



Nacro
WE **CHANGE** LIVES

ANNUAL REPORT

for the year ended 31 March 2020

Contents

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

Who we are

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

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

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

Our mission

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

Our vision

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

Our values

We focus on outcomes

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

We are courageous

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

We are inspiring

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

We are reliable

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

We are proud

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

Why our work is needed

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

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

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

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

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

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

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

Message from the Chair



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

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

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

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

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

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

Nigel Chapman.

Nigel Chapman CMG

Message from our CEO



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

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

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

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

A handwritten signature in black ink that reads "Campbell Robb". The signature is fluid and cursive, with the first name and last name clearly distinguishable.

Campbell Robb

Council members and professional advisers

President

Lord Dholakia, OBE, JP

Vice President

Dame Linda Dobbs DBE

Trustees

Nigel Chapman CMG, Chair

Andrew Billany

Bob Booker

Ron Crank MBE

Jenni Douglas Todd

Lynn Emslie

Darren Hughes

(Resigned 9 December 2019)

Dominic McGonigal

Sarah Nelson-Smith

Victoria Prentis MP

(Resigned 14 February 2020)

Brenda Sheils OBE

(Resigned 29 February 2020)

Neil Spence

(Appointed 22 April 2019)

Helen Willis

(Resigned 25 September 2019)

Treasurer

Helen Willis

(1 – 22 April 2019)

Neil Spence

(23 April 2019 – March 2020)

Chief Executive Officer

Jacob Tas

(April 2019 – May 2019)

Azra Kirkby

(Acting CEO June 2019 - July 2019)

Campbell Robb

(July 2019-March 2020)

Company Secretary

Michael Coldwell

(March 2019-June 2019)

Susannah Glover

(June 2019-March 2020)

Registered Office

46 Loman Street

London, SE1 0EH

(March 2019 – December 2019)

Walkden House

16-17 Devonshire Square

London EC2M 4SQ

(December 2019- March 2020)

Charity number

226171

Regulator of Social Housing number

4781

Company number

00203583

Bankers

National Westminster Bank Plc

Cavell House

PO Box 113

2A Charing Cross Road

London WC2H 0PD

Auditor

Mazars LLP, Midlands

45 Church Street

Birmingham

B3 2RT

Solicitors

Gateley plc

One Eleven Edmund St

Birmingham B3 2HJ

Pension consultants

Punter Southall

11 Strand

London WC2N 5HR

Information correct at 31 March 2020.

Trustee Attendance Record 2019/20

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

1 Council

2 Strategy & Performance Committee*

3 Finance & Audit Committee**

4 People Committee

*Professional adviser: Mark Leigh

**Professional adviser: Dean Murphy

1. Resigned 9 December 2019

2. Resigned from SPC 16 May 2019

3. Resigned 14 February 2020

4. Resigned 29 February 2020

5. Appointed 22 April 2019

6. Resigned 25 September 2019

Strategic review of the year

Year in review

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

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

In 2019/20:

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

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

In 2019/20:

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

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

In 2019/20:

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

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

In 2019/20:

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

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

In 2019/20:

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

Our Plans for 2020/21

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

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

In 2020/21 we will:

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

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

In 2020/21 we will:

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

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

In 2020/21 we will:

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

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

In 2020/21 we will:

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

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

In 2020/21 we will:

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

Safeguarding

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

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

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

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

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

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

Good governance – Trustees' report

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

23 September 2020 and signed on their behalf by:

N Chapman CMG
Chair

R Crank MBE
Vice-Chair

Statement of internal control

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

1. Identification and evaluation of key risks

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

2. Monitoring and corrective action

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

3. Control environment and control procedures

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

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

4. Independent audit and review

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

5. Fraud reporting systems

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

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

6. Risks

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

Key risks

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

Financial narrative

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

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

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

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

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

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

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

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

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

Value for money statement

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

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

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

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

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

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

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

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

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

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

Return on assets and investments and use of reserves

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

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

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

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

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

Reserves and liquidity policies

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

Environmental impact statement

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

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

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

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

1. Reduce our travel

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

2. Reducing energy consumption

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

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

Streamlined Energy & Carbon Report (SECR)

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

Thanks and acknowledgements

With thanks to our funders and partners including:

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

Independent auditor's report

Opinion

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

In our opinion, the financial statements:

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

Basis for opinion

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

Conclusions relating to going concern

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

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

Other information

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

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

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

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

Responsibilities of the Trustees

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

Use of the audit report

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

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

Date:



Telephone **0300 123 1889**
Email **contactus@nacro.org.uk**

nacro.org.uk

Nacro: Registered charity no. 226171; Registered company (London) 203583;
Registered social housing provider no. 4781; UK registered learning provider no. 100004486; Ofsted no. 50170

