson-Smith ²	2 of 4	0 of 1	-	-
Victoria Prentis MP ³	0 of 3	-	-	-
Brenda Shiels OBE ⁴	3 of 3	1 of 4	-	-
Neil Spence ⁵	4 of 4	-	4 of 4	-
Helen Willis ⁶	0 of 2	-	0 of 2	-

1 Council

2 Strategy & Performance Committee*

3 Finance & Audit Committee**

4 People Committee

*Professional adviser: Mark Leigh

**Professional adviser: Déan Murphy

1. Resigned 9 December 2019

2. Resigned from SPC 16 May 2019

3. Resigned 14 February 2020

4. Resigned 29 February 2020

5. Appointed 22 April 2019

6. Resigned 25 September 2019

Strategic review of the year

Year in review

Our key delivery milestones during 2019/20 are shown below:

1. Grow Nacro's outcome-focused delivery – deliver joined up, high outcome and expert services and products meeting their respective regulatory and funding standards.

In 2019/20:

- Delays to the changes to the probation system have meant our ambition to increase our delivery in this area continues into 2020/21. Within the current model, this year we increased our delivery through increased funding for our resettlement services. We also became a national provider for adult vocational education in prisons working with Novus in the West Midlands, increasing our education work with adults in prison
- We retained and grew the supported housing services we deliver in Birmingham and Lincolnshire – in Birmingham growing the existing service and adding new delivery of floating support, and in Lincolnshire increasing the number of young people we help with accommodation and support
- Rated Ofsted Good across all our education provision, the outcomes learners have achieved have continued to be strong with 73% progressing on to a positive destinations; 93% of Young People completing a work placement; and English and maths outcomes for adults and young people remaining high and above national rates
- We published an impact report for our innovative resettlement project in Greenwich, funded by NHS Oxleas for people with mental health needs. Three months after release, of the people we supported when looked at against the comparison group, everyone was receiving benefits compared to just over a third in the comparison group; three times as many people were in contact with health services; twice as many people were in independent accommodation; and three times as many had not returned to prison

2. Make a strategic contribution in priority places and communities – support commissioners to offer local/regional services and solutions; form strategic partnerships in communities; be recognised as a key player in identified priority areas.

In 2019/20:

- We embedded and strengthened our presence in target geographical areas such as the West Midlands, Lincolnshire, Essex, North East and South Yorkshire
- We are providing a diverse service offer in target areas such as the West Midlands where we run education centres; deliver education in prisons; and provide housing for people involved in the justice system
- In Peterborough and Essex we are running pilots with Sodexo of direct housing provision as well as our accommodation advice and support for prison leavers joining together two areas of our delivery
- In the North East we have expanded our Ambassador programme which has worked with over 200 employers including household names to give young people exposure to the workplace. We also continue to provide education services; run our Switch programme which has worked with over 100 women at risk to equip them with resilience and skills to move forward; and provide housing to people at risk of homelessness and who struggle to access the private rented housing market

3. Influence policy and practice – develop long-term plans to address the needs of disadvantaged young people and adults in communities, promoting our social justice voice and that of our service users to influence policy and practice in order to improve the lives of people we help.

In 2019/20:

- We continued our campaigning calling for an end to Friday prison releases highlighting how the challenges faced on any day of the week are even greater for those released on a Friday, leading to increased risk of offending and setting people up to fail. We launched a new film and secured media coverage to highlight the human impact and engage different audiences. We have continued to raise the issues from the campaign with Ministers and civil servants and have facilitated focus groups with service users and officials
- We launched a new report 'Lives not Knives' which set out the views of young people in our education centres on their experiences of knife crime and what they felt needed to happen. Young people told us that most knife carrying was driven by fear and that harsher penalties did not act as a deterrent. The TES ran a feature to launch the report and we held a roundtable in our Sheffield Education centre with local MP and Shadow Minister Louise Haigh
- Funded by Barrow Cadbury Trust we produced a toolkit for practitioners in youth offending teams to help translate and put into practice the evidence from our Beyond Youth Custody partnership on the importance of Identity, translated into preventative diversionary settings
- Our Head of Justice & Health joined the Reducing Reoffending Third Sector Advisory group, working directly with Ministry of Justice officials to advise on policy and service developments
- We diversified our communications approaches introducing films and different digital techniques to increase our reach

4. Build a proud, expert and engaged workforce – build and sustain a high-performing professional workforce with the skills, knowledge and attitudes to deliver the best outcomes for service users.

In 2019/20:

- We introduced our new Management Development Programme training three cohorts of staff
- We invested in a learning management system which has supported us to upgrade all our e-learning suite as part of our induction and ongoing upskilling. This has had a particular focus on safeguarding, health and safety, information security, and GDPR
- With a new CEO in post, we have done widespread staff engagement, talking to and listening to staff about what works well and what can be improved
- We developed and started an organisation-wide change programme in order to respond to challenging financial circumstances as well as to improve our processes and structures

5. Create a financially sustainable organisation – in an uncertain economic climate, develop the organisation to ensure efficient processes in order to meet our reserves and liquidity targets as well as funding capital investment and discharging pensions obligations.

In 2019/20:

- We used the functionality of our new finance systems to provide more summarised and focused finance reports to senior managers and Trustees. We implemented a streamlined way of budgeting and forecasting, securing significant time efficiencies, increased budget ownership and increased forecast income accuracy
- Staff changes have delayed progress in some areas of planned system development, however, a more focused set of priorities for maximising the potential of our new finance system have now been developed
- We implemented a new information system to underpin data collection and reporting activities within our Education Directorate
- We tested new technology that significantly enhances our ability to support remote working and we increased the capacity at our data centre to support more speedy access to centrally stored data
- Due to challenging financial circumstances, we developed and initiated an organisation-wide change programme

Our Plans for 2020/21

Below are some of our key objectives for 2020/21:

1. Grow Nacro's outcome-focused delivery – deliver joined up, high outcome and expert services and products meeting their respective regulatory and funding standards.

In 2020/21 we will:

- Strive to increase Nacro's role and delivery in the new probation system
- Secure new opportunities for delivery in secure education
- Develop an outcome framework to improve how we measure the impact our services make for disadvantaged young people and adults

2. Make a strategic contribution in priority places and communities – support commissioners to offer local/regional services and solutions; form strategic partnerships in communities; be recognised as a key player in identified priority areas.

In 2020/21 we will:

- Focus our Business Development approach on agreed priority areas to strengthen our contribution in those areas
- Work with commissioners to share learning and shape future service delivery as a result of response to COVID-19
- Play strategic advisory role in priority areas

3. Influence policy and practice – develop long-term plans to address the needs of disadvantaged young people and adults in communities, promoting our social justice voice and that of our service users to influence policy and practice in order to improve the lives of people we help.

In 2020/21 we will:

- Increase our capacity to campaign and influence change on key social justice issues affecting our service users
- Increase our local and national media and public affairs profile
- Increase our reach to key audiences through increased and improved digital presence

4. Build a proud, expert and engaged workforce – build and sustain a high-performing professional workforce with the skills, knowledge and attitudes to deliver the best outcomes for service users.

In 2020/21 we will:

- Embed a new learning and listening approach alongside accountability at all levels
- Define and increase the role of our Senior Leadership Group
- Develop and launch a new Equality, Diversity and Inclusion Strategy and Wellbeing Strategy

5. Create a financially sustainable organisation – in an uncertain economic climate, develop the organisation to ensure efficient processes in order to meet our reserves and liquidity targets as well as funding capital investment and discharging pensions obligations.

In 2020/21 we will:

- Roll out new technology to support more effective remote working
- Rationalise and consolidate our financial reporting structures to ensure consistent and timely financial information and meeting financial targets
- Refresh our ICT strategy to enable it to closer reflect staff and service user requirements

Safeguarding

Nacro has further developed its safeguarding policy and practice across the organisation and embedded a strengthened culture of safeguarding at all levels. Our National Safeguarding Board continues to ensure an effective framework is in place, through the close monitoring and review of trends and best practice. This has shown the appropriateness and effectiveness of resulting actions and evidences Nacro's extensive multi-agency working within our safeguarding work. This is supported by a full team of Designated Safeguarding Officers and Leads across Nacro.

At the end of this financial year, the Covid-19 pandemic hit. This brought with it the need to put in place different ways of working, through which we have continued to ensure that our safeguarding arrangements, analysis and actions remain a priority. During this time we have maintained our safeguarding governance, structures, roles and meeting arrangements at both Directorate and national level, to ensure safeguarding remains a priority in unprecedented times. Guidance has been issued to staff to support new ways of working, both in terms of their own welfare and safety, and with regards to their work with service users across the various delivery functions.

Our two main Safeguarding policies have undergone an extensive overhaul with support from external experts.

Nacro's annual safeguarding week is to be held in October 2020 to align with the start of the academic year for Education. This has also historically been the reporting period during which the highest number of cases are recorded. The theme will be mental health to reflect the level of reported incidents within this category.

We continued to promote national weeks such as National Drug and Health Awareness week and Mental Health Awareness Week to focus on staff and service user wellbeing.

During the year a total of 1,348 cases were recorded on our automated Incident Management System. As our largest delivery area, Housing continues to report the largest number of safeguarding incidents, with 66% of incidents coming from the directorate in 2019/20. Education reported 27% of the incidents and 7% came from Justice and Health. These figures are in line with previous reporting years and reflect the size and complexities of each directorate.

Good governance – Trustees' report

The Nacro Council is responsible for the effective strategic leadership and governance of the organisation while day-to-day management is delegated to the Executive Team.

The Council has adopted and complies with the requirements of the National Housing Federation Code of Governance. Nacro's prime regulator is the Social Housing Regulator. The Trustees confirm that Nacro complies with the Regulatory Code. As an educator and recipient of ESFA funding, we also seek to comply with the Code of Governance for English Colleges. And finally, as a social justice charity, Nacro also complies with Charity Commission requirements.

During 2019/20 we have continued to embed and promote good governance practice in line with the NHF's governance code. The committee framework, designed to enable more detailed scrutiny, is providing the Council with a high level of assurance.

Risk management continues to be a priority, with Council members regularly considering and discussing the revised Strategic Risk Register at Council and its two primary reporting Committees, the Finance and Audit Committee and Strategy and Performance Committee. In May 2020 BDO were appointed as internal auditors, the appointment of BDO will increase the Finance and Audit Committee's focus on strategic risk issues.

Due to a number of Trustees concluding their terms of office and succession planning more broadly, a review of Trustee expertise and skills was undertaken to aid the Trustee recruitment process. The recruitment process commenced in 2019/20 and will be completed by end of 2020 when we will have a full cohort of Trustees in place.

2019/20 saw the commencement of a review into service user involvement at Nacro and the Community Voice Council to ensure we are operating in an as effective and inclusive way possible. The conclusion of the review is due in 2020/21.

There are also a number of other regular meetings that Trustees either Chair or attend, such as the Education Scrutiny Group and Safeguarding Board. These opportunities help them to fulfil their roles as a designated link Trustee for specific areas and increases scrutiny and oversight of different sectors of the business. These Trustees in turn report into the main Council and Committee structure further strengthening our governance.

A full list of Trustee appointments, resignations and attendance can be found on page 9.

Our risk framework and financial strategy supports the mitigation of exposures. Trustees are aware of their duty to protect social housing assets and are continuously developing our risk assessment and management frameworks.

The spread of Coronavirus has been considered as part of the organisation's risk management process and Corporate Risk Register. Lockdown measures did not have a material effect on the carrying value of Charity's assets and liabilities as at 31st March 2020. The Charity's prime income streams are derived from statutory funding sources and specific Government Directives were issued to state statutory funding sources should be protected. Where appropriate the Charity accessed grants made available from the Coronavirus Job Retention Scheme and where appropriate operating activity was reduced to enable the lockdown regime to be adhered to.

The Charity has not incurred an immediate adverse financial impact as a direct result of the Coronavirus pandemic since the 31st March 2020. The long term financial impact of the pandemic on the Charity's finances is currently unknown as it is very difficult to predict how funding for statutory services will be affected in the longer run. The number of new learners recruited to our Education based activity was lower than planned during lockdown and future local social distancing measures might require education centres to close to students, leading to reduced student recruitment and attainment and consequent reductions in income.

Service levels within Housing, Health and Justice were maintained through the March to July 2020 lockdown but with suitable adjustments to the operating models. In the immediate future, and where possible, the Charity will continue to embed flexibility within its operating models, to enable the services to be adapted to meet local and national public safety guidelines.

As part of management of risk, consideration has been given to the impact of the plan for the UK to leave the European Union. This includes any potential impact on operations and supply, staffing and financial planning. Like other organisations, it is possible that we may experience some supply chain disruption. Our supply chain is diverse and we don't currently judge that we have high exposure in this area. EU nationals make up a relatively low proportion of our workforce and we therefore do not anticipate immediate risk in this area. Should the economy be negatively impacted and inflation rise as some predictions suggest may happen in certain circumstances, we would inevitably face the difficulties this would bring to all organisations in terms of impact on costs and income. Overall, we currently consider that we have relatively low exposure to the impact of the UK leaving the European Union but we will continue to assess this as further developments take place.

Trustees' responsibilities – Registered Provider legislation requires the Trustees to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of Nacro as at the end of the financial year. In preparing those financial statements, suitable accounting policies have been used, framed, to the best of the Trustees knowledge and belief, by reference to reasonable and prudent judgements and estimates, applied consistently. Applicable accounting standards have been followed.

The Trustees are also required to indicate where the financial statements are prepared other than on the basis that Nacro is a going concern. The Trustees are responsible for ensuring arrangements are made for keeping proper books of account with respect to its transactions and its assets and liabilities and for maintaining a satisfactory system of control over Nacro's books of account and transactions. The Trustees are also responsible for ensuring that arrangements are made to safeguard the assets of Nacro and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Going concern – The Trustees consider that Nacro is well positioned to manage its business risks successfully. After careful consideration and enquiry, the Trustees have a reasonable expectation that Nacro has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Trustees continue to adopt the going concern basis in preparing these financial statements.

Public benefit – The Trustees confirm that they have complied with their duty under section 4 of the Charities Act 2006 to have due regard to the Charity Commission's general guidance on public benefit.

Disclosure of information to the auditor – Each Trustee at the date of approval of this report has confirmed that:


As far as the Trustees are aware, there is no relevant audit information of which Nacro's auditor is unaware.

The Trustees have taken all necessary steps in order to make themselves aware of any relevant audit information and to establish that Nacro's auditor is aware of that information. Approved by the Trustees on

23 September 2020 and signed on their behalf by:

N. Chapman

N Chapman CMG
Chair



R Crank MBE
Vice-Chair

Statement of internal control

The Nacro Council has overall responsibility for establishing and maintaining the whole system of internal control and for reviewing its effectiveness. In meeting its responsibilities, The Council has adopted a risk-based approach to internal control, which is embedded within the normal management and governance processes and includes staff at all levels. This approach includes the regular evaluation of the nature and extent of risks to which Nacro is exposed. The process adopted by the Council in reviewing the effectiveness of the system of internal control comprises:

1. Identification and evaluation of key risks

Management responsibility has been clearly defined for the identification, evaluation and control of significant risks. There is a formal process of management review in each area of Nacro's activities. This process is coordinated through a regular reporting framework by the Executive Leadership Team (ELT) and Finance & Audit Committee (FAC). The FAC regularly considers reports on significant risks facing Nacro and the Chief Executive is responsible for reporting to the Council any significant changes affecting key risks.

2. Monitoring and corrective action

The regular review of control issues and the audit plan by the ELT provides assurance to FAC and the Council. This includes a rigorous procedure for ensuring that corrective action is taken in relation to any significant issues, particularly those with a material impact on the financial statements.

3. Control environment and control procedures

The Council retains responsibility for a defined range of issues covering strategic, operational, financial, and compliance issues including new investment projects. The Council disseminates to all employees its requirements and Nacro's policies that concern the quality, integrity and ethics of its employees.

It is supported by a framework of policies and procedures with which all employees must comply. These cover issues such as delegated authority, segregation of duties, accounting, treasury management, health and safety, safeguarding, data and asset protection, and the prevention and detection of fraud.

4. Independent audit and review

The internal control framework and risk management processes are subject to regular review by an internal audit function which is responsible for providing independent assurance to the Council. In May 2020 Nacro appointed BDO to supply an internal audit function. FAC ensures that the risk-based inspection/monitoring plan remains up-to-date and is a live document. It reviews all significant reports, which could affect the risks facing Nacro. Council has received the annual review of the system of control from FAC and has taken into account any changes needed to maintain effectiveness of the risk management and control process.

5. Fraud reporting systems

Fraud response procedures and policy statements are reviewed and approved by the Council as part of a comprehensive review of internal control systems. The procedures establish the respective roles and responsibilities of staff for the prevention and detection of fraud through a fraud response plan.

The Council confirms that there is an ongoing process for identifying, evaluating and managing significant risks faced by Nacro. This process has been in place throughout the year and up to the signing of the annual report, and is reviewed regularly by the Council.

6. Risks

Nacro has a formal risk management process to assess business risks and implement risk-based strategies. The risk register is aligned to the corporate plan, and identifies the risks around achieving the objectives of the organisation. This involves identifying the types of risks that Nacro faces, prioritising them in terms of potential impact and likelihood of occurrence, and identifying mitigating actions.

Key risks

Key risk	Risk treatment
Cashflows and margins are not sufficient to meet day to day operating costs and / or balance sheet liabilities leading to the Charity falling in to financial administration	<p>Strategic and business planning in place and monitoring of progress against key corporate objectives</p> <p>Regular communication with commissioners regarding security of current income streams</p> <p>Building closer relationships with potential funders and developing new funding models</p> <p>Financial performance is monitored through monthly management accounts by management and Trustees</p> <p>A Value for Money programme is in place which includes initiatives to reduce operating costs</p>
Death or harm caused by failure to follow internal processes and procedures, particularly in relation to Health and Safety and Safeguarding, leading to loss of life, damaging publicity, criminal convictions, fines and loss of business	<p>Executive and Trustee oversight to ensure arrangements for Health and Safety and Safeguarding are monitored</p> <p>An incident management system is embedded and learning from incidents is cascaded</p> <p>Continued compliance and quality inspections take place</p>
Inability to demonstrate real outcomes	<p>Enhanced management information and reporting for all operational areas of the business</p> <p>Outcome reporting reviewed by management and trustees</p> <p>Reviewing and developing an outcome framework to improve how we measure the impact our services make</p>
Business continuity is affected by major internal or external event leading to an inability to provide services to customers	<p>Robust business continuity plans are in place</p> <p>Data and systems can be accessed from multiple locations</p> <p>Specific local arrangements in place for specific service delivery sites</p>

Financial narrative

Income for the year was £63.3m compared with £60.2m in 2018/19 and the total comprehensive income for the year was £0.2m (2018/19: loss of £3.5m). The variance primarily results from pension valuation changes and the recording of a loss within our Education division.

Turnover in Housing (social and non social housing), increased by £5.4m to £42.0m. This substantial growth results from the continued expansion of the Bail Accommodation Secure Service along with growth in other supported housing provision. The profitability of the Housing division increased from £0.4m to £1.0m.

Turnover in our Education division income fell from £16.8m to £14.2m. This reduction in income was not matched by a compensating reduction in expenditure and therefore a loss of £2.3m was recorded for the year. Steps have been taken to reduce the cost base of this division in 2020.

Turnover in our Justice division increased by £0.2m during the year to £3.2m. Profitability increased from £0.4m to £0.5m.

Turnover in our Health division remained static at £4.0m. Expenditure also remained static and this division recorded a breakeven result for the year.

The Total Comprehensive Income for the year amounted to a surplus of £0.2m (2018/19: loss £3.5m). A gain on the valuation of the pension scheme of £1.5m off set an operating deficit of £0.9m and pension scheme related interest charges of £0.4m.

The balance sheet shows net assets at £7.3m (2018/19 : £7.1m). This is represented by unrestricted funds of £7.1m (2018/19 : £6.9m) and restricted funds of £0.2m (2018/19 : £0.2m)

The defined benefit pension liability stands at £17.0m (2018/19 : £18.4m), the reduction relates to the FRS102 valuation carried out on 31.03.20.

The full results for the year are shown in the Statement of Comprehensive Income and the Statement of Financial Position plus accompanying accounts and notes on pages 31 to 57.

Value for money statement

To comply with the Regulator of Social Housing's latest code of practice on value for money, as a registered provider we are required to publish our performance against a given set of key indicators which is shown below:

	Nacro 2019/20	Nacro 2018/19	Global Accounts 19 – Supported Housing Provider Metrics*	2019/20 Comment
1. Reinvestment %	0.8%	1.3%	4.2%	Less than 10% of Nacro's housing units are owned by the charity and therefore landlords bear the bulk of the cost of making improvements to existing stock
2. New supply delivered %	0.0%	0.0%	0.8%	Nacro did not build any new housing units during the year
3. Gearing %	0.0%	0.0%	13.3%	Nacro does not have any loan financing facilities in place. At this point Nacro does not intend to enter in to any new loan financing arrangements
4. EBITDA MRI Interest Cover %	76.6%	501.5%	228%	A loss was recorded within Nacro's Education division during the year and this loss is reflected in this metric
5. Headline social housing cost per unit	£9.67	£9.02	£8.46	Nacro provides over 500 very short term units to provide accommodation to people on bail and to people who are leaving prison. Specific staff support arrangements are in place and typically more frequent repairs are carried out
6. Operating Margin A) Social Housing Letting %	5.3%	6.9%	12.9%	Most of Nacro's social housing units are used to provide enhanced and contractual support services. We do not seek to make a significant margin on these activities
B) Overall %	-1.4%	0.6%	8.0%	A loss was recorded within Nacro's Education division during the year and this loss is reflected in this metric
7. Return on capital employed %	-3.2%	1.1%	3.4%	A loss was recorded within Nacro's Education division during the year and this loss is reflected in this metric

*the Global Accounts 19 is an annual report produced by the Housing Regulator to provide a summary of the financial status of social housing providers who own or manage at least 1,000 homes. The comparative data used for Nacro was taken from the Supported Housing Provider dataset, this is because Nacro primarily provides supporting housing services.

Nacro has fewer than 1,000 owned homes so we are classed as a "small provider". Nacro provides homes with additional support for housing vulnerable people and people leaving the criminal justice system on assured shorthold tenancies or licences. Many of the above metrics are designed to enable comparisons between large social housing providers with significant loan book commitments and a high level of general needs social rented homes. Income from Nacro's social housing activity makes up around 25% of Nacro's total turnover, as a consequence some comparative figures for Nacro will not necessarily closely align with data other social housing providers submit to the Housing Regulator.

Nacro's performance in relation to housing activities is broadly in line with its own expectations. We fell short against our aspirations to deliver a positive overall operating margin as a result of the loss incurred through our education related work. Steps have been taken to reduce the cost base of our Education work in 2020.

Nacro's Council has considered the benchmarking data and the Council is satisfied that Nacro is in compliance with the Code issued by the Regulator of Social Housing in respect of Nacro's housing related activities, and that overall the charity is delivering good value for money to beneficiaries. Value for money is delivered throughout the charity, for example:

- Governance — we are developing an organisational culture of actively "listening and learning" to our beneficiaries and to our staff to enable us to embed improvements in our service offer and to enable us to share good practice effectively. This means we will continue to deliver better quality services at a reasonable price, in line with regulatory and commissioner expectations.
- Co-production — we actively engage with the people we support and our workforce. This enables us to capitalise on their ideas and innovations for business improvement through considering re-shaping of delivery models and/or through financial investment in specific initiatives.
- Re-shaping management structures to make them fit for the future – removing management tiers to support the devolution of decision-making and budgetary responsibility and by making spans of management more effective.
- Peer performance tracking — internally and externally where similar models exist, it is possible to deliver benefits for people using our services and increased efficiencies using simple comparison data.
- Business development partnerships — working closely with commissioners and investment partners, we constantly evaluate our inputs and outcomes in terms of value for money. The sternest test of this is when re-tendering takes place. In 2019/20 we secured contract extension and retained a number of existing contracts at value for money rates.

To address our ambition to raise our performance against regulatory indicators 6 and 7 above, we focused and made progress in the following areas:

1. We have secured and retained new and existing services including four new service delivery contracts during the year with a total annual contract value of just under £1m. We successfully retained and grew three other contracts worth just under £1.9m in total annual contract value.
2. We have re-structured our delivery and management structures to devolve more decisions locally, removing management layers from the structure and broadening management spans from 1:5 to 1:8 employees. We consciously slowed the pace of the restructuring programme to allow for adjustments and support arising from the COVID-19 pandemic to be made. It has therefore taken longer to deliver than originally expected but these changes will leave us in a much stronger position going forward.

3. We worked hard to reduce sickness/absence levels to below 5% and increase 'first-time fill' for our vacancies to above 70% by being clear about the roles on offer, recruiting through new channels and ensuring roles are clear before offers are made. Progress here has also been slower than hoped for but the trajectory on both indicators at the end of the year is good.
4. We improved access to our internal data and information systems by investing in our ICT infrastructure to enable staff to access more systems remotely yielding savings in both staff time and increased flexibility of working.
5. We have invested in our housing management team to enable more resources to be dedicated to reducing rent debt and we have improved our systems for managing contractual income receipts to ensure work done is invoiced promptly and settled in line with expectations.

Return on assets and investments and use of reserves

We are working continuously to get the most out of our assets, primarily our properties. This includes reviewing our properties that are no longer fit-for-purpose, re- and co-locating some operational and central support teams and upgrading our ICT infrastructure to support more flexible working and enable staff to better deliver for the needs of those using our services.

Our investment resources are allocated according to current corporate priorities, risks, most urgent need and best return. Users of our services are our main focus in evaluating our investment pipeline.

Our physical asset base across the Charity remains fully unsecured and we continue to be able to internally fund investment programmes from existing cash reserves. Holding significant cash balances offers a poor yield so selected investments in our infrastructure and strategic projects give us a potential long-term yield that will ensure our business remains sustainable in the longer term. We assess each investment against our strategic aims and undertake a cost/benefit review, where the advantages to those we support are clear, we invest to improve. We have focused on disposing of properties that do not fit with our current and likely needs.

Our approach to our social and environmental responsibilities is developed with those we support as well as staff, who wish to see us as a responsible provider.

We are able to procure certain goods and services on a large scale to maximise economies of scale. In 2019/20 we retendered a number of contracts including: gas and electricity supplies and telephone, mobile and data technology services.

Reserves and liquidity policies

There has been a small increase of £0.2m in the overall value of the balance sheet during the year to 31 March 2020 which now stands at £7.3m. The current reserves policy is to achieve reserves of the equivalent of three months of operating costs and the current liquidity policy is to target cash of three months of operating costs, less depreciation.

Environmental impact statement

Nacro recognises its responsibility to the environment and we are committed to reducing our environmental impact and continually improving our environmental performance as an integral part of our operating method. This year we developed a new environmental policy which set out the following priorities:

1. Reducing our energy carbon footprint
2. Reducing our waste production
3. Reduce the use of toxic and environmentally damaging materials
4. Including environmental considerations in Nacro's investment and procurement decisions

To help deliver these priorities we have established an Environmental Working Group of staff and service users to help develop an action plan, targets and report on progress.

On the next page is our Streamlined Energy and Carbon Report. We have particularly highlighted the following areas for improvement in 2020/21:

1. Reduce our travel

Organisationally we have significant travel use, particularly in our housing services where our staff often travel to different properties to support service users. We believe there is scope to reduce our travel and associated carbon footprint over the course of the next year. However, we need to do this whilst ensuring we are still delivering a high quality service to our service users, and our commissioners support any changes we may propose to delivery models. We will therefore work with operational teams to assess critical and non-critical travel requirements and what better use we can make of technology whilst retaining a high quality support service, as well as engaging with service users and commissioners. We will also work with other Nacro teams to identify opportunities to reduce non-essential travel.

2. Reducing energy consumption

We believe there are a number of ways we can look to impact energy consumption in the properties we own and lease. These include:

- All new lease and property acquisitions must have regard to the EPC rating for the building and we make no property acquisition at or below the minimum efficiency rating
- All acquisitions are preceded by a condition survey that examines the age of relevant components of the building: insulation, age of boilers
- Proactively engaging with property owners we lease from where the condition or efficiency rating of these properties fall below standards and encouraging action
- Not renewing property leases where they fall below our standards

Streamlined Energy & Carbon Report (SECR)

Financial Year	April 2019 to March 2020
Client Name	Nacro
Company No	203583
Registered Office	Walkden House, 16–17 Devonshire Square London EC2M 4SQ
Current Financial Year tCO ₂ e	3,749
Current Financial Year kWh	18,375,204
Previous Financial Year tCO ₂ e	N/A
Previous Financial Year kWh	N/A
Intensity Ratio (IR) used	tCO ₂ e/£m
Intensity Metric Current Financial Year	60.57
Intensity Metric Previous Financial Year	N/A
Emissions Factors Used	DEFRA 2019
Methodology Used	GHG Protocol
Emissions Scope	Scope 1 & 2
Emissions Included	Electricity, Natural Gas, Direct Car Mileage
Exclusion Statement	Consumption for void properties has not been included. It has not been possible to determine the volume of consumption since individual property void consumption is not tracked, only financial spend is recorded at void projects level
Energy Efficiency Statement	During the 2019/20 financial year, Nacro have committed to acquiring properties only above the minimum EPC efficiency rating, with consideration of the buildings insulation and boiler age. Any leases near expiry will not be renewed in properties falling below efficiency standards
Report completed by	Stephanie Strange
Quality Audit completed by	Stephanie Strange
SECR Report completed by	Monarch Partnership Limited

Thanks and acknowledgements

With thanks to our funders and partners including:

The Barrow Cadbury Trust
BeNCH CRC
Berkshire NHS Foundation Trust
Big Lottery Fund
Birmingham City Council
Cambridgeshire & Peterborough Combined Authority
Carmarthenshire County Council/Cyngor Sir Gaerfyrddin
Clinks
Conwy County Borough Council/Cyngor Bwrdeistref Sirol Conwy
Department of Health
Denbighshire County Council/ Cyngor Sir Ddinbych
Education and Skills Funding Agency
East Riding of Yorkshire Council & Two Ridings Community Foundation
Education & Skills Funding Agency
Essex County Council
Essex CRC
European Social Fund
Flintshire County council/Cyngor Sir Y Fflint
The Forward Trust
Gwynedd Council/Cyngor Gwynedd
LandAid
Lincolnshire County Council
Liverpool City Council
London Borough of Lambeth
London Borough of Wandsworth
London Borough of Westminster
Manchester City Council
Ministry of Justice
NHS England
Northamptonshire Police & Crime Commissioner
Nottingham City Council
Oxleas NHS Trust
The Royal British Legion
Sheffield City Council
Sodexo
South Yorkshire CRC
St Mungos
Staffordshire Police & Crime Commissioner
Stockport Alliance
Welsh Assembly
Wolverhampton City Council
Wrexham County Council
YMCA Liverpool

Independent auditor's report

Opinion

We have audited the financial statements of Nacro for the year ended 31 March 2020 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Reserves and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of Nacro's affairs as at 31 March 2020 and of its surplus for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice;
- have been prepared in accordance with the requirements of the Companies Act 2006, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2019.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of Nacro in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Trustees' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Trustees have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about Nacro's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The Trustees are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Review and the Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Review and the Annual Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In light of the knowledge and understanding of Nacro and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Review or the Annual Report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specific by law are not made; or
- we have not received all the information and explanations we require for our audit.

Financial statements

Responsibilities of the Trustees

As explained more fully in the Statement of the Trustees' responsibilities set out on page 16, the Trustees are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Trustees determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Trustees are responsible for assessing Nacro's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Trustees either intend to liquidate Nacro or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of the audit report

This report is made solely to Nacro's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and Chapter 4 of Part 2 of the Housing and Regeneration Act 2008. Our audit work has been undertaken so that we might state to Nacro's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than Nacro and Nacro's members as a body for our audit work, for this report, or for the opinions we have formed.



Vincent Marke
(Senior Statutory Auditor)
for and on behalf of Mazars LLP
Chartered Accountants and Statutory Auditor
45 Church Street
Birmingham B3 2RT

Date: 30 September 2020

**Nacro - Statement of Comprehensive Income
for the year ended 31 March 2020**

	Note	2020 £'000	2019 £'000
Turnover	3	63,342	60,223
Operating expenditure	3	(64,247)	(59,870)
Operating (deficit)/surplus		<u>(905)</u>	<u>353</u>
Equalisation of guaranteed minimum pension scheme (GMP)	19	-	(1,113)
Operating deficit (including GMP)		<u>(905)</u>	<u>(760)</u>
Loss on disposal of property, plant and equipment	4	(48)	-
Surplus on disposal of investments		-	5
Interest and similar receivables	6	28	43
Interest and financing costs	7	(428)	(386)
Deficit before tax	5	<u>(1,353)</u>	<u>(1,098)</u>
Taxation	10		
Deficit for the year		<u>(1,353)</u>	<u>(1,098)</u>
Actuarial gain/(loss) in respect of pension schemes	19	1,539	(2,415)
Total comprehensive income for the year		<u>186</u>	<u>(3,513)</u>

All amounts relate to continuing activities.

The financial statements were approved by the Board on 23 September 2020 and were signed on its behalf by:

Chair

NC Chapman

Trustee

Paul Smith

The notes on pages 35 to 57 form part of these financial statements.

**Nacro Statement of Financial Position
as at 31 March 2020**

	Note	2020 £'000	2019 £'000
Non Current Assets			
Intangible assets	11	300	405
Housing properties	12	7,751	7,854
Other property, plant and equipment	13	16,106	16,826
		<u>24,157</u>	<u>25,085</u>
Current Assets			
Trade debtors	14	8,130	6,717
Cash and cash equivalents		7,300	7,385
		<u>15,430</u>	<u>14,102</u>
Creditors: Amounts falling due within one year	15	9,907	8,171
Net current assets		<u>5,523</u>	<u>5,931</u>
Total assets less current liabilities		<u>29,680</u>	<u>31,016</u>
Creditors: Amounts falling due after more than one year	16	4,583	4,726
Provisions			
Defined benefit obligations	19	16,953	18,364
Other provisions	18	859	827
Total net assets		<u>7,285</u>	<u>7,099</u>
Capital and reserves			
Revenue reserve		7,101	6,922
Restricted reserve		184	177
Total reserves		<u>7,285</u>	<u>7,099</u>

The financial statements were approved by the Board on 23 September 2020 and were signed on its behalf by:

Chair

N.C. Chapman

Trustee

[Signature]

The notes on pages 35 to 57 form part of these financial statements.

Nacro Company number 00203583.

**Nacro - Statement of changes in reserves
for the year ended 31 March 2020**

	Revenue reserve £'000	Restricted reserve £'000	Total £'000
Balance as at 1 April 2019	6,922	177	7,099
(Deficit)/surplus for the year	(1,360)	7	(1,353)
Other comprehensive income for the year	1,539	-	1,539
Total comprehensive income for the year	179	7	186
Balance at 31 March 2020	<u>7,101</u>	<u>184</u>	<u>7,285</u>

	Revenue reserve £'000	Restricted reserve £'000	Total £'000
Balance as at 1 April 2018	10,415	197	10,612
Deficit for the year	(1,098)	-	(1,098)
Other comprehensive income for the year	(2,415)	-	(2,415)
Total comprehensive income for the year	(3,513)	-	(3,513)
Reserves transfer	20	(20)	-
Balance at 31 March 2019	<u>6,922</u>	<u>177</u>	<u>7,099</u>

The notes on pages 35 to 57 form part of these financial statements.

Nacro - Statement of Cashflow for the year ended 31 March 2020

	Note	2020 £'000	2019 £'000
Net cash generated from operating activities	20	411	(1,814)
Cash flows from investing activities			
Purchase of housing property components		(94)	(148)
Purchase of other property, plant and equipment		(392)	(1,127)
Purchase of intangible assets		(38)	(283)
Proceeds from sale of property plant and equipment		-	-
Proceeds from sale of housing properties		-	-
Proceeds from sale of investment funds		-	40
Interest received		28	43
Total cash utilised in investing activities		<u>(496)</u>	<u>(1,475)</u>
Net change in cash and cash equivalents		(85)	(3,289)
Cash and cash equivalents at beginning of year		7,385	10,674
Cash and cash equivalents at end of year		<u><u>7,300</u></u>	<u><u>7,385</u></u>

The notes on pages 35 to 57 form part of these financial statements.

Nacro – NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 MARCH 2020

1 Legal Status

Nacro is a private company limited by guarantee under the Companies Act 2006, incorporated in England and is a registered housing provider and a registered charity. The address of its registered office is as disclosed on page 8 of the annual report.

2 Accounting policies

The principal accounting policies are summarised below. They have been applied consistently throughout the year and to the preceding year.

Basis of accounting

The financial statements have been prepared under the historical cost convention on an accruals basis, modified to include certain items at fair value, in accordance with UK Generally Accepted Accounting Practice (UK GAAP) including Financial Reporting Standard 102 (FRS 102) and the Housing SORP 2018: Statement of Recommended Practice for Registered Social Housing Providers and comply with the Accounting Direction for Private Registered Providers of Social Housing 2019. Nacro is a public benefit entity, as defined in FRS 102 and applies the relevant paragraphs prefixed 'PBE' in FRS 102.

The financial statements are presented in Sterling (£).

Going Concern

Nacro's business activities, its current financial position and factors likely to affect its future development are set out within the Annual Report.

The Trustees have a reasonable expectation that Nacro has adequate resources to continue in operational existence for the foreseeable future, being a period of at least twelve months after the date on which the report and financial statements are signed. For this reason, it continues to adopt the going concern basis in the financial statements.

Turnover

Turnover represents rent and service charges receivable (net of rent and service charge losses from voids), disposal proceeds of current assets such as properties developed for outright sale or shared ownership first tranche sales at completion, grants from local authorities and charitable fees and donations.

Service charge income is recognised when expenditure is incurred as this is considered to be the point at which the service has been performed and the revenue recognition criteria met.

Interest payable

Borrowing costs are interest and other costs incurred in connection with the borrowing of funds. Borrowing costs are calculated using the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of a financial instrument and is determined on the basis of the carrying amount of the financial liability at initial recognition.

Under the effective interest method, the amortised cost of a financial liability is the present value of future cash payments discounted at the effective interest rate. The interest expense in a period equals the carrying amount of the financial liability at the beginning of a period multiplied by the effective interest rate for the period.

Nacro – NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 MARCH 2020

Financial instruments

Financial instruments which meet the criteria of a basic financial instrument as defined in Section 11 of FRS 102 are accounted for under an amortised historic cost model.

Basic financial instruments are recognised at amortised historical cost.

Non-basic financial instruments are recognised at fair value using a valuation technique with any gains or losses being reported in the Statement of Comprehensive Income. At each year end, the instruments are revalued to fair value unless hedge accounting is applied.

The company has not adopted hedge accounting for financial instruments.

Debtors

Short term debtors are measured at transaction price, less any impairment. Loans receivable are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method, less any impairment.

Where deferral of payment terms has been agreed at below market rate, and where material, the balance is shown at the present value, discounted at a market rate.

Creditors

Short term trade creditors are measured at the transaction price. Other financial liabilities, including bank loans, are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method.

Employee Benefits

Defined contribution scheme

Nacro participates in a defined contribution stakeholder scheme. Employer contributions payable to the scheme are charged to the Statement of Comprehensive Income during the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the Statement of Financial Position.

Defined benefit scheme.

The Nacro Staff Benefits Plan closed to new entrants from 1 December 1998 and for future accruals from 31 March 2006. The net interest cost on the net defined benefit liability is charged to revenue and included within finance costs. Re-measurement comprising actuarial gains and losses and the return on scheme assets (excluding amounts included in net interest on the net defined benefit liability) are recognised immediately in other comprehensive income.

Defined benefit schemes are funded, with the assets of the scheme held separately from those of the company, in separate trustee administered funds. Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit credit method. The actuarial valuations are obtained triennially and are updated at each Statement of Financial Position date.

Nacro – NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 MARCH 2020

Housing properties

Housing properties are properties held for the provision of social housing, public education or otherwise provide social benefit. Housing properties are principally properties available for rent and are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes the cost of acquiring land and buildings, directly attributable development costs and interest charges incurred during the development period.

Capitalisation ceases when substantially all the activities that are necessary to get the asset ready for use are complete.

Depreciation is charged so as to write down the net book value of housing properties to their estimated residual value, on a straight line basis, over their useful economic lives. Depreciation is charged in the year of acquisition. Freehold land is not depreciated.

Major components of housing properties, which have significantly different patterns of consumption of economic benefits, are treated as separate assets and depreciated over their expected useful economic lives at the following annual rates:

Structure	80 years
Roofs	50 years
Windows	25 years
Kitchens	20 years
Bathrooms	30 years
Boilers	15 years
Heating systems	30 years
Electrics	30 years

Properties held on long leases are depreciated over their estimated useful economic lives or the lease duration if shorter.

Improvements

Where there are improvements to housing properties that are expected to provide incremental future benefits, these are capitalised and added to the carrying amount of the property. Any works to housing properties which neither replace a component nor result in an incremental future benefit are charged as expenditure in the Statement of Comprehensive Income.

Leaseholders

Where the rights and obligations for improving a housing property reside with the leaseholder or tenant, any works to improve such properties incurred by Nacro is recharged to the leaseholder and recognised in the Statement of Comprehensive Income along with the corresponding income from the leaseholder or tenant.

Donation or acquisition of land or other asset at below market value

Where a donation of land and/or other assets is received or land and/or other assets are acquired at below market value from a government source, this is accounted for as a non-monetary government grant. The difference between the fair value of the asset donated or acquired and the consideration paid for the asset is recognised as a government grant and included in the Statement of Financial Position as a liability.

Where Nacro receives a donation of land and/or other assets or acquires such assets below their market value from a third party that does not meet the definition of a government source as set out in the Housing SORP, then the transaction is accounted for as a non-exchange transaction. The assets acquired are recognised in the statement of financial position at fair value. The income, equivalent to the difference between any amounts paid or payable for the

Nacro – NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 MARCH 2020

assets and the fair value of the assets, is recognised in the statement of comprehensive income as a donation when future performance-related conditions are met.

Assets held for sale

Assets held for sale consists of properties or other assets that are surplus to the requirement of the business and not held for use in the business.

Property assets held for sale are subject to a charity valuation by a qualified and experienced external surveyor and held at this value, any change in valuation is recognised in the Statement of Comprehensive Income.

Social Housing Grant and other Government grants

Government grants include grants receivable from government agencies such as the Homes and Communities Agency (HCA), local authorities, devolved government agencies, health authorities and the European Commission. Government grants received for housing properties are recognised in income over the useful life of the housing property structure and, where applicable, its individual components (excluding land) under the accruals model.

Grants relating to revenue are recognised in income on a systematic basis over the period in which related costs for which the grant is intended to compensate are recognised. Where a grant is receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support with no future related costs, it is recognised as revenue in the period in which it becomes receivable.

Grants due from government organisations or received in advance are included as current assets or liabilities.

Government grants received for housing properties are subordinated to the repayment of loans by agreement with the HCA. Government grants released on sale of a property may be repayable but are normally available to be recycled and are credited to a Recycled Capital Grant Fund and included in the statement of financial position in creditors.

Other Grants

Grants received from non-government sources are recognised as revenue using the performance model.

Recycling of grants

Where there is a requirement to either repay or recycle a grant received for an asset that has been disposed of, a provision is included in the Statement of Financial Position to recognise this obligation as a liability. When approval is received from the funding body to use the grant for a specific development, the amount previously recognised as a provision for the recycling of the grant is reclassified as a creditor in the Statement of Financial Position.

On disposal of an asset for which government grant was received, if there is no obligation to repay the grant, any unamortised grant remaining within liabilities in the Statement of Financial Position related to this asset is derecognised as a liability and recognised as revenue in the Statement of Comprehensive Income.

Impairment of social housing properties

An assessment is made at each reporting date as to whether an indicator of impairment exists. If such an indicator exists, an impairment assessment is carried out and an estimate of the recoverable amount of the asset is made. Where the carrying amount of the asset exceeds its recoverable amount, an impairment loss is recognised in the Statement of Comprehensive Income. The recoverable amount of an asset is the higher of its value in use and fair value less

Nacro – NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 MARCH 2020

costs to sell. Where assets are held for their service potential, value in use is determined by the present value of the asset's remaining service potential plus the net amount expected to be received from its disposal. Depreciated replacement cost is taken as a suitable measurement model.

An impairment loss is reversed if the reasons for the impairment loss have ceased to apply and included in the Statement of Comprehensive Income.

Other property, plant and equipment

Other property, plant and equipment is stated at cost less accumulated depreciation and impairment losses. Depreciation is charged on all non-housing property, plant and equipment, other than investment properties and freehold land so as to write down the net book value to their residual value, on a straight line basis, over their useful economic lives, as follows:

Other Freehold premises	80 years
Leasehold land and buildings	over the period of the lease
Furniture, fixtures & fittings	4 years
Other equipment	4 years
Vehicles	4 years
Computer hardware	4 years

Other freehold premises are treated as housing properties which have different patterns of consumption of economic benefit and treated as separate assets. The same asset lives are used as for housing properties.

Intangible assets

Intangible assets are stated at historic cost or valuation, less accumulated amortisation and any provision for impairment. Amortisation is charged to operating expenditure in the Statement of Comprehensive Income. Amortisation is provided on all intangible assets at rates calculated to write off the cost or valuation of each asset on a straight-line basis over its expected useful life, as follows:

Computer software	4 years
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Amortisation is not charged in the year of acquisition.

Leases

An assessment is made at inception of an agreement that transfers the right to use assets. The assessment considers whether the arrangement is, or contains, a lease based on the substance of the arrangement.

Operating leased assets

Leases that do not transfer all the risks and rewards of ownership are classified as operating leases.

Payments under operating leases are charged to the Statement of Comprehensive Income on a straight-line basis over the period of the lease.

Provisions for liabilities

Provisions are recognised when there is a present obligation (legal or constructive) as a result of a past event; it is probable the obligation will have to be settled; and a reliable estimate can be made of the amount of the obligation.

Nacro – NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 MARCH 2020

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

Where the effect of the time value of money is material, the amount expected to be required to settle the obligation is recognised at present value using a pre-tax discount rate. The unwinding of the discount is recognised as a finance cost in the Statement of Comprehensive Income in the period it arises.

Financial provision is made for the cost of annual leave accrued by employees as a result of services rendered in the current period, and which employees are entitled to carry forward and use within the next 12 months. The provision is measured at the salary cost payable for the period of absence.

Restricted reserves

Where reserves are subject to an external restriction they are separately recognised within reserves as a restricted reserve. Revenue and expenditure is included in the Statement of Comprehensive Income and a transfer is made from the general reserve to the restricted reserve.

Significant management judgements and key sources of estimation uncertainty

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Significant management judgements

The following are management judgements in applying the accounting policies of Nacro that have the most significant effect on the amounts recognised in the financial statements.

Impairment of social housing properties

The Trustees have to make an assessment as to whether an indicator of impairment in value of social housing properties exists. In making the judgement, management consider the detailed criteria set out in the SORP. The conclusion of the Trustees is that there are no indicators of impairment, other than in relation to Totton College. The economic performance of the business conducted at Totton College has been reviewed and it is anticipated that this is unlikely to result in positive net cashflows. It is the view of the Trustees that the primary purpose of the property at Totton College is to further the charitable objects of Nacro by providing education opportunities to disadvantaged students in the medium to long term. On this basis, the Trustees have determined that the value of Totton College should be assessed on a depreciated replacement cost basis for the purposes of determining whether an impairment against the net book value should be recognised.

Estimation uncertainty

Estimates and assumptions are made concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that

Nacro – NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 MARCH 2020

have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

Provisions

Provision is made for dilapidations and redundancy costs. These provisions require management's best estimate of the costs that will be incurred based on legislative and contractual requirements. In addition, the timing of the cash flows and the discount rates used to establish net present value of the obligations require management's judgement.

Defined benefit pension scheme

Nacro has obligations to pay pension benefits to certain employees and former employees. The cost of these benefits and the present value of the obligation depend on a number of factors, including; life expectancy, salary increases, asset valuations and the discount rate on corporate bonds. Based on advice received from Actuaries, management estimates these factors in determining the net pension obligation in the balance sheet. The assumptions reflect historical experience and current trends.

Useful lives of depreciable assets

Management reviews its estimates of the useful lives of depreciable assets at each reporting date based on the expected utility of the assets. Uncertainties in these estimates relate to technological obsolescence that may change the utility of certain software and IT equipment and changes to decent homes standards which may require more frequent replacement of key components.

Nacro – NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 MARCH 2020

3A Particulars of turnover, operating costs and operating surplus.

		2020		
		Turnover	Operating costs	Operating surplus/ (deficit)
		£'000	£'000	£'000
Social housing activity				
Social housing lettings (Note 3B)		7,516	(7,115)	401
Other social housing activities				
Charges for support services		8,655	(8,938)	(283)
		16,171	(16,053)	118
Activities other than social housing				
Non-social housing and related support services		25,808	(24,908)	900
Education centre provision		14,187	(16,596)	(2,409)
Justice services		3,155	(2,611)	544
Health services		4,021	(4,079)	(58)
Sub-total		47,171	(48,194)	(1,023)
Total		63,342	(64,247)	(905)
		2019		
		Turnover	Operating costs	Operating surplus/ (deficit)
		£'000	£'000	£'000
Social housing activity				
Social housing lettings		7,288	(6,788)	500
Other social housing activities				
Charges for support services		7,665	(8,210)	(545)
Sub-total		14,953	(14,998)	(45)
Activities other than social housing				
Non-social housing and related support services		21,616	(21,196)	420
Education centre provision		16,803	(17,216)	(413)
Justice services		2,862	(2,447)	415
Health services		3,989	(4,013)	(24)
Sub-total		45,270	(44,872)	398
Total		60,223	(59,870)	353

Nacro – NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 MARCH 2020

3B Social Housing Lettings

Income	General Needs Housing £'000	Supported Housing £'000	2020 Total £'000	2019 Total £'000
Rents receivable net of identifiable service charges	33	3,554	3,587	3,910
Service charge income	18	3,791	3,809	3,173
Amortised government grants	9	111	120	205
Turnover from social housing lettings	60	7,456	7,516	7,288
Operating expenditure				
Management	(8)	(1,045)	(1,053)	(974)
Service charge costs	(4)	(3,061)	(3,065)	(2,881)
Rents payable and property costs	-	(2,305)	(2,305)	(2,195)
Routine maintenance	-	(30)	(30)	(20)
Bad debts	(9)	(413)	(422)	(400)
Depreciation of housing properties	(22)	(218)	(240)	(318)
	(43)	(7,072)	(7,115)	(6,788)
Operating surplus social housing lettings	17	384	401	500
Total Void Losses including Service Charges	-	587	587	630

Nacro – NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 MARCH 2020

4 Loss on disposal of property and equipment

	2020 £'000	2019 £'000
Loss on disposal of property and equipment	48	-
	<u>48</u>	<u>-</u>

5 Deficit for the year before taxation

Deficit for the year before taxation is stated after charging/(crediting):

	2020 £'000	2019 £'000
Depreciation of property, plant and equipment	1,065	1,061
Depreciation of housing properties	196	241
Amortisation of intangible assets	143	100
Amortisation of Government grants	(151)	(233)
Loss/(gain) on disposal of fixed assets	48	-
Audit fees:		
- statutory audit	46	45
- audit-related assurance services	-	4
Operating lease rentals	11,073	9,549

6 Interest receivable

	2020 £'000	2019 £'000
Bank interest receivable	21	10
Investment interest	7	33
	<u>28</u>	<u>43</u>

7 Interest and financing costs

	2020 £'000	2019 £'000
Net interest payable on defined benefit pension liability	428	386

Nacro – NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 MARCH 2020

8 Staff costs

	2020 £'000	2019 £'000
Wages and salaries	21,062	21,301
Social security costs	1,920	1,946
Other pension costs	643	559
Redundancy Costs	334	349
Agency Costs	2,641	2,153
	<u>26,600</u>	<u>26,308</u>

The number of staff who received emoluments, including pension contribution, in excess of £60,000 is as shown below:

Salary Band	2020	2019
60,000 - 69,999	6	6
70,000 - 79,999	1	0
80,000 - 89,999	2	0
90,000 - 99,999	1	3
100,000-109,999	1	1
110,000 -119,999	1	0
120,000 -129,999	0	0
130,000-139,999	0	0
140,000- 149,999	0	1

The average full time equivalent number of employees over the 12-month period was:

	2020	2019
Service delivery	681	717
Management and administration	93	91
	<u>773</u>	<u>808</u>

Full Time equivalents are calculated on the basis of a 40-hour standard week.

Nacro – NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 MARCH 2020

9 Directors' remuneration and transactions

	2020	2019
Directors who are executive staff members	£'000	£'000
Wages and salaries (including social security costs)	823	724
Other pension costs	20	14
Compensation for loss of office	-	25
	<u>843</u>	<u>763</u>

Directors are defined as the members of the Board, the Chief Executive and any other person who is a member of the Executive Leadership Team.

The number of directors in the defined contribution scheme as at the end of March 2020 was 8 (2019: 9)

Remuneration of the highest paid director

	2020	2019
	£'000	£'000
Emoluments	110	140
Pension contributions	3	4

The Chief Executive is an ordinary member of the pension scheme. No enhanced or special terms apply.

No Council member or person related or connected to them received any remuneration from Nacro during the year. During the year expenses relating to travel were reimbursed or paid on behalf of Council members amounting to £8,238 to 7 members (2019 : £7,215 to 8 members).

10 Taxation status

Nacro has charitable status and its sources of income are exempt from income and corporation tax provided that they are applied for charitable purposes.

Nacro – NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 MARCH 2020

11 Intangible fixed assets

	Computer software £'000
Cost	
At 1 April 2019	892
Additions	38
Disposals	
As at 31 March 2020	930
Amortisation	
At 1 April 2019	(487)
Charge for the year	(143)
As at 31 March 2020	(630)
Net book value	
As at 31 March 2020	300
As at 31 March 2019	405

12 Housing properties

	General Needs £'000	Supported Housing £'000	Total £'000
Cost			
At 1 April 2019	281	11,302	11,583
Additions	-	94	94
Disposals	-	(1)	(1)
At 31 March 2020	281	11,395	11,676
Depreciation			
At 1 April 2019	42	3,687	3,729
Charge for the year	6	190	196
Eliminated on disposals	-	-	
At 31 March 2020	48	3,877	3,925
Net book value			
As at 31 March 2020	233	7,518	7,751
As at 31 March 2019	239	7,615	7,854

Nacro – NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 MARCH 2020

13 Property, plant and equipment - other

	Freehold	Long/short leasehold	Equipment	Motor vehicles	Total
	£'000	£'000	£'000	£'000	£'000
Cost or valuation					
At 31 March 2019	16,760	814	4,818	178	22,570
Additions	36	90	266	-	392
Disposals	-	-	(238)	-	(238)
As at 31 March 2020	16,796	904	4,846	178	22,724
Depreciation					
At 1 April 2019	1,235	629	3,704	176	5,744
Charge for the year	402	112	550	1	1,065
Eliminated on disposal	-	-	(191)	-	(191)
As at 31 March 2020	1,637	741	4,063	177	6,618
Net book value					
As at 31 March 2020	15,159	163	783	1	16,106
As at 31 March 2019	15,525	185	1,114	2	16,826

Nacro – NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 MARCH 2020

14 Debtors

	2020 £'000	2019 £'000
Amounts falling due within one year:		
Rent arrears	3,925	3,119
Provision for bad debts	(2,052)	(1,777)
Net Rent Arrears	1,873	1,342
Trade debtors	2,986	736
Other Debtors	323	221
Prepayments and accrued income	2,948	4,418
	8,130	6,717

15 Creditors - amounts falling due within one year

	2020 £'000	2019 £'000
Trade creditors	4,180	3,073
Corporation tax	-	-
Other taxation and social security	1,177	1,237
Other creditors	488	170
Deferred income, grants and grants repayable	1,331	1,681
Accruals	2,580	1,851
SHG under 1 year deferred grant (note 17)	151	159
	9,907	8,171

16 Creditors - amounts falling due after more than one year

	2020 £'000	2019 £'000
Other creditors		
Financial assistance - deferred grants	4,577	4,720
Financial assistance - recycled capital grant fund	6	6
	4,583	4,726

Nacro – NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 MARCH 2020

17 Financial assistance and other government grants (Deferred income grant)

Deferred income - government grants	2020 £'000	2019 £'000
As at 1 April	4,879	5,005
Amortisation to Statement of Comprehensive Income	(151)	(233)
Recycling of grant	-	107
As at 31 March	<u>4,728</u>	<u>4,879</u>
Amounts to be released within one year	151	159
Amounts due to be released in more than one year	4,577	4,720
	<u>4,728</u>	<u>4,879</u>

The total value of grants received by Nacro is £8,795,258 (2019 £8,795,258)

Recycled Capital Grant Fund

	2020 £'000	2019 £'000
As at 1 April	6	113
Recycling of grant	-	(107)
As at 31 March	<u>6</u>	<u>6</u>

The recycled capital grant is in respect of 2 housing property disposals in 2017/18 and is shown in note 16.

18 Provisions

	Dilapidations £'000	Redundancy £'000	Other £'000	Total £'000
As at 1 April 2019	672	100	55	827
Released	(95)	(100)	(1)	(196)
Increase	28	200	-	228
As at 31 March 2020	<u>605</u>	<u>200</u>	<u>54</u>	<u>859</u>

Other provisions include the future costs to be incurred on vacant surplus properties and provision for potential clawback of funding by commissioners as a consequence of underperformance against contractual expectations.

Nacro – NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 MARCH 2020

19 Retirement benefit schemes

Defined contribution schemes

Nacro operates defined contribution retirement benefit schemes for qualifying employees. The total expense charged to the Statement of Comprehensive Income in the period ended 31 March 2020 was £643,122 (2019: £558,729).

Defined benefit schemes

Characteristics and risks associated with the Plan

Nacro operates the Nacro Staff Benefits Plan ("the Plan"). The Plan provides pensions in retirement and death benefits to members. Pension benefits are linked to a member's final salary at retirement and their length of service. Since 31 March 2006 the Plan has been closed to future accrual.

The Plan is a registered scheme under UK legislation and was contracted out of the State Second Pension until its closure.

The Plan is subject to the scheme funding requirements outlined in UK legislation.

The Plan was established from 31 May 1986 under trust and is governed by the Plan's third definitive deed and rules dated 23 May 2011. The Trustee is responsible for the operation and the governance of the Plan, including making decisions regarding the Plan's funding and investment strategy in conjunction with the Company.

Under clause 21 of the Plan's third definitive deed and rules dated 23 May 2011, the Company does not have an unconditional right to a refund of any surplus in the Plan if the Plan winds up. However, since the Plan is in deficit, and this deficit exceeds the value of future contributions due under the current recovery plan, there is no additional liability recognised on the balance sheet as a result of the Plan's recovery plan.

The Plan exposes the Company to actuarial risks such as; market (investment) risk, interest rate risk, inflation risks, currency risk and longevity risk.

The Plan does not expose the Company to any unusual Plan-specific or Company-specific risks.

No allowance has been made for any curtailment or settlement during the accounting period.

Amount, timing and uncertainty of future cashflows.

The Trustees hold a proportion of the Plan's assets in gilts and index-linked gilts to provide some degree of matching with the Plan's liabilities (with the latter providing a degree of price inflation matching with the Plan's liabilities).

The Plan also holds annuity contracts in respect of the majority of pensions in payment which provide protection against future changes in respect of post retirement market risk, inflation risk and longevity risk in respect of these members.

Nacro – NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 MARCH 2020

19 Retirement benefit schemes - cont

The Plan's investment strategy is to invest broadly 90% of non-annuity investments in return seeking assets and the remaining 10% in matching assets (mainly government bonds). This strategy reflects the Plan's liability profile and the Trustees' and Company's attitude to risk.

The Plan's non-annuity investments include interest rate and inflation hedging. The Plan also holds a number of annuity policies which approximately match the majority of the pensions in payment.

The last scheme funding valuation of the Plan was as at 31 March 2017 ("the 2017 valuation") and revealed a funding deficit of £16.0m. Under the current schedule of contributions, the Company has agreed to pay deficit reduction contributions of £300,000 per annum increasing to £450,000 per annum on 1 April 2021 and thereafter increasing each 1 April by £150,000 per annum. The expenses of running the Plan, as well as statutory levies, are to be met directly by the Company. The Company has paid £300,000 in contributions in respect of the current accounting period.

The liabilities of the Plan are based on the current value of expected benefit payment cash-flows to members of the Plan over the next 50 years. The average duration of the liabilities is approximately 14 years.

The value of the liabilities at the reporting date have been estimated by updating the results of the 2017 valuation to allow for the passage of time, benefits paid out of the Plan and changes in actuarial assumptions over the period from 31 March 2017 to 31 March 2020. Allowance has also been made for actual inflation experience and known transfers out and trivial commutations over the period. Such an approach is common for the purposes of accounting disclosures. It is not expected that these projections will be materially different from a summation of individual calculations at the accounting date, although there may be some discrepancy between the actual liabilities for the Plan at the accounting date and those included in the disclosures.

Principal Actuarial Assumptions

A full actuarial valuation of the Plan was carried out as at 31 March 2017 and has been updated to 31 March 2020 by a qualified actuary. The major assumptions used by the actuary were (in nominal terms) as follows

	2020	2019
Discount rate	2.35%	2.35%
Inflation assumption (RPI)	2.75%	3.35%
Inflation assumption (CPI)	2.00%	2.20%
Future revaluation of pensions in deferment	2.00%	2.20%
Pension increases in payment (liabilities) :		
CPI max 5%	2.05%	2.20%
CPI max 3%	1.85%	2.00%
CPI max 2.5%	1.65%	1.80%
Pension increases in payment (insured asset) :		
RPI max 5%	2.70%	3.25%
RPI max 3%	2.25%	2.55%
RPI max 2.5%	2.00%	2.25%

Nacro – NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 MARCH 2020

19 Retirement benefit schemes - cont

Assumed life expectancies on retirement at age 65

	2020	2019
Retiring today - Females	23.1	23.6
Retiring today - Males	20.9	21.5
Retiring in 20 years: Females	24.3	24.8
Retiring in 20 years: Males	21.9	22.5

The assets in the plan were

	2020 £'000	2019 £'000
Equity, property and other	24,952	29,240
Gilts and other government debt	8,199	5,186
Annuities	9,549	10,687
Cash and net current assets	2,931	3,132

Fair value of Plan assets

45,631	48,245
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The actual return on assets over the period was:

(408)	2,564
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Present value of funded obligations

62,584	66,609
---------------	---------------

Fair value of Plan assets

45,631	48,245
---------------	---------------

Deficit in funded scheme

(16,953)	(18,364)
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Present value of unfunded obligations

-	-
---	---

Unrecognised actuarial gains (losses)

-	-
---	---

(Irrecoverable surplus)

-	-
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Net liability in Statement of Financial Position

(16,953)	(18,364)
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Nacro – NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 MARCH 2020

19 Retirement benefit schemes - cont

Reconciliation of opening and closing balances of the present value of the deferred benefit obligation

	2020 £'000	2019 £'000
Benefit obligation at beginning of year	66,609	62,762
Plan administration cost	-	-
Interest cost	1,536	1,581
Contributions by Plan participants	-	-
Actuarial (gains)/losses	(3,055)	3,784
Benefits paid	(2,506)	(2,631)
Past service cost	-	1,113
Benefit obligation at end of year	62,584	66,609

Reconciliation of opening and closing balances of the fair value of Plan assets

	2020 £'000	2019 £'000
Fair value of Plan assets at beginning of year	48,245	48,029
Interest income on Plan assets	1,108	1,195
Return on assets, excluding interest income	(1,516)	1,369
Contributions by employer	300	283
Contributions by Plan participants	-	-
Benefits paid	(2,506)	(2,631)
Plan administration cost	-	-
Fair value of Plan assets at end of year	45,631	48,245

The amounts recognised in Statement of Comprehensive Income

	2020 £'000	2019 £'000
Service cost - including current & past service costs and settlements	-	1,113
Plan administrative costs	-	-
Net interest on the net defined liability	428	386
	428	1,499

Nacro – NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 MARCH 2020

19 Retirement benefit schemes - cont

Remeasurements of the net defined benefit liability (asset) shown in the Statement of Comprehensive Income

	2020 £'000	2019 £'000
Actuarial (gains)/losses on the liabilities	(3,055)	3,784
Return on assets, excluding interest income	1,516	(1,369)
Total remeasurement of the net defined liability (asset)	(1,539)	2,415
Estimation of next period's surplus or deficit	2021 £'000	
Service cost - including current & past service costs, settlement costs	-	
Plan administrative costs	-	
Net interest on the net defined liability	396	
Total expense	396	

Nacro – NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 MARCH 2020

20 Cashflow from operating activities

	2020 £'000	2019 £'000
Deficit for the year	(1,353)	(1,098)
Adjustment for non cash items:		
Depreciation of housing properties	196	241
Depreciation of other property, plant and equipment	1,065	1,061
Amortisation of intangible assets	143	100
Loss on disposal of assets	48	-
Gain on disposal of investments	-	(5)
Decrease in stock	-	127
Increase in debtors	(1,413)	(3,258)
Increase in creditors	1,744	357
Decrease / (increase) in provisions	32	(279)
Pension costs less contributions payable	(300)	(283)
Equalisation of guaranteed minimum pension scheme	-	1,113
Amortisation of SHG	(151)	(233)
Interest payable	428	386
Interest received	(28)	(43)
Net cash generated from operating activities	411	(1,814)

21 Capital commitments

There were no capital commitments at the year end (2019: £nil).

22 Leasing Commitments

Total future minimum lease payments under non-cancellable operating leases are as follows:

	2020 £'000	2019 £'000
Payments due:-		
- within one year	3,029	2,347
- between one and five years	583	32
- after five years	-	-
	3,612	2,379

Nacro – NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 MARCH 2020

23 Financial assets and liabilities

Financial assets

	2020 £'000	2019 £'000
Financial assets measured at undiscounted amount receivable	5,182	2,299
Bank deposits	7,300	7,385
Total	12,482	9,684

Financial Instruments on which no interest is earned include short-term debtors. Bank deposits including interest bearing accounts held with UK Building Societies. Total interest income on these deposits is disclosed in note 6. No other investments were held by the company during the year. No interest or gains are recognised on financial assets recognised at undiscounted amounts receivable.

Financial liabilities

	2020 £'000	2019 £'000
Financial liabilities measured at undiscounted amount payable	4,668	3,243

The company's financial liabilities are sterling denominated. There is no exposure to interest rate risk.

24 Accommodation in management and development

	2020	2019
Owned units	231	231
Units under management	2,318	2,317
Total units	2,549	2,548

Within the total units, 736 units met the regulated definition of social housing (2019 - 753) and 1,813 units were outside the regulated definition (2019 - 1,795).



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