



CELEBRATING
50
YEARS
1966-2016

Changing lives

Annual report and financial statements
for the year ended 31st March 2016



Our mission

We positively change lives, strengthen communities, enhance social inclusion, reduce crime, and prevent offending behaviour.

Who we are

As an established charity with 50 years of experience, Nacro has been repositioning itself as a champion of social justice which continues to put crime prevention and reduction at its core.

We are evolving to meet society's changing needs and support a wider range of individuals. We use our knowledge and experience to help the most vulnerable in the community to change their lives and to reach their full potential and aspirations. We do this by addressing social exclusion, inequality of opportunity and deprivation.

Throughout England and Wales we deliver interventions which are consistently high quality, evidence based and outcome focused so that we can maximise our impact in communities.



Our values

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

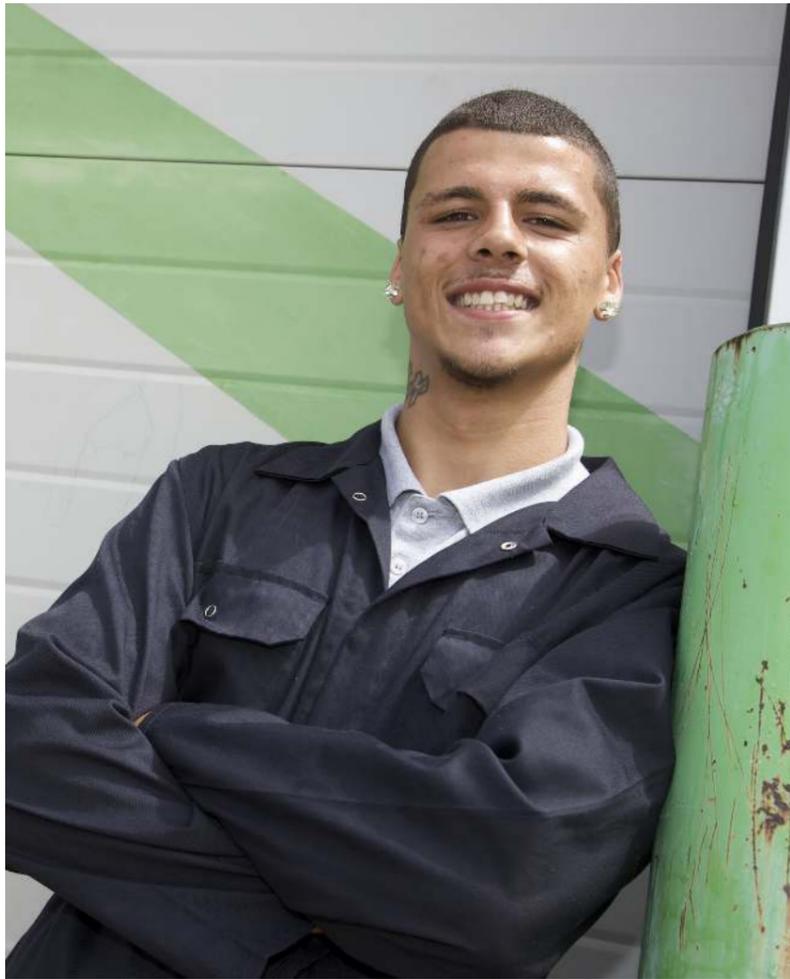
We keep our promises. We provide consistent support and we stick with people.

We focus on outcomes

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

Our vision

A society in which communities are crime free, where people feel safe and are supported to reach their aspirations.



Key stats 2015 | 16

Nacro housed **2,517** people and delivered floating support to **1,205** service users.

In the 2014/15 academic year, a total of **3,199** learners took courses with Nacro.

In Wolverhampton we delivered **6,001** successful health interventions.

Our Resettlement Advice Service helpline received **14,000** calls – a **42%** increase on the previous year.

Successes 2015 | 16

- We celebrated the start of our 50th anniversary year on March 17th
- Nacro merged with Totton College in December 2015. Our vision is to develop Totton into a centre of excellence for vocational education in the area
- Nacro delivered The Aeneid Project in Luton, now rolled out in St Albans and Bedford
- Nacro Homes Agency doubled in size, extending homes available nationally
- We retained our Investors in People Bronze accreditation
- We received Matrix accreditation for all of our information, advice and guidance



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1. Message from The Chair



Welcome to our annual report and financial statements for 2015/16. This is my inaugural Chair's introduction, having taken on the role in the autumn of 2015, and I am delighted to have joined at such an auspicious time in our long history.

The past year can be characterised as one of change and renewal. In 2015, we undertook a fundamental review of our business strategy. Central to this was a review of the mission, values and vision of Nacro, the results of which can be seen throughout this report. From our roots as a criminal justice charity working to support the care and resettlement of offenders, we have expanded to become a dynamic social justice charity, operating successfully in the education, housing, health and justice fields.

Operationally, it has been an extremely busy year as we have responded to an increasingly challenging external environment. The Government's decision to cut spending on some programmes has had a significant impact on many of those who commission our services. We continue to strive for improved service delivery and outcomes for our service users, while delivering more for less in response to commissioner demands.

One highlight for Nacro was taking on Totton College, a Further Education college near Southampton, which had been struggling to attract and retain sufficient numbers of students. I have enjoyed visiting it since I became Chair and believe that with new leadership we can turn it into a Nacro flagship education centre.

On the 17 March 2016 we reached a milestone when we celebrated our 50th anniversary – in the year ahead we will be looking forward to a programme of events celebrating the achievements of our staff and service users. We are very proud of our successes and the positive ways we can support our service users to improve their life chances after what are often very tough periods.

Finally, I would like to pay tribute to the tireless work and dedication of our previous Chair, Dr Matthew Litobarski, and Vice Chair, Delbert Sandiford, both of whom stepped down from their roles with Nacro this year. Their wisdom and experience will be missed by us all. I would also like to thank our current Council of Trustees, the senior management team and all the staff at Nacro for their commitment and hard work, which I have seen first hand in many centres and in the Head Office since I became Chair.

Nigel Chapman.

Nigel Chapman

2. Policy influencing and campaign work

10 million 
people in the UK have a criminal record

In response, we launched 'Recruiting safely and fairly', a CIPD-approved practical guide to employing ex-offenders.

- To address high rates of reoffending among young people we launched a report in Parliament, bringing together three years of Beyond Youth Custody research on how the youth justice system can better support young people leaving custody.
- Lived experience is vital to our work. We held consultation events to feed young people's views into a departmental review of the youth justice system for the Ministry of Justice, giving young people the opportunity to speak directly to, and influence those, making the decisions.
- People with multiple and complex problems are more likely to be out of work, homeless or isolated. We are part of the See Potential campaign and the Offender Health Collaborative, which has supported NHS England to expand coverage of liaison and diversion services to 53% of the population of England. We have also responded to the Professor Black and House of Lords social mobility reviews into supporting people with long-term problems back in to education and work.
- We have joined the Early Intervention Foundation and set up our Parliamentary Review into improving the destinations of students in vocational education.
- Nacro's supported housing service helps people with complex problems to stabilise and move forward. It is threatened by proposed changes to the Local Housing Allowance payment, so we have joined with other charities to secure a pause until 2017, allowing the Government to reconsider long-term funding options.
- People in prison have suffered poor mental health.* We held a roundtable with NHS and Public Health England on mental health services in prisons.
- The unique perspective of our service users and staff are a vital source for evidenced decision making. Nacro responded to 12 government consultations and ran a programme of events including seminars and roundtables in parliament and at political party conferences.

*Singleton Report (Singleton, N., Meltzer, H. & Gatward, R. (1998) Psychiatric Morbidity among Prisoners in England and Wales. London: Office for National Statistics

“Many congratulations on a very successful launch of Beyond Youth Custody. I am sure that it will play an important role in influencing policy development and promoting best practice.”

Rt Hon Lord McNally, Chair Youth Justice Board

3. Education



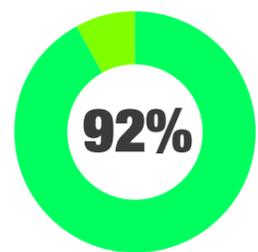
“Nacro is so brilliant, it has helped me get through a lot. Would recommend to anyone that needs a college.”

Nacro learner



“I think the staff do a tremendous job at teaching and supporting all students here at Nacro.”

Nacro learner



92% of learners would recommend Nacro education services

- Nacro was one of the first providers to be graded Ofsted 2 under the new framework
- Nacro merged with Totton College
- We have 24 centres across England. In the 2014/15 academic year, a total of 3,199 learners took courses with Nacro
- We work with young people from school age through to adults up to the age of 25
- We run an innovative employer-led traineeship provision
- Our education services are 4% above the DfE National Provider benchmark for success and are on track to do the same next year
- We are creating a new Virtual Learning Environment which will aid innovative learning for our cohort across the country
- We offered GCSE qualifications for the first time this year
- 92% of learners would recommend Nacro educational services to their family and friends

Our personalised vocational courses provide young people with the skills they need to get into education, training or employment. We also partner with employers to offer them enthusiastic, work-ready young people.

CASE STUDY

1

Jake, Sandwell

When Jake started on a Nacro education course, he didn't know what career path he wanted to follow. After talking through his options, Jake decided to try motor vehicle maintenance and servicing. He completed Level 1 in this subject but then decided he was not interested in motor vehicle placements so he was moved on to a different programme where he completed Level 1 in customer services.

Just before he completed this, Nacro's placement officer set up an interview for a place on a construction apprenticeship at Future Skills. He was successful and secured a conditional place on the apprenticeship scheme on the understanding that he should go through a basic skills assessment which he passed with flying colours. Jake is now doing the apprenticeship in construction with Future Skills, is very happy, and enjoying the training.

CASE STUDY

2

Katie, Sheffield

When Katie first came to Nacro she had severe confidence issues. This led to Katie wanting to quit several times in her first few weeks. By working closely with Katie... we managed to convince her to stay on and work with us.

Katie had very few cooking skills and wanted to improve them in any way she could, so we started her off with the basics to try building her confidence. When the time came to put Katie out on placement, the Showroom was the perfect solution as the chefs there are very patient and understanding. Katie spent two days a week on placement – this time was invaluable to her and her confidence levels continued to rise. The more time Katie spent on placement, the more confident she became and we could see her passion and love for cooking increasing every day.

Towards the end of her programme Katie decided that she was dead set on a career in catering and has just secured herself a job in a pub kitchen.

4. Housing and wellbeing

We provide homes and support services to help people get back on their feet and start planning for their lifetime housing needs.

Nacro Homes Agency

Working in partnership with private sector landlords, we have developed products to house people who are vulnerable and require support, meeting the strategic needs of local authorities and other partners. This has enabled Nacro Homes Agency to develop in many new areas of the country and to support a wider range of service users including women and families.

We now have approximately 500 homes in management, offering stability and a platform for our service users to realise their aspirations.

Success stories

Lincolnshire

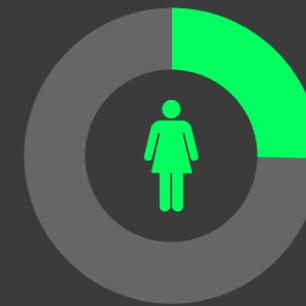
We have been successful in leading a consortium to deliver services for 16-17 year olds, care leavers and young parents. The development of a values charter and innovative training – such as Therapeutic Crisis Intervention and the Signs of Safety – mean we have been able to share good practice with others and achieve a 94% success rate for planned/positive departures.

Stockport

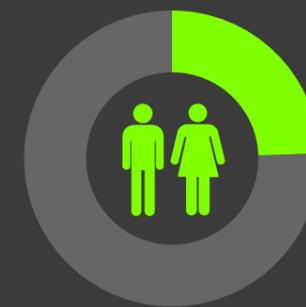
Nacro is part of the Targeted Prevention Alliance (TPA) – an innovative alliance-based contract made up of six organisations supporting people in Stockport who may need some assistance, support, advice or guidance. So far, TPA has worked with more than 1,395 individuals to improve independence and wellbeing. This equates to 7.3 new cases every working day. Of these, 691 cases were closed as of 31st March 2016, having achieved their desired outcomes.



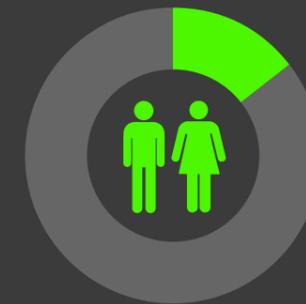
In 2015/16
we worked with
3,722
service users



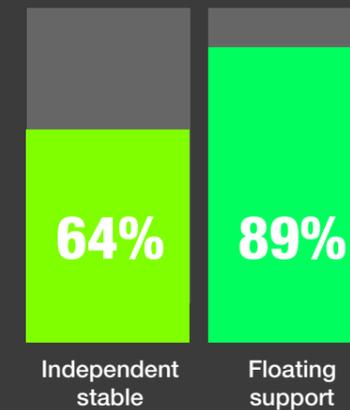
25.5%
of our service users
are female



24.5%
had a disability



14.5%
were from a black or
minority ethnic group



Independent
stable

Floating
support

We successfully moved **64%** of people from our housing services and **89%** of people within our floating support services into independent stable accommodation.

48% of those housed had a primary or secondary support need to manage the risk of offending

Nacro service users include:

Young people (16-24 years), parents and children, single homeless, ex-offenders, people with mental health or substance misuse issues, or those with dual diagnosis.

The people we house include:

40% Young people aged 16-24
20% Single homeless with support needs
3% Families

Zane's Story

After being kicked out of his family home at the age of 15, Zane moved from relative to relative, then a hostel in Carlton. After two months, he moved to Nacro accommodation. He says:

“Nacro has helped me a lot by bending to my needs and working around what best suits me, and what I need improving on. Especially Will, my Support Worker, has done a great job with working with me... sorting out my provisional driving licence, applying for jobs, dealing with managing my money and budgeting, so a big thanks to Will! I also volunteered helping to interview the new staff that Nacro were recruiting. I'm moving on into my first council flat very shortly, and I'm really excited... I'm definitely ready.”

5. Justice

Nacro's Justice team works with young and adult offenders in prisons and in the community. We offer a wide range of services for different client groups; we support people to change their lives, and prevent and reduce crime and the risk of reoffending.



- Under **Transforming Rehabilitation** – the outsourcing of the management and delivery of probation services to medium and low risk offenders in 21 Community Rehabilitation Companies (CRCs) across England and Wales – we are the strategic partner to Sodexo and won six of the CRCs
- We work with people in custody and through the gate to help them resettle into the community
- We provide support such as signposting to other services, mentoring, in-work support, careers advice and other services around finance, benefit and debt

SPOT LIGHT

Transforming Rehabilitation

In South Yorkshire and Essex we work in prisons and through the gate and into the community. We deliver practical support, information, advice and guidance from first reception into prison, to release and the transition through the gate and into the community.

As part of this work we:

- Assess the needs of each individual and work with them and other agencies in prison to develop a tailored resettlement action plan
- Offer support and help individuals secure accommodation on release
- Help service users deal with issues around finances, tenancy, benefits and debt
- Provide guidance and signpost to other specialist services
- Allocate additional support to those who need it most and work with a pool of volunteers, a number of whom are ex-offenders, who act as mentors

6. Resettlement Advice Service (RAS)

Offering support, advice and training, RAS offers expert guidance to employers, practitioners and individuals. It comprises a national confidential helpline, a dedicated service for employers and other organisations, training and consultancy services and personalised resettlement research.

The Aeneid Project

14,000
enquiries handled

185
cases opened

- In 2015/16 we launched the Aeneid project as a pilot in Luton. This project delivered a new type of employability programme to long-term unemployed Jobcentre Plus clients who faced a multitude of barriers to gaining employment. Of the 21 participants who completed the programme, 12 gained employment after the programme ended.
- In May 2015, we launched our 'Recruiting safely and fairly guide' in partnership with the CIPD and Disclosure and Barring Service (DBS). It is the definitive guide for employers seeking to navigate their way around the complex legislation in relation to employing ex-offenders.
- 14,000 enquiries (via telephone, letter or email) were handled by the RAS, with an additional 427 enquiries to the Employers Advice Service.
- 100% of enquirers were satisfied with the adviser's knowledge and understanding of the enquiry
- Nacro's Resettlement Advice Service opened a total of 185 advocacy cases in 2015/16

7. Health

We deliver community-based contracts across substance misuse services. We provide shared care, working within the community with a range of outreach services, and in local hospitals with GPs and pharmacists.



- In 2015/16 we won new contracts in Doncaster and East Riding. Our largest contract, Recovery Near You (RNY) in Wolverhampton, was extended by two years to March 2018.
- We work in partnership with Birmingham and Solihull Mental Health NHS Foundation Trusts and Aquarius.
- We help individuals develop pathways to recovery (including access to accommodation, employment or education, and community and family support) and to form strategies for relapse prevention.
- In Wolverhampton in 2015/16 we delivered 6,001 successful interventions against our main Payment by Results targets.
- We won a Women's Befriending Service contract in Wolverhampton to help and support vulnerable women.

CASE STUDY

Recovery Near You, Wolverhampton

RNY is a service that works to reduce the harm caused by alcohol, drugs and gambling to individuals, families and the wider community. We offer a structured treatment programme based upon the Recovery Model and assist service users in achieving and maintaining fulfilling drug and alcohol-free lifestyles.

"RNY saved my life and my mental and physical health. I am now a peer support worker helping others in the same situation I have been in."

Lara, Service User and Peer Support Worker

"RNY has totally transformed my life and my family's, too... I now have a stable life and have my children back with me. I am now able to sustain abstinence and be the person and mother I am today."

Sally, Service User

8. Council members and professional advisers

President

Lord Dholakia, OBE, JP

Vice President

Dame Linda Dobbs DBE

Trustees

Nigel Chapman, Chair
Jonathan Aitken
Andrew Billany
Bob Booker
Ron Crank MBE
John Darley
Darren Hughes
Dominic McGonigal
Kerry Pollard
Paul Reynolds
Waheed Saleem

Treasurer

Paul Reynolds

Chief Executive Officer

Jacob Tas

Company Secretary

Joanne Drew

Registered Office

46 Loman Street
London, SE1 0EH

Charity number

226171

HCA number

4781

Company number

00203583

Bankers

National Westminster Bank Plc
Cavell House
P-O Box 113
2A Charing Cross Road
London WC2H 0PD

Auditor

Mazars LLP, Midlands
45 Church Street
Birmingham
B3 2RT

Solicitors

Gateley
One Eleven Edmund St
Birmingham B3 2HJ

Pension consultants

Punter Southall
11 Strand
London WC2N 5HR

Trustee Attendance Record 2015/16

| | 1 | 2 | 3 |
|--------------------|--------|--------|----------|
| Nigel Chapman | 3 of 3 | n.a. | n.a. |
| Delbert Sandiford* | 5 of 5 | n.a. | n.a. |
| John Darley | 5 of 5 | 7 of 7 | 4 of 4 |
| Waheed Saleem | 3 of 5 | 1 of 7 | 4 of 4 |
| Bob Booker | 3 of 5 | 5 of 7 | 1 of 4 |
| Andrew Billany | 4 of 5 | n.a. | n.a. |
| Dominic McGonigal | 4 of 5 | n.a. | n.a. |
| Jonathan Aitken | 3 of 5 | n.a. | n.a. |
| Kerry Pollard | 2 of 5 | 3 of 7 | n.a. |
| Lesley Davies* | 2 of 5 | 0 of 7 | n.a. |
| Paul Reynolds | 4 of 4 | 5 of 5 | 1 of 2** |
| Darren Hughes | 3 of 4 | n.a. | n.a. |
| Ron Crank | 3 of 4 | n.a. | n.a. |

- 1 Council
- 2 Finance & Performance Committee
- 3 Audit & Risk Committee

* resigned during 2015/16

** absent due to technical problems

9. Our people

650
Nacro employees

We invested
£256
in training per employee



- In 2015/16, more than 960 attendees took 85 classroom-based courses and more than 1,000 e-learning modules were completed. The investment in learning and development was £256 per employee.
- Nacro is an Investors in People Bronze employer, confirming the organisation's commitment to excellence in people management and development.
- In 2015, Nacro maintained its Disability Symbol Employer status.
- Nacro's Equality and Diversity Policy was extensively reviewed in February 2015. Equality and diversity was incorporated into the Corporate Induction and specialist training for Tutors and Trainers.
- Nacro remained a Living Wage Employer for the second consecutive year in 2015.
- In 2015 Nacro launched a Manager's Charter – a statement containing the capabilities that managers need to lead, manage and develop people effectively.
- Nacro works with expert providers including Samaritans, Sitra, Peoplesafe, St John Ambulance and NSPCC to provide courses that support the delivery of high quality services to clients.

Staff engagement group

Nacro's staff engagement group aims to improve and promote positive communication and engagement. The group organised a staff engagement week in September 2015. Activities included a round of staff awards, senior management visits to services outside of their areas of responsibility, and opportunities for staff to get together informally with people outside of their immediate team/office through quizzes, bake offs, team building events and social activities.

10. What our people say

“ I'm driven by wanting to make a difference, wanting to find solutions to problems that young people experience and wanting things for young people to be better. Nacro gives me the opportunity to make that difference, and do it in a professional, focused, conscientious environment staffed by people who are driven by achieving good outcomes for their services users.”

Jessica Bennett, Service Design and Bid Developer (Education)

“ The best training course I have attended for a while as a new member of staff at Nacro. I came away feeling positive that the organisation invests well in good training, rather than being a box ticking exercise.”

Embedding Equality in Teaching course

“ Using the techniques shown in the course has been invaluable to my practice.”

Samaritan's Self-harm course

“ I want current employees to know that they could not work for a better organisation, where there are great career prospects. I have learnt new skills and met like-minded people who carry out their roles enthusiastically. The support I have received during my time working with Nacro has been immeasurable.”

Babafemi Osinlaru, Project Worker

11. Nacro Community Voice

“Since becoming a service user I have been overwhelmed at times at the level of support both offered and given by Nacro staff - a lifeline and a positive way forward to a better life. After attending my first national Community Voice Council meeting I was very pleased to see the level of transparency of Nacro and the willingness to listen to what service users wanted and needed. The reason for applying for this role was to use the skills learnt over many years... for the benefit of others. My aim is to increase input from other service users and get their points over to those that can and do make the decisions, by improving how contact is made and ideas are shared. I look forward to working with you all in the future. Together we can improve the services and create new opportunities for Nacro and its service users.”

Chair, Nacro Community Voice

Nacro Community Voice ensures that our service users are heard and can influence the design of services.

Our formal involvement structure through the Nacro Community Voice council aims to:

- Ensure opportunities for involvement are available to all
- Recognise that our service users are individuals with differing levels of interest in becoming involved
- Empower individuals to be involved at a level they feel is appropriate
- Provide a range of involvement opportunities including participation in local events, learner forums and house meetings as well as the opportunity to be involved at a national level

This year our new Chair of Community Voice was appointed following an open nomination and selection process. The Chair is also a co-opted member of Nacro's Finance and Performance Committee, ensuring the voice of service users is also represented in Nacro's governance structure.

25 

Average membership of the Nacro Community Voice council stands at 25 individuals

12. CEO report



Reflecting on the last year, I am immensely proud of what we have achieved. Our staff and volunteers have risen to the various challenges we've faced, while keeping the needs of those who use our services at the forefront of everything they do.

As our Chair says in his message, it has been a year of significant change and we have had to adapt to developments in the various environments we operate in. As a service delivery charity we are directly affected by the circumstances under which many of our commissioners are working, with the pressure to make budget cuts being passed down the line. Meanwhile, some of our service users have increasingly complex needs and require an individualised community approach. However, we have seen these challenging circumstances as opportunities to find new and innovative solutions, ensuring it has been a year of many achievements.

At the beginning of the year we reconfigured our services in the Justice Directorate to deliver the Government's 'Transforming Rehabilitation' agenda in the Community Rehabilitation Company areas that we operate in. In May we began the process which resulted in us welcoming Totton College in Southampton to the Nacro family in December 2015. The last quarter of the year saw the start of the process towards full integration with the College and we have since made good progress towards our vision to create a centre of excellence for vocational education delivery.

In our Housing operations we successfully led a consortium to deliver services for vulnerable care leavers in a brand new model of service delivery. We expanded our National Homes Agency to deliver housing for commissioners and their service users as well as providing move on from our own services. We are passionate about innovation, and 2015/16 also saw the launch of our Aeneid Project as a pilot in Luton. This project delivered a new type of employability programme to long-term unemployed Jobcentre Plus clients who faced a multitude of barriers to gaining employment.

While service delivery remains the main focus of our work, we never forget our responsibility to advocate on behalf of all of our service users, and we are proud of some notable accomplishments. We have successfully lobbied on behalf of our services users in supported housing, and continue our campaigning work with our partners in the 'Ban the Box' and 'See Potential' campaigns, ensuring employment opportunities become more accessible to those who may face difficulty securing work. As we move into our 50th anniversary year, I am very optimistic that Nacro has built strong foundations to continue to support those who need us, and give them the encouragement, guidance and opportunity to be the best they can be. It is my conviction that it is through the relentless dedication of our staff and volunteers that we are able to make a difference to the lives of those we support.

Jacob Tas

13. Strategic review of the year

Year in review

In 2015 we undertook a fundamental review of our business strategy. Central to this was a review of the purpose and vision of Nacro. From our roots as a criminal justice charity working to support the care and resettlement of offenders, the reality was that we had become a dynamic social justice charity working on prevention as well as reduction of reoffending.

We chose to recognise this formally during the year as part of our business strategy review – remaining strong to our heritage but valuing the work we do at a far earlier stage. This resulted in a new vision and values, with a view to extending the services we offer to a wider range of socially excluded and potentially vulnerable people, and supporting cohesive, resilient communities. Our role has never been more relevant as we embrace work that improves life chances.

While the operating climate has remained challenging – with reduced public investment at a national and local level – we have achieved some notable successes in the first year of our new strategy:

1. Be a financially sustainable and robust organisation that is capable of resourcing our strategic priorities and increasing our social impact

- We housed 2,517 people, provided education for 3,199 people, 6,001 accessed our health services and 14,000 received support from our RAS services
- We implemented our value for money strategy, delivering efficiencies while improving our outcomes
- Additional contracts were secured in new areas across all parts of our operations, increasing our turnover and expanding the number of service users we reach

2. Be an employer of choice to attract, retain and grow the best possible talent to meet our strategic priorities

- Nacro successfully retained Investors in People Bronze accreditation
- We remained a living wage employer and continued to invest in learning and development for all staff

3. Embed quality in the design, delivery and review of our products, services, facilities and home

- We achieved Matrix accreditation across all our services
- A new quality system was introduced in Housing to improve the experience of all service users
- We expanded the remit for service user involvement by redeveloping the Nacro Community Voice Council, ensuring that the views of service users are at the heart of delivery

4. Raise the profile of Nacro to support the business strategy and be an advocate for our service users and support them to get their voice heard

- Nacro successfully lobbied against the application of the LHA reduction and rent reduction for social housing so that the consequences for the future of the supported housing sector could be properly evaluated; this is an area in which we intend to make an active contribution going forward
- We continued with our participation in the Ban the Box and See Potential campaigns, ensuring employment opportunities become more accessible to those – including some of our ex-service users – who may face barriers to employment including some of our ex-service users

Our plans for 2016/17

We intend to build on our work in four main strains, working towards achieving objectives at the end of 2018:

1. Be a financially sustainable and robust organisation that is capable of resourcing our strategic priorities and increasing our social impact

- By April 2016, deliver a Value for Money strategy that ensures best use of all Nacro resources, and publish a statement by September 2016
- To build on our performance in 2015/16 and increase our turnover and the number of individuals who access our services across the board by 3%

2. Be an employer of choice to attract, retain and grow the best possible talent to meet our strategic priorities

- Attain Investors in People Silver level accreditation
- Review our People strategy to ensure we can recruit and retain the right people at the right time to support existing and new business recruitments, enabling staff to pursue career progression. Include a plan to embed the capability and culture to 'do it once and well'.

3. Embed quality in the design, delivery and review of our products, services, facilities and homes

- Implement a new outcomes measurement framework, so we are better able to demonstrate the impact of our interventions on our services users
- Develop a new evidence base to support service design, improving current practice and new contract bidding success

4. Raise the profile of Nacro to support the business strategy and be an advocate for our service users and support them to get their voice heard

- Deliver a policy programme around key priorities so that Nacro influences national policy development for the benefit of its service users
- Ensure that communications and stakeholder activity around Nacro's 50th anniversary year is utilised to ensure positive outcomes for services users

14. Good governance

Council is responsible for the effective governance of Nacro while day-to-day management is delegated to the Executive Team.

Council has adopted and complies with the requirements of the National Housing Federation Code of Governance and Nacro's prime regulator is the Homes and Communities Agency. The Trustees confirm that Nacro complies with the Requirements of the Governance and Financial Viability Standard applicable for the year from 1 April 2015. As an educator and recipient of EFA and SFA funding we also seek to comply with the Code of Governance for English Colleges 2015.

During the year, and following an open recruitment exercise, Nacro appointed a new Chairman to head our 12-strong Council of Trustees, which meets every two months. Council has appointed the following Committees:

- Finance and Performance Committee
- Audit and Risk Committee
- Remuneration and Nominations Committee

Service user involvement is central to our work and we further developed our reinvigorated Community Voice Council, which provides an umbrella for formal service user involvement. A Student Council is also in place at our vocational college in Totton along with an Education Forum where stakeholders have the opportunity to contribute and shape our plans at an early stage.

We are subject to the Homes and Communities Agency Regulatory Code and have been rated as V2 in the viability standard. This means that we comply with the standard but must take measures to manage exposures to supporting people funding and our pension liability. We have reviewed the new approach to HCA regulation applicable from 2015 and adopted requirements as a provider owning less than 1,000 units. Our risk framework and financial strategy supports the mitigation of these exposures and Trustees are aware of their duty to protect social housing assets.

2016/17 provides an opportunity for ongoing renewal of governance arrangements and enhancing the diversity of the Council.

Trustees' responsibilities – Registered Provider legislation requires the Trustees to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of Nacro as at the end of the financial year and of its income and expenditure for the year ended on that date. In preparing those financial statements, suitable accounting policies have been used, framed, to the best of the Trustees knowledge and belief by reference to reasonable and prudent judgments and estimates and applied consistently. Applicable accounting standards have been followed. The Trustees are also required to indicate where the financial statements are prepared other than on the basis that Nacro is a going concern.

The Trustees are responsible for ensuring arrangements are made for keeping proper books of account with respect to the transactions and its assets and liabilities and for maintaining a satisfactory system of control over Nacro's books of account and transaction. The Trustees are also responsible for ensuring that arrangements are made to safeguard 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.

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 steps that they ought to have taken in order to make themselves aware of any relevant audit information and to establish that Nacro's auditor is aware of that information

Approved by the Trustees on 23 September 2016 and signed on their behalf by:

N Chapman
Chair

J Darley
Trustee

15. Statement of Internal Control

Council has overall responsibility for establishing and maintaining the whole system of internal control and for reviewing its effectiveness.

In meeting its responsibilities, 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 and ongoing 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 ARC. The ARC 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 ARC and the Council. This includes a rigorous procedure for ensuring that corrective action is taken in relation to any significant control issues, particularly those with a material impact on the financial statements.

3. Control environment and control procedures

Council retains responsibility for a defined range of issues covering strategic, operational, financial and compliance issues including new investment projects. The Council disseminates to all employees its requirements and Nacro's policies that concern the quality, integrity and ethics of its employees. It is supported by a framework of policies and procedures with which all employees must comply. These cover issues such as delegated authority, segregation of duties, accounting, treasury management, health and safety, 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. The ARC ensures that the risk management plan remains up-to-date and is a live document. It reviews all significant reports, which could affect the risks facing Nacro. Council has received the annual review of the system of control from ARC and taken into account any changes needed to maintain effectiveness of the risk management and control process.

5. Fraud reporting systems

Fraud response procedures and policy statements are reviewed and approved by the Council as part of a comprehensive review of internal control systems. The procedures establish the respective roles and responsibilities of staff for the prevention and detection of fraud through a fraud response plan. The Council confirms that there is an ongoing process for identifying, evaluating and managing significant risks faced by Nacro. This process has been in place throughout the year and up to the signing of the annual report, and is reviewed regularly by the Council.

6. Risks

Nacro has a formal risk management process to assess business risks and implement risk management 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 Risk | Status/Action Taken |
|--|--|
| Failure to maintain financial viability | <ul style="list-style-type: none"> Financial performance is monitored through monthly management accounts. Quarterly finance scrutiny reviews are undertaken by the Chief Executive and Director of Finance with the area managers Robust financial modelling procedures have been established with cost models developed on a full cost recovery basis A programme is in place to reduce all operating costs |
| Further public sector cost cuts results in reduction of funding | <ul style="list-style-type: none"> Developing additional and more diversified income streams New bid team is being developed Building closer relationships with potential funders |
| Inability to demonstrate real outcomes | <ul style="list-style-type: none"> New case management system is being implemented Enhanced reporting for all operational areas of the business Enhanced exit procedures and development plans for service users |
| Not winning new business or retaining existing business in an increasingly competitive market | <ul style="list-style-type: none"> Specialist development team in place More dedicated resources for bid writing and compilation |
| Not having a quality delivery of service or performance | <ul style="list-style-type: none"> Continued compliance and quality inspections Quality improvement team is carrying out reviews and plans have been implemented for key service delivery service areas |
| Non-compliance with regulatory requirements | <ul style="list-style-type: none"> Regulatory requirements used as part of assurance inspections Property requirements are monitored with appropriate checks being made Staff training has been developed in line with revised policies and procedures |
| Ineffective governance arrangements | <ul style="list-style-type: none"> All Council and Committee meetings have appropriate terms of reference Committee and Council agendas and minutes are produced and circulated in a timely manner A governance review has been undertaken |
| Policy and funding changes could destabilise the provision, quality and numbers on the educational programmes | <ul style="list-style-type: none"> Continued oversight of the policy landscape Widening of income streams where possible Developing of national picture to give to parents and referral agencies A property plan is being implemented throughout the estate Quality systems and processes have been implemented |
| Unable to retain and engage appropriately skilled staff | <ul style="list-style-type: none"> Increase in engagement activities Learning and development plans Improved data capture processes and analysis in relation to people management issues |

16. Financial narrative

Income for the year rose to £52.6m compared with £41.9m in 2015 leading to a surplus for the year of £12.5m (2015: surplus of £0.005m). The overall improvement in performance was due to a non-exchange transaction in the Education division, where turnover moved from £11.7m to £25.2m – due principally to both the receipt of land and buildings and 4 months' trading from Totton College.

Turnover in our other largest division, Housing, at £19.2m, was flat year-on-year, albeit with a slightly increased surplus. Justice was down from £4.2m to £2.5m, albeit with a significant turnaround in profitability following exit from a loss-making contract at the end of the prior year. Turnover in Health was down 2% at £4.5m and Corporate Projects down £1.1m to £0.8m.

The Total Comprehensive Income for the year amounted to £14.2m (2015: deficit of £2.0m) reflecting the surplus for the year, as above, plus an actuarial gain on the closed defined benefit pension scheme of £1.7m (2015: actuarial loss of £2.0m). Although there remained a net pensions liability of £12.3m, unrestricted reserves increased to £5.46m which, when combined with the Restricted reserves of £4.37m, generated a net reserves balance of £9.8m – a major improvement on the total net liability position of £4.4m at prior year-end.

While non-current assets grew strongly during the year, as referenced to Totton College above, net current assets fell by £3m year-on-year, within which cash, at £3.8m, was only slightly down; this was partially achieved via loan finance required for the take-on of Totton College (see Statement of Cash Flows). Given the need to rebuild cash reserves to the levels inferred in the Reserves policy, an Asset Management Review was initiated during the year to identify and optimise use of under-performing non-Housing assets, and capital expenditure plans have been curtailed.

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 32 to 62.

(Note all comparatives above were calculated under FRS102)

17. Value for Money Statement

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 Value for Money 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.

18. Reserves policy

There is an annual review of the reserves policy in the context of the business environment, the operational base of Nacro and the demands of funding the defined benefit pension deficit.

The Trustees would welcome a level of reserves equivalent to at least three months of operating costs. The Trustees recognise that five years is an appropriate time frame for the achievement of this policy.

19. Independent auditor's report

We have audited the financial statements of Nacro for the year ended 31 March 2016 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Reserves, the Statement of Cash Flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

Respective responsibilities of the Trustees and the auditor

As explained more fully in the Statement of Trustees Responsibilities set out on page 24, the Trustees are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors. This report is made solely to Nacro's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and Chapter 4 of Part 2 of the Housing and Regeneration Act 2008. Our audit work has been undertaken so that we might state to Nacro's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than Nacro and Nacro's members as a body for our audit work, for this report, or for the opinions we have formed.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at <http://www.frc.org.uk/auditscopeukprivate>

Opinion on the financial statements

In our opinion the financial statements:

- Give a true and fair view of the state of Nacro's affairs as at 31 March 2016 and of its surplus for the year then ended
- Have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'
- 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 2015

Opinion on the other matter prescribed by the Companies Act 2006

In our opinion the information given in the Trustees Report and Strategic Review for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

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

- Nacro has not kept proper books of account
- A satisfactory system of control over transactions has not been maintained
- The financial statements are not in agreement with the books of account
- We have not received all the information and explanations we require for our audit.

Glen Jones (Senior Statutory Auditor)
Mazars LLP, Chartered Accountants and Statutory Auditor,
45 Church Street,
Birmingham
B3 2RT



**Nacro – STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 MARCH 2016**

| | Note | 2016 £'000 | 2015 £'000 |
|---|-------------|-----------------------|-----------------------|
| Turnover before non-exchange transaction | | 38,493 | 41,923 |
| Non-exchange transaction | 31 | 14,057 | - |
| Total turnover | 3 | 52,550 | 41,923 |
| Operating expenditure | 3 | (39,631) | (41,643) |
| Operating surplus | | 12,919 | 280 |
| Interest receivable | 6 | 37 | 35 |
| Interest and financing costs | 7 | (453) | (535) |
| Revaluation of investment property | | - | 198 |
| Investment (loss)/gain | 16 | (34) | 27 |
| Surplus before tax | | 12,469 | 5 |
| Taxation | 10 | - | - |
| Surplus for the year | 5 | 12,469 | 5 |
| Actuarial gain/(loss) in respect of pension schemes | 23 | 1,741 | (1,965) |
| Total comprehensive income for the year | | 14,210 | (1,960) |

All amounts relate to continuing activities, the non-exchange transaction is the accounting treatment for Totton College at the 1 December when Nacro took on the operation of the College and the delivery of education.

The financial statements were approved by the Trustees on 23 September 2016 and were signed on their behalf by:

N Chapman
Chair

J Darley
Trustee

The notes on pages 36 to 62 form part of these financial statements.



**NACRO – STATEMENT OF FINANCIAL POSITION
as at the year ended 31 MARCH 2016**

| | Note | 2016 £'000 | 2015 £'000 |
|---|-------------|-----------------------|-----------------------|
| Fixed assets | | | |
| Intangible assets | 14 | 182 | 264 |
| Housing properties | 11 | 8,378 | 7,721 |
| Investment properties | 13 | - | 958 |
| Other property, plant and equipment | 12 | 17,818 | 1,273 |
| Investments | 16 | 694 | 728 |
| | | 27,072 | 10,944 |
| Current assets | | | |
| Trade debtors | 17 | 4,091 | 5,369 |
| Assets held for sale | 15 | 958 | - |
| Cash and cash equivalents | | 3,809 | 3,999 |
| | | 8,858 | 9,368 |
| Creditors: amounts falling due within one year | 18 | (6,111) | (3,559) |
| Net current assets | | 2,747 | 5,809 |
| Total assets less current liabilities | | 29,819 | 16,753 |
| Creditors: amounts falling due after more than one year | 19 | (6,114) | (5,262) |
| Provisions | | | |
| Defined benefit obligations | 23 | (12,289) | (14,258) |
| Other provisions | 22 | (1,585) | (1,612) |
| Total net assets/(liabilities) | | 9,831 | (4,379) |
| Reserves | | | |
| Revenue reserve | | 5,461 | (8,594) |
| Restricted reserve | | 4,370 | 4,215 |
| Total reserves/(deficit) | | 9,831 | (4,379) |

The financial statements were approved by the Trustees on 23 September 2016 and signed on their behalf by:

N Chapman
Chair

J Darley
Trustee

The notes on pages 36 to 62 form part of these financial statements.

Company number 00203583.



**Nacro – STATEMENT OF CHANGES IN RESERVES
for the year ended 31 MARCH 2016**

| | Revenue reserve £'000 | Restricted reserve £'000 | Total £'000 |
|--|--------------------------------------|---|------------------------|
| Balance as at 1 April 2014 | (10,233) | 7,814 | (2,419) |
| Surplus for the year | 5 | - | 5 |
| Other comprehensive income for the year | (1,965) | - | (1,965) |
| Total comprehensive income for the year | (1,960) | - | (1,960) |
| Transfer of cash received to restricted reserve | (898) | 898 | - |
| Reserve transfer housing restricted | 4,497 | (4,497) | - |
| Balance at 31 March 2015 | (8,594) | 4,215 | (4,379) |
| Surplus for the year | 12,469 | - | 12,469 |
| Other comprehensive income for the year | 1,741 | - | 1,741 |
| Total comprehensive income for the year | 14,210 | - | 14,210 |
| Reserves transfer | (155) | 155 | - |
| Balance at 31 March 2016 | 5,461 | 4,370 | 9,831 |



**Nacro – STATEMENT OF CASH FLOWS
for the year ended 31 MARCH 2016**

| | Note | 2016 £'000 | 2015 £'000 |
|---|-------------|-----------------------|-----------------------|
| Net cash generated from operating activities | 24 | (512) | (3,396) |
| Cash flows from investing activities | | | |
| Purchase of housing properties | | - | (49) |
| Purchase of other property, plant and equipment | | (1,462) | (766) |
| Purchase of intangible assets | | (18) | (156) |
| Interest received | | 17 | 35 |
| | | (1,463) | (936) |
| Cash flows from financing activities | | | |
| Interest paid | | (13) | (1) |
| New loans | | 2,000 | - |
| Repayments of borrowings | | (202) | - |
| | | 1,785 | (1) |
| Net change in cash and cash equivalents | | (190) | (4,333) |
| Cash and cash equivalents at beginning of year | | 3,999 | 8,332 |
| Cash and cash equivalents at end of year | | 3,809 | 3,999 |

The notes on pages 36 to 62 form part of these financial statements.



Nacro – NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 MARCH 2016

1 Legal Status

Nacro is a 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 17 of these financial statements.

2 Accounting policies

The principal accounting policies are summarised below. They have all 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 2014: Statement of Recommended Practice for Registered Social Housing Providers and comply with the Accounting Direction for Private Registered Providers of Social Housing 2015. 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 (£).

Statement of compliance

This is the first year that Nacro has prepared its financial statements in accordance with FRS 102, accordingly the financial information as at 1 April 2014 (being the date of transition) and for the year ended 31 March 2015 have been restated for material adjustments on adoption of FRS 102 in the current year. For more information on the transition to FRS 102, see note 29.

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. Nacro has in place long-term debt facilities which provide adequate resources to finance committed reinvestment and development programmes, along with its day to day operations. Nacro has a long-term business plan which shows that is able to service these debt facilities whilst continuing to comply with lenders' covenants.

On this basis, 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.

Basis of consolidation

Nacro does not have any subsidiaries and is not required to prepare group accounts.

Turnover

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



Nacro – NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 MARCH 2016

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

Interest payable

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

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

Financial instruments

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

Basic financial instruments are recognised at amortised historical cost.

Non-basic financial instruments are recognised at fair value using a valuation technique with any gains or losses being reported in surplus or deficit. At each year end, the instruments are revalued to fair value, with the movements posted to the income and expenditure (unless hedge accounting is applied).

The company has not adopted hedge accounting for financial instruments.

Debtors

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

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

Creditors

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

Employee Benefits

Defined contribution scheme

Nacro participates in a defined contribution stakeholder scheme. The amount charged to surplus or deficit in the Statement of Comprehensive Income represents employer contributions payable in 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.



Nacro – NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 MARCH 2016

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. Remeasurement 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 at least triennially and are updated at each Statement of Financial Position date.

Housing properties

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

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

Depreciation is charged so as to write down the net book value of housing properties to their estimated residual value, on a straight line basis, over their useful economic lives.

Depreciation is not 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 | 40 years |
| Kitchens | 30 years |
| Bathrooms | 40 years |
| Boilers | 15 years |
| Heating systems | 35 years |
| Electrics | 30 years |

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

Improvements

Where there are improvements to housing properties that are expected to provide incremental future benefits, these are capitalised and added to the carrying amount of the property. Any works to housing properties which do not replace a component or result in an incremental future benefit are charged as expenditure in surplus or deficit in the Statement of Comprehensive Income.



Nacro – NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 MARCH 2016

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 surplus or deficit 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.

Investment properties

Investment properties consist of commercial properties and other properties not held for social benefit or for use in the business. Mixed use property is separated between investment property and property, plant and equipment.

Investment properties are measured at fair value annually with any change recognised in surplus or deficit in the Income Statement. This has been done using a periodic external valuation and uplifting using a suitable property index.

Assets held for sale

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

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

Social Housing Grant and other Government grants

Government grants include grants receivable from government agencies such as the Homes and Communities Agency, 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.



Nacro – NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 MARCH 2016

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

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

Other Grants

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

Recycling of grants

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

On disposal of an asset for which government grant was received, if there is no obligation to repay the grant, any unamortised grant remaining within liabilities in the Statement of Financial Position related to this asset is derecognised as a liability and recognised as revenue in surplus or deficit 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 surplus or deficit 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 surplus or deficit 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 | 50 years |
| Leasehold land and buildings | over the period of the lease |
| Furniture, fixtures & fittings | 4 years |
| Other equipment | 4 years |
| Vehicles | 4 years |
| Computer hardware | 4 years |



Nacro – NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 MARCH 2016

Depreciation is not charged in the year of acquisition.

Intangible assets

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

| | |
|-------------------|---------|
| Computer software | 4 years |
|-------------------|---------|

Amortisation is not charged in the year of acquisition.

Investments

Nacro holds investments in listed shares which are recognised on the statement of financial position at fair value determined by reference to the market value at the year-end date. Movements in this fair value are recognised in profit or loss.

Leases

At inception Nacro assesses agreements that transfer 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 surplus or deficit in the Statement of Comprehensive Income on a straight-line basis over the period of the lease.

Provisions for liabilities

Provisions are recognised when Nacro has a present obligation (legal or constructive) as a result of a past event, it is probable that Nacro will be required to settle the obligation, 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 income or expenditure in the period it arises.

Nacro recognises a provision for 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 surplus or deficit in



Nacro – NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 MARCH 2016

the Statement of Comprehensive Income and a transfer is made from the general reserve to the restricted reserve.

2 Significant management judgements and key sources of estimation uncertainty

The preparation of the financial statements requires management to make judgments, 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 judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

Significant management judgements

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

Impairment of social housing properties

Nacro has to make an assessment as to whether an indicator of impairment exists. In making the judgement, management considered the detailed criteria set out in the SORP.

Capitalisation of property development costs

Distinguishing the point at which a project is more likely than not to continue, allowing capitalisation of associated development costs requires judgement. After capitalisation management monitors the asset and considers whether changes indicate that impairment is required.

Estimation uncertainty

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

Defined benefit pension scheme

Nacro has obligations to pay pension benefits to certain employees. 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. Management estimates these factors in determining the net pension obligation in the balance sheet. The assumptions reflect historical experience and current trends.



Nacro – NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 MARCH 2016

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.

Recoverability of the amount of rental and other trade receivables

Management reviews its estimates of the recoverability of debtors at each reporting date. Uncertainties in these estimates relate mainly credit risk of counterparties.

3 Particulars of turnover, operating costs and operating surplus 2016

| | Turnover £'000 | Operating costs £'000 | Operating surplus/ (deficit) £'000 |
|--|-------------------|-----------------------------|---|
| Social housing lettings | 12,338 | (9,495) | 2,843 |
| Supporting People/other housing income | 6,911 | (9,075) | (2,164) |
| Subtotal | 19,249 | (18,570) | 679 |
| Non-social housing activity | | | |
| Education provision | 25,183 | (14,031) | 11,152 |
| Offender management contracts | 2,459 | (2,063) | 396 |
| Substance misuse contracts | 4,466 | (4,302) | 164 |
| Corporate Projects | 769 | (665) | 104 |
| Voluntary Income | 424 | - | 424 |
| Subtotal | 33,301 | (21,061) | 12,240 |
| Total | 52,550 | (39,631) | 12,919 |



**Nacro – NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 MARCH 2016**

| | 2015 | | |
|--|-------------------|-----------------------------|---|
| | Turnover £'000 | Operating costs £'000 | Operating surplus/ (deficit) £'000 |
| Social housing lettings | 10,094 | (8,108) | 1,985 |
| Supporting People/other housing income | 9,241 | (10,640) | (1,399) |
| Sub-total | 19,335 | (18,748) | 587 |
| Non-social housing activity | | | |
| Education provision | 11,677 | (12,416) | (739) |
| Offender management contracts | 4,167 | (4,534) | (367) |
| Substance misuse contracts | 4,568 | (4,308) | 260 |
| Corporate Projects | 1,878 | (1,637) | 241 |
| Voluntary Income | 298 | - | 298 |
| Subtotal | 22,588 | (22,895) | (307) |
| Total | 41,923 | (41,643) | 280 |



**Nacro – NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 MARCH 2016**

Particulars of Income and Expenditure from social housing lettings

| | General Needs Housing £'000 | Supported Housing £'000 | 2016 Total £'000 | 2015 Total £'000 |
|---|--------------------------------------|-------------------------------|---------------------------------|---------------------------------|
| Income | | | | |
| Rents receivable net of identifiable service charges | 9 | 7,714 | 7,723 | 6,053 |
| Service charge income received and losses from voids | - | 3,860 | 3,860 | 3,235 |
| Net rents receivable | 9 | 11,574 | 11,583 | 9,288 |
| Revenue grants from local authorities & other agencies | 24 | 585 | 609 | 660 |
| Amortised grants | 2 | 144 | 146 | 146 |
| Turnover from social housing lettings | 35 | 12,303 | 12,338 | 10,094 |
| Expenditure | | | | |
| Services | (1) | 990 | 989 | 1,077 |
| Management | (2) | 2,970 | 2,968 | 3,225 |
| Routine maintenance | 3 | 772 | 775 | 677 |
| Planned maintenance | - | 48 | 48 | (210) |
| Rent losses from bad debts | - | 514 | 514 | 186 |
| Rents payable and property costs | - | 4,038 | 4,038 | 2,978 |
| Depreciation of housing properties | 5 | 158 | 163 | 162 |
| Operating expenditure on social housing lettings | 5 | 9,490 | 9,495 | 8,095 |
| Operating surplus on social housing lettings | 30 | 2,813 | 2,843 | 1,999 |
| Void losses | | 602 | 602 | 480 |



**Nacro – NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 MARCH 2016**

4 Accommodation in management and development

| | 2016 No of properties | 2015 No of properties |
|------------------------|--------------------------------------|--------------------------------------|
| Owned units | 247 | 230 |
| Units under management | 1,121 | 921 |
| Total units | <u>1,368</u> | <u>1,151</u> |

5 Surplus for the year

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

| | 2016 £'000 | 2015 £'000 |
|---|-----------------------|-----------------------|
| Depreciation of property, plant and equipment | 620 | 318 |
| Amortisation of intangible assets | 100 | 100 |
| Government grants | (146) | (146) |
| (Gain)/loss on disposal of fixed assets | - | 6 |
| Audit fees: | | |
| - statutory audit | 56 | 78 |
| - audit-related assurance services | 4 | - |
| Operating lease rentals | 4,342 | 3,253 |

6 Interest receivable

| | 2016 £'000 | 2015 £'000 |
|--------------------------|-----------------------|-----------------------|
| Bank interest receivable | 37 | 35 |
| | <u>37</u> | <u>35</u> |

7 Interest and financing costs

| | 2016 £'000 | 2015 £'000 |
|---|-----------------------|-----------------------|
| Bank loans and overdrafts | 17 | 1 |
| Net interest on defined benefit liability | 436 | 534 |
| | <u>453</u> | <u>535</u> |



**Nacro – NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 MARCH 2016**

8 Staff costs

| | 2016 | 2015 |
|-----------------------------------|---------------|---------------|
| | £'000 | £'000 |
| Wages and salaries | 17,048 | 18,365 |
| Social security costs | 1,458 | 1,613 |
| Other pension costs (see note 23) | 561 | 1,123 |
| | <u>19,067</u> | <u>21,101</u> |

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

| | 2016 | 2015 |
|--------------------|---------------|---------------|
| | Number | Number |
| Salary Band | | |
| 60,000 – 69,999 | 5 | 6 |
| 70,000 – 79,999 | 1 | 1 |
| 80,000 – 89,999 | 3 | 3 |
| 90,000 – 99,999 | - | 2 |
| 100,000 – 109,999 | 1 | - |
| 110,000 – 119,999 | - | - |
| 120,000 -129,999 | - | - |
| 130,000 – 139,999 | - | 1 |
| 140,000 – 149,999 | 1 | - |
| | <u>11</u> | <u>13</u> |

The average full time equivalent number of employees was calculated as a rolling average over the 12-month period and was as follows:

| | 2016 | 2015 |
|-------------------------------|---------------|---------------|
| | Number | Number |
| Service delivery | 585 | 623 |
| Management and administration | 65 | 77 |
| | <u>650</u> | <u>700</u> |



Nacro – NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 MARCH 2016

9 Directors' remuneration and transactions

Key management personnel remuneration

| | 2016 | 2015 |
|--|--------------|--------------|
| | £'000 | £'000 |
| Directors who are executive staff members | | |
| Wages and salaries | 556 | 517 |
| Other pension costs | 13 | 12 |
| Compensation for loss of office | 30 | 0 |
| | <u>599</u> | <u>529</u> |

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

The number of Directors in the defined contribution scheme was six (2015: 6).

Remuneration of the highest paid director, excluding pension contributions

| | 2016 | 2015 |
|-----------------------|--------------|--------------|
| | £'000 | £'000 |
| Emoluments | 138 | 137 |
| Pension contributions | 4 | 4 |

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

No Council member or person related or connected to them received any remuneration from Nacro during the year. During the year expenses relating to travel were reimbursed or paid on behalf of Council members amounting to £3,116 to 6 members (2015: £3,192 to 6 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 2016**

11 Housing properties

| | Completed General needs £'000 | Completed Supported Housing £'000 | Total £'000 |
|--|--|--|------------------------|
| Cost | | | |
| As at 1 April 2015 | 275 | 10,210 | 10,485 |
| Completed properties acquired | - | 820 | 820 |
| As at 31 March 2016 | 275 | 11,030 | 11,305 |
| Depreciation | | | |
| As at 1 April 2015 | 22 | 2,742 | 2,764 |
| Charge for the year | 4 | 159 | 163 |
| As at 31 March 2016 | 26 | 2,901 | 2,927 |
| Net book value | | | |
| As at 31 March 2016 | 249 | 8,129 | 8,378 |
| As at 31 March 2015 | 253 | 7,468 | 7,721 |
| Finance costs | | | |
| | | 2016 £'000 | 2015 £'000 |
| Aggregate amount of finance costs included in the cost of housing properties | | 694 | 728 |



**Nacro – NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 MARCH 2016**

12 Property, plant and equipment – other

| | Freehold £'000 | Short leasehold £'000 | Equipment £'000 | Motor vehicle £'000 | Total £'000 |
|----------------------------|---------------------------|--------------------------------------|----------------------------|------------------------------------|------------------------|
| Cost or valuation | | | | | |
| As at 1 April 2015 | - | 698 | 2,701 | 175 | 3,574 |
| Additions | 16,359 | 50 | 592 | - | 17,001 |
| As at 31 March 2016 | 16,359 | 748 | 3,293 | 175 | 20,575 |
| Depreciation | | | | | |
| As at 1 April 2015 | - | 306 | 1,826 | 168 | 2,300 |
| Charge for the year | 120 | 53 | 281 | 3 | 457 |
| As at 31 March 2016 | 120 | 359 | 2,107 | 171 | 2,757 |
| Net book value | | | | | |
| As at 31 March 2016 | 16,239 | 389 | 1,186 | 4 | 17,818 |
| As at 31 March 2015 | - | 392 | 875 | 6 | 1,273 |



**Nacro – NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 MARCH 2016**

13 Investment Properties

| | 2016 £'000 |
|------------------------------|-----------------------|
| As at 1 April 2015 | 958 |
| Transferred to held for sale | (958) |
| As at 31 March 2016 | <u><u>-</u></u> |

14 Intangible assets

| | Computer software £'000 |
|----------------------------|--|
| Cost | |
| At 1 April 2015 | 410 |
| Additions | 18 |
| As at 31 March 2016 | <u><u>428</u></u> |
| Amortisation | |
| At 1 April 2015 | 146 |
| Charge for the year | 100 |
| As at 31 March 2016 | <u><u>246</u></u> |
| Net book value | |
| As at 31 March 2016 | <u><u>182</u></u> |
| As at 31 March 2015 | <u><u>264</u></u> |

15 Assets held for sale

| | £'000 |
|--------------------------------------|-------------------|
| At 1 April 2015 | - |
| Transfers from investment properties | 958 |
| As at 31 March 2016 | <u><u>958</u></u> |

The former investment property was reclassified as a current asset for sale after commencing sale proceedings, the property was subject to a Charity Valuation by Savills Chartered Surveyors.



**Nacro – NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 MARCH 2016**

16 Investments

| | £'000 |
|----------------------------|--------------|
| At 1 April 2015 | 728 |
| Unrealised loss | (34) |
| As at 31 March 2016 | 694 |

The fair value of listed investments, which are all traded in active markets, was determined with reference to the quoted market price at the reporting date.

17 Debtors

| | 2016 £'000 | 2015 £'000 |
|--|-----------------------|-----------------------|
| Amounts falling due within one year | | |
| Rent arrears | 1,057 | 833 |
| Provision for bad debts | (605) | (461) |
| Net rent arrears | 452 | 372 |
| Other trade debtors | 1,288 | 1,857 |
| Other debtors | 196 | 152 |
| Prepayments and accrued income | 2,155 | 2,988 |
| | 4,091 | 5,369 |

No disclosure has been made of the net present value of rent receivable under repayment plans as treatment is considered to be insignificant.

18 Creditors – amounts falling due within one year

| | 2016 £'000 | 2015 £'000 |
|--------------------------------------|-----------------------|-----------------------|
| Bank loans and overdrafts (note 21) | 800 | - |
| Other loans (note 21) | 2 | 2 |
| Trade creditors | 1,398 | 901 |
| Other taxation and social security | 735 | 796 |
| Other creditors | 171 | 169 |
| Deferred grants and grants repayable | 1,856 | 504 |
| Accruals | 1,149 | 1,187 |
| | 6,111 | 3,559 |



**Nacro – NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 MARCH 2016**

19 Creditors – amounts falling due after more than one year

| | 2016 | 2015 |
|---------------------------|--------------|--------------|
| | £'000 | £'000 |
| Other Creditors | | |
| Loans (note 21) | 1,006 | 8 |
| Deferred grants (note 20) | 5,108 | 5,254 |
| | <u>6,114</u> | <u>5,262</u> |

During the year Nacro entered into a new loan agreement with Lloyds bank for a period of 30 months. The amount withdrawn was £2m at a variable interest rate of 1.85% above the bank's base rate. The loan is secured against the Learning and Resource Centre at the Totton site. The NBV of the property at 31 March 2016 was £2,055,863.

The original housing loan with a carrying amount of £8,000 and a fixed interest of 9.35% is secured against two housing properties with a total NBV of £436,522.

20 Deferred grant income

| | 2016 | 2015 |
|---|--------------|--------------|
| | £'000 | £'000 |
| Deferred income – government grants | | |
| As at 1 April 2015 | 5,254 | 5,400 |
| Amortisation to Statement of Comprehensive Income | (146) | (146) |
| As at 31 March 2016 | <u>5,108</u> | <u>5,254</u> |
| Amounts to be released within one year | 146 | 146 |
| Amounts due to be released in more than one year | 4,962 | 5,108 |
| | <u>5,108</u> | <u>5,254</u> |

The total value of grants received by Nacro is £8,206,950.



**Nacro – NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 MARCH 2016**

21 Loan analysis

Borrowings are repayable as follows:

| Housing Loan | 2016 £'000 | 2015 £'000 |
|------------------------------|-----------------------|-----------------------|
| Between one and two years | 3 | 2 |
| Between two and five years | 3 | 6 |
| After five years | - | - |
| | <hr/> | <hr/> |
| | 6 | 8 |
| On demand or within one year | <hr/> | <hr/> |
| | 2 | 2 |
| Total | <hr/> | <hr/> |
| | 8 | 10 |

| Bank loans | 2016 £'000 | 2015 £'000 |
|------------------------------|-----------------------|-----------------------|
| On demand or within one year | <hr/> | <hr/> |
| | 800 | - |
| Between one and two years | 800 | - |
| Between two and five years | 200 | - |
| After five years | - | - |
| | <hr/> | <hr/> |
| | 1,000 | - |
| Total | <hr/> | <hr/> |
| | 1,800 | - |

22 Provisions

| | Dilapidations £'000 | Redundancy £'000 | Other £'000 | Total £'000 |
|----------------------------|--------------------------------|-----------------------------|------------------------|------------------------|
| As at 31 March 2015 | 1,285 | 73 | 254 | 1,612 |
| Increase | - | 103 | 12 | 115 |
| Utilised | - | - | - | - |
| Realised | (70) | - | (72) | (142) |
| As at 31 March 2016 | <hr/> | <hr/> | <hr/> | <hr/> |
| | 1,215 | 176 | 194 | 1,585 |



Nacro – NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 MARCH 2016

Dilapidations provisions are held to recognise the cost to be incurred in bringing our leased properties back to the required standard at the end of the lease. These costs vary depending upon the lease, from simple redecoration to full repairing liabilities.

Redundancy provisions occur where an individual has been served notice of redundancy at 31 March but the liability has not yet crystallised.

Other provisions include the future costs to be incurred on vacant surplus properties and provision for claw-back where there is a risk of funding being returned to commissioners as a result of contractual performance.

23 Retirement benefit schemes

Defined contribution schemes

Nacro operates defined contribution retirement benefit schemes for qualifying employees. The total expense charged to Statement of Comprehensive Income in the period ended 31 March 2016 was £375,000 (2015: £273,000).

Defined benefit schemes

The company operates the Nacro Staff Benefits Plan, which is a defined benefit plan, providing benefits based on final pensionable salary. Under the schemes, the employees are entitled to retirement benefit of 1/60th of final salary per year of service, on attainment of a retirement age of 65. No other post-retirement benefits are provided. The schemes are funded schemes.

The latest full actuarial valuation carried out by the plan actuaries was at 31 March 2014. For the purpose of the disclosures in these accounts the actuaries have based their calculation on the 2014 valuation and then estimated the plan liability at 31 March 2016 by allowing for interest earnings, further benefit accruals, benefit payments and membership movements over the year since the last valuation. The valuation was completed by a qualified independent actuary, Punter Southall Limited.

The plan was closed to new entrants from 1 December 1998 and to future accruals from 31 March 2006. A repayment plan, effective from March 2010, has been agreed with the Trustees of the Plan and the actuaries to clear the deficit in 15 years.



**Nacro – NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 MARCH 2016**

**Principal actuarial assumptions
Financial assumptions**

| | At 31 March 2016 | At 31 March 2015 |
|-----------------|-----------------------------|-----------------------------|
| Discount rate | 3.45% | 3.15% |
| Inflation (CPI) | 1.80% | 1.65% |

Mortality assumptions:

The current mortality assumptions include sufficient allowance for future improvements in mortality rates. The assumed life expectations on retirement age 65 are:

| | At 31 March 2016 years | At 31 March 2015 Years |
|---------------------------------|---------------------------------------|---------------------------------------|
| <i>Retiring today</i> | | |
| Males | 21.1 | 21.3 |
| Females | 23 | 23.2 |
| <i>Retiring in 20 years</i> | | |
| Males | 22.3 | 22.5 |
| Females | 24.5 | 24.7 |

Amounts recognised in the Statement of Comprehensive Income in respect of these defined benefit schemes are as follows:

| | 2016 £'000 | 2015 £'000 |
|---|-----------------------|-----------------------|
| Amounts included in staff costs | | |
| Current service cost – administrative cost | 186 | 337 |
| Total | 186 | 337 |
| Amount included in investment income | | |
| Net interest income | - | - |
| Total | - | - |
| Amount included in expenditure | | |
| Net interest cost on liabilities | 436 | 534 |
| Total | 436 | 534 |



**Nacro – NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 MARCH 2016**

Amount recognised in Other Comprehensive Income

| | | |
|---|-------|---------|
| Actuarial gain/(losses) on scheme liabilities | 2,580 | (8,427) |
| Return on scheme assets | (839) | 6,462 |

Amount recognised in Comprehensive Income

| | |
|-------|---------|
| 1,741 | (1,965) |
|-------|---------|

The amount included in the Statement of Financial Position in respect of its defined benefit retirement benefit schemes is as follows:

| | 2016 | 2015 |
|--|-----------------|-----------------|
| | £'000 | £'000 |
| Fair value of scheme assets | 44,317 | 45,397 |
| Present value of defined benefit obligations | (56,606) | (59,655) |
| Net pension liability | (12,289) | (14,258) |

Movements in the present value of defined benefit liability were as follows:

| | 2016 | 2015 |
|--|---------------|---------------|
| | £'000 | £'000 |
| As at 1 April 2015 | 59,655 | 50,838 |
| Scheme administration cost | 186 | 337 |
| Interest cost | 1,840 | 2,239 |
| Actuarial gains and losses | (2,580) | 8,427 |
| Benefits paid | (2,495) | (2,186) |
| Defined benefit obligation at 31 March 2016 | 56,606 | 59,655 |

Movements in the fair value of scheme assets were as follows:

| | 2016 | 2015 |
|---|---------------|---------------|
| | £'000 | £'000 |
| As at 1 April 2015 | 45,397 | 38,566 |
| Interest income of scheme assets | 1,404 | 1,705 |
| Return on plan assets (excluding amounts included in net interest cost) | (839) | 6,462 |
| Employer contributions | 850 | 850 |
| Benefits paid | (2,495) | (2,186) |
| Fair value of scheme assets at 31 March | 44,317 | 45,397 |



Nacro – NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 MARCH 2016

The analysis of the scheme assets at the Statement of Financial Position date was as follows:

| | 2016 | 2015 |
|------------------------------------|---------------|---------------|
| | £'000 | £'000 |
| Equity, property other | 29,546 | 29,522 |
| Gifts | 3,238 | 3,173 |
| Annuities | 11,130 | 11,840 |
| Cash | 403 | 862 |
| Fair value of scheme assets | 44,317 | 45,397 |

The actual net return on assets was £565,000 (2015: £8,167,000).

24 Cash flow from operating activities

| | 2016 | 2015 |
|---|--------------|----------------|
| | £'000 | £'000 |
| Surplus for the year | 12,469 | 5 |
| Adjustment for non-cash items | | |
| Depreciation of housing properties | 162 | 162 |
| Depreciation of other property, plant and equipment | 456 | 192 |
| Amortisation of intangible assets | 100 | 61 |
| Decrease/(increase) in debtors | 1,279 | (966) |
| Increase/(decrease) in creditors | 1,752 | (1,363) |
| (Decrease) in provisions | (27) | (1,101) |
| Non-exchange transaction | (16,359) | - |
| Pension costs less contributions payable | (228) | (513) |
| Amortisation of SHG | (146) | (148) |
| Interest payable | 19 | 534 |
| Interest received | (439) | - |
| Adjustments for investing or financing activities | 450 | (259) |
| Net cash flow generated from operations | (512) | (3,396) |

25 Capital commitments

Capital commitments at year end are as follows:

| | 2016 | 2015 |
|---|--------------|--------------|
| | £'000 | £'000 |
| Expenditure contracted but not provided for in the accounts | 67 | 75 |
| | 67 | 75 |

Capital commitments will be funded from reserves balances.



Nacro – NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 MARCH 2016

26 Leasing commitments

The future minimum lease payments of leases are as set out below. Leases relate to housing properties, office accommodation and photocopiers.

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

| | 2016 £'000 | 2015 £'000 |
|------------------------------|---------------|---------------|
| Payments due | | |
| - within one year | 2,017 | 1,967 |
| - between one and five years | 551 | 811 |
| | <u>2,568</u> | <u>2,778</u> |

27 Financial assets and liabilities

Categories of financial assets and financial liabilities

| | 2016 £'000 | 2015 £'000 |
|---|---------------|---------------|
| Financial assets measured at fair value through surplus/deficit | 694 | 728 |
| Financial assets measured at amortised cost | 1,936 | 2,381 |
| Financial liabilities measured at amortised cost | 4,112 | 1,876 |

Financial assets

Financial assets include short-term debtors, equity instruments in other entities and cash at bank. They are sterling denominated and the interest rate profile at 31 March was:

| | 2016 £'000 | 2015 £'000 |
|---|---------------|---------------|
| Bank deposits | 3,809 | 3,999 |
| Financial assets on which no interest is earned | 2,630 | 3,109 |
| Total | <u>6,439</u> | <u>7,108</u> |

The financial assets on which no interest is earned comprise publically traded equity instruments in other entities that have no fixed maturity and short-term trade and other debtors. The remaining financial assets are floating rate, attracting interest at rates that vary with bank rates.



Nacro – NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 MARCH 2016

Financial liabilities excluding trade creditors – interest rate risk profile

The company's financial liabilities are sterling denominated. The only loan with a fixed interest rate is the housing loan with a carrying value of £8,000 which bears a fixed interest of 9.35% per annum. The bank loan drawn from Lloyds in December 2015 bears a variable interest rate of 1.85% above the bank's base rate.

The debt maturity profile is shown in note 21.

28 Related party transactions

There are no related party transactions during the year.

29 Explanation of transition to FRS 102

This is the first year that Nacro has presented its financial statements under Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council. The following disclosures are required in the year of transition. The last financial statements under previous UK GAAP were for the year ended 31 March 2015 and the date of transition to FRS 102 was therefore 1 April 2014. As a consequence of adopting FRS 102, a number of accounting policies have changed to comply with that standard.

In carrying out the transition to FRS 102, Nacro has applied the following exemptions as permitted by Section 35 Transition to this FRS:

Business combinations

The company has elected not to apply Section 19 Business Combinations and Goodwill to business combinations that were effected before the date of transition to FRS 102. No adjustments have been made to the accounting treatments adopted at that time.

Restated statement of financial position

| | 31 March 2015 £'000 | 1 April 2014 £'000 |
|-----------------------------------|------------------------------------|-----------------------------------|
| Original reserves | (5,019) | (2,998) |
| Holiday pay accrual | (158) | (179) |
| Amortisation of government grants | 2,954 | 2,807 |
| Depreciation of fixed assets | (2,400) | (2,293) |
| Prior year adjustments | 244 | 244 |
| Restated reserves | <u>(4,379)</u> | <u>(2,419)</u> |



Nacro – NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 MARCH 2016

Restated surplus or deficit for the year ended 31 March 2015

| | £'000 |
|---|----------|
| Surplus for the year | 319 |
| FRS 102 Holiday pay accrual | 21 |
| FRS 102 Amortisation of government grants | 147 |
| FRS 102 Depreciation | (107) |
| FRS102 Pension accounting | (600) |
| Unrealised investment gain | 27 |
| Revaluation of investment property | 198 |
| Restated surplus for the year | <u>5</u> |

Correction of prior period errors

During the transition to FRS 102 Nacro identified a number of assets which were expensed during 2014, which should have been capitalised. Therefore, Nacro has reversed expense recognition and have capitalised the assets in the balance sheet as at the transition date.

Holiday pay accrual

FRS 102 requires short term employee benefits to be charged in surplus or deficit to the Statement of Comprehensive Income as the employee service is received. This has resulted in Nacro recognising a liability for holiday pay of £179,000 on transition to FRS 102. In the year to 31 March 2015 a total of £21,000 was released to the Statement of Comprehensive Income resulting in a liability as at 31 March 2015 of £158,000.

Grant Accounting

Grants were previously netted off the cost of the related asset. Under FRS 102, government grants must be accounted for using the accruals model or the performance model. As Nacro accounts for its properties at cost, it has adopted the accruals model for government grants, as required by SORP 2014. Non-government grants are accounted for under the performance model.

Under the accruals model, the government grants have been allocated to the related assets and amortised over the useful economic life of those assets. The unamortised amount is held within deferred income, split between current and non-current. The amount of amortised grant that has been recognised in opening reserves is £514,000.

Defined Benefit Accounting

Under previous UK GAAP Nacro recognised an expected return on defined benefit plan assets in the Income and Expenditure account. Under FRS102 a net interest expense, based on the net defined benefit liability, is recognised in surplus or deficit in the Statement of Comprehensive Income. There has been no change in the defined benefit liability at either 1 April 2014 or 31 March 2015. The effect of the change has been to reduce the credit to the Surplus for the year to 31 March 2015 by £600,000 and increase the credit in the Other Comprehensive Income by the equivalent amount.



Nacro – NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 MARCH 2016

Other Adjustments arising on transition to FRS 102

In addition to the transition adjustments identified above which affect the surplus for the financial year, the following adjustments have arisen which have had no effect on net reserves or Statement of Comprehensive Income but which have affected the presentation of these items on the Statement of Financial Position. The main items are:

(a) Computer software

Computer software, with a net book value of £170,000 at 1 April 2014, has been reclassified from tangible to intangible assets as required under FRS 102. This has no effect on the Nacro's net assets nor on the surplus for the year, except that the previous depreciation charge is now described as amortisation.

(b) Statement of cash flows

Nacro's cash flow statement reflects the presentation requirements of FRS 102, which is different to that prepared under FRS 1. In addition, the cash flow statement reconciles to cash and cash equivalents whereas under previous UK GAAP the cash flow statement reconciled to cash. Cash and cash equivalents are defined in FRS 102 as 'cash on hand and demand deposits and short term highly liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of changes in value' whereas cash is defined in FRS 1 as 'cash in hand and deposits repayable on demand with any qualifying institution, less overdrafts from any qualifying institution repayable on demand'. The FRS 1 definition is more restrictive.

30 Post balance sheet events

There are no post balance sheet events

31 Non-exchange transaction

On 1 December Nacro took over the operation of Totton College from the Corporation of Totton College which ceased to exist. The transfer was facilitated by the Education Funding Agency on behalf of the Department for Education. This was accounted for as a non-exchange transaction.

32 Date of authorisation of issue

The accounts were authorised to issue on 23 September 2016 by Nacro Council.



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