

ANNUAL REPORT

for the year ended 31 March 2021

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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

We know that some of the most vulnerable members of our society do not get the help they need. Over the last year the pandemic has shone a spotlight on many of the social and economic inequalities in our country, and the long term impact of the pandemic is likely to create a widening of those inequalities, impacting on those who are already the most disadvantaged. As a consequence, the economic and social need in the UK is only likely to grow.

In 2020 Britain continued to have 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%. The gender pay gap has stopped falling. There are large differences in the prosperity of different groups in society (such as between people of different ethnicities) and between different regions. Educational performance also varies significantly based on socioeconomic backgrounds. The UK economy recorded its worst economic performance for more than 300 years in 2020 and, as we face the economic challenge to come, it is clear that action is needed to stop these gaps becoming entrenched and create opportunity and hope.

England and Wales has one of the highest rates of imprisonment in Western Europe, with **78,008** people held in prisons and young offender institutions at the end of March 2021. The prison population has reduced by over **5,000** during the pandemic, largely due to a reduction in the amount of cases being processed by the courts, particularly jury trials. As backlogs are tackled, the prison population is likely to increase significantly.

Reoffending rates remain stubbornly high, with **45.4%** of adults released from prison going on to reoffend within a year. For those who served a sentence of less than 12 months this increases significantly to 61%. Overcrowding, self-harm, suicide, and assault remain significant issues. Most prisoners have now been held for over a year in conditions close to solitary confinement, with many having less than an hour out of their cell each day. The long term impact of such an extended period of isolation and inactivity and limited opportunities for rehabilitation will have an impact for many years to come. As we enter the second year of the pandemic it is clear that restricted regimes in our prisons will be a feature for many months to come.

Homelessness continues to be high. According to Shelter, **253,000** people were living in temporary accommodation, sleeping rough or in a hostel in England in 2020. Half of them are children. In the first three months of the pandemic the number of people in temporary accommodation leaped by **6,000**. 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' initiative during the pandemic helped to support many rough sleepers. We now need to look beyond these emergency measures to ensure that the momentum of the last year is not lost if we are to end rough sleeping by the Government's target date of 2024. With growing economic pressures we also need to ensure that attention is paid to those living in insecure or unsuitable accommodation, and preventing people from becoming homeless in the first place.

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.

It is clear that children from disadvantaged backgrounds have suffered the most as a result of school closures, particularly given the unequal access to education resources. Children from disadvantaged backgrounds have had less contact with their teachers and less of their work marked. One in five of those children eligible for free school meals had no access to a computer at home, and it is estimated that more than 880,000 children live in a household with only a mobile internet connection. It is therefore no surprise that children from better-off households were spending 30% more time each day on educational activities than children from the poorest fifth of households whilst schools were closed.

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



Nigel Chapman.

Nigel Chapman CMG

It's certainly been an unusual and, in many ways, unpredictable twelve months. The challenges of Covid-19, including several lockdowns and many changes in the related restrictions, have certainly taken their toll, and I continue to be remarkably impressed with the resilience, determination, and perseverance our staff have shown. On behalf of Nacro's Council of Trustees, I would like to thank all staff – from front-line workers to those in central support roles – for their commitment to our work, and I would also like to thank the senior management team for their focus and leadership.

At times of crisis, Trustees are inevitably more involved in supporting the senior management. We all collectively bear the strain so a big thank you is also appropriate to the Nacro Council of Trustees for the extra time and commitment they all showed over the past year. In some cases Trustees were new to Nacro, had never met in the same room, but soon operated remotely and cohesively as a team to ensure Nacro could operate as effectively as possible in the Covid-19 crisis.

In 2020 we undertook a significant change programme which reduced our operating costs significantly, and that, together with the hard work of teams across Nacro, has meant that we are in a more positive and sustainable financial position.

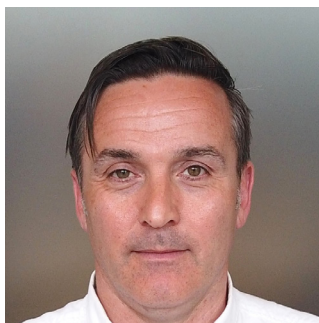
There is no doubt that the coming years will continue to present challenges both for us organisationally, and for the people we support. The pandemic's impact on employment, education and wellbeing will mean that our work has never been more needed. At the same time many local authorities are seeing their budgets slashed and this in turn will have an impact on our ability to secure the necessary funding for the services we provide.

Nevertheless there is cause for optimism. We are setting a new strategy which will focus on quality services, building on our strengths, improving our impact and outcome measures, using the experiences of our learners and service users to campaign for change, and ensuring we have the right organisational culture, systems and processes, and training and development in place which support our staff to carry out their roles to the very best of their abilities.

Over the course of 2020/21 a number of Trustees have left our Board including Bob Booker, Dominic McGonigal and Sarah Nelson-Smith. Bob and Dominic served the full three terms amounting to nine years on the Council. I would like to thank them all for their contribution and the time and energy they put into supporting the organisation. We have also welcomed six new Trustees: Anne Frost, Sir David Hanson, Tabitha Kassem, Farrah Malik, Katie Martin, and Victor Olisa. With them they bring a wealth of experience that will add to the Council's expertise and diversity of views and perspectives over the coming years.

I am confident that Nacro can continue to be financially sustainable, and increase the positive impact we have on the people we support, and I remain extremely proud of all Nacro does to give people the help they need and to work towards a society where everyone has the chance to succeed.

Message from our CEO



A handwritten signature in black ink that reads "Campbell Robb". The signature is fluid and cursive.

Campbell Robb

It is an impossible task to try to write a review of the past year – already millions of words in every language have been written about the pandemic, its causes and consequences, what it means and what our future may look like. I am not going to try. What I am going to try to do is express my overwhelming sense of pride in what our staff achieved in the year, recognise the resilience and determination of our service users and learners, and thank our partners and commissioners and our Council of Trustees for all of their incredible support.

Nacro came into this financial year facing a very significant financial deficit, and I am pleased to say that we have turned that around and leave the year with a surplus, as these accounts show. What these pages don't fully share is how incredible our staff were in facing these challenges together, coming up with solutions for our service users and learners and for each other, and ensuring that we were able to continue to provide outstanding support and services throughout the year. We also put our service users and learners at the centre of these changes – asking them what they needed and listening to them. When we couldn't help directly, we made sure we found out who could – pressing the Government to provide more support for prison leavers or more IT equipment for our learners or working alongside the Department for Work and Pensions (DWP) to offer advice and support in different ways.

Another terrible consequence of this year is that we all know someone who has lost someone. At Nacro we lost one of our very best, our head of housing strategic planning, Alan Ryan, who passed away tragically early, but whose values and commitment continue to inspire us.

Council members and professional advisers

Trustees

Nigel Chapman CMG, Chair
Ron Crank MBE, Vice Chair
Andrew Billany
Bob Booker
(Resigned 31 December 2020)
Jenni Douglas Todd
Lynn Emslie
Anne Frost
(Appointed 23 September 2020)
David Hanson
(Appointed 23 September 2020)
Tabitha Kasseem
(Appointed 23 September 2020)
Farrah Malik
(Appointed 1 January 2021)
Katie Martin
(Appointed 23 September 2020)
Dominic McGonigal
(Resigned 23 September 2020)
Sarah Nelson-Smith
(Resigned 1 July 2020)
Victor Olisa
(Appointed 23 September 2020)
Neil Spence

Treasurer

Neil Spence

Chief Executive Officer

Campbell Robb

Company Secretary

Susannah Glover
(April 2019 – June 2020)

Rocco Zitola
(July 2020 – March 2021)

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
(Appointed January 2021)

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 14 July 2021.

Trustee Attendance Record 2020/21

	1	2	3	4
Nigel Chapman CMG	4 of 4	-	-	2 of 2
Andrew Billany	4 of 4	4 of 4	-	-
Bob Booker ¹	3 of 3	-	3 of 3	-
Ron Crank MBE	4 of 4	4 of 4	-	2 of 2
Jenni Douglas-Todd	3 of 4	-	3 of 4	1 of 2
Lynn Emslie	4 of 4	4 of 4	-	-
Anne Frost ²	3 of 3	3 of 3	-	-
David Hanson ³	3 of 3	-	3 of 3	-
Tabitha Kasseem ⁴	3 of 3	3 of 3	-	1 of 1
Farrah Malik ⁵	1 of 1	-	1 of 1	-
Katie Martin ⁶	3 of 3	-	3 of 3	-
Dominic McGonigal ⁷	2 of 2	-	1 of 2	-
Sarah Nelson-Smith ⁸	1 of 1	-	-	-
Victor Olisa ⁹	2 of 3	1 of 2	-	-
Neil Spence	4 of 4	-	4 of 4	-

- 1 Council
- 2 Strategy & Performance Committee
- 3 Finance & Audit Committee
- 4 People Committee

- 1. Resigned 31 December 2020
- 2. Appointed 23 September 2020
- 3. Appointed 23 September 2020
- 4. Appointed 23 September 2020
- 5. Appointed 1 January 2021
- 6. Appointed 23 September 2020
- 7. Resigned 23 September 2020
- 8. Resigned 1 July 2020
- 9. Appointed 23 September 2020

Strategic review of the year

Year in review

Our key delivery milestones during 2020/21 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 2020/21:

- The impact of Covid-19 has been felt across all our services, and our teams were focused on adapting to ensure we continue to deliver as high quality services as possible during the pandemic.
- A significant focus this year was bidding for prison resettlement services in the new probation model. We await some results at the time of writing, but we are very pleased to have secured a significant increase in the delivery of resettlement work including in the East and West Midlands – working in partnership to support people leaving prison find accommodation and with wellbeing.
- We retained a strong and successful focus on outcomes for learners and service users despite the barriers of Covid-19. For example, in our 16-19 Study Programme, the high pass rates in re-sit GCSEs for maths and English were above national rates and 72% of young people progressed into positive destinations.
- We successfully secured a partnership with the Greater London Authority and Resonance, a social impact investment company, to provide 50 homes and support for people sleeping rough in London. Our partnership with Resonance is also delivering 20 new homes for women through our Bail and Accommodation Support Service (BASS).

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:

- Throughout the pandemic, our teams have worked collaboratively and with other agencies to deliver joined up responses in local areas. For example, in Wolverhampton our Recovery Near You team worked with the local authority and homelessness services and developed an outreach model delivering substance misuse services in temporary hotels and hostels resulting in 96% of people who were previously homeless and unknown to the treatment service engaging with us. In the North East, our unique and highly utilised SWITCH women at risk project responded quickly to the changing needs of its service users including delivering 470 food parcels in 4 weeks, supported by the Police and Crime Commissioner fund for domestic abuse victims, supermarket donations and foodbanks.
- We have been working to increase our impact in target areas, such as in the Midlands where we continue to provide homes and support, including our Birmingham offender housing service; deliver high quality further education including a new teenage parents support service; deliver adult vocational education in five prisons; and we are pleased to have secured new prison resettlement services across both the East and West Midlands. These services enable us to make a greater contribution in the region.

- We have continued to build partnerships with employers in areas in which we work and we have responded to local skills needs. For example, as part of its Civil Engineering course and in response to a growing skills gap, our Newcastle Education and Skills centre has partnered with the CPJ Group, which addresses skills shortages in the civil engineering and infrastructure sectors, and local and national employers such as McDonald's.
- In London, in addition to the new Greater London Authority and Resonance partnership to deliver 50 homes and support to people who are rough sleeping, we have started work in the Borough of Richmond to support people who have left prison with housing and support.

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 campaigned for concerted action to help people in prison and on release to deal with the pandemic. This included calling for a Discharge Pack with a mobile phone and other basic essentials, and immediate support to ensure that prison leavers were not released homeless during the pandemic. We were pleased that the Ministry of Justice introduced funding during Covid-19 to support people leaving prison to find initial accommodation; they provided mobile phones on release from prison; and that the DWP introduced and has committed to keeping the prison leavers Universal Credit phone line.
- We maintained our focus throughout the year on tackling the high rates and impact of homelessness on release from prison, and launched our #CellStreetRepeat campaign calling for everyone who leaves prison to have somewhere to live. We were pleased that the Ministry of Justice announced £50m to increase accommodation for prison leavers over the next year and we will continue to campaign to ensure further funding is committed in the next spending review and in coming years.
- We continued to ensure the experiences of our staff and service users were heard at the highest levels and hosted online events with Rt Hon Robert Buckland MP, The Lord Chancellor, and with Rt Hon David Lammy MP, Shadow Lord Chancellor.
- With the profound impact of Covid-19 on disadvantaged young people, we worked to highlight the challenges young people we support have faced. This included hosting Skills Minister, Gillian Keegan MP, for a virtual visit to our further education and skills centres and chairing a youth justice sub group of the Youth Employment Group.
- We undertook a review of our approach to service user involvement and have set a renewed vision and commitment to service user involvement at every level of the organisation including in our policy and campaigns.

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 developed a three year People Strategy which will underpin the new Nacro strategy to be launched in 2021.
- We started work to design a new values based leadership development programme that engaged Trustees, senior managers and staff representatives.
- We continued work to improve our induction training programme with a particular focus on safeguarding, health and safety, information security and GDPR.
- We adapted to changing working environments arising from the Coronavirus pandemic. A specific focus was placed on managing good health and safety environments and supporting staff with personal wellbeing.
- We renewed our commitment to equality diversity and inclusion, working with staff across the organisation to inform the development of a new 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 consulted on and implemented a Change Programme ensuring more efficient management and staffing structures across our operational and central teams.
- We managed our finances carefully by securing operating efficiencies from both the Change Programme and from the increase in flexible and home working arrangements.
- By using the functionality of our new finance systems, we have provided more summarised and focused finance reports to senior managers and Trustees.
- We developed a refreshed Corporate Dashboard to track performance against a set of key indicators and identify areas for improvement.
- We developed a blueprint for updating Nacro's ICT infrastructure arrangements to enable the charity to maximise the potential to work flexibly and to use video technology.
- We appointed a new internal auditor to help Trustees review risk appetite, review governance assurance arrangements and to develop a structured 3 year programme of internal audit reviews.

Our Plans for 2021/22

In 2021/22 we will be launching our new Nacro strategy. Due to the significant impact of Covid-19 on our communities and the change we have started to embed within Nacro, 2021/22 will be a foundation year from which we will continue to grow. We will focus on supporting our people – with wellbeing and inclusivity at the centre of everything we do – and will define and embed a new values led culture. We will continue to focus on building a sustainable future. And we will mobilise new contracts and re-bid for some of our larger existing contracts. This foundation year will stand us in good stead for future years of our strategy and future success.

Where relevant we will be implementing new legislation that is coming into force, for example responding to the new Social Housing Regulatory requirements. We will be continuing our work efforts to support a green agenda. The plans of individual directorates will be updated as our new strategic objectives are formed and in the meantime individual directorate work plans, targets and key performance indicators are carried over from 2020/21.

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.

During the pandemic, we have worked to ensure safeguarding remains a priority through updated guidance and procedures. Our safeguarding governance structures, reporting and meeting arrangements, and multi-agency working, have continued both at directorate and national level. Trends and typology have been monitored during the pandemic which saw a spike in fatalities in our housing and justice and health services and in mental health issues being raised. A dedicated training module was developed to support staff to help learners and service users with their mental health, and a support service was identified for staff working with fatalities.

Our National Safeguarding Board continues to ensure an effective framework is in place, and is supported by a team of 79 Designated Safeguarding Officers (DSOs) and Leads across Nacro. All DSOs have been trained to Level 3 this year.

Nacro's annual safeguarding week was held in March 2021. This saw Trustees engaging in Safeguarding Conversations with groups of Safeguarding Leads and staff about the professional framework and their training and support needs, staff blogs explaining our approaches and culture of safeguarding, and activities on the theme of supporting learner and service user mental health. We continued to promote national weeks such as National Drug and Health Awareness Week and Mental Health Awareness Week.

During the year a total of 1642 cases were recorded on our Incident Management System. As our largest delivery area, Housing continues to report the largest number of safeguarding incidents, with 1014 (62%) of incidents coming from the directorate in 2020/21. Education reported 461 (28%) of the incidents and 167 (10%) incidents came from Justice and Health. These figures indicate an increase in reporting over 2019/20 partly attributable to the impact upon service users during the pandemic and the lockdown restrictions, but also as a result of more awareness raising in the organisation of potential safeguarding issues. This also reflects the size, complexity of each directorate and the challenging environment during 2020.

Good governance – Trustees' report

Nacro 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).

The Council has adopted and complies with the requirements of the National Housing Federation (NHF) Code of Governance 2020. Nacro's prime regulator is the Social Housing Regulator and Nacro Council confirm that Nacro complies with the regulatory standards. As an educator and recipient of Education and Skills Funding Agency 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 2020/21 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 corporate 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, as internal auditors, and this will increase the Finance and Audit Committee's focus on strategic risk issues.

In 2020/21 we carried out a review into service user involvement at Nacro and our Community Voice Council. Following the review we have agreed a series of recommendations including drawing up a user involvement charter, increasing our focus on supporting the capacity and skills of our service users and learners, standardising our models and practice, and forming a new user advisory group. These changes will be put into practice in 2021/22.

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 increases scrutiny and oversight of different sectors of the business. These Trustees in turn report into Nacro Council and the committees, 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 mitigates our exposure to risk. 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 the charity's assets and liabilities as at 31 March 2021. Our prime income streams are derived from statutory funding sources and specific government directives to ensure state statutory funding sources would be protected. Where appropriate we accessed grants made available from the Coronavirus Job Retention Scheme and where essential, operating activity was reduced to adhere to the lockdown regime.

The charity has not incurred an immediate adverse financial impact as a direct result of the Coronavirus pandemic since the March 2020. The long term financial impact of the pandemic on our finances is currently unknown as it is very difficult to predict how funding for statutory services will be affected in the longer term. 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 during the lockdowns but with suitable adjustments to the operating models. In the immediate future, and where possible, we 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 risk management, 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. 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, the charity has a relatively low exposure and did not incur any adverse financial impact as a direct result of Brexit - the withdrawal of the United Kingdom from the European Union at the end of 31 January 2020.

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 make 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 Unite the Union.

A high proportion of Nacro's income is generated from contracts where effective customer relationships are key to facilitating the renewal of contracting arrangements and 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 our activities have a positive impact on the communities we serve. Data on the environmental impact of our activities is captured on page 26 of this report.

The activities of Nacro are regulated via the Housing Regulator, Ofsted and indirectly 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.

Trustees' responsibilities

The Trustees (who are also 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 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.

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 14 July 2021 and signed on their behalf by:

NK Chapman

Nigel Chapman (Jul 23, 2021, 3:40pm)
N Chapman CMG

Chair


Ron Crank (Jul 23, 2021, 4:10pm)

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 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.

2. Monitoring and corrective action

The regular review of control issues and the audit plan by the ELT provides assurance to the Finance and Audit Committee 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 shares its requirements with all its employees, including those policies that concern the quality, integrity and ethics of its staff.

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. The Finance and Audit Committee ensures that the risk-based inspection/monitoring plan remains up-to-date. It reviews all significant reports, which could affect the risks facing Nacro. Council has received the 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 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 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.

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>
Failure to embed a leadership approach that encourages active engagement, diversity, innovation, efficiency, synergy and collective responsibility	<p>Emerging Nacro strategy has a clear focus on People and Charity Beneficiaries</p> <p>A specific People Strategy has been developed, this will underpin the new Nacro Strategy</p> <p>A new values based leadership development programme is being co-produced with staff</p> <p>Specific initiatives that focus on wellbeing, equality, diversity and inclusion have been implemented</p>
Business continuity is affected by 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 from multiple locations</p> <p>Specific local arrangements in place for specific service delivery sites</p>

Financial narrative

Income for the year was £60.7m compared with £63.3m in 2019/20 and the total income for the year was £1.4m (2019/20 : £0.2m). Even though income reduced, expenditure reduced further. A reduction in expenditure was always planned for the 2020/21 financial year. A relatively large contract ended on 31 March 2020 and efficiency savings achieved through a significant internal restructure were realised. In addition, the charity benefited financially from a significant reduction in travel related costs as a result of the move to home working arrangements.

Turnover in Housing (social and non social housing), reduced by just under £1.0 to £41.0m. The profitability of the Housing directorate increased from £1.0m to £2.6m.

Turnover in our Education directorate income fell from £14.2m to £12.7m. The reduction in income relates to a relatively large contract ending on 31 March 2020, overall the Education directorate recorded a £1.3m loss for the year. Last year the loss for the Education directorate was £2.4m. These results were expected and planned for within the Charity's overall financial plan.

Turnover in our Justice directorate reduced by just under £1.0m during the year to £2.2m. Profitability reduced by £0.2m from £0.5m to £0.3m.

Turnover in our Health directorate increased by £0.7m to £4.7m. Overall, the directorate returned a modest surplus of just under £0.1m.

The total income for the year amounted to a surplus of £1.4m (2020: £0.2m). The operating result of £1.7m (2020: £0.9m loss) was off set by the net effect of a small gain on the valuation of the pension scheme of £0.1m and pension scheme interest charges of £0.4m.

The Balance Sheet shows net assets at £8.7m (2019/20 : £7.3m). This is represented by unrestricted funds of £8.5m (2019/20: £7.1m) and restricted funds of £0.2m (2019/20: £0.2m)

The defined benefit pension liability stands at £17.0m (2019/20: £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 35 to 60.

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 2020/21	Nacro 2019/20	Global Accounts 20 – Supported Housing Provider Metrics*	2020/21 Comment
1. Reinvestment %	0.2%	0.8%	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
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 in to any new loan financing arrangements
4. EBITDA MRI Interest Cover %	100.0%	76.6%	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	£10.53	£9.67	£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 %	1.6%	5.3%	10.4%	Most of Nacro's social and non 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 %	2.8%	-1.4%	6.5%	
7. Return on capital employed %	5.2%	-3.2%	3.1%	A relatively strong surplus was recorded during the financial year

*the Global Accounts 20 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 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 comparative required benchmarking comparative figures for Nacro will not always closely align with registered provider averages.

Nacro’s performance against its own expectations in relation to housing activities is perhaps slightly better than our initial planning assumptions for the financial year. We exceeded our aspirations to deliver a break even position for the financial year, the efficiency savings we planned as part of an internal restructuring programme were delivered, we saved a significant amount of money on travel and where possible access was made to government support schemes for key worker service delivery and staff furlough initiatives.

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. These initiatives enable our staff to embed improvements in our service offer and to help us 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 consideration of 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.
- Actively pursuing a sustainability agenda and staff wellbeing agenda. During the year we learnt how to operate with much more flexibility, and this has led to a significant reduction in travel, and in turn travel costs and carbon footprint. At the same time, we have invested in initiatives designed to promote both physical and mental wellbeing; recognising that staff support requirements are different in a more remote working model.
- 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. Nacro has been successful in securing a range of new probation support contracts and we won a new contract to provide services at a secure training centre.

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 were successful in securing new and retaining business, including four new service delivery contracts during the year with a total annual contract value of just under £1m.
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. We consciously slowed the pace of the restructuring programme to allow for adjustments arising from the Covid-19 pandemic to be made so it has taken longer to deliver than originally expected. Overall, 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 a good fit is 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 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 "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/or 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 ICT related equipment, stationery and furniture on a large scale to maximise economies of scale.

Reserves and liquidity policies

There has been an increase of £1.4m in the overall value of the balance sheet during the year to 31 March 2021, the value of the balance sheet now stands at £8.7m. 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.

As at 31 March 2021, Nacro's revenue reserves stood at £8.5m, which is equivalent to 1.7 months of operating costs. This is 1.3 months under the reserves policy threshold. A surplus budget for 2021/22 has been set, the planned retained surplus for the year will help close this current gap.

As at 31 March 2021, Nacro's cash and cash equivalent balances stood at £10.9m, which is equivalent to 2.3 months of operating costs less depreciation. This is 0.7 months under the liquidity policy threshold. A surplus budget for 2021/22 has been set and the planned net cash inflow expected for the year will help close this current gap.

Environmental impact statement

Our service users, colleagues and partners care about our impact on the environment and how we're working to improve it. Our Environmental Working Group, linked into operational and executive teams, was focussed on projects that delivered measurable benefits to reduce our energy footprint, waste production, and the use of toxic and environmentally damaging materials.

This year, we can report a decrease in our carbon footprint - notably in car travel and energy consumption. Whilst these can be linked to the lockdowns and travel restrictions experienced in 2020, we believe that in future years our car travel and energy consumption will remain lower than pre-Covid levels. During 2020, Nacro has had to develop digital resources, products and mechanisms to reach out and maintain contact with its service users, staff and partners and these methods and processes will continue to be deployed and further developed during 2021.

Our focus in 2021 continues to be on measurable deliverables:

- Our housing provision provides homes in communities throughout England and Wales. These are currently above the minimum Energy Performance Certificate (EPC) rating, and we shall seek to ensure that as many as possible achieve an EPC rating of C by 2030. Nacro will also develop a full response to the challenge of net carbon zero by 2050.
- Our education provision has completed their Display Energy Certificate surveys and these have highlighted opportunities to reduce energy consumption and carbon emissions. We will adopt such measures as reasonable to improve the energy performance of these premises and offices so that we operate as sustainably as possible.
- We continue to support the reduction in staff car mileage by encouraging the use of sustainable or public transport as an alternative, by smart planning journeys so we can maximise the contact with service users, and by use of technology to deliver online services, support plans and education.
- We will engage with our service users both locally and through our user advisory group to hear their views and share our environmental work plan.

Streamlined Energy & Carbon Report (SECR)

Financial Year	April 2020 to March 2021
Client Name	Nacro
Company No	203583
Registered Office	Walkden House, 16–17 Devonshire Square London EC2M 4SQ
Current Financial Year tCO ₂ e	3,083
Current Financial Year kWh	15,240,398
Previous Financial Year tCO ₂ e	3,749
Previous Financial Year kWh	18,375,204
Intensity Ratio (IR) used	tCO ₂ e/£m
Intensity Metric Current Financial Year	50.80
Intensity Metric Previous Financial Year	60.57
Emissions Factors Used	DEFRA 2020
Methodology Used	GHG Protocol
Emissions Scope	Scope 1 & 2
Emissions Included	Electricity, Natural Gas, Direct Mileage
Exclusion Statement	<p>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.</p> <p>Estimations have also been required for the portfolio due to supplier rebilling at year end.</p>

Energy Efficiency Statement	<p>Nacro leases the majority of its 1000 residential properties and ensure the requirement of an EPC rating of a minimum of E for all new and existing properties is met. We work with the owners of properties when the leases come up for renewal, usually every 3 years, to assess whether any improvements to the heating systems and other energy efficiency measures can be carried out as a condition of renewal.</p> <p>The wall insulation has been improved and old electric storage heaters replaced with new electric panel heaters at Flats 1,2, 3, 4, 5, 6 7 Stanley Road, Whalley Range Manchester. This was carried out under the Governments ECO scheme.</p> <p>Given the impact of Covid-19 on business plans and resources during the last year, we have been in contingency mode and therefore not been able to initiate projects to reduce carbon emissions during 20/21.</p> <p>Due to the reduced requirements for car travel during the year and offices / training centres being closed or partially occupied reductions in emissions across the portfolio have been seen.</p>
Report completed by	Victoria Pollard
Quality Audit completed by	Stephanie Strange
SECR Report completed by	(EIC) Energy Intelligence Centre Limited

Thanks and acknowledgements

With thanks to our funders and partners including:

Barrow Cadbury Trust	Northamptonshire Police & Crime Commissioner
BeNCH CRC	Nottingham City Council
Berkshire NHS Foundation Trust	Ormiston Families
Big Lottery Fund	Oxleas NHS Trust
Birmingham City Council	People Plus
Cambridgeshire & Peterborough Combined Authority	Sheffield City Council
Carmarthenshire County Council/ Cyngor Sir Gaerfyrddin	Sodexo
Capita E-Source	South Yorkshire CRC
Cleveland Police and Crime Commissioner	St Mungos
Clinks	Staffordshire Police & Crime Commissioner
Conwy County Borough Council/ Cyngor Bwrdeistref Sirol Conwy	Stephen Lawrence Trust
Delta E-Source	Stockport Alliance
Department of Health	The Bridge (East Midlands)
Denbighshire County Council/ Cyngor Sir Ddinbych	The Privy Purse Charitable Fund
Dudley Council	The Royal British Legion
Education and Skills Funding Agency	Transform Foundation
East Riding of Yorkshire Council & Two Ridings Community Foundation	Wandsworth Borough Council
Education & Skills Funding Agency	Welsh Assembly
Essex County Council	Wolverhampton City Council
Essex CRC	Wrexham County Council
European Social Fund	YMCA Liverpool
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	
MTC Ltd	
NHS England	

Independent auditor's report

Opinion

We have audited the financial statements of Nacro for the year ended 31 March 2021 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Reserves, the 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 2021 and of 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 from April 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

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 their 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 or the Housing and Regeneration Act 2008 requires us to report to you if, in our opinion:

- adequate and proper accounting records have not been kept; or
- the 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.

Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We identified and assessed the risks of material misstatement of the financial statements from irregularities, whether due to fraud or error, and discussed these between our audit team members. We then designed and performed audit procedures responsive to those risks, including obtaining audit evidence sufficient and appropriate to provide a basis for our opinion.

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.

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: **27 Jul 2021**



Julia Poulter (Jul 27, 2021, 3:00pm)

Financial statements

**Nacro - Statement of Comprehensive Income
for the year ended 31 March 2021**

	Note	2021 £'000	2020 £'000
Turnover	3	60,701	63,342
Operating expenditure	3	(58,990)	(64,247)
Operating surplus / (deficit)		<u>1,711</u>	<u>(905)</u>
Equalisation of guaranteed minimum pension scheme (GMP)	19	-	-
Operating surplus / (deficit) (including GMP)		<u>1,711</u>	<u>(905)</u>
Loss on disposal of property, plant and equipment	4	(10)	(48)
Surplus on disposal of investments		-	-
Interest and similar receivables	6	3	28
Interest and financing costs	7	(396)	(428)
Surplus / (Deficit) before tax	5	<u>1,308</u>	<u>(1,353)</u>
Taxation	10	-	-
Surplus / (Deficit) for the year		<u>1,308</u>	<u>(1,353)</u>
Actuarial gain in respect of pension schemes	19	91	1,539
Total comprehensive income for the year		<u><u>1,399</u></u>	<u><u>186</u></u>

All amounts relate to continuing activities.

The financial statements were approved by the Board on 14th July 2021 and were signed on its behalf by:

Chair *NK Chapman*

Nigel Chapman (Jul 23, 2021, 3:40pm)

Trustee

Ron Crank (Jul 23, 2021, 4:10pm)

The notes on pages 38 to 59 form part of these financial statements.

**Nacro Statement of Financial Position
as at 31 March 2021**

	Note	2021 £'000	2020 £'000
Non Current Assets			
Intangible assets	11	172	300
Housing properties	12	7,577	7,751
Other property, plant and equipment	13	15,291	16,106
		<u>23,040</u>	<u>24,157</u>
Current Assets			
Trade debtors	14	5,600	8,130
Cash and cash equivalents		10,943	7,300
		<u>16,543</u>	<u>15,430</u>
Creditors: Amounts falling due within one year	15	8,880	9,907
Net current assets		<u>7,663</u>	<u>5,523</u>
Total assets less current liabilities		<u>30,703</u>	<u>29,680</u>
Creditors: Amounts falling due after more than one year	16	4,436	4,583
Provisions			
Defined benefit obligations	19	16,958	16,953
Other provisions	18	625	859
Total net assets		<u>8,684</u>	<u>7,285</u>
Capital and reserves			
Revenue reserve		8,480	7,101
Restricted reserve		204	184
Total reserves		<u>8,684</u>	<u>7,285</u>

The financial statements were approved by the Board on 14th July 2021 and were signed on its behalf by:

Chair

Trustee

The notes on pages 38 to 59 form part of these financial statements.

Nacro Company number 00203583.

**Nacro - Statement of changes in reserves
for the year ended 31 March 2021**

	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	1,379	20	1,399
Balance at 31 March 2021	<u>8,480</u>	<u>204</u>	<u>8,684</u>

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

The notes on pages 38 to 59 form part of these financial statements.

Nacro - Statement of Cashflow for the year ended 31 March 2021

	Note	2021 £'000	2020 £'000
Net cash generated from operating activities	20	3,696	411
Cash flows from investing activities			
Purchase of housing property components		(24)	(94)
Purchase of other property, plant and equipment		(32)	(392)
Purchase of intangible assets		-	(38)
Interest received		3	28
Total cash utilised in investing activities		(53)	(496)
Net change in cash and cash equivalents		3,643	(85)
Cash and cash equivalents at beginning of year		7,300	7,385
Cash and cash equivalents at end of year		10,943	7,300

The notes on pages 38 to 59 form part of these financial statements.

Nacro – NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 MARCH 2021

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 2019. Nacro is a public benefit entity, as defined in FRS 102 and applies the relevant paragraphs prefixed 'PBE' in FRS 102.

The financial statements are presented in Sterling (£).

Going Concern

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

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

Turnover

Turnover represents rent and service charges receivable (net of rent and service charge losses from voids), 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 2021

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 2021

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 2021

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
Leasehold land and buildings	over the period of the lease
Furniture, fixtures & fittings	4 years
Other equipment	4 years
Vehicles	4 years
Computer hardware	3 - 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 2021

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
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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 2021

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 2021

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

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
2020			
	Turnover	Operating costs	Operating surplus/ (deficit)
	£'000	£'000	£'000
Social housing activity			
Social housing lettings (Note 3B)	7,516	(7,115)	401
Other social housing activities			
Charges for support services	8,655	(8,938)	(283)
Sub-total	16,171	(16,053)	118
Activities other than social housing			
Non-social housing and related support services	25,808	(24,908)	900
Education centre provision	14,187	(16,596)	(2,409)
Justice services	3,155	(2,611)	544
Health services	4,021	(4,079)	(58)
Sub-total	47,171	(48,194)	(1,023)
Total	63,342	(64,247)	(905)

Nacro – NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 MARCH 2021

3B Social Housing Lettings

Income	General Needs Housing £'000	Supported Housing £'000	2021 Total £'000	2020 Total £'000
Rents receivable net of identifiable service charges	132	3,702	3,834	3,587
Service charge income	23	3,121	3,144	3,809
Amortised government grants	9	141	150	120
Turnover from social housing lettings	164	6,964	7,128	7,516
Operating expenditure				
Management	(3)	(2,163)	(2,166)	(1,053)
Service charge costs	(8)	(1,084)	(1,092)	(3,065)
Rents payable and property costs	(13)	(3,249)	(3,262)	(2,305)
Routine maintenance	-	(27)	(27)	(30)
Bad debts	-	(289)	(289)	(422)
Depreciation of housing properties	(23)	(152)	(175)	(240)
Expenditure from social housing lettings	(47)	(6,964)	(7,011)	(7,115)
Operating surplus social housing lettings	117	-	117	401
 Total void losses including service charges	 2	 581	 583	 587

Nacro – NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 MARCH 2021

4 Loss on disposal of property and equipment

	2021 £'000	2020 £'000
Loss on disposal of property and equipment	(10)	(48)
	<u>(10)</u>	<u>(48)</u>

5 Surplus for the year before taxation

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

	2021 £'000	2020 £'000
Depreciation of housing properties	198	196
Depreciation of other property, plant and equipment	837	1,065
Amortisation of intangible assets	127	143
Amortisation of Government grants	(149)	(151)
Loss on disposal of fixed assets	10	48
Audit fees:		
- statutory audit	38	46
- audit-related assurance services	-	-
Operating lease rentals	11,279	11,073

6 Interest receivable

	2021 £'000	2020 £'000
Bank interest receivable	3	21
Investment interest	-	7
	<u>3</u>	<u>28</u>

7 Interest and financing costs

	2021 £'000	2020 £'000
Net interest payable on defined benefit pension liability	(396)	(428)

Nacro – NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 MARCH 2021

8 Staff costs

	2021	2020
	£'000	£'000
Wages and salaries	19,900	21,062
Social security costs	1,789	1,920
Other pension costs	591	643
Redundancy Costs	224	334
Agency Costs	2,642	2,641
	<u>25,146</u>	<u>26,600</u>

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

Salary Band	2021	2020
60,000 - 69,999	9	6
70,000 - 79,999	0	1
80,000 - 89,999	2	2
90,000 - 99,999	0	1
100,000 - 109,999	1	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	1	0

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

	2021	2020
Service delivery	720	681
Management and administration	79	93
	<u>799</u>	<u>774</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 2021

9 Directors' remuneration and transactions

	2021 £'000	2020 £'000
Directors who are executive staff members		
Wages and salaries (including social security costs)	728	823
Other pension costs	19	20
Compensation for loss of office	41	-
	<u>788</u>	<u>843</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 2021 was 6 (2020:8)

Remuneration of the highest paid director

	2021 £'000	2020 £'000
Emoluments	150	110
Pension contributions	5	3

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 £361 to 3 members (2020: £8,238 to 7 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 2021

11 Intangible fixed assets

	Computer software
	£'000
Cost	
At 1 April 2020	930
Additions	-
Disposals	(1)
As at 31 March 2021	929
Amortisation	
At 1 April 2020	(630)
Charge for the year	(127)
As at 31 March 2021	(757)
Net book value	
As at 31 March 2021	172
As at 31 March 2020	300

12 Housing properties

	General Needs	Supported Housing	Total
	£'000	£'000	£'000
Cost			
At 1 April 2020	281	11,395	11,676
Additions	-	24	24
Disposals	-	-	-
At 31 March 2021	281	11,419	11,700
Depreciation			
At 1 April 2020	(48)	(3,877)	(3,925)
Charge for the year	(8)	(190)	(198)
Eliminated on disposals	-	-	-
At 31 March 2021	(56)	(4,067)	(4,123)
Net book value			
As at 31 March 2021	225	7,352	7,577
As at 31 March 2020	233	7,518	7,751

Nacro – NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 MARCH 2021

13 Other property, plant and equipment

	Freehold	Long/short leasehold	Equipment	Motor vehicles	Total
	£'000	£'000	£'000	£'000	£'000
Cost or valuation					
At 31 March 2020	16,796	904	4,846	178	22,724
Additions	-	-	32	-	32
Disposals	-	-	(104)	-	(104)
As at 31 March 2021	16,796	904	4,774	178	22,652
Depreciation					
At 1 April 2020	(1,637)	(741)	(4,063)	(177)	(6,618)
Charge for the year	(394)	(57)	(385)	(1)	(837)
Eliminated on disposal	-	-	94	-	94
As at 31 March 2021	(2,031)	(798)	(4,354)	(178)	(7,361)
Net book value					
As at 31 March 2021	14,765	106	420	-	15,291
As at 31 March 2020	15,159	163	783	1	16,106

Nacro – NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 MARCH 2021

14 Debtors

	2021	2020
	£'000	£'000
Amounts falling due within one year:		
Rent arrears	3,346	3,925
Provision for bad debts	(1,932)	(2,052)
Net Rent Arrears	<u>1,414</u>	<u>1,873</u>
Trade debtors	1,530	2,986
Other Debtors	270	323
Prepayments and accrued income	2,386	2,948
	<u>5,600</u>	<u>8,130</u>

15 Creditors

	2021	2020
	£'000	£'000
Amounts falling due within one year:		
Trade creditors	2,134	4,180
Corporation tax	-	-
Other taxation and social security	723	1,177
Other creditors	743	488
Deferred income, grants and grants repayable	2,336	1,331
Accruals	2,795	2,580
SHG under 1 year deferred grant (note 17)	149	151
	<u>8,880</u>	<u>9,907</u>

16 Creditors

	2021	2020
	£'000	£'000
Amounts falling due after more than one year:		
Financial assistance - deferred grants (note 17)	4,430	4,577
Financial assistance - recycled capital grant fund	6	6
	<u>4,436</u>	<u>4,583</u>

Nacro – NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 MARCH 2021

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

Deferred income - government grants	2021 £'000	2020 £'000
As at 1 April	4,728	4,879
Amortisation to Statement of Comprehensive Income	(149)	(151)
Recycling of grant	-	-
As at 31 March	<u>4,579</u>	<u>4,728</u>
Amounts to be released within one year	149	151
Amounts due to be released in more than one year	4,430	4,577
	<u>4,579</u>	<u>4,728</u>

The total value of grants received by Nacro is £8,795,258 (2020 £8,795,258).

Recycled Capital Grant Fund

	2021 £'000	2020 £'000
As at 1 April	6	6
Recycling of grant	-	-
As at 31 March	<u>6</u>	<u>6</u>

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

18 Provisions

	Dilapidations £'000	Redundancy £'000	Other £'000	Total £'000
As at 1 April 2020	605	200	54	859
Released	(57)	(200)	(54)	(311)
Increase	77	-	-	77
As at 31 March 2021	<u>625</u>	<u>-</u>	<u>-</u>	<u>625</u>

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

Nacro – NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 MARCH 2021

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 2021 was £590,880 (2020: £643,122).

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 2021

19 Retirement benefit schemes - cont

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

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

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

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

The value of the liabilities at the reporting date have been estimated by updating the results of the 2017 valuation to allow for the passage of time, benefits paid out of the Plan and changes in actuarial assumptions over the period from 31 March 2017 to 31 March 2021. 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 2021 by a qualified actuary. The major assumptions used by the actuary were (in nominal terms) as follows

	2021	2020
Discount rate	1.95%	2.35%
Inflation assumption (RPI)	3.45%	2.75%
Inflation assumption (CPI)	2.55%	2.00%
Future revaluation of pensions in deferment	2.55%	2.00%
Pension increases in payment (liabilities) :		
CPI max 5%	2.55%	2.05%
CPI max 3%	2.15%	1.85%
CPI max 2.5%	1.95%	1.65%
Pension increases in payment (insured asset) :		
RPI max 5%	3.30%	2.70%
RPI max 3%	2.60%	2.25%
RPI max 2.5%	2.25%	2.00%

**Nacro – NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 MARCH 2021**

19 Retirement benefit schemes - cont

Assumed life expectancies on retirement at age 65

	2021	2020
Retiring today – Females	23.2	23.1
Retiring today – Males	20.9	20.9
Retiring in 20 years: Females	24.4	24.3
Retiring in 20 years: Males	21.8	21.9

The assets in the plan were

	2021 £'000	2020 £'000
Equity, property and other	25,983	24,952
Gilts and other government debt	11,964	8,199
Annuities	9,180	9,549
Cash and net current assets	1,451	2,931
Fair value of Plan assets	48,578	45,631

The actual return on assets over the period was: 5,389 (408)

Present value of funded obligations	(65,536)	(62,584)
Fair value of Plan assets	48,578	45,631
Deficit in funded scheme	(16,958)	(16,953)
Present value of unfunded obligations	-	-
Unrecognised actuarial gains / (losses)	-	-
(Irrecoverable surplus)	-	-
Net liability in Statement of Financial Position	(16,958)	(16,953)

Nacro – NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 MARCH 2021

19 Retirement benefit schemes - cont

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

	2021 £'000	2020 £'000
Benefit obligation at beginning of year	62,584	66,609
Plan administration cost	-	-
Interest cost	1,439	1,536
Contributions by plan participants	-	-
Actuarial losses / (gains)	4,255	(3,055)
Benefits paid	(2,742)	(2,506)
Past service cost	-	-
Benefit obligation at end of year	65,536	62,584

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

	2021 £'000	2020 £'000
Fair value of Plan assets at beginning of year	45,631	48,245
Interest income on Plan assets	1,043	1,108
Return on assets, excluding interest income	4,346	(1,516)
Contributions by employer	300	300
Contributions by Plan participants	-	-
Benefits paid	(2,742)	(2,506)
Plan administration cost	-	-
Fair value of Plan assets at end of year	48,578	45,631

The amounts recognised in Statement of Comprehensive Income

	2021 £'000	2020 £'000
Service cost - including current & past service costs and settlements	-	-
Plan administrative costs	-	-
Net interest on the net defined liability	396	428
	396	428

Nacro – NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 MARCH 2021

19 Retirement benefit schemes - cont

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

	2021 £'000	2020 £'000
Actuarial losses / (gains) on the liabilities	4,255	(3,055)
Return on assets, excluding interest income	(4,346)	1,516
Total remeasurement of the net defined liability (asset)	(91)	(1,539)

Estimation of next period's profit or loss

	2022 £'000
Service cost - including current & past service costs, settlement	-
Plan administrative costs	-
Net interest on the net defined liability	326
Total expense	326

Nacro – NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 MARCH 2021

20 Cashflow from operating activities

	2021 £'000	2020 £'000
Surplus/(Deficit) for the year	1,308	(1,353)
Adjustment for non-cash items:		
Depreciation of housing properties	198	196
Depreciation of other property, plant and equipment	837	1,065
Amortisation of intangible assets	127	143
Loss on disposal of assets	10	48
Gain on disposal of investments	-	-
Decrease in stock	-	-
Decrease / (Increase) in debtors	2,530	(1,413)
(Decrease) / Increase in creditors	(1,027)	1,744
(Decrease) / Increase in provisions	(234)	32
Pension costs less contributions payable	(300)	(300)
Equalisation of guaranteed minimum pension scheme	-	-
Amortisation of SHG	(149)	(151)
Amortisation of SHG prior year reclassification	3	-
Interest payable	396	428
Interest received	(3)	(28)
Net cash generated from operating activities	3,696	411

21 Capital commitments

There were no capital commitments at the year-end (2020: £nil).

22 Leasing Commitments

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

	2021 £'000	2020 £'000
Leases expiring:-		
- within one year	2,780	3,029
- between one and five years	632	583
- after five years	-	-
	3,412	3,612

Nacro – NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 MARCH 2021

23 Financial assets and liabilities

Financial assets

	2021	2020
	£'000	£'000
Financial assets measured at undiscounted amount receivable	3,214	5,182
Bank deposits	<u>10,943</u>	<u>7,300</u>
Total	<u>14,157</u>	<u>12,482</u>

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

Financial liabilities

	2021	2020
	£'000	£'000
Financial liabilities measured at undiscounted amount payable	2,877	4,668

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

24 Accommodation in management and development

	2021	2020
Owned units	225	227
Units under management	<u>2,227</u>	<u>2,319</u>
Total units	<u>2,452</u>	<u>2,546</u>

Within the total units, 666 units met the regulated definition of social housing (2020 - 736) and 1,786 units were outside the regulated definition (2020 - 1,810).

The reduction in units from 227 (2020) to 225 (2021) has not resulted in any disposals, the two units have been re-purposed from accommodation units to office facilities.



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Nacro: Registered charity no. 226171; Registered company (London) 203583;
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Tue, 27th Jul 2021 15:00:22 BST	Julia Poulter - Signer (9a24e44854cdedba1ab666979e87d64b)

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Date	Action
Tue, 27th Jul 2021 15:00:22 BST	The envelope has been signed by all parties. (89.105.108.129)
Tue, 27th Jul 2021 15:00:22 BST	Julia Poulter signed the envelope. (89.105.108.129)
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Fri, 23rd Jul 2021 19:51:11 BST	Julia Poulter opened the document email. (82.16.212.224)
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