



# **Value for Money**

## **Self Assessment 2015/16**





## Value for Money Self Assessment 2015/16

### 1) Introduction

1. We deliver outcomes for our service users and impact for commissioners and communities through competing for contracts and delivering services through Education Funding Agency and Skills Funding Agency funding. As a registered provider we focus on the protection of social housing assets and create surpluses to enable us to grow our supported housing provision and property base. We do not create sufficient surplus or working capital to support a new house building programme.
2. Delivering value for money on an ongoing basis is a key part of our business model. Without a competitive cost base and the ability to design services that continuously improve outcomes at reduced cost, we would not be able to win new contracts and ensure the ongoing delivery of viable services in the wider public sector market place.
3. We are a national organisation operating in England and Wales with a relatively high degree of disbursement. Our growth strategy includes the prioritisation of building our geographical infrastructure to support operational efficiency. Our operating costs are also affected to some degree by staff costs which are higher in London and the South.
4. We seek to make best use of all of our assets through an Asset Management Strategy which assesses the return being achieved on assets and we only retain assets when they are delivering a positive return. During the year we utilised designated housing reserves to acquire a small number of properties which secures a better return when also delivering housing related support contracts than leased properties. Our balance sheet was also enhanced by the merger of Totton College and work progressed to review the best use of these assets and facilities that will be taken forward in 2016/17.
5. As a people-based service delivery organisation our cost base is comprised substantially of people costs. While we support the concept of a Living Wage and do not engage in bidding strategies that result in a race to the bottom we need to effectively deploy our people resources to achieve maximum outputs and to reduce the costs associated with poor management and/or low morale.
6. We promote a value for money culture across the organisation by making this a key theme in our appraisal process – all staff are asked for their contribution towards: *Making effective use of time, money, people and other resources needed to accomplish tasks. Taking appropriate steps to achieve value, make savings and avoid waste.* Quarterly financial and performance scrutiny meetings – led by the Chief Executive and Director of Finance with the relevant service leads in attendance – are a key part of our management arrangements. The Finance and Performance Committee has acted as the means of holding the Executive to account for delivery and our service user group, the Nacro Community Voice Council, is regularly asked for its views on priorities and services.



## 2) Operating environment

1. The external environment had continued to be challenging as public sector resources have been reduced and commissioning models moved increasingly towards payment by results models. Competition has been fierce and new contracts and services are hard won.
2. The structure and focus of our commissioners has been changing with devolution, plans to move towards the self-financing of local authorities, combined authorities, Police and Crime Commissioners set to take on new powers and Community Rehabilitation Companies directly procuring previously nationally commissioned contracts, for example for bail accommodation and support. We have invested in business development, which will need to continuously adapt to this new environment where we may see increasing variability in the types of work commissioned, its scale and the way it is packaged.

## 3) Achievements in 2015/16

### 3a. Inorganic growth

During 2015 our growth strategy of expansion through merger and partnerships was realised by a material acquisition of a further education centre in Totton. As well as growing our top line, through a focused integration plan we have been able to secure the following value for money gains:

- Streamlining of systems, for example, the education MIS requirement has been standardised across Totton and Nacro's other education establishments resulting in a £20k per annum saving in supplier costs alone.
- Aligning support services to deliver better value – for example, the Nacro property team has taken on the management of the Totton Estate delivering a net reduction in overall costs.
- We are implementing a new telephony contract combining fixed line, mobile and mobile data on a monthly subscription basis inclusive of calls, texts and data which will save nearly £46k per annum across the charity and Totton.

The business plan for this operation sets out further integration and efficiency objectives to be achieved over the next three years.

### 3b. Business and support services

Our business strategy seeks to ensure that the costs of our support services are no more than 12.9% of underlying operational turnover. This enables us to ensure costs are contained and do not increase out of proportion with the income generated in the business, to maximise our expenditure on service delivery and to optimise our surplus.

The year end ratio of cost as a % of turnover has seen a positive trend over the last three years, especially when considering the reduction in its adjusted turnover. The comparable underlying results are:

- 2015/16 – 13.5%
- 2014/15 – 14.7%
- 2013/14 – 13.8%.



This compares with the housing association overhead costs as a % of adjusted turnover of 11.8% in 2014/15, albeit this is unlikely to be an exact like-for-like benchmark. The level of investment in our business support services has supported our drive for growth and ongoing efficiency.

We adopt effective business practices to support delivery by way of good governance, performance management, risk management and financial management and cost control. In forecasting this out-turn position for 2015/16 we undertook a range of initiatives to continue to ensure maximum efficiency as set out below.

**Review of corporate services** – During the year we undertook a fundamental review of all of our corporate services pay costs. This resulted in an overall reduction of approximately £500k, generating a 7% full year reduction in overhead costs which will start to be visible in 2016/17. This review ensured we focused resources on our priorities while also designing new, more efficient ways of working, including a review of our business partnering model to create generic finance business partners able to support all parts of the business while building increased resilience

**Better people resourcing** – Nacro employs around 800 staff across the country, subject to change as contracts are won, lost and come to a natural end. We aim to create a productive workforce through good people management. Turnover in the organisation can be high due to the nature of some roles and in some market places. Our preference is to work with a well-trained permanent staff team and during the year we set about introducing procedures to ensure we minimised the need for agency staff. As a result of better planning and recruitment processing we achieved a 43% decrease in spend on agency staff. In addition the renegotiation of our outsourcing contract for recruitment has resulted in a 12% rate of reduction to fill a role.

**Review of ICT** – In ICT we have paid particular attention to our cost base, successfully reducing our direct costs by £328k per annum. This has been achieved by close evaluation of our ICT staffing, renegotiation of key contracts and much closer supplier management. The percentage of revenue expended directly on ICT and related systems is now around 3% of turnover which is significantly less than the average across the Public Sector as reported by the SoCITM. By implementing a policy of better utilising our existing assets we have been able to avoid approximately £162k Capex on unnecessary devices. Looking to the future, we are migrating Nacro's email accounts into the free Office 365 environment offered by Microsoft which will help to reduce future spend on our backend ICT systems.

**Office services** – A review of the PAT testing procedure has resulted in annual savings of £34k. The consolidation of suppliers (stationery, equipment, PPE etc.) has led to greater control of expenditure and reduced item costs.

**Energy costs** – We reviewed the market for the best arrangements and will be progressing this during 2017/18 when our existing contract comes up for renewal. 50% of our existing housing stock is equipped with smart metres and our next area of focus is to support and encourage services users to be aware of their energy consumption. Under our current contract, for 2015/16 Nacro saved approximately £100k on gas and electricity costs through its use of specialised utility management services. This saving was focused on invoice verification services rather than consumption advice.

### **3c. Smarter ways of working**

Through the use of video conferencing and enhanced mobile working we have reduced travel costs across Nacro by 8.1%. A centralised travel booking service has also been introduced to ensure best prices for travel and overnight accommodation which has delivered an overall return of £12,900. A



review of the scheme of delegation and limiting the availability of procurement cards has given tighter control of expenditure to senior managers.

### **3d. Achievements in the Housing business**

Housing delivered its budgeted performance for 2015/16 by delivering turnover of £19.2m and a 3.5% margin after the allocation of overheads.

For our owned and leased social housing stock the average cost (of management, service charges and maintenance) was £7,131 per unit. This compares favourably to the range of supported housing providers costs in 2014/15 of between £8,400 to £14,000 per unit.

During the year, Housing has been subject to some uncertainty as Government has sought to bear down on the housing benefit bill by instigating a 1% rent reduction on social housing and capping LHA levels. While a strategic review of the supported housing sector is underway, and we will understand the impact for the housing business potentially during 2016, we have been preparing by fundamentally review our generic service model.

In 2015/16 year we piloted new ways of working; in Essex we piloted a mobile working approach reducing office bases. The results of this pilot were positive and have proven that this is a model we should actively move towards. We are also considering a wider approach to digitisation and channel shifting which will be pursued during 2016/17, with work expected to result in savings of £215k per annum – this will be achieved by a reduction in network costs, increased mobility of housing staff and a reduction in offices.

As a result of reduction in housing related support granted by local authorities, we have had to deliver similar or slightly reduced volumes on much reduced funding. This has been achieved by efficiency savings and smarter ways of working i.e., technology solutions for night cover. An example of this is in Manchester, where Manchester City Council reduced Nacro's housing related support grant by 34%, yet Nacro managed to deliver a similar service to only 23% fewer service users. In Newbury, West Berkshire, Nacro support grant was reduced by 6% yet the same number of service users were supported.

With the results of a stock condition survey we have finalised an Asset Management Strategy which has confirmed the positive return that all housing properties are making. We acquired four additional properties to deliver services as part of our new contract in Lincolnshire, optimising the margin generated.

With a relatively small proportion of owned housing stock, which is dispersed across the country, our ability to generate savings through maintenance procurement is limited. As a result of a review into our repairs strategy and policies we have focused on using local contractors and, through careful selection and commissioning, we have reduced the average cost of repairs for 2015/16 to £109.05 compared with £115.21 for 2014/15 – a fall of 5.3%.

### **3e. Achievement in the Education and Skills business**

Our education service is funded through a mixture of Government (Education Funding Agency and Skills Funding Agency) and local authority contracts with an additional mixture of smaller ESF, Big Lottery and Sport England funded programmes in a number of centres. Funding of EFA and SFA contracts is principally payment by results based on volumes of students recruited and retained.



A reduction in learners on courses led to a poor operating financial outturn during the year and to mitigate the position we focused on cost reduction. Tighter controls on procurement and management of expenditure resulted in a 54% average saving in centre running costs over the previous year.

Each centre's financial performance was kept under close scrutiny with the recruitment of learner numbers a key leading indicator of viability. A number of centres were closed during the year and a review of staffing in all centres to provide a more efficient operating base – for example, a review of staffing requirements in our Sheffield Centre resulted in a £40k annual saving.

Operationally we've created a regional archiving hub at the Leeds centre using existing space to store and manage all confidential material. The offsite archiving unit in Sheffield has been closed saving £3,555 annually. This will be rolled out to the South and Midlands in the coming year.

Led by the restructure in 2015, which refocused management responsibilities on quality and outcomes, performance in a number of key areas has improved:

- expected success rate of 89% in SFA-funded provision
- the proportion of teaching staffing achieving a Grade 1 (Outstanding) or Grade 2 (Good) has grown from 81% to 92%

### **3f. Achievement in the Justice and Health business**

Justice and Health deliver contracts, including those with PBR requirements. The contract portfolio for Justice changed significantly in 2015 due to the introduction of Transforming Rehabilitation. The reforms have replaced the previous 35 individual Probation Trusts with a single National Probation Service, responsible for the management of high-risk offenders, and 21 Community Rehabilitation Companies (CRCs) responsible for the management of low- to medium-risk offenders in 21 areas across England and Wales. This impacted Nacro's contract portfolio as our individual MoJ contracts were amalgamated into one main Transforming Rehabilitation contract across two CRC areas. Despite this step change in delivery, Nacro have managed to effectively mobilise and deliver a robust service across both CRC areas. A recent HMI Prison Inspectorate report on Nacro's delivery in HMP Chelmsford quoted:

'The demand for resettlement services was high and prisoners received timely needs assessments and reviews... Knowledgeable community rehabilitation company staff assessed prisoners' needs on arrival and made appropriate referrals to address immediate problems.'

Within Justice and Health we have focused on income and expenditure during 2015/16. We have managed operational costs and reduced them through careful expenditure, by reducing travel costs, and holding vacancies wherever this has been appropriate. We have also worked to remove agency staff by recruiting in a more timely and effective manner. Further, one-off gains were made by carefully managing TUPE transfer processes and securing employment for those transferring from Nacro under Transforming Rehabilitation.

We have focused on improving income and have worked to maximise outputs in our PbR contracts (securing an outturn of 88.1% in our largest such contract – Recovery Near You in Wolverhampton, while setting budgets on a more conservative assessment of success). We have worked to secure performance improvements and to ensure our bids are competitively priced and achieved growth by securing new work. In addition, we have secured greater certainty of income and benefitted where existing contracts have been extended as we have demonstrated efficiency, effectiveness, and



economy to our commissioners, and worked to be 'suppliers of choice' through proactive and appropriate relationship management.

Overall, during 2015/16 we have secured greater value for money and outcomes for service users and exceeded very significantly our budget targets. We have achieved growth through our geographical growth strategy, improved operational performance, and reduced costs. We will continue to pursue these goals.

#### **4) Conclusions**

Nacro has reviewed its approach and outcomes to securing value for money during the reporting year and the full Value for Money Statement and Strategy is published on our website. As a contracting business operating on low margins we have the foundations of a strong culture of financial scrutiny and review and we are continuously looking at how we can increase outcomes for our commissioners and service users.

As outlined in the financial review we have delivered overall improvements to our financial position both in terms of turnover and assets. This has been achieved through the implementation of our business strategy to secure growth and through our VFM Strategy. This included bearing down on operational costs through efficiency measures and adopting new ways of working, through optimum utilisation of assets and effective deployment of our corporate and business support services over our newly acquired services. Our forward strategy outlines our plans and capacity to go deliver further over the next three years.



## Value for Money Strategy 2016/17–2018/19

**Introduction** – Nacro has developed a value for money strategy to be delivered over a three-year period to support efficient and effective working and deliver best value for money for service users and funders.

**Value for Money working group** – To support the delivery of the strategy and to embed value for money across the organisation, Nacro has created a working group with representation from across Nacro.

**Key priorities** – The key priorities and targets are shown in the following table:

<b>Activity Strand 1: Review the community education Model</b>	<b>Group lead</b>	<b>2016/17 targets</b>	<b>2017/18 targets</b>	<b>2018/19 targets</b>
Consider options for a sustainably viable community education services	JC	1. Report to Council in September 2016 with recommendations supporting a three-year operating budget	TBD	TBD
<b>Activity Strand 2: Integrate Totton College</b>	<b>Group lead</b>	<b>2016/17 targets</b>	<b>2017/18 targets</b>	<b>2018/19 targets</b>
Realise merger benefits and deliver a viable business plan	NT/DH	1. Implement year 1 BP objectives including a commercialisation and asset management review and revise efficiency objectives for the following year	TBD	TBD
<b>Activity Strand 3: Review corporate services costs to maintain no more than the 12.9% ratio</b>	<b>Group lead</b>	<b>2016/17 targets</b>	<b>2017/18 targets</b>	<b>2018/19 targets</b>
Review all corporate pay and non-pay costs to ensure efficiency	LA	1. Review scope for efficiencies to be realisable in following financial year	1. Consider investment in systems to improve efficiency	
<b>Activity Strand 4: Reduce fixed operating costs</b>	<b>Group lead</b>	<b>2016/17 targets</b>	<b>2017/18 targets</b>	<b>2018/19 targets</b>



Reduce energy usage/utilities costs	DM/RR	1. New energy management supplier procured and delivering savings	1. Consider investment in lower energy technology e.g. Smart Meters to owned properties improving ability to collect income	1. Implement and educate
Reduce printing costs and usage	JRD/JR	1. Reduce Nacro contracted printer estate from 135 to 56, saving £104k 2. Reduce Totton contracted printer estate from 10 to 5, saving £20k	1. Encourage reduced use of printing and paper	1. Encourage reduced use of printing and paper
Reduce telephone costs and cease using PowWowNow	JRD/CM	1. Implement BT OnePhone business case to deliver savings over four years: £56k. Savings this year: PowWowNow: c£12k PBX maintenance: c£12k	1. Evaluate benefits of new system	
Reduce costs for data communications	JRD	Deliver savings of circa £100k through to 2018.		
Reduce document storage costs	CM/MB/JR/AR	1. Shred it contracts reviewed delivering savings 2. Scope the size of the problem by December 2016	1. Implement proposals for reducing the need for storage and its costs.	
Totton integration to deliver operating efficiencies	ELT	1. Implement the recommendations from the strategic review	1. Review the business plan to deliver additional efficiency savings.	TBD
Improve system integration	JRD	1. Define costs and savings by using CRM at this stage	TBD	TBD
<b>Activity Strand 5: Smarter ways of working</b>	<b>Group lead</b>	<b>2016/17 targets</b>	<b>2017/18 targets</b>	<b>2018/19 targets</b>



Reduce travel costs through use of Lync	ELT	1. Deliver travel budgets based on reduced spend 2. Reduce own car travel at the 45ppm rate	1. Set targets for efficiencies in all business areas	TBD
Roll out mobile working in housing to reduce infrastructure costs and to enable increased caseloads to be managed	AR/PP	1. Deliver net savings in operational costs	TBD	TBD
Develop and implement a channel shifting strategy	TBD	1. Consider the scope for online and increased phone-based services	1. Implement channel shifting	1. Implement channel shifting
Design and deliver a new operating model for housing services to remain competitive in the market place	JD	Design and consult on new model – test in new bids	1. Implement new model	1. Evaluate new model
<b>Activity Strand 6: Culture and skills</b>	<b>Group lead</b>	<b>2016/17 targets</b>	<b>2017/18 targets</b>	<b>2018/19 targets</b>
Promote behaviours that reduce usage of energy in offices and learning centres	DM	1. Totton team to deliver reductions	TBD	TBD
Promote effective energy usage of service users to reduce their expenditure and the level of personal service charge arrears	DM	1. Identify opportunities	TBD	TBD
Embed a culture of 'do it once and well'	HW/All	1. Identify lessons from Internal Audits	TBD	TBD
Drive through stronger financial management and commercial awareness	NT	1. Financial awareness training rolled out 2. Financial scrutiny meetings continued	TBD	TBD
Reduce printing culture	All	1. Encourage reduced printing	1. Evaluate paperless working options	1. Implement any recommendations for paperless working
<b>Activity Strand 7: People</b>	<b>Group lead</b>	<b>2016/17 targets</b>	<b>2017/18 targets</b>	<b>2018/19 targets</b>
Continue to bear down on the need for agency staff	All	1. Reduce absence rates 2. Develop non-	1. Set a target for maximum levels of agency	



		agency back up capacity across the business	staff at any one time.	
Retain good staff through engagement and involvement	LA	1. Contain turnover to 12.9%	1. Achieve liP Gold	
Review terms and conditions to ensure competitive	All	1. Withdraw out of hours payments for new staff in housing		
<b>Activity Strand 8: Procurement</b>	<b>Group lead</b>	<b>2016/17 targets</b>	<b>2017/18 targets</b>	<b>2018/19 targets</b>
Review procurement requirements and develop a comprehensive strategy/plan	RR	1. Develop plan to target quick wins in year	1. Implement Plan	1. Implement Plan
Review maintenance contractors to improve cost per job	DM	1. Deliver savings per job		
<b>Activity Strand 9: Effective use of assets</b>	<b>Group lead</b>	<b>2016/17 targets</b>	<b>2017/18 targets</b>	<b>2018/19 targets</b>
Keep under review education centres and develop a return ratio formula	CM	1. Report on centre return on investment	1. Implement outcomes from strategic review	
Review the return on investment of leased properties	DM	1. Review group homes and take action as necessary	1. Review all remaining properties and take action as necessary	
Undertake an Asset Management Review of Neville Road	JD	1. Improve the value generated from this London asset	1. Implement asset management review	
Dispose of non-core assets of Clapham Road and Waterside	JD	1. Obtain best consideration		