

Nacro >>

ANNUAL REPORT

for the year ended 31 March 2022

WEDNESDAY



ABA4BFDM

A04

10/08/2022

#188

COMPANIES HOUSE

Contents

Who we are	3
Our values	4
Why our work is needed	5
Message from the Chair	7
Message from the CEO	8
Council members and professional advisers	9
Strategic review of the year	11
Safeguarding	15
What our people say	16
Good governance	17
Statement of internal control	21
Financial narrative	23
Value for money statement	24
Reserves and liquidity policy	27
Environmental impact statement	28
Thanks and acknowledgements	30
Independent auditor's report	31
Financial statements	35

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 vision

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

Our mission

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

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

It is clear that the long-term impact of the pandemic is likely to create a widening of social and economic inequalities, impacting hardest those who are already the most disadvantaged. Increased food costs and energy bills will inevitably push more individuals and families into poverty, which makes it that much harder for people to achieve their full potential. We already know that some of the most vulnerable members of our society do not get the help and support they need in order to thrive, and so our work is more vital than ever before.

England and Wales has one of the highest rates of imprisonment in Western Europe, with **79,744** people held in prisons and young offender institutions at the end of March 2022. As court backlogs are tackled and the impact of the legislative changes which will send more people to prison for longer are felt, the prison population is likely to increase significantly, and is predicted to reach **98,700** by September 2026. And yet we know that imprisonment has little deterrent effect and reoffending rates remain stubbornly high, with 57.5% of adults released from custodial sentences of less than 12 months going on to reoffend within a year. Overcrowding, self-harm and suicides and assault remain a significant issue, and the impact of the extended periods of isolation and inactivity resulting from the ongoing restricted regimes in prisons will be felt for years to come. We know that imprisonment often strips away those things which are most likely to support people to move on with their lives and away from crime: a job, somewhere to live, and support from family and community. And yet successive governments continue to imprison more people for longer periods, at enormous financial and societal cost.

Homelessness continues to be high. According to Shelter, **273,000** people were living in temporary accommodation, sleeping rough or in a hostel in England in December 2021. That figure includes **126,000** children. 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 'Everyone In' scheme, the eviction ban, and the boost to Universal Credit played a vital role in reducing homelessness and keeping people in their homes during the pandemic. Now these protections have gone and living costs are spiralling, there is a risk that thousands of people will lose their homes. We need to move from constant crisis control and ensure that long-term and sustainable solutions are provided that prevent homelessness in the first place as well as provide solutions when homeless occurs.

The mainstream education system continues to fail too many young people whose specific needs are not being met. Too many young people are being held back from achieving their potential, unable to gain the skills that they need to achieve what they want with their lives – a situation that the pandemic has further exposed and exacerbated.

Much debate about education policy and post-COVID recovery has been focused on school-age children. Less emphasis has been placed on the needs of 16–19 year olds and the final years of compulsory participation in education. For this age group, there is a clear and significant attainment gap between those from disadvantaged backgrounds when compared with their better-off peers.

The knock-on effect of poor educational attainment is really damaging – people with no qualifications are far more likely to spend time not in employment, education or training.

We know that 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 hardship and, sometimes, chaos that can be very hard to change.

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 another year of change, of challenges and unprecedented social upheaval for many of the most vulnerable in our society. One of the vitally important sources of assistance has been regular and friendly contact with a Nacro support worker or tutor, who have been focused on ensuring that they did everything they could to nourish and encourage them through the dark times, and to focus on the opportunities that can arise as things begin to change for the better. On behalf of all of the Trustees, I wish to thank the staff for everything they have, and continue to do. They are the essence of Nacro and the reason for its continuing success.

In the past year, the Nacro Council and the senior management have worked closely with staff, service users and partners to develop and agree a new Three Year Strategy for the organisation, which will be launched in the summer of 2022. It is a strategy which makes a clear choice to prioritise those we help and those that work for us. It has a clear focus on building on our strengths, delivering better outcomes for our service users and learners, making the case for change in the wider world and building a truly diverse and inclusive organisation with its service users and learners at the heart of everything it does.

The strategy is built on the solid financial foundations that we have been able to develop in recent times. We are proud to have retained significant housing contracts in Essex and Lincoln and the new Community Accommodation Service Tier-2 (CAS-2) contract from the Ministry of Justice in the face of strong competition. These are testament to the strong management and excellent outcomes that Nacro can deliver.

We have also made a real impact with our campaigning work, winning an increase in the discharge grant for people leaving prison and putting forward a powerful case to remove the barriers to learning many young people from disadvantaged backgrounds face, including the need to protect Level 2 qualifications which are vital for so many. We are taking what we learn every day and using it to bring about lasting change, thus making a real difference to the lives of those we support. We are pleased to be able to invest in a pay award at a time of financial strain for our staff and in new systems and equipment in our offices and the homes we provide for our tenants.

After seven years, I have reached the end of my term as Chair of the Nacro Council of Trustees. It has been a real pleasure and an honour to serve some of the most disadvantaged people in our society through Nacro and to see how it enables them to have a second chance and to flourish as a result of their efforts and our work. It is a sign of a good and decent society when everyone can reach their potential, and an ambition never to be forgotten. The support of a talented and committed Board has also been invaluable and a personally enriching experience working with so many talents.



I am delighted to welcome Professor Nick Hardwick as my replacement. We also welcome Amanda Dickens to the Council. It has been a privilege to be part of the Nacro family since 2015 and I know that I am leaving it with a clear strategy, a diverse and strong governing Council, excellent management and brilliant staff and a healthy financial position. I am confident that it will continue to go from strength to strength, working alongside those who really do deserve that second chance.

Nigel Chapman.

Nigel Chapman CMG

Message from our CEO

"If you are still breathing" says Oprah Winfrey, "you have a second chance". I can't think of a better way to describe what I have seen across our services and in our staff in the last year. A relentless belief that people should not be judged, that corners can be turned, relationships repaired, homes and jobs found and kept, failed exams passed and that happiness should be available to all. Despite the ongoing turmoil caused by COVID, we have continued to deliver support and learning to some of the most vulnerable and excluded people in society and supported thousands of people to put their lives back on track.

We don't stop there though. We have taken what we learned from these experiences and campaigned for real change, from an increase to the discharge grant for prisoners, to a major campaign to close the education disadvantage gap and in support of Level 2 qualifications. We have put the voices of those we work with into the national debate. We are also building stronger foundations for Nacro's future, investing in our staff and systems, putting equality and diversity at the heart of everything we do and putting environmental sustainability at the core of our thinking. We are proud that this work is being recognised by partners and commissioners and we are delighted to have retained significant contracts, such as our partnership in Essex as well as new work in the reformed probation service.

As well as thanking our volunteers, staff and partners I want to pay a special thank you to our outgoing Chair, Nigel Chapman. He has guided the Council and the organisation through some very challenging times with a focus, perspective and humour that leaves the organisation in a very much better place than when he joined.



A handwritten signature in black ink that reads "Campbell Robb". The signature is written in a cursive, flowing style.

Campbell Robb

Council members and professional advisers

Trustees

Nigel Chapman CMG, Chair
Ron Crank MBE, Vice Chair
Andrew Billany
Jenni Douglas Todd
(Resigned October 2021)
Lynn Emslie
Anne Frost
David Hanson
Tabitha Kasseem
Farrah Malik
Katie Martin
Victor Olisa
Neil Spence

Treasurer

Neil Spence

Chief Executive Officer

Campbell Robb

Company Secretary

Rocco Zitola

Registered Office

Walkden House
16-17 Devonshire Square
London EC2M 4SQ

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

Auditors

Crowe U.K. LLP
2nd Floor
55 Ludgate Hill
London EC4M 7JW

Solicitors

Devonshires Solicitors LLP
30 Finsbury Circus
London EC2M 7DT

Pension consultants

XPS Pensions Group
Phoenix House
1 Station Hill
Reading RG1 1NB

Information correct at 20th July 2022.

Trustee Attendance Record 2021/22

	1	2	3	4	
Nigel Chapman CMG	4 of 4	4 of 4	4 of 5	4 of 5	1 Council
Andrew Billany	4 of 4	4 of 4	-	-	2 Strategy & Performance Committee
Ron Crank MBE	4 of 4	4 of 4	4 of 5	5 of 5	3 Finance & Audit Committee
Lynn Emslie	4 of 4	4 of 4	-	-	4 People Committee
Anne Frost	4 of 4	4 of 4	-	-	
David Hanson	4 of 4	-	3 of 5	-	1. Appointed 18 March 2022
Tabitha Kasseem	4 of 4	4 of 4	-	5 of 5	2. Resigned 1 October 2021
Farrah Malik	3 of 4	-	4 of 5	-	
Katie Martin	2 of 4	-	1 of 5	1 of 5	
Victor Olisa	2 of 4	1 of 4	-	-	
Neil Spence	4 of 4	-	5 of 5	-	
Amanda Dickens ¹	-	-	-	-	
Jenni Douglas-Todd ²	1 of 2	-	-	1 of 3	

Strategic review of the year

Year in review

Our key delivery milestones during 2021/22 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 2021/22, we:

- Were successful in our bid to run the new CAS-2 service across England and Wales for the next five years, which is the new name for the Bail Accommodation and Support Service (BASS) which we have been delivering since June 2018 on behalf of the Ministry of Justice. The CAS-2 service houses people on bail or released from prison under licence conditions and will include enhanced and tailored support for service users delivered by frontline staff trained to support people with a wider range of needs.
- Also successfully retained our Young People's Housing and Support service in Essex providing support to 280 young people across Essex.
- Successfully retained our matrix Standard accreditation - an international standard which demonstrates the quality of Information, Advice & Guidance services we provide across all services.
- Continued to support high achievement rates across our education provision with 16 to 18-year-olds on Study Programmes achieving above national rates, despite the low starting points of many learners, the personal challenges they face and challenges brought on by COVID. Three quarters of learners progressed onto a positive destination and English and maths GCSE outcomes for adults and young people remained high and above national rates.

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 2021/22, we:

- Have continued to focus on increasing our delivery and impact in target areas. We mobilised our new Ministry of Justice Dynamic Framework contracts providing accommodation and wellbeing support to people as they leave prison in the East and West Midlands and South Yorkshire. These complement our existing delivery in these areas helping increase our impact, such as our Birmingham and Nottingham offender housing services, adult vocational prison education in the West Midlands, substance misuse services and wider housing and education services.
- Have continued to bring our expertise to support the joining up of local services around individuals and their needs. In Doncaster where we deliver accommodation resettlement support we worked with Serco who run Doncaster prison to identify gaps in local resettlement services and solutions. As a result we now run the Doncaster Departure Lounge offering innovative and joined up solutions for people on release from prison and ensuring they can access the support they need immediately on release.

- In Wolverhampton, where we deliver the Recovery Near You substance misuse service, we worked with commissioners to identify gaps between criminal justice and health systems and proposed solutions. This has led to a focus on engaging specific groups including Prison Link Workers, a Pregnant Women's Worker, and a Youth Participation Worker. Our joined up delivery in this area has also been strengthened by our new accommodation resettlement contracts across the West Midlands, where we are beginning to establish joint working to jointly case manage individuals who are on probation and needing accommodation alongside being in treatment.

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 2021/22, we:

- Continued to raise our voice on issues directly affecting our service users. We launched a new campaign, Learn without Limits, highlighting the attainment gap between young people aged 16-19 from disadvantaged backgrounds and their better off peers. We held events in Parliament and at the political party conferences to take this message for action to the Government.
- Continued our series of online events bringing together influential speakers such as the Secretary of State for Justice highlighting the barriers people face on release from prison through the experiences of our service users and frontline staff.
- Saw significant progress on a number of issues we have been campaigning on over recent years: The Government increased the Prison Discharge Grant for the first time in over 20 years from £46 to £76, giving people leaving prison better immediate access to money to get them through the initial release. The Government also committed to rolling out their new Community Accommodation Service Tier 3 which will provide 12 weeks accommodation for people leaving prison at risk of homelessness. These changes are positive steps forward and a recognition of the need to support people on release to reduce the risk of reoffending and give them the best chance of a second chance. But we know there is far more to do and we are committed to continuing to raise our campaigning voice over the coming years.
- Also saw some movement on our Friday release campaign with the Government's Prisons Strategy White Paper recognising the additional challenges Friday prison releases bring and committing to explore releasing people on a different day.
- Continue to be involved in policy discussions at a senior strategic level through our representation on groups such as the Third Sector Reducing Reoffending Advisory Group, The MoJ/HMPPS Third Sector Strategic Partnership Board and the cross-government Prison Leavers Project Strategy Steering Group.

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 2021/22, we:

- Ran a staff survey and were pleased to see overall improvements across many areas. In areas identified as needing improvement, we have undertaken further work to better understand how we do this and this has informed priority focus areas for our People and organisational strategies.
- Our EDI Staff Advisory Group has been leading the way on introducing and improving our policies, encouraging learning and development opportunities and providing a space and platform for ideas and to advocate for positive and lasting change inside and outside Nacro. We have introduced a dedicated role to support our ambitions on equality, diversity and inclusion and we will be launching a new strategy in the coming year.
- Have continued to prioritise wellbeing of our staff including through mental health first aid training and we have been working with staff to identify what more we can do to support wellbeing.
- Have been involving staff across Nacro in the development of a new People strategy which will be launched in 2022/23.
- Have focused on strengthening our team culture and have been developing a new behaviours framework which will support our commitment to a values-led culture.
- Started a whole scale review of our employee journey and recruitment processes.
- Have increased and strengthened the role and involvement of our Senior Leadership Group and have invested in leadership training to support their development.

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 2021/22, we:

- Put in place building blocks to ensure longer-term financial stability, and ended the year with a positive financial return, enabling us to focus investment where needed in coming years.
- Retained two of our largest contracts at retender during the year and mobilised a range of new contracts.
- Continued to improve our internal processes as a result of recommendations agreed from a structured internal audit programme.
- Continued to build and refine our corporate dashboard to help Trustees monitor key organisational metrics.
- Refreshed our ICT strategy and have been preparing to move our systems and applications to Microsoft Azure to improve the efficiency and accessibility of our systems. We have changed the way we manage the different digital devices staff need to use and also consolidated these so staff will be able to access information effectively and use devices which operate in the same way.
- Retained our ISO27001 Information security accreditation.
- Developed a new organisational Environmental Strategy driven through our Environmental Committee.

Our Plans for 2022/23

We are excited to be launching a new three year strategy in 2022 following the 2021/22 foundation year. The strategy has five aims, with a number of cross-organisational initiatives to support their delivery. At the core of the strategy are two underpinning themes embedded throughout: how we can engage with our service users to ensure their voices are heard and acted upon by us and by those around them and how we make ourselves as inclusive and representative of those we work with as we can, and build a truly diverse organisation.

Our Aims

1. We will increase the positive impact we have on the people we support
2. We will campaign alongside our service users for solutions to the barriers and challenges they face
3. We will develop into a digitally inclusive organisation where our staff and service users have access to the advantages that digital technology can bring
4. We will build a sustainable future for Nacro
5. We will forge a values-led culture that supports a happy, productive, diverse workforce

Safeguarding

This year, Nacro has further developed its safeguarding policy and practice across the organisation and embedded a strengthened culture of safeguarding at all levels.

As we are emerging from the pandemic, we have continued to ensure that guidance and procedures support our ways of working to ensure that safeguarding arrangements, analysis and actions remain a priority. Our safeguarding governance, structures, roles and meeting arrangements at Directorate and national level remain strong and is overseen by our Board of Trustees – offering challenge and support.

Our National Safeguarding Board continues to ensure an effective framework is in place, through the close monitoring and review of trends and best practice. Our policies are reviewed annually, with our Young People and Child Protection policy reflecting the requirements in the statutory guidance 'Keeping Children Safe In Education' 2021. Directorates each have recruited a Designated Safeguarding Lead, to provide resource supporting business requirements, and ensuring quality safeguarding interventions and outcomes are provided through local teams. Safeguarding Leads are supported by a number of regionally based Designated Safeguarding Officers who provide localised support where required. All staff undertake an Introduction to Safeguarding online course and, on a role basis, enrolled onto Safeguarding Children and Young People, and/or Safeguarding Adults at Risk courses. Designated Safeguarding Officers are required to pass a Level 3 safeguarding course.

A centralised management system is in place to record all Nacro related safeguarding incidents. The system is used to track and follow up actions required after an incident has been reported. The National Safeguarding Board maintains oversight of data held on the incident management system. The National Safeguarding Board is responsible for applying learning from incidents that have occurred to continually improve the Charity's safeguarding training, procedures and practice.

What our people say

“Throughout my journey with Nacro, my role has allowed me to persevere, learn and grow from each obstacle.”

“I love that every day is different, every day has its challenge, and everyone is unique, which I relish and value.”

“What drew me to Nacro was seeing the great work our organisation does to champion and ensure we are a strong presence for the people we represent.”

“Nacro has been one of the best employer’s that I’ve worked for with regards to inclusivity. Because of our service users, the type of work we do and what we stand for, we all carry our understanding and empathy with pride.”

“I was refreshed to find that Nacro was different than where else I had worked – people listened to me, no one judged me, I was nurtured and developed, my ideas were listened to like an equal.”

“It’s a genuine privilege to work with so many colleagues who, like me, believe that the work we do is the key to changing someone’s life for the better.”

Good governance – Trustees' report

Nacro's Council is the governing board for the Charity. The Council is responsible for the effective strategic leadership and governance of the organisation while day-to-day management is delegated to the Executive Leadership Team (ELT).

Nacro is a registered Charity and as a provider of social housing the Charity's prime regulator is the Regulator of Social Housing. Trustees are aware of their duty to protect social housing assets. Council has identified further work that needs to be done to be able to confirm compliance with the chosen NHF 2020 Code of Governance for the reporting period. In this review, Council has determined that the NHF 2020 Code of Governance is not the most appropriate fit for the Charity as the Charity does not prioritise residents over other the Charity's beneficiaries within the Charity's Education, Health and Justice service delivery portfolio. Council has therefore resolved to adopt the Charity Code of Governance from 01 April 2022 on the basis this Code of Governance more appropriately sets out a Governance framework that fits the Charity's full breadth of activities. Council has used the code's principles and recommended practice to assist in the setting of the strategic direction and culture of the organisation in order for the Charity to deliver on its charitable objectives. Council has identified that further work is required to demonstrate consistent compliance with the Tenant Involvement and Empowerment Standard 2017, for example further work is required to improve the consistency of published performance information for tenants in a way that is accessible and relevant to them. Plans are being developed to introduce consistent reporting in the 2022/23 financial year.

Risk management continues to be a priority, with Council members regularly considering and discussing the Corporate Risk Register at Council meetings as well as its three primary reporting Committees, the Finance and Audit Committee, Strategy and Performance Committee and the People Committee. Nacro's committee structure, designed to enable more detailed scrutiny in specific areas, provides the Council with high levels of assurance that charitable objectives are being met. Nacro have appointed BDO as internal auditors, the appointment of BDO has increased the Finance and Audit Committee's focus on strategic risk issues and highlighted key areas where assurance improvements can be made.

Reflecting the size and complexity of our organisation, it is appropriate for Nacro's activities to be subject to independent review and challenge, specifically through the work of an internal audit function. BDO LLP has provided internal audit services to Nacro in accordance with an annually agreed Internal Audit Charter and Internal Audit Plan. The internal control framework and risk management processes are subject to regular review by Internal Audit which is responsible for providing independent assurance to the Council via the Finance and Audit Committee. The Committee reviews the Internal Audit Plan at least annually and considers whether it is aligned to the key risks of the organisation, providing the Committee with sufficient assurance for it to discharge its responsibilities. The Committee is responsible for ensuring the scope of internal audit work is appropriate and that findings are considered and actioned appropriately. The Committee receives regular updates from internal audit throughout the year on the status of work and the findings arising.

There are also a number of other regular meetings that Trustees either chair or attend, such as the Education Scrutiny Group and National Safeguarding Board. These areas of engagement improve the governance for specific areas and increase scrutiny and oversight of different sectors of the business. These Trustees in turn report into Nacro Council and sub-Committees, further strengthening our governance.

In 2021/22 Nacro further embedded our service user involvement charter implementing recommendations from our involvement review carried out in 2020/21. Through this work we have increased our focus on supporting the capacity and skills of our service users and learners, standardising our models and practices, and formed a new user advisory group.

A full list of Trustee appointments, resignations and attendance can be found on page 10.

Nacro is opposed to all forms of modern slavery and is committed to acting ethically and with integrity in all its business relationships. We take steps to ensure that adequate processes and controls are in place to ensure slavery and human trafficking is not taking place anywhere in our supply chains. Nacro's modern slavery statement is published on our website and annual reviewed by People Committee.

The Charity has not experienced an adverse financial impact as a direct result of the Coronavirus pandemic. 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. We have noted that the number of new learners recruited to our Education based activity has been lower than expected, however, service levels within Housing, Health and Justice have been maintained with adjustments to our previous operating models. Across the Charity staff turnover has increased as lockdown measures have eased and we have found it increasingly difficult to fill vacancies. 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 we move in to the 2022/23 financial year inflation is becoming an increasing risk.

As part of management of risk, consideration has been given to the impact of the UK leaving the European Union. This includes any potential impact on operations and supply, staffing and financial planning. Our supply chain is diverse and we haven't experienced significant operational issues as a result of supply chain disruption. EU nationals make up a relatively low proportion of our workforce and we therefore do not anticipate risk in this area. Overall, the charity has a relatively low exposure to direct Brexit risk.

Nacro joins with others in its condemnation of the invasion of Ukraine. Nacro does not have any known links to Russia or Belarus and does not have any direct suppliers with known links to Russia or Belarus.

Section 172 Statement

Nacro exists to provide public benefit directly and indirectly to the organisation's beneficiaries. The prime aims of the organisation are captured in our vision, mission and values statements.

When setting strategy and making decisions Trustees (Directors) will carefully consider the impact these decisions have on Nacro's beneficiaries and employees.

Employee engagement is encouraged through our effective consultative processes established with the Unite Union.

A high proportion of Nacro's income is generated from contracts where the maintenance of effective customer relationships are key to facilitating the renewal of contracting arrangements as well as the innovation of service design that helps enable maximum impact and benefit to be received from the people who engage with Nacro's services.

All of Nacro's work is community facing and we work hard to ensure the impact of our activities have a positive impact on the communities we reach out to. Data on the environmental impact of our activities is captured on page 28 of this report.

The activities of Nacro are regulated via the Regulator of Social Housing, OFSTED and indirectly via the

Care Quality Commission. These regulatory bodies require the organisation to establish robust governance frameworks that can be subject to external assessment and publicly rated performance levels.

Nacro has a wide range of suppliers, we have established contracts and clear contract management arrangements in place with our largest suppliers and all of our sub contractors to help ensure our main suppliers have appropriate governance and legal compliance measures in place.

Nacro is aware of the impact of climate change and global warming and are committed to playing our part. We have developed a new environmental strategy and are starting a number of work streams over the next few years to use technology, design and innovation to make our business practices more sustainable, engaging with our stakeholders and commissioners of services.

Trustees' responsibilities

The Trustees (who are also the Directors of Nacro for the purposes of company law) are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards).

Company law requires the Trustees to prepare financial statements for each financial year. Under company law the Trustees must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of Nacro and of the incoming resources and application of resources, including the income and expenditure, of Nacro for that period. In preparing these financial statements, the Trustees are required to:

- select suitable accounting policies and then apply them consistently;
- observe the methods and principles in the applicable SORP;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the charitable company will continue in business.

The Trustees are responsible for keeping adequate accounting records that are sufficient to show and explain Nacro's transactions, disclose with reasonable accuracy at any time the financial position of Nacro and enable them to ensure that the financial statements comply with the Companies Act 2006, 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. They are also responsible for safeguarding the assets of Nacro and hence 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.

Council obtains assurance of financial viability through the annual budgeting, re-forecasting and longer-term financial planning exercises. As part of this, Trustees assess and stress test the availability of funding and liquidity. Nacro does not have lenders covenants to comply with. These processes ensure Council has a

continual and rolling process of reviewing and assessing Nacro's financial strength and viability. Nacro Council has satisfied itself that the charity complies with the Regulator of Social Housing's Governance and Financial Viability Standard during the financial year and to the date of this report.

Public benefit – The Trustees confirm that they have complied with their duty under section 17 of the Charities Act 2011 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 20th July 2022 and signed on their behalf by:

N.C. Chapman

Nigel Chapman (Aug 8, 2022, 9:54am)
N Chapman CMG
Chair

Ron Crank

Ron Crank (Aug 8, 2022, 11:18am)
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

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. This process is coordinated through a regular reporting framework by the Executive Leadership Team (ELT) and the Finance and Audit Committee. The Finance and Audit Committee 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. The Council confirms that there is a 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.

2. Monitoring and corrective action

The regular review of internal controls via line management channels and by way of the internal audit plan provides assurance to the Finance and Audit Committee and the Council that an effective control environment is maintained. Where corrective action is required, ELT provide progress reports to Finance and Audit Committee to ensure there is effective oversight, particularly if the issues identified have a material impact on the financial statements.

3. Control environment and control procedures

The Council retains responsibility for a defined range of risks covering strategic, operational, financial, and compliance areas. Specific attention is paid to risk mitigations relating to delegated authority, segregation of duties, accounting and treasury management controls, health and safety, safeguarding, data and asset protection, and the prevention and detection of fraud. The Council, through the scheme of delegated responsibility, sets out a framework of control that applies to all Nacro employees. The scheme of delegated authorities is supported by a suite of policies that define expectations around quality, integrity and ethics. All employees, volunteers and suppliers must comply as required with these policies.

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. Nacro appointed BDO LLP to supply an independent and objective internal audit function. The Finance and Audit Committee ensures that the risk-based inspection/monitoring plan remains up-to-date. It reviews all internal audit reports. Council has received an annual review of the system of control from the Finance and Audit Committee 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, via the Finance and Audit Committee, 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 and anti money laundering policy.

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 into 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>
Failure to embed a leadership approach that encourages active engagement, diversity, innovation, efficiency, synergy and collective responsibility	<p>The strategic plan has a clear focus on people and the charity's beneficiaries</p> <p>A specific People Strategy has been developed, this underpins the Nacro Strategy. The performance of People Strategy is overseen by the People Committee.</p> <p>A values based leadership development programme is running for key managers.</p> <p>Specific initiatives that focus on wellbeing, equality, diversity and inclusion have been implemented</p>
Business continuity is affected by a major internal or external event leading to an inability to provide services to service users	<p>Robust business continuity plans are in place, these plans were actively tested during the Coronavirus pandemic</p> <p>Data and systems can be accessed securely from multiple locations</p> <p>Specific local arrangements in place for specific service delivery sites</p>

Financial narrative

Income for the year was £66.8m compared with £60.7m in 2020/21. The total comprehensive income for the year was £2.4m (2020/21 : £1.4m). Nacro won a number of new contracts during the 2021/22 financial year, these contracts will have resulted in turnover increasing. Operating expenditure increased at a slightly higher rate compared to turnover mainly as a result of increased staffing and travel costs. A significant gain arising from a net reduction in Nacro's pension liability is the main reason why total comprehensive income has increased from £1.4m to £2.4m during the year.

Turnover in Housing (social and non social housing), increased by over £1.1 to £42.2m. The profitability of the Housing division decreased from £2.6m to £1.5m. During the year voids and increased staff costs have impacted on the level of profit that is generated from the Housing division.

Turnover in our Education division income increased from £14.2m to £14.6m, overall the Education division recorded a £1.6m loss for the year. Nacro found it more difficult than initially expected to attract learners during the year and the net impact of this is shown in the overall result for the division. Nacro is not expecting to see a significant improvement in the Education division's financial performance during the 2022/23 financial year, however, an improvement is expected as we move in to the 2023/24 financial year.

Turnover in our Justice division increased by £2.4m during the year to £4.6m. Profitability increased by £0.6m from £0.3m to £0.9m. A number of Justice new contracts have been won and this is the reason for the increase in turnover and profit.

Turnover in our Health division increased by £0.6m to £5.3m. Overall, the division returned a modest surplus of just under £0.2m.

The Total Comprehensive Income for the year amounted to a surplus of £2.4m (2021: £1.4m). The operating result of £1.0m profit (2021: £1.7m profit) has been enhanced by a reduction in the valuation of Nacro's pension scheme's net liabilities of £1.9m. Pension scheme interest charges of £0.3m were incurred and a loss of £0.2m arose from asset disposals.

The Balance Sheet shows net assets at £11.1m (2020/21 : £8.9m). This is represented by unrestricted funds of £10.9m (2020/21: £8.5m) and restricted funds of £0.2m (2020/21: £0.2m).

The defined benefit pension liability stands at £14.5m (2020/21: £17.0m).

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 36 to 59.

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 2021/22	Nacro 2020/21	Global Accounts 21 – Supported Housing Provider Metrics*	2021/22 Comment
1. Reinvestment %	0.2%	0.2%	4.4%	Less than 10% of Nacro's housing units are owned by the Charity, therefore landlords bear the bulk of the cost of making improvements to existing stock. For the stock Nacro does own a regular pattern of maintenance is followed
2. New supply delivered %	0.0%	0.0%	0.4%	Nacro did not build or acquire any new housing units during the year
3. Gearing %	0.0%	0.0%	14.2%	Nacro does not have any loan financing facilities in place. At this point Nacro does not intend to enter into any new loan financing arrangements
4. EBITDA MRI Interest Cover %	406.8%	689.4%	259%	A surplus was recorded for the charity as a whole. The interest value recorded in Nacro's financial statements solely relates to accounting disclosures required for Nacro's defined benefit pension scheme
5. Headline social housing cost per unit	£10.96	£10.53	£9.90	Nacro provides over 500 very short term, typically less than 8 weeks stay, 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 to keep units in a lettable condition
6. Operating Margin A) Social Housing Letting %	-3.1%	1.6%	10.4%	Most of Nacro's social and non social housing units are used to provide enhanced and contractual support services. During the 21/22 financial year, a higher level of property voids were experienced and this is the reason for negative operating margin within the Charity's social housing stock
B) Overall %	1.9%	2.8%	6.5%	
7. Return on capital employed %	2.8%	5.5%	3.1%	A relatively strong surplus was recorded during the financial year

*the Global Accounts 21 is an annual report produced by the Regulator of Social Housing 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 provision makes up just over 10% of Nacro's total turnover. As a consequence, some benchmarking comparative figures for Nacro will not always align with registered provider averages.

Nacro's performance against its own expectations in relation to housing activities is slightly better than our initial planning assumptions for the financial year. We delivered a better than budget surplus for the financial year, we have won a number of new contracts and we have continued to realise savings from reduced travel and reduced use of our offices.

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. The Council believes 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 further embedding our person-centred approach by investing more resources in service user and learner engagement initiatives. A number of engagement initiatives are detailed in our strategic plan. We fully recognise the benefits that arise from using service user and learner feedback to inform the development of our governance arrangements, decision making and service design to help us to 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 consideration of re-shaping of delivery models and/or through investment in specific initiatives that are detailed in our strategic plan.
- **Actively pursuing a sustainability agenda and staff wellbeing agenda.** We have continued to embrace flexible working arrangements and realise the benefits from increased staff wellbeing and a lower carbon footprint. During the year we have launched an Environmental Strategy and we have strengthened our support and wellbeing offer to staff.
- **Business development.** We have increased the range of partners we work with to enable us to deliver a wider range of services to service users and commissioners, and to help specific infrastructure developments within the organisation. During the year we have successfully re-tendered some of our largest service contracts and we are very pleased that commissioners have the confidence to continue working with us.

To address our ambition to raise our performance against regulatory indicators 6 and 7 above, our internal indicators for the year to improve value for money, were as follows:

1. We have won new contracts and successfully retendered some of our largest contracts.
2. We have developed specific focus groups that focus on reducing margin lost through voids and the use of agency staff.
3. We have continued to invest in our ICT Infrastructure, we have issued new equipment to staff working on new contracts and we have moved a significant part of our ICT Infrastructure into the cloud. The initiatives have created a more efficient and more flexible ICT offer that staff have appreciated.
4. 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 fixed assets, primarily our properties. This includes reviewing our properties that are no longer fit-for-purpose, re- and co-locating some operational and "back office" teams and upgrading our ICT Infrastructure that supports more flexible working to 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, and 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.

We are able to procure ICT related equipment, stationery and furniture at scale to maximise economies of scale of operating single supplier contracts.

Reserves and liquidity policies

There has been an increase of £2.4m in the overall value of the balance sheet during the year to 31 March 2022, the value of the balance sheet now stands at £11.1m.

During the 2021/22 financial year, Council, via Finance and Audit Committee, reviewed the Charity's reserves policy. The previous reserves policy, which was based on retaining 3 months of operating costs, was not considered to be sufficiently aligned to Nacro's exposure to financial risk arising from a loss of contract income. Contract income makes up 80% of Nacro's income profile. If a contract ends then a high proportion of expenditure commitments required to deliver that contract end almost immediately. To reflect this in the reserves policy, Council has taken account of known and potential balance sheet liabilities arising from the pension fund deficit, known lease commitments, expected housing repair costs, an estimate of the Charity's short term working capital commitments and overhead commitments. These factors are now used to determine reserve and liquidity targets. Finance and Audit Committee have reviewed the workings in detail and recommended that a reserves target of £9.4m is appropriate for the Charity as at 31 March 2022.

As at 31 March 2022 reserves stood at £11.1m, there is therefore an excess of £1.7m over the target. The Charity holds £10.9m in revenue reserves and £0.2m in restricted reserves. It is Charity's policy to hold all reserves in liquid assets. A deficit budget for the 2022/23 financial year has been set, the value of the deficit budget is within the £1.7m headroom that exists. The current financial plan indicates a surplus will be delivered during the 2023/24 financial year.

As at 31 March 2022, Nacro's cash and cash equivalent balances stood at £11.5m. Nacro's policy is to hold all free cash reserves in immediately available liquid assets.

Environmental impact statement

Streamlined Energy & Carbon Report (SECR)

Financial Year	1 April 2021 to 31 March 2022
Client Name	Nacro
Company No	203583
Registered Office	Walkden House, 16–17 Devonshire Square London EC2M 4SQ
Current Financial Year tCO ₂ e	3,114.00
Current Financial Year kWh	16,235,851.28
Previous Financial Year tCO ₂ e	3,083.31
Previous Financial Year kWh	15,240,398.70
Intensity Ratio (IR) used	tCO ₂ e/£m
Intensity Metric Current Financial Year	65.98
Intensity Metric Previous Financial Year	60.70
Emissions Factors Used	DEFRA 2021
Methodology Used	GHG Protocol
Emissions Scope	Scope 1 & 2
Emissions Included	Electricity, Natural Gas, Direct Mileage
Exclusion Statement	Some gas and electricity use has been estimated based on previous years consumption and pro-rate methods where it was not available through billing.

Energy Efficiency Statement	<p>Nacro provides Housing, Education, Health and Justice services to beneficiaries across England and Wales.</p> <p>Nacro leases the majority of its 1000 residential properties. We ensure that any new properties added to our portfolio has a minimum EPC rating of D and have plans to ensure that our existing properties also reach that rating. We work with landlords, agents and developers, during the leasing and acquisition stages, to assess whether any improvements can be made (such as to the heating systems, insulation) to improve energy efficiency measures. Our core electricity contract is procured through 100% renewal/greener sources.</p> <p>COVID-19 has shown the resilience of Nacro rising to the challenge caused by the pandemic and our ability to adapt to new ways of working. There was a significant carbon reduction in 2020/21, particular in travel, as a result of lockdowns and restrictions and whilst travel has recovered in 2021/22, it is nowhere near the pre-pandemic levels experienced. This is encouraging and demonstrates that behaviour change is possible and can attract support from our staff and service users. Only by working together will Nacro achieve its sustainability objectives, and we will seek suitable engagement to make the step change needed to address the climate crisis and play our part in delivering a better future.</p> <p>Nacro's Environmental Strategy sets out our environmental vision and goals and enables action plans and various workstreams that are delivering measurable environmental improvements. We will continue to meet our legal obligations, develop sustainable and environmentally friendly services, and help stem the depletion of finite natural resources.</p>
Report completed by	Sophie Adams
Quality Audit completed by	20th July 2022
SECR Report completed by	(EIC) Energy Intelligence Centre Limited

Thanks and acknowledgements

With thanks to our funders and partners including:

Assetz Exchange
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
Capita E-Source
Cleveland Police and Crime Commissioner
Clinks
Conwy County Borough Council/
Cyngor Bwrdeistref Sirol Conwy
Delta E-Source
Department of Health
Denbighshire County Council/
Cyngor Sir Ddinbych
Dudley Council
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
GamCare
James Teather and Teather property Investments Ltd
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
MTC Ltd
NHS England
Northamptonshire Police & Crime Commissioner
Nottingham City Council
Ormliston Families
Oxleas NHS Trust
People Plus
PACT
Peabody
Resonance – Social Investment
Sheffield City Council
Shelter
Sodexo
South Yorkshire CRC
St Mungos
Staffordshire Police & Crime Commissioner
Stephen Lawrence Trust
Stockport Alliance
The Bridge (East Midlands)
The Privy Purse Charitable Fund
The Royal British Legion
Transform Foundation
Together for Mental Well-being
Wandsworth Borough Council
Welsh Assembly
Wolverhampton City Council
Wrexham County Council
YMCA Liverpool
YSS

Independent auditor's report

Opinion

We have audited the financial statements of Nacro for the year ended 31 March 2022 which comprise the Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Reserves, Statement of Cashflow and notes to the financial statements, including significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 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 2022 and of its incoming resources and application of resources, including its income and expenditure for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- 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.

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

In auditing the financial statements, we have concluded that the trustees' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on Nacro's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the trustees with respect to going concern are described in the relevant sections of this report.

Other information

The trustees are responsible for the other information contained within the annual report. 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.

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 this gives rise to a material misstatement in the financial statements themselves. 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 our audit:

- the information given in the trustees' report, which includes the directors' report and the strategic report prepared for the purposes of company law, for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report included within the trustees' 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 report or the directors' report included within the trustees' 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:

- Nacro has not kept adequate accounting records; or
- Nacro's financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of trustees' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of the Trustees

As explained more fully in the trustees' responsibilities statement set out on page 18, the trustees (who are also the directors of Nacro for the purposes of company law) 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

We obtained an understanding of the legal and regulatory frameworks within which Nacro operates, focusing on those laws and regulations that have a direct effect on the determination of material amounts and disclosures in the financial statements. The laws and regulations we considered in this context were the Companies Act 2006, the Charities Act 2011, the Housing and Regeneration Act 2008, together with the Housing SORP. We assessed the required compliance with these laws and regulations as part of our audit procedures on the related financial statement items.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which might be fundamental to Nacro's ability to operate or to avoid a material penalty. We also considered the opportunities and incentives that may exist within Nacro for fraud. The laws and regulations we considered in this context for the UK operations were requirements imposed by the Regulator of Social Housing, health and safety, taxation and employment legislation.

Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the Trustees and other management and inspection of regulatory and legal correspondence, if any.

We identified the greatest risk of material impact on the financial statements from irregularities, including fraud, to be within the timing of recognition of income and the override of controls by management. Our audit procedures to respond to these risks included enquiries of management, internal audit and the Finance and Audit Committee about their own identification and assessment of the risks of irregularities, sample testing on the posting of journals, reviewing accounting estimates for biases, reviewing regulatory correspondence, designing audit procedures over the timing of income and reading minutes of meetings of those charged with governance.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

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 our 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. 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.



Julia Poulter
Senior Statutory Auditor
For and on behalf of
Crowe U.K. LLP
Statutory Auditor
55 Ludgate Hill
London EC4M 7JW

Date: 5 August 2022

Financial statements

**Nacro - Statement of Comprehensive Income
for the year ended 31 March 2022**

	Note	2022 £'000	2021 £'000
Turnover	3	66,817	60,701
Operating expenditure	3	(65,762)	(58,990)
Operating surplus		<u>1,055</u>	<u>1,711</u>
Equalisation of guaranteed minimum pension scheme (GMP)	19	-	-
Operating surplus (including GMP)		<u>1,055</u>	<u>1,711</u>
Loss on disposal of property, plant and equipment	4	(216)	(10)
Interest and similar receivables	6	-	3
Interest and financing costs	7	(322)	(396)
Surplus before tax	5	<u>517</u>	<u>1,308</u>
Taxation	10	-	-
Surplus for the year		<u>517</u>	<u>1,308</u>
Actuarial gain in respect of pension schemes	19	1,881	91
Total comprehensive income for the year		<u>2,398</u>	<u>1,399</u>

All amounts relate to continuing activities.

The notes on pages 40 to 63 form part of these financial statements.

**Nacro Statement of Financial Position
as at 31 March 2022**

	Note	2022 £'000	2021 £'000
Non Current Assets			
Intangible assets	11	449	172
Housing properties	12	7,196	7,577
Other property, plant and equipment	13	14,803	15,291
		<u>22,448</u>	<u>23,040</u>
Current Assets			
Debtors	14	6,859	5,600
Cash and cash equivalents		11,515	10,943
		<u>18,374</u>	<u>16,543</u>
Creditors: Amounts falling due within one year	15	10,606	8,880
Net current assets		<u>7,768</u>	<u>7,663</u>
Total assets less current liabilities		<u>30,216</u>	<u>30,703</u>
Creditors: Amounts falling due after more than one year	16	3,951	4,436
Provisions			
Defined benefit obligations	19	14,499	16,958
Other provisions	18	684	625
Total net assets		<u>11,082</u>	<u>8,684</u>
Capital and reserves			
Revenue reserve		10,878	8,480
Restricted reserve		204	204
Total reserves		<u>11,082</u>	<u>8,684</u>

The financial statements were approved by the Board on 20th July 2022 and were signed on its behalf by:

N.C. Chapman

Nigel Chapman (Aug 8, 2022, 9:54am)

Chair

Ron Crank

Ron Crank (Aug 8, 2022, 11:18am)

Trustee

The notes on pages 40 to 63 form part of these financial statements.

Nacro Company number 00203583.

**Nacro - Statement of changes in reserves
for the year ended 31 March 2022**

	Revenue reserve £'000	Restricted reserve £'000	Total £'000
Balance as at 1 April 2021	8,480	204	8,684
Surplus for the year	517	-	517
Other comprehensive income for the year	1,881	-	1,881
Total comprehensive income for the year	<u>2,398</u>	<u>-</u>	<u>2,398</u>
Balance at 31 March 2022	<u>10,878</u>	<u>204</u>	<u>11,082</u>

	Revenue reserve £'000	Restricted reserve £'000	Total £'000
Balance as at 1 April 2020	7,101	184	7,285
Surplus for the year	1,288	20	1,308
Other comprehensive income for the year	91	-	91
Total comprehensive income for the year	<u>1,379</u>	<u>20</u>	<u>1,399</u>
Balance at 31 March 2021	<u>8,480</u>	<u>204</u>	<u>8,684</u>

The notes on pages 40 to 63 form part of these financial statements.

**Nacro - Statement of Cashflow
for the year ended 31 March 2022**

	Note	2022 £'000	2021 £'000
Net cash generated from operating activities	20	1,152	3,696
Cash flows from investing activities			
Purchase of housing property components		(213)	(24)
Purchase of other property, plant and equipment		(198)	(32)
Purchase of intangible assets		(392)	-
Proceeds from sale of housing properties		223	
Interest received		-	3
Total cash utilised in investing activities		(580)	(53)
Net change in cash and cash equivalents		572	3,643
Cash and cash equivalents at beginning of year		10,943	7,300
Cash and cash equivalents at end of year		11,515	10,943

The notes on pages 40 to 63 form part of these financial statements.

Nacro – NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 MARCH 2022

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 9 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. 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), grants from local authorities and charitable fees and donations.

Rental income is recognised on an accruals basis and recognised when the property is available for let, net of voids. 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.

Grant income is recognised in the financial statements when the conditions for receipt of the grants have been fulfilled and Nacro becomes entitled to payment. Where a grant is received relating to a future accounting period, the Statement of Comprehensive Income shows the gross amount receivable reduced by the movement in the amount deferred to future accounting periods. Deferred grant income at the year end is included in creditors.

Charitable fees and donations are credited as income in the year in which they were receivable.

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.

Nacro – NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 MARCH 2022

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 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.

Housing properties

Housing properties are properties held for the provision of social housing or to 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.

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

Nacro – NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 MARCH 2022

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 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 Homes England, 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.

Nacro – NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 MARCH 2022

Government grants received for housing properties are subordinated to the repayment of loans by agreement with Homes England. 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 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	34 - 60 years
Freehold premises components	4 – 30 years
Leasehold land and buildings	5 years
Furniture, fixtures & fittings	4 years
Other equipment	4 years
Vehicles	4 - 10 years
Computer hardware	2 - 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.

Nacro – NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 MARCH 2022

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	3 - 4 years
-------------------	-------------

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.

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.

Nacro – NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 MARCH 2022

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.

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 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. 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.

Recoverability of rent arrears

Nacro makes an estimate of the recoverable value of rent arrears. When assessing impairment of rent arrears, management consider factors including the ageing profile of the rental debtors and historical experience.

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 2022

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

		2022		
		Turnover	Operating costs	Operating surplus/ (deficit)
		£'000	£'000	£'000
Social housing activity				
Social housing lettings (Note 3B)		6,877	(7,092)	(215)
Other social housing activities				
Charges for support services		6,974	(5,624)	1,350
Sub-total		13,851	(12,716)	1,135
Activities other than social housing				
Non-social housing and related support services		28,387	(28,003)	384
Education centre provision		14,609	(16,221)	(1,612)
Justice services		4,642	(3,701)	941
Health services		5,328	(5,121)	207
Sub-total		52,966	(53,046)	(80)
Total		66,817	(65,762)	1,055

		2021		
		Turnover	Operating costs	Operating surplus/ (deficit)
		£'000	£'000	£'000
Social housing activity				
Social housing lettings (Note 3B)		7,128	(7,011)	117
Other social housing activities				
Charges for support services		7,482	(6,747)	735
Sub-total		14,610	(13,758)	852
Activities other than social housing				
Non-social housing and related support services		26,489	(24,724)	1,765
Education centre provision		12,699	(13,999)	(1,300)
Justice services		2,224	(1,901)	323
Health services		4,679	(4,608)	71
Sub-total		46,091	(45,232)	859
Total		60,701	(58,990)	1,711

Nacro – NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 MARCH 2022

3B Social Housing Lettings

Income	General Needs Housing £'000	Supported Housing £'000	2022 Total £'000	2021 Total £'000
Rents receivable net of identifiable service charges	151	2,659	2,810	3,834
Service charge income	29	3,462	3,491	3,144
Amortised government grants	17	559	576	150
Turnover from social housing lettings	197	6,680	6,877	7,128
Operating expenditure				
Management	(7)	(2,855)	(2,862)	(2,166)
Service charge costs	(13)	(1,407)	(1,420)	(1,092)
Rents payable and property costs	(17)	(2,477)	(2,494)	(3,262)
Routine maintenance	-	(32)	(32)	(27)
Bad debts	(8)	(120)	(128)	(289)
Depreciation of housing properties	(20)	(136)	(156)	(175)
Expenditure from social housing lettings	(65)	(7,027)	(7,092)	(7,011)
Operating surplus social housing lettings	132	(347)	(215)	117
Total void losses including service charges	-	1,044	1,044	583

Nacro – NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 MARCH 2022

4 Loss on disposal of property and equipment

	2022 £'000	2021 £'000
Loss on disposal of property and equipment	(216)	(10)
	<u>(216)</u>	<u>(10)</u>

5 Surplus for the year before taxation

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

	2022 £'000	2021 £'000
Depreciation of housing properties	164	198
Depreciation of other property, plant and equipment	686	837
Amortisation of intangible assets	115	127
Amortisation of Government grants	(594)	(149)
Loss on disposal of fixed assets	216	10
Audit fees:		
- statutory audit	42	38
- audit-related assurance services	48	-
Operating lease rentals	11,806	11,279

6 Interest receivable

	2022 £'000	2021 £'000
Bank interest receivable	-	3
	<u>-</u>	<u>3</u>

7 Interest and financing costs

	2022 £'000	2021 £'000
Net interest payable on defined benefit pension liability	(322)	(396)

Nacro – NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 MARCH 2022

8 Staff costs

	2022	2021
	£'000	£'000
Wages and salaries	21,874	19,900
Social security costs	1,971	1,789
Other pension costs	748	591
Redundancy Costs	206	224
Agency Costs	2,978	2,642
	<u>27,777</u>	<u>25,146</u>

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

Salary Band	2022	2021
60,000 - 69,999	10	9
70,000 - 79,999	6	0
80,000 - 89,999	1	2
90,000 - 99,999	1	0
100,000 - 109,999	0	1
110,000 - 119,999	1	1
120,000 - 129,999	0	0
130,000 - 139,999	0	0
140,000 - 149,999	0	0
150,000 - 159,999	0	1
160,000 – 169,999	1	0

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

	2022	2021
Service delivery	707	720
Management and administration	94	79
	<u>801</u>	<u>799</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 2022

9 Directors' remuneration and transactions

	2022	2021
	£'000	£'000
Directors who are executive staff members		
Wages and salaries (including social security costs)	684	728
Other pension costs	18	19
Compensation for loss of office	-	41
	<u>702</u>	<u>788</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 2022 was 6 (2021:6)

Remuneration of the highest paid director

	2022	2021
	£'000	£'000
Emoluments	160	150
Pension contributions	5	5

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 £1,687 for 4 members (2021: £361 to 3 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 2022

11 Intangible fixed assets

	Computer software
Cost	£'000
At 1 April 2021	929
Additions	392
Disposals	(470)
As at 31 March 2022	851
Amortisation	
At 1 April 2021	(757)
Charge for the year	(115)
Eliminated on disposal	470
As at 31 March 2022	(402)
Net book value	
As at 31 March 2022	449
As at 31 March 2021	172

12 Housing properties

	General Needs	Supported Housing	Total
	£'000	£'000	£'000
Cost			
At 1 April 2021	281	11,419	11,700
Additions	-	213	213
Disposals	(18)	(498)	(516)
At 31 March 2022	263	11,134	11,397
Depreciation			
At 1 April 2021	(56)	(4,067)	(4,123)
Charge for the year	(6)	(158)	(164)
Eliminated on disposals	2	84	86
At 31 March 2022	(60)	(4,141)	(4,201)
Net book value			
As at 31 March 2022	203	6,993	7,196
As at 31 March 2021	225	7,352	7,577

Nacro – NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 MARCH 2022

13 Other property, plant and equipment

	Freehold	Long/short leasehold	Equipment	Motor vehicles	Total
	£'000	£'000	£'000	£'000	£'000
Cost or valuation					
At 1 April 2021	16,796	904	4,774	178	22,652
Additions	-	165	33	-	198
Disposals	-	(522)	(3,566)	-	(4,088)
As at 31 March 2022	16,796	547	1,241	178	18,762
Depreciation					
At 1 April 2021	(2,031)	(798)	(4,354)	(178)	(7,361)
Charge for the year	(398)	(41)	(247)	-	(686)
Eliminated on disposal	-	522	3,566	-	4,088
As at 31 March 2022	(2,429)	(317)	(1,035)	(178)	(3,959)
Net book value					
As at 31 March 2022	14,367	230	206	-	14,803
As at 31 March 2021	14,765	106	420	-	15,291

Nacro – NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31-MARCH 2022

14 Debtors

	2022	2021
	£'000	£'000
Amounts falling due within one year:		
Rent arrears	1,833	3,346
Provision for bad debts	(407)	(1,932)
Net Rent Arrears	1,426	1,414
Trade debtors	2,252	1,530
Other Debtors	212	270
Prepayments and accrued income	2,969	2,386
	<u>6,859</u>	<u>5,600</u>

15 Creditors

	2022	2021
	£'000	£'000
Amounts falling due within one year:		
Trade creditors	2,099	2,134
Corporation tax	-	-
Other taxation and social security	961	723
Other creditors	693	743
Deferred income, grants and grants repayable	3,746	2,336
Accruals	2,886	2,795
SHG under 1 year deferred grant (note 17)	221	149
	<u>10,606</u>	<u>8,880</u>

16 Creditors

	2022	2021
	£'000	£'000
Amounts falling due after more than one year:		
Financial assistance - deferred grants (note 17)	3,945	4,430
Financial assistance - recycled capital grant fund	6	6
	<u>3,951</u>	<u>4,436</u>

Nacro – NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 MARCH 2022

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

Deferred income - government grants	2022	2021
	£'000	£'000
As at 1 April	4,579	4,728
Amortisation to Statement of Comprehensive Income	(594)	(149)
Grant addition	181	-
As at 31 March	4,166	4,579
Amounts to be released within one year	221	149
Amounts due to be released in more than one year	3,945	4,430
	4,166	4,579

The total value of grants received by Nacro is £8,795,258 (2021 £8,795,258).

Recycled Capital Grant Fund

	2022	2021
	£'000	£'000
As at 1 April	6	6
Recycling of grant	-	-
As at 31 March	6	6

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

18 Provisions

	Dilapidations	Total
	£'000	£'000
As at 1 April 2021	625	625
Released	(102)	(102)
Increase	161	161
As at 31 March 2022	684	684

Nacro – NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 MARCH 2022

19 Retirement benefit schemes

Defined contribution scheme

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 2022 was £748,363 (2021: £590,880).

Defined benefit scheme

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 Trustees are 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 2022

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 £543,000 per annum on 1 April 2022 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 £900,000 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 2022. 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 2022 by a qualified actuary. The major assumptions used by the actuary were (in nominal terms) as follows

	2022	2021
Discount rate	2.65%	1.95%
Inflation assumption (RPI)	4.05%	3.45%
Inflation assumption (CPI)	3.15%	2.55%
Future revaluation of pensions in deferment	3.15%	2.55%
Pension increases in payment (liabilities) :		
CPI max 5%	3.05%	2.55%
CPI max 3%	2.45%	2.15%
CPI max 2.5%	2.15%	1.95%
Pension increases in payment (insured asset) :		
RPI max 5%	3.80%	3.30%
RPI max 3%	2.75%	2.60%
RPI max 2.5%	2.35%	2.25%

**Nacro – NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 MARCH 2022**

19 Retirement benefit schemes - cont

Assumed life expectancies on retirement at age 65

	2022	2021
Retiring today – Females	22.9	23.2
Retiring today – Males	20.4	20.9
Retiring in 20 years: Females	24.1	24.4
Retiring in 20 years: Males	21.3	21.8

The assets in the plan were

	2022 £'000	2021 £'000
Equity, property and other	21,211	25,983
Gilts and other government debt	14,206	11,964
Annuities	8,148	9,180
Cash and net current assets	2,714	1,451
Fair value of Plan assets	46,279	48,578

The actual return on assets over the period was: (393) 5,389

Present value of funded obligations	(60,778)	(65,536)
Fair value of Plan assets	46,279	48,578
Deficit in funded scheme	(14,499)	(16,958)

Present value of unfunded obligations	-	-
Unrecognised actuarial gains / (losses)	-	-
(Irrecoverable surplus)	-	-
Net liability in Statement of Financial Position	(14,499)	(16,958)

Nacro – NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 MARCH 2022

19 Retirement benefit schemes - cont

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

	2022 £'000	2021 £'000
Benefit obligation at beginning of year	65,536	62,584
Plan administration cost	-	-
Interest cost	1,251	1,439
Contributions by plan participants	-	-
Actuarial (gains) / losses	(3,203)	4,255
Benefits paid	(2,806)	(2,742)
Past service cost	-	-
Benefit obligation at end of year	60,778	65,536

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

	2022 £'000	2021 £'000
Fair value of Plan assets at beginning of year	48,578	45,631
Interest income on Plan assets	929	1,043
Return on assets, excluding interest income	(1,322)	4,346
Contributions by employer	900	300
Contributions by Plan participants	-	-
Benefits paid	(2,806)	(2,742)
Plan administration cost	-	-
Fair value of Plan assets at end of year	46,279	48,578

The amounts recognised in Statement of Comprehensive Income

	2022 £'000	2021 £'000
Service cost - including current and past service costs and Settlements	-	-
Plan administrative costs	-	-
Net interest on the net defined liability	322	396
	322	396

Nacro – NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 MARCH 2022

19 Retirement benefit schemes - cont

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

	2022 £'000	2021 £'000
Actuarial (gains) / losses on the liabilities	(3,203)	4,255
Return on assets, excluding interest income	1,322	(4,346)
Total remeasurement of the net defined liability (asset)	(1,881)	(91)

Estimation of next period's profit or loss

	2023 £'000
Service cost - including current and past service costs and settlements	-
Plan administrative costs	-
Net interest on the net defined liability	378
Total expense	378

Nacro – NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 MARCH 2022

20 Cashflow from operating activities

	2022 £'000	2021 £'000
Surplus for the year	517	1,308
Adjustment for non-cash items:		
Depreciation of housing properties	164	198
Depreciation of other property, plant and equipment	686	837
Amortisation of intangible assets	115	127
Loss on disposal of assets	216	10
(Increase) / Decrease in debtors	(1,259)	2,530
Increase / (Decrease) in creditors	1,726	(1,027)
Increase / (Decrease) in provisions	59	(234)
Pension costs less contributions payable	(900)	(300)
Accrued pension payment	100	-
Amortisation of SHG	(594)	(149)
Amortisation of SHG prior year reclassification	-	3
Interest payable	322	396
Interest received	-	(3)
Net cash generated from operating activities	1,152	3,696

21 Capital commitments

Capital commitments amounted to £112k at the year-end (2021: £nil).

22 Leasing Commitments

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

	2022 £'000	2021 £'000
Leases expiring:-		
- within one year	1,369	2,780
- between one and five years	1,605	632
- after five years	3,823	-
	6,797	3,412

Nacro – NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 MARCH 2022

23 Financial assets and liabilities

Financial assets

	2022	2021
	£'000	£'000
Financial assets measured at undiscounted amount receivable	3,890	3,214
Bank deposits	<u>11,515</u>	<u>10,943</u>
Total	<u>15,405</u>	<u>14,157</u>

Financial Instruments on which no interest is earned include short-term debtors. No 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	2022	2021
	£'000	£'000

Financial liabilities measured at undiscounted amount payable	2,792	2,877
---	-------	-------

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

24 Accommodation in management and development

	2022	2021
Owned units	225	225
Units under management	<u>2,145</u>	<u>2,227</u>
Total units	<u>2,370</u>	<u>2,452</u>

Within the total units, 647 units met the regulated definition of social housing (2021 - 666) and 1,723 units were outside the regulated definition (2021 - 1,786).

Owned units have remained unchanged from 2021 to 2022 at 225. 5 units lost through the disposal of Pinchbeck have been replaced by 5 units acquired from the purchase of St Mary's Wharf.



Telephone 0300 123 1889

Email contactus@nacro.org.uk

nacro.org.uk

Nacro: Registered charity no 226174; Registered company (London) 2039433

Registered social housing provider no 4761; UK registered learning provider no 100004488; Ofsted no 69170

