



National Offender  
Management Service

# **National Offender Management Service**

Annual Report  
and Accounts  
2014–2015



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Annual Report and Accounts  
2014-2015

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# Purpose, Vision and Values

# 1

## Preventing victims by changing lives

### Our Statement of Purpose

The National Offender Management Service is an Executive Agency of the Ministry of Justice. Our role is to commission and provide offender management services in the community and in custody ensuring best value for money from public resources. We work to protect the public and reduce reoffending by delivering the punishment and orders of the courts and supporting rehabilitation by helping offenders to reform their lives.

### Our Vision

We will work collaboratively with providers and partners to achieve a transformed Justice system to make communities safer, prevent victims and cut crime.

### Our Values

In delivering offender management services, we will:

- be objective and take full account of public protection when assessing risk
- be open, honest and transparent
- incorporate equality and diversity in all we do
- value, empower and support staff, and work collaboratively with others
- treat offenders with decency and respect
- embrace change, innovation and local empowerment
- use our resources in the most effective way, focusing on outcomes and delivering value for money for the taxpayer





# Foreword

by the Chief Executive

# 2



I am pleased to present to Parliament the seventh Annual Report and Accounts for the National Offender Management Service Agency.

The 2014-15 reporting year was particularly challenging. The Agency has continued to deliver important change and reform in both prisons and probation whilst managing a higher than forecast prison population and adjusting to a changing case mix of offenders both in custody and under supervision in the community.

The demands on prison, probation and headquarters staff across the country have been considerable and the positive outcomes which have been achieved reflect their continuing dedication, commitment and professionalism.

We have continued to reduce our costs whilst fundamentally reforming the way we work. The £149m savings delivered in 2014-15 mean that over the last four years the Agency has delivered almost £900m savings for the taxpayer (24 percent reduction against our 2010-11 baseline), whilst maintaining good performance outcomes for the public.

The latest reoffending data show a 7.4 percentage point fall in the 12 month reoffending rate for offenders released from prison or commencing a Court Order since 2002. The rate of reoffences per offender also fell by 31.9 percent. These figures demonstrate that the work being done by the Agency continues to make a difference.

During the last 12 months, the successful launch of the National Probation Service; the creation of 21 Community Rehabilitation Companies; the reconfiguration of the prison estate to support resettlement and the extension of community supervision to all offenders released from prison, provides a real opportunity for us to build on the success to date and achieve a further 'step-change' reduction in rates of reoffending.

This is an ambition we all share and colleagues across the Agency and in our partner organisations will continue to work tirelessly to achieve this goal over the coming year.

## **Michael Spurr**

Chief Executive

National Offender Management Service



## Strategic Report

### 3.1 About the National Offender Management Service

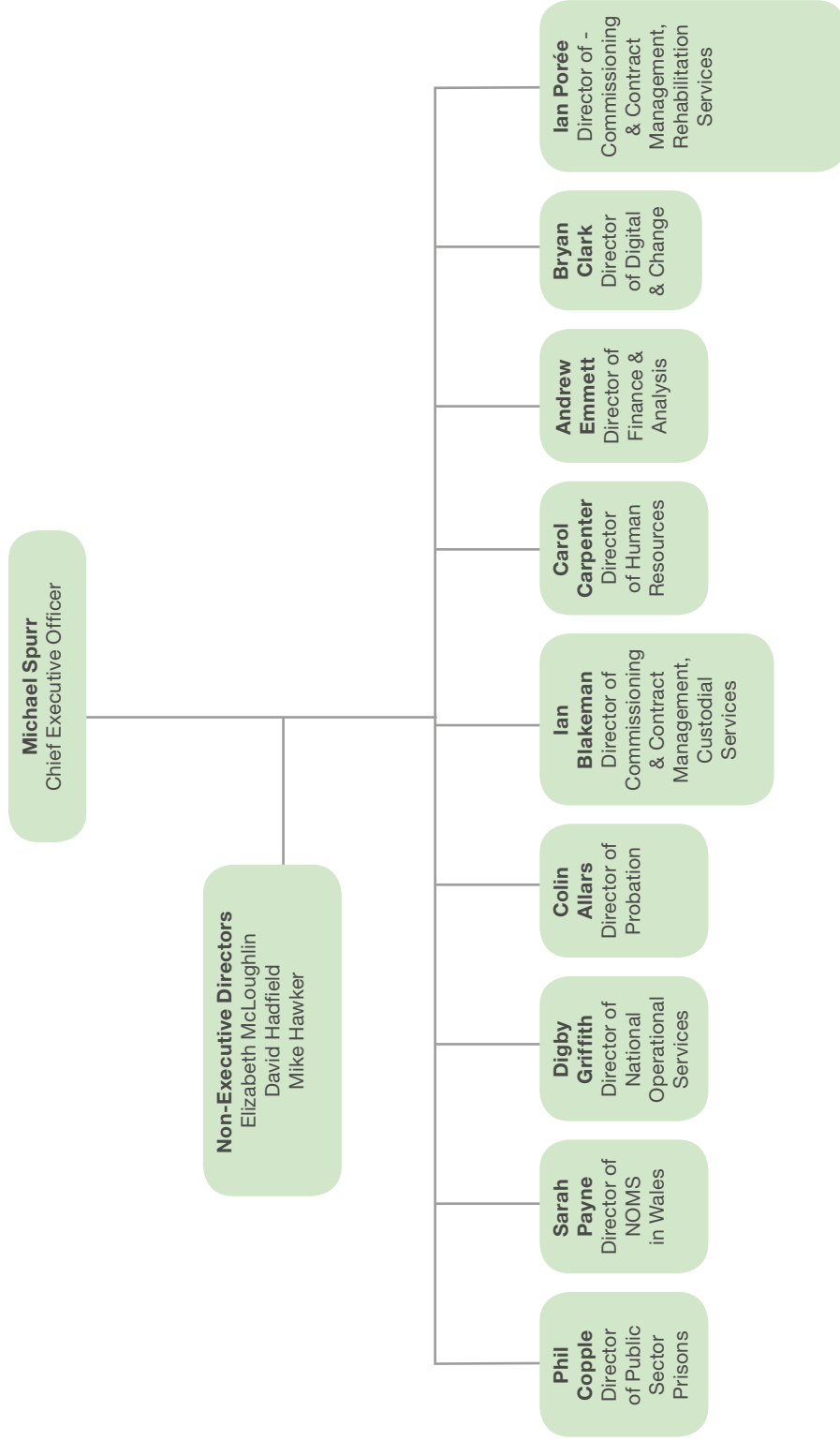
We deliver our offender services through:

- the National Probation Service – responsible in the community for carrying out risk assessments of all offenders and for the direct management of those offenders who pose the highest risk of serious harm to the public and who have committed the most serious offences
- Public Sector Prisons – 105 prisons which provide around 82 percent of prison places
- 21 Community Rehabilitation Companies, contracted with private providers – responsible for delivering community requirements for medium and low risk offenders
- private sector providers – operating 14 prisons under contract with private providers delivering other significant services including prisoner escorts and electronic monitoring of offenders
- partnerships – with a range of public and third sector partners, including police, local authorities, health and education providers, and with a wide range of organisations in the voluntary and social enterprise sector
- the Agency is also contracted by the Youth Justice Board to provide commissioned beds for young people (under 18) and by the Home Office to provide places at Immigration Removal Centres and detention spaces in prisons.

Our headquarters functions provide corporate and operational support services for the Agency and undertake the work required to meet our responsibilities to Parliament.

Following a fundamental reorganisation of the Agency's structure in 2010-11 and the implementation of the new probation arrangements in 2014-15, our structure provides clarity and accountability for the different functions of the Agency.

The high-level organisational structure as at 1 April 2015 is shown below.



## 3.2 Performance against Business Priorities

The business priorities were agreed by the Agency Board and are set out in the chart below.





## Preventing Victims by Changing Lives

### Strategic Narrative 2014-15

During 2014-15 we have delivered a wide-ranging change programme to improve services and reduce costs whilst maintaining every day operations. Delivering our key public services through this major period of change is testament to the dedication and professionalism of staff working in prisons, probation and in headquarters.

We have implemented the probation reforms which are fundamentally changing the way offenders are managed in the community. Responsibility for providing probation services has now transferred from Probation Trusts to the new National Probation Service and Community Rehabilitation Companies. The National Probation Service now manage those offenders who pose a high risk of serious harm to the public. The 21 Community Rehabilitation Companies, contracted to private providers from February 2015 to manage low and medium risk offenders – delivering the sentence of the court and working to reduce reoffending – being paid in part by the results they achieve.

Statutory supervision has been extended for the first time to offenders sentenced to less than 12 months in custody including some of the most prolific offenders. Additionally, this will enable an enhanced Through the Gate service (see page 15), providing offenders with continuity of support from custody into the community.

Through the implementation Our New Way in prisons we have made good progress in delivering effective prison regimes at lower cost to the taxpayer. This new way of working has been implemented across the estate. At the same time we have been addressing and continue to face a number of important challenges such as:

- an unexpected rise in the prison population from the autumn of 2013
- staff shortages, particularly in London and the South East
- operational pressures within prisons – particularly the changing offender population, increasing use of synthetic drugs (new psychoactive substances) and the increase in violence linked to this.

Delivering this important change in this environment has been a huge achievement and is testament to the quality, commitment and professionalism of our staff.


We have continued to modernise how our prisons operate to ensure they offer best value for money to the taxpayer. Our focus in delivering this work has remained on maintaining safe, decent and secure prisons and ensuring positive engagement with prisoners.

Our prison estate strategy remains focussed on ensuring we have enough places to hold all those committed into custody and that our estate will be configured in a way that matches the characteristics of the population and gives effect to our priorities. We have made sure that we had enough capacity by opening four new houseblocks, which will, between them, deliver over 1,200 new places and re-opening units at two prisons and temporarily increasing levels of crowding at a number of prisons both privately and publically operated.

Construction commenced in 2014 of the new 2,100 place prison in North Wales, which is due to be fully operational by late 2017. In February 2015 it was announced that the new prison will be operated by Her Majesty's Prison Service. This demonstrates that Her Majesty's Prison Service is now able to deliver competitively and that our strategy of a strong viable public sector working with a wider range of partners in the private and social sector is the right way forward to increase innovation, transform rehabilitation outcomes and present best value for money.

The number of self inflicted deaths remains a serious concern and is one of the most important areas for the Agency to tackle. As has been recognised, the reasons for the rise in self-inflicted deaths since late 2013 are complex. During 2014-15, we have taken positive actions to strengthen our approaches in this area (see page 21) and the reduction in the number of self-inflicted deaths in 2014-15 is welcome but we will continue to focus our efforts in this area to further reduce the numbers of self-inflicted deaths. Our dedicated safer custody staff provide support to vulnerable offenders every single day and share good practice across prisons.

Another priority is tackling violence – violence in prisons is not tolerated and we are committed to tackling the causes of it. We have taken positive steps to manage increased levels of violence (including serious assaults) within a complex and challenging prison population. We are working to develop a new violence reduction strategy that will include stronger guidance to Governors to help deal with violent offenders. We work closely with the police and Crown Prosecution Service and will always seek to prosecute anyone who attacks our staff.



We have reformed our finance function consolidating our professional leadership and capability to better meet the needs of the business. We have strengthened our contract management capability in line with recommendations from a number of government reviews, and we implemented National Audit Office and Public Accounts Committee recommendations.

The financial year 2014-15 was the fourth and final year of the current spending review period and we have continued to successfully deliver against stretching savings targets across the period. In 2014-15 we have delivered savings totalling £149m on top of the £749m savings delivered between 2011-12 and 2013-14. These saving figures represent a substantial reduction of over 24 percent, against the spending review baseline budget (2010-11).

### **Looking Ahead**

During the next 12 months our priority will be to build upon and embed the reforms we have introduced across prisons and probation whilst maintaining a quality and efficient service for the public. Key to this will be increased and better integration of our services, especially with Through the Gate community-based resettlement services reaching into prisons, and the integration of services in Wales.

We will be concentrating on making prisons, probation and all our support systems work as effectively as possible – so we can deliver our work to a high standard, protect the public effectively, and crucially, reduce reoffending – which will mean less crime, fewer victims and much less cost to the taxpayer.

Our people are at the heart of these efforts and there are now over 44,000 staff working across Her Majesty's Prison Service, National Probation Service and headquarters with high levels of professionalism, quality and commitment to making this work. In 2015-16 we will:

- maintain probation delivery and safe, secure and decent prisons within the agreed specifications
- build on the far-reaching reforms right across our business – in the community, in custody and in headquarters
- work innovatively to improve outcomes for offenders and the public, through directly delivered services and through effective commissioning
- continue to address the operational pressures within prisons – particularly the increasing use of synthetic drugs and the increase in violence and serious assaults linked to this and the recent rise in self inflicted deaths.



## Probation

During 2014-15 we completed the probation reforms. This fundamental reform of rehabilitation services for offenders restructures the way in which offenders are managed in the community in order to bring down reoffending rates.

This is being achieved by working with a more diverse market of probation providers; extending statutory supervision and rehabilitation in the community to offenders sentenced for up to 12 months custody (through the Offender Rehabilitation Act 2014); and introducing payment by results and provision of a nationwide through the prison gate resettlement service.

### Delivery of the National Probation Service and Community Rehabilitation Companies

On 1 June 2014 responsibility for providing probation services transferred from Probation Trusts to the new National Probation Service and 21 Community Rehabilitation Companies. As the 35 legacy Probation Trusts were dissolved, over 8,000 probation staff became part of the National Probation Service and successfully transferred into NOMS. At the same time over 9,000 staff moved across to the new Community Rehabilitation Companies.

This represented a significant and challenging change programme. We sought throughout to manage the impact upon operational business to ensure a smooth transition to the new arrangements and our staff deserve credit for their hard work and commitment, notwithstanding the uncertainties. In addition, to support the transition:

- a new contract management function was established and tested by the time the new owners took over on 1 February 2015
- we have strengthened Corporate Services across NOMS (HR, Analysis, Finance and IT).

### Through the Gate Services

To ensure more effective rehabilitation we have introduced arrangements for offenders to receive support Through the Gate ensuring continuity of services in custody and upon release in the community. We have created a network of resettlement prisons to facilitate the smooth transition from custody to community, aiming to locate the majority of prisoners into their home area for the last 12 weeks of custody.



## Probation Delivery

Staff have worked extremely hard to ensure a smooth transition to the new arrangements and importantly performance has remained stable throughout this period of significant organisational change. Key achievements include:

- continued provision of sentencing advice to courts
- around 80 percent of cases assigned to the appropriate provider within two working days of sentence – offenders assessed as posing a high risk of serious harm going to the National Probation Service, and low and medium risk offenders to the Community Rehabilitation Companies
- investment in the probation workforce including recruitment of over 650 new learners to train as probation officers
- services in place to deliver the new Community Order requirements and for the first time, extended supervision on release to those sentenced to less than 12 months in custody
- launched the E3 (Effectiveness, Efficiency and Excellence) Programme to define a common operating model for the National Probation Service that will ensure we offer the best possible service within the available resources. E3 will deliver later in 2015-16
- award of contracts for the new electronic monitoring services.

## Public Protection in the Community

Public protection in the community is a key priority. Through the National Multi-Agency Public Protection arrangements we work across prison, probation and police services to manage known high risk sexual and violent offenders. Core Multi-Agency Public Protection arrangements performance indicators have continued at or above target throughout 2014-15.

In managing restricted patients we undertake risk assessments, in collaboration with responsible clinicians and social supervisors, to inform vital and sensitive decisions in relation to escorted and unescorted community leave, discharge and recall.

We have continued to operate efficient procedures to recall offenders to custody for breaches of their licence conditions including an out of hours service, to ensure that urgent recall requests are dealt with outside of normal working hours.

## Reducing Reoffending

Reducing reoffending and integrated offender management are at the heart of all our work in custody and the community - to reduce the level of reoffending and the harm to victims, change offenders' lives and make communities safer, often working in conjunction with other commissioners and providers.

Our Commissioning Intentions document focuses on the importance of delivering effective offender services, enhancing public protection and giving offenders the necessary support to address their offending behaviour. Key work to reduce reoffending includes:

- learning opportunities offered in prisons, and enhanced access to mainstream learning and employment services for offenders on return to the community
- making prisons places of work and strengthening the focus on employability post-release
- targeted Offender Behaviour Programmes working with specific groups of offenders to reduce their re-offending
- new services for offenders with severe personality disorders
- updated programmes including: Drink Impaired Drivers; Alcohol Related Violence; Building Skills for Recovery; Sex Offender Pathways Programme; and CHROMIS (for violent offenders who have psychopathic traits). Identity Matters has also been developed for those whose offending behaviour is gang affiliated.



## Prisons

Our key role is to hold securely the offenders whom the courts sentence to custody. While driving down prison unit costs through implementing benchmarking and new ways of working, we have made sure that prisons continue to be safe, decent and secure places to work, live and visit.

We are implementing a far reaching programme of changes in public sector prisons and 2014-15 saw significant progress towards delivering major reforms against a challenging backdrop of staff shortages leading to restricted regimes and operational pressures including an unexpected rise in the prison population, the increasing use of synthetic drugs and the rise in violence linked to this. These operational challenges have been recognised in a number of Her Majesty's Chief Inspector of Prisons Inspectorate Reports. As the national recruitment picture improves, we will refine our strategic priorities to respond to operational pressures in the coming year. A period of stability and consolidation is required in which we can better focus on improving outcomes for prisoners and driving performance, maintaining our high levels of security whilst improving decency and supporting better reoffending outcomes, and above all improving safety by reducing self-inflicted deaths and violence.

## Reform and Prison Unit Costs

We have made significant progress in reducing prison unit costs whilst maintaining services for the courts, offenders and for the public. Between 2009-10 and 2013-14 prison unit costs (direct prison costs only) have reduced in real terms by 13 percent per place and 12 percent per prisoner. We have done this sustainably by working with Governors, staff and Trades Unions to establish a new benchmarked operating level to deliver a safe, secure and decent regime but at lower cost.

We are on course to deliver an overall reduction in spend over the financial years of 2013-14 to 2015-16 in public sector prisons with projected ongoing annualised savings of £300m (15 percent) against a 2012-13 baseline. This work has been delivered as part of the Prison Unit Cost Programme.

Through the public sector benchmark public sector prisons are operating in a new way to deliver safe and improved regimes at less cost:

- this new way of working was implemented in all Category B Local and Category C training prisons (Phase one) in 2013-14
- phase two, which includes the High Security Estate, Category B Trainers, Women's Estate and Young Offender Institutions holding under 18s commenced during 2014-15

- a third phase to enable Through the Gate reform will ensure prisons are well placed to facilitate the work of Community Rehabilitation Companies with offenders in custody prior to their release.

We have continued to modernise our estate to:


- offer best value for money to the taxpayer
- make sure that we will always have enough places to hold all those committed into custody
- make sure it is configured to match the characteristics of the population and our offender management priorities

To maintain the right capacity we have:

- opened four new houseblocks, which will, between them, deliver over 1,200 new places
- re-opened wings at two prisons and increased levels of temporary crowding at a number of prisons both privately and publically operated, whilst maintaining safety, security and decency
- we also made other changes to the estate in support of our wider objectives with HMP Littlehey and HMP Stafford both becoming centres for the treatment of sex offenders.

As part of our commitment to support the wider strategy on dealing with foreign nationals we worked with the Home Office to improve the way that immigration detainees are managed by converting The Verne into an Immigration Removal Centre. This both removed the number of detainees held in prisons and allowed the Home Office to focus its resources in a more targeted way. It also allowed Haslar to make the change in the opposite direction in March 2015.

We have maintained the momentum of our reform work to open up the delivery of public services to the most effective and efficient providers. Works and facilities management services have been competed across all public sector prisons with service commencement on 1 June 2015, which will deliver significant savings.



Recruitment targets were challenging during 2014-15 in response to a higher than anticipated prison population and higher than expected staff turnover in the South East and London:

- significant improvements have been made to our recruitment processes to make sure we can recruit prison officers we need more quickly
- we exceeded our target to recruit 1,700 officers by April 2015
- work is continuing to develop alternative strategies to meet ongoing difficult to fill vacancy demand in London and the South East.

All of this work is based on meeting our agreed operating specifications, ensuring that we are commissioning the right services and targeting the right offenders.

### Women Offenders

We have maintained a clear focus on the specific and distinct needs of women offenders both in prisons and in the community. In particular, we have developed improved arrangements to enable women in prisons to maintain better contact with their children to support more effective rehabilitation and long term family care. To enable this we have:

- put in place full time family engagement workers in all public sector female prisons who meet all prisoners on induction to identify any support required in terms of maintaining or establishing family contact
- opened family suites at HMP Drake Hall and HMP New Hall that will accommodate overnight visits for women and their children.

In addition, we have reviewed the women's prison estate to ensure that women will be accommodated in the most appropriate place to access the specific interventions they need to reduce their risk of harm to others or themselves and to reduce their re-offending.

We have also developed a centralised case supervision system to ensure more effective and supportive management for women prisoners with complex needs and restricted status women. This will work alongside existing offender management, prison processes and personality disorder treatment services to provide a co-ordinated approach to women's care, management and progression.

We have opened new places at HMP Drake Hall, HMP Styal and HMP Foston Hall to enable more women to remain closer to home and to support effective resettlement.

## Safety, Security and Decency

In taking forward our reforms in prisons we are determined not to compromise safety, security and decency.

### Safety

In 2014-15 we have worked to make sure that prisons remain safe for everyone by focussing on maintaining good order and control and by reducing violence, self-harm and substance misuse<sup>1</sup>.


During 2014-15, reducing the number of self-inflicted deaths has been a priority. We have taken positive action to strengthen our approaches in this area. Building on our existing arrangements for learning from deaths in custody, we have taken a number of key actions:

- to support establishments and share best practice we have appointed regional safer custody leads
- we have provided additional resource to priority establishments
- to provide information and share learning to staff from all establishments we have held two estate wide conferences, communicated regularly to staff stressing the importance of safer custody and shared learning including that from key analyses such as the Prisons and Probation Ombudsman's thematic report
- initiated a review of our case management system for prisoners identified as vulnerable to suicide or self-harm and commissioned research into male self-harm
- engaged with and supported the Independent Review of self-inflicted deaths in prison custody of 18-24 year olds since 2007 (the Harris Review).

The reduction in the number of self-inflicted deaths in 2014-15 is welcome, but we remain focussed on further reduction in self-inflicted deaths.

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<sup>1</sup> Statistics on safety in custody are published every quarter at <http://www.gov.uk/government/collections/safety-in-custody-statistics>



There is growing evidence that we are managing a more challenging prison population with the younger male adult population more prone to higher levels of violence than we have previously seen coupled with synthetic drugs. Overwhelming intelligence suggests that synthetic drugs have been linked to an increase in disturbed and disruptive behaviour by prisoners. It also appears to be generating increased levels of debt within prisons and associated heightened levels of intimidation and violence.

We have taken appropriate steps to manage increased levels of violence within a complex and challenging prison population:

- the Serious Crime Act 2015 has introduced two new offences of being in possession of a knife, or other offensive weapon within a prison and throwing of items over a prison wall – a common way of introducing contraband to the prison including synthetic drugs. Both of these offences will carry a penalty on conviction of imprisonment or a fine or both depending on the circumstances
- we will be issuing clearer guidance to staff and managers about the actions staff can take to defend themselves if an individual member of staff is attacked. This will help to clarify the rights of staff to defend themselves and the extent to which force can lawfully be used. This follows concerns that staff were reluctant to use force to defend themselves in case their actions were seen as an assault
- we have launched a new violence reduction project which has been created to gain better understanding of the causes of the current levels of violence in prisons and to make sure that there is strengthened handling of it, in terms of both prevention and response
- importantly, we are also cracking down on those who try to bring new synthetic drugs into prisons, through a range of security measures.

### **Security**

Our duty is to keep the public safe by holding securely those committed by the courts. Our record on escapes<sup>2</sup> from prison and prison escorts remains very strong – with only one escape in 2014-15. Whilst escapes remain at a low level, we have an extensive programme of work to strengthen our existing arrangements.

As a result of changes to policy introduced by Ministers and improved risk assessment procedures the number of prisoners absconding<sup>3</sup> from open prisons has reduced significantly over the last 10 years and we have made changes to strengthen the Temporary Release system.

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<sup>2</sup> An escape involves a prisoner overcoming a physical barrier or restraint

<sup>3</sup> An abscond involves a prisoner leaving lawful custody without having to overcome a physical barrier or restraint



We have undertaken a wide range of security related activities in 2014-15 including:


- implementing a new system to share intelligence and build comprehensive local, regional and national intelligence pictures
- strengthening the response to all crimes in prisons, in particular staff assaults by introducing a new protocol agreed with the Crown Prosecution Service and the Association of Chief Police Officers
- an improved framework to reduce the supply of drugs into prison, including pioneering drug detection technology. We have also started work on tackling the threat around new synthetic drugs
- we have put in place a new strategy for tackling illicit mobile phones through blocking and disruption
- we are delivering a new strategy with the National Crime Agency to reduce the threat presented by serious organised criminals in prisons
- tackling radicalisation and extremism has remained a priority, working with partner agencies to manage threats and supporting frontline staff to counter the extremist ideology.

During the year we have further enhanced our approach to tackling corruption within our workforce. The vast majority of our staff and partners are committed professionals; there are, however a small minority of corrupt staff who put their colleagues at risk. During the reporting year (2014-15) there were 23 individuals convicted by the courts and 38 staff were dismissed or resigned as a result of corruption related disciplinary proceedings and investigations. Eighty two non directly employed staff were excluded from prisons.

### **Decency**

At a time of cost reduction, we have invested capital to maintain and enhance regimes and to improve the decency of living conditions within establishments including shower and living area refurbishments and toilet screening.

This has been a challenging year, given the amount of change we have been implementing. With staff shortages we have had to operate with restricted prisoner regimes across a number of establishments. We have put in place a number of actions to meet these challenges including an accelerated recruitment campaign, the introduction of Her Majesty's Prison Service Reservists and staff sent on detached duty to the prisons with the greatest shortages. The actions we have taken have been recognised and welcomed by Her Majesty's Chief Inspector of Prisons.



Interactions between staff and prisoners are hugely important – every contact matters. Use of pro-social skills and the confident, consistent and fair use of authority are two good examples of activity which can make a real difference to the lives of prisoners. In six establishments, we are piloting the Five-Minute Intervention Programme training for staff. Officers receive two days of training and a number of follow-up sessions which teach them to use ten specific skills in their conversations, shaping them into an opportunity for positive reinforcement or challenge. This engagement encourages prisoners to think for themselves and adopt a new, positive outlook.

### **Youth Justice**

We work with the Youth Justice Board to work to prevent children and young people under 18 from offending or reoffending and make sure custody is safe and secure, addressing the causes of their offending behaviour. The Agency is contracted by the Youth Justice Board to provide commissioned beds for young people (under 18).

We manage the Young People's Estate under a functional model to ensure that we are delivering a bespoke specialist service that meets young people's specific needs and is consistently delivered across the estate. In 2014-15 we:

- benchmarked our four Young Offender Institutes in accordance with a bespoke set of principles developed specifically for this area of our services
- commenced new education contracts that will see education provision within Young Offender Institutes increase from 15 to 30 hours per week for all young people
- completed assessments in all four sites to understand factors associated with institutional violence and developed actions plans to address any areas of concern
- are working to introduce a new restorative justice model across the Young People's Estate
- developed a new standard Young People's Estate casework model to deliver a much greater multi agency approach to casework which will be implemented in 2015
- developed revised policies for young people in relation to Release on Temporary Licence, Incentives & Earned Privileges and transitions between the youth and adult custodial services.

## Work in Prisons

Real progress has been made in the delivery of work for offenders across the prison estate. Work is defined as activity in prison which delivers products or services. Key achievements include:

- securing significant increases in the number of hours worked by offenders and the number of offenders undertaking work whilst in custody. In 2010-11 public sector prisons delivered around 10.6 million prisoner working hours which increased to over 14.2 million hours in 2013-14 with a further reported 1.5 million hours worked in private prisons
- the average number of prisoners working at any one time in public sector prisons between 2010-11 and 2013-14 increased from around 8,600 to around 9,900.

The overall future growth strategy is based on gaining significant contracts for prisons that have the facilities and physical space to support such work. This includes building on our success in supporting wider government through work in prisons. We have recently signed a 10 year service level agreement with the Ministry of Defence, which agrees how we will deliver goods and services to them. This achieves both savings for the taxpayer whilst also contributing to increased rehabilitative work to reduce reoffending.

## NOMS in Wales

The NOMS in Wales Directorate was established in 2014-15 because of the distinct differences arising from devolution: in Wales, the Welsh Government has responsibility for delivering a wide range of public services including health, education and social services; there is a legal requirement for all public services to be delivered bilingually in Welsh and English; and some services are funded differently to England. Criminal Justice is not devolved but achieving our overarching aims of public protection and reducing re-offending depend significantly on close working relationships with partners throughout Wales, both devolved and non-devolved.



Key achievements of NOMS in Wales during 2014-15 have been:

- good progress has been made in increasing the number of Welsh prisoners held in the Welsh prisons in the 12 weeks prior to release to support the implementation of Through the Gate resettlement services
- the public sector benchmark has been effectively applied in the public sector prisons in Wales
- creation of additional capacity in Welsh prisons
- construction commenced in 2014 of the new 2,106 place prison in North Wales, which is due to be fully operational by late 2017. In February 2015 it was announced that the new prison will be operated by Her Majesty's Prison Service, with 34 percent of services outsourced to the private and voluntary sectors.

During 2014-15, NOMS in Wales has established the Offender Journey Integration Programme. This three year co-ordinated programme of project and workstream activity, encompassing custody and the community, and private and public sector providers of services, will drive transformation of services to offenders through improved integration of the offender journey and identify opportunities to streamline processes and develop innovative service provision.

The Wales Reducing Reoffending Strategy has provided a framework for significant community and custodial developments including the launch of the Women Offenders' Pathway with the Welsh Government and the four Welsh Police and Crime Commissioners.

NOMS in Wales has continued to strengthen the working relationships with the Welsh Government and key partners to ensure that a whole system approach is taken to reducing crime and improving community safety.

## Corporate Services and other core priorities

Our headquarters continues to provide Finance, HR, ICT and operational support to the Agency. This work includes supporting and enabling the Agency to deliver against its reform priorities and helping identify and deliver savings opportunities. Corporate Services have been key to supporting the delivery of offender management across the NOMS operating model through this period of change and financial challenge.

### Contract Management

We have strengthened our contract management function in line with recommendations from a number of reviews in government and are embedding National Audit Office recommendations. Our contracts are now being managed in line with the new Ministry of Justice contract management model.

We have a robust contract management function based around a multifunctional team, including commercial and operational contract management roles, to make sure Community Rehabilitation Companies deliver effective services and value for money to the taxpayer.

### Corporate Services

Other key corporate services work during 2014-15 included:

- to support the Transforming Rehabilitation reforms we have delivered a number of ICT changes to prison and probation case management systems, and the core IT infrastructure
- completing national rollout of the prison visits booking service which provides a simpler, standardised way for families and friends of prisoners to book their visits online
- in support of Our New Way we have developed 'Our People' – which defines what we want from our future workforce and focuses on the links between good people management, employee engagement and attendance
- introduction of a new Employee Assistance Programme which provides comprehensive post incident care and support to staff including the ability to self refer for counselling and advice
- mobilisation of additional training accommodation and use of temporary additional trainers in response to the increased recruitment volumes
- the National Tactical Response Group have responded operationally to over 400 incidents, demonstrating extreme courage and commitment.



## Resources

The financial year 2014-15 was the fourth and final year of the current spending review period and we have continued to successfully deliver against stretching savings targets across the period. In 2014-15 we have delivered savings totalling £149m on top of the £749m savings delivered between 2011-12 and 2013-14. These savings figures represent a substantial reduction of over 24 percent, against the spending review baseline budget (2010-11). We have delivered savings of this scale, whilst maintaining our focus on protecting the public, reducing reoffending and our responsibility to enforce the orders of the courts.

We have achieved these savings through a number of programmes including:

- completed savings from the wholesale restructure of our headquarters – a reduction of 37 percent, £92m, in our headquarters costs over the spending review period
- delivering efficiency savings in public sector prisons, making benchmarking and efficiency savings of four percent (£71m) as part of the Prison Unit Cost Programme in 2013-14. This is in addition to the 13 percent (£263m) that public sector prisons successfully delivered between 2011-12 and 2013-14
- as described elsewhere, probation services were restructured during the year and the new operating model will deliver critical new services for less cost in future years
- a capacity management programme to ensure the most effective use of the prison estate. Since the start of the spending review, we have opened new accommodation at prisons at a much lower unit cost. This has enabled us to reconfigure the estate and to close less efficient, uneconomic places across a number of prisons. In 2014-15 £36m residual savings were delivered through the closure of prisons in December 2013 and January 2014. Through this effective management of prison capacity we have saved close to £170m in total since the start of the spending review and significantly reduced the department's maintenance liability
- other savings, including contract spend and wider efficiencies totalling £36m in 2014-15.

Decisions on where to target financial savings have been and will continue to be based on protecting operational delivery and frontline services and meeting our legal and regulatory requirements.

## Financial Performance

### Results for the Year

The Consolidated Statement of Comprehensive Net Expenditure for the year is shown on page 73.

### Operating costs

Net operating costs in the Consolidated Statement of Comprehensive Net Expenditure were £3,762m (2013-14: £3,921m), a decrease of £159m, after excluding one-off 2013-14 Consolidated Extra Funds Receipts of £164m. The key factors were:

- staff costs reduced by £113m, the most significant factor being a decrease of programme staff costs of £92m, which reflected an equivalent fall in staff numbers
- other costs reduced by £80m across a number of categories of spend.

### Consolidated Statement of Financial Position

The Consolidated Statement of Financial Position and Consolidated Cash Flows are on pages 75 to 77. The net asset position increased from £4,223m at 31 March 2014 to £4,371m at 31 March 2015, a movement of £148m.

The main drivers were:

The value of Non-current assets increased by £456m, the most significant movement being the annual property revaluation which produced a net surplus of £503m, this is consistent with the 8 percent increase in the Tender Price Index.

The Local Government Pension Scheme deficit increased by £195m, following the year end actuarial reviews of the assets and liabilities as at 31 March 2015.

Provisions increased by £46m, the largest movements being an increase to the Civil Service Injury Benefit provision and to the litigation provision, due to new cases, and an increase in life expectancy assumptions for recipients of injury benefits.

Further information on financial performance, key estimates and assumptions can be found in the Accounts section of the Annual Report and Accounts.

## Operational Performance

### NOMS Operational Performance 2014-15

| MEASURE  | JULY 2012-<br>JUNE 2013        | 2002                           |
|--|--------------------------------|--------------------------------|
| One-year proven reoffending rate for adult offenders discharged from prison or commencing a court order <sup>4</sup> | 35.6%                          | 43.0%                          |
| MEASURE  | OUTCOME<br>2014-2015           | OUTCOME<br>2013-2014           |
| <b>Delivering the Punishment and Orders of Courts</b>  |                                |                                |
| The percentage of orders and licences that are successfully completed  | 79%                            | 77%                            |
| The percentage of prisoners held in crowded accommodation across the prison system                                   | 25.5%                          | 24.1%(r) <sup>5</sup>          |
| The rate of self-inflicted deaths per 100,000 prisoners (3-year rolling average)                                     | 85                             | 81                             |
| The rate of drug misuse in prisons as reflected by those testing positive in mandatory drug tests <sup>6</sup>       | 6.9%                           | 7.4%                           |
| <b>Public Protection</b>   |                                |                                |
| The number of Category A escapes   | 0                              | 0                              |
| The number of escapes from prison and prison escorts   | 1                              | 4                              |
| The rate of escapes from prison and prison escorts as a proportion of the average prison population                  | 0.001%                         | 0.005%                         |
| The number of escapes from contractor escorts  | 12                             | 9                              |
| The rate of escapes from contractor escorts as a proportion of the throughput of prisoners                           | 1 in 67,043 prisoner movements | 1 in 93,308 prisoner movements |
| <b>Reducing Reoffending (supplementing the overarching impact indicators)</b>  |                                |                                |
| The percentage of offenders in employment at termination of their sentence, order or licence                         | 40.6%                          | 38.0%                          |
| The percentage of offenders in settled and suitable accommodation at termination of their sentence, order or licence | 87.6%                          | 87.7%                          |
| <b>Staffing Indicators</b>   |                                |                                |
| Staff sickness: average days per annum (NOMS and probation) <sup>7</sup>   | 11.3 days                      | 10.5 days                      |
| Proportion of black and minority ethnic staff in the Agency (NOMS and probation) <sup>8</sup>                        |                                | 9.6%                           |

<sup>4</sup> Proven Reoffending Statistics: July 2012 to June 2013, published 30 April 2015 (<https://www.gov.uk/government/statistics/proven-reoffending-statistics-july-2012-to-june-2013>)

<sup>5</sup> (r) - revised. Due to improved recording and data quality for 2014-15, we have become aware of some underreporting of crowding in previous years. Although this amounted to less than 5% of data points, we have revised figures accordingly for 2013-14, and will revise figures back to 2009-10 in the Management Information Addendum and Prison Performance Digest.

<sup>6</sup> Note that new synthetic drugs are not currently tested

<sup>7</sup> The figure refers to NOMS headquarters, public sector prisons, Probation Trusts, National Probation Service and Community Rehabilitation Companies for the period they were in the public sector.

<sup>8</sup> We are not in a position to provide a figure for NOMS Agency Black and Minority Ethnic representation for 2014/15. Figures currently held are not directly comparable to the figure quoted for 2013/14 in last year's annual report. This is a consequence of the transfer of staff in Community Rehabilitation Companies to the private sector and the fact that information on protected characteristics for National Probation Service staff did not migrate onto the NOMS system when those staff transferred from probation trusts to NOMS. Figures held on administrative systems for NOMS agency do not include the majority of National Probation Service staff, and as such, currently held data do not represent the Black and Minority Ethnic representation of NOMS Agency in an unbiased manner.



The Proven Re-offending Statistics bulletin published on 30 April 2015 provides key statistics on proven re-offending in England and Wales. It gives proven re-offending figures for adult and juvenile offenders, who were released from custody, received a non-custodial conviction at court, received a caution, or received a reprimand or warning between July 2012 and June 2013. A proven re-offence is defined as any offence committed in a one year follow-up period that leads to a court conviction, caution, reprimand or warning in the one year follow-up or within a further six month waiting period to allow the offence to be proven in court.


The latest proven reoffending statistics were published on 30 April 2015 covering the 12 months ending June 2013. Despite small rises for court orders compared to the previous 12 month period, it remains the case that for most index disposals and custodial sentence lengths the results are positive, showing a reduction in reoffending compared to the previous 12 months and in particular compared to 2002.

The key reoffending statistic for NOMS is the one-year proven reoffending rate for adult offenders discharged from prison or commencing a court order. Between July 2012 and June 2013, around 174,000 adult offenders were released from custody or commenced a court order. Around 62,000 of these offenders were proven to have committed a re-offence within a year. This gives a proven re-offending rate of 35.6 percent. Although this is a rise of 0.1 percentage points compared to 12 months earlier, it is down 7.4 percentage points compared to 2002.

The proven reoffending rate for releases from custody was 45.2 percent, down by 0.4 percentage points compared to a year earlier and down 7.4 percentage points from 2002.

For court orders (Community Orders and Suspended Sentence Orders), the proven reoffending rate for the 12 months to June 2013 was 34.0 percent, up by 0.2 percentage points compared to the 12 months to June 2012, but down 5.8 percentage points from the 2002 level.

There were 76 self-inflicted deaths in prison custody in 2014-15 (ratio 0.9 per 1,000 prisoners) compared to 88 in 2013-14 (ratio 1.0 per 1,000 prisoners). This improvement is welcome and efforts will continue to achieve further reductions.



There were no escapes from prisons in 2014-15 and one escape from a prison service escort, producing an annualised rate of escapes of 0.001 percent of average population. This is the best ever outturn against this measure. For the second successive year there were no Category A escapes (the last was in May 2012).

Some misinterpretation of the counting rules for the measure of crowding came to light during 2014-15 and as a consequence the recent time series has been revised. The rate of crowding in 2014-15 was 25.5 percent, compared to the revised outturn of 24.1 percent in 2013-14. The increase in 2014-15 is due to improved reporting as well as decisions made across the year to manage population pressures. This is because the prison population operated above published projections throughout 2014 and as a result sensible measures were taken to ensure that we had sufficient capacity to deal with the increase in population.

Outturns against the joint prisons and probation resettlement measures of employment and accommodation remained stable. Measured across custodial and community settings there has been a rise in the percentage of offenders in employment at end of sentence (from 38 percent in 2013-14 to 40.6 percent in 2014-15), whilst the percentage of offenders in settled and suitable accommodation at end of sentence remained broadly stable (87.6 percent compared to 87.7 percent a year earlier). These measures are being replaced by better indicators of resettlement for prison establishments and Through the Gate providers.

The year also saw a fall in the rate of prisoners tested positive for drugs: 6.9 percent in 2014-15 compared to 7.4 percent in 2013-14<sup>9</sup>.

During a year of significant organisational change it is a credit to the professionalism of the probation service that business as usual has been maintained. The completion rate for offenders on orders and licences once again increased slightly, from 77 percent to 79 percent.

Against a background of a longer term downward trend, rates of staff sickness rose across NOMS and probation during 2014-15, from an average of 10.5 days in 2013-14 to 11.3.

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<sup>9</sup> Note that new synthetic drugs are not currently tested.

### 3.3 Equality

We are committed to fairness. We treat our staff properly and ensure equality of opportunity. We deliver our services fairly and respond to individual needs. We insist on respectful and decent behaviour from staff, offenders and others with whom we work. We recognise that discrimination, harassment and bullying can nevertheless occur and we take prompt and appropriate action whenever we discover them.

The offenders in our care and the staff in our organisation have the right to expect fair, transparent and equitable treatment. Equality and diversity are central to all of our business activities and we are fully committed to compliance with the Public Sector Equality Duty and Equality Act 2010. We have made huge improvements over the last 10 years, using data increasingly to inform our thinking and strategic planning.


Following the creation of the National Probation Service, we now have responsibility for the Public Sector Equality Duty in the management of the NOMS as a whole, including Public Sector Prisons, National Probation Service and contract management. This provides a new and exciting opportunity to learn from best practice in both the community and in custody to shape our thinking.

We have developed a NOMS Equality Strategy 2015-17, with high level, whole system objectives supported by a clear delivery plan.

All NOMS policies have a mandatory Equality Impact Assessment (now called Equality Analysis), which addresses any inequalities associated with the policy. We are due to publish an Agency Instruction outlining the importance of capturing equality considerations from the earliest stages of policy and protocol development.

During 2014 we created an Equalities Sub Committee, chaired by a Non Executive Director on the Agency Board. The committee provides strategic oversight of activity, drives performance, and monitors delivery of the further improvements we require.

We now have a clear structure for capturing data on equality outcomes for offenders at key stages in custody and in the community. The quality of our data has also improved. We have funded a partnership led by MENCAP to improve the capability of staff to respond to offenders' communication needs arising from hidden differences, such as learning disabilities. A toolkit is nearing completion.



Given the changes to IT across the whole probation system, it has been a particular challenge to adapt to the assistive technology needs of some of our staff. Working in many instances individually with our staff, we are continuing to work to ensure all staff are equipped to carry out their roles.

We continue to highlight to staff the importance of declaring their protected characteristics<sup>10</sup> on an anonymised basis, as we use this information to monitor progress in maximising inclusion and strengthening our workforce. We are due to publish a comprehensive document promoting staff declaration. The importance of reasonable adjustments is made clear through a specific objective in NOMS Equality Strategy 2015-17 and in the contractual arrangements with Community Rehabilitation Companies.

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<sup>10</sup> Protected Characteristics – Race/Nationality, Age, Disability, Sexual Orientation and Religion.

## 3.4 Our People

A diverse range of staff working in Probation, Her Majesty's Prison Service and NOMS headquarters were honoured with numerous awards in 2014-15. The selection below represents some of the major national awards received.

### Queen's Birthday Honours

Nine members of staff from across NOMS received awards in Her Majesty the Queen's Birthday Honours List 2014

#### **MBEs have been awarded to:**

Rajen Odera, Prison Officer, for his work in the healthcare team at HMP Belmarsh where he helped set up the multi-disciplinary Mental Healthcare Unit

#### **OBEs have been awarded to:**

Javid Ibrahim - Muslim Chaplain at HMP Kirkham, for public and voluntary service (Preston, Lancashire)

Carole Homan - Deputy Chair of the Independent Monitoring Board at HMP/YOI Isis, for voluntary service to Justice and Offenders (London)

Jo Tomlinson - Trent Partnership NHS Trust at HMP Stafford, for her services to Prison Nursing

David Chantler, West Mercia, Annette Hennessy, Merseyside, and a former Trust chair (Dr Hilary Tucker, Manchester) for services to Public Protection and Reducing Re-offending

#### **The British Empire Medal has been awarded to:**

Sandra Borg-French for her 40 years working for the prison service.

Sitta Joseph for the volunteering work she does alongside her full time job as a deputy catering manager at HMP Huntercombe

### New Year's Honours

#### **The CBE has been awarded to:**

Nick Pascoe, Deputy Director of Custody, Greater London Region



**OBEs were awarded to:**

Kenny Brown, Governor, HMP Wandsworth, for services to Her Majesty's Prison Service

Heather Munro, Lately Chief Executive, London Probation Trust, for services to Probation, Rehabilitation and Criminal Justice

Robert Owen, Chief Executive Officer, St Giles Trust, for services to the Rehabilitation of Offenders

Elizabeth Tysoe, Lately Head of Healthcare Inspection, Her Majesty's Inspector of Prisons, for services to Offender Health

Tessa Webb, Lately Chief Executive, Hertfordshire Probation Trust, for services to Probation

**MBEs were awarded to:**

Rosalind Fulcher, Prison Officer, HMP Huntercombe, for services to Her Majesty's Prison Service

Lou Lockhart-Mummery, Lately Chair Association of Members of Independent Monitoring Boards, for services to Prisoners and Detainees

Edwina Tyler, Business Community Engagement Manager, HMP The Mount, for services to Prisoners and Prison volunteering

Mohammed Kabir Uddin, Imam, HMP Wormwood Scrubs, for services to Her Majesty's Prison Service

**The British Empire Medal was awarded to:**

Mark Harling, Physical Education Officer, HMP Humber, for services to Her Majesty's Prison Service

**Civil Service Awards**

**The Professional of the Year Award:**

Dr Siriol David, Her Majesty's Prison Service Psychological Services, Wales, (Ministry of Justice)

Dr Siriol David has made a 30-year commitment to Psychological Services in Her Majesty's Prison Service, but is recognised particularly for her work in developing a Through the Gate forensic psychological service in Wales. This service has improved the overall management of high-risk offenders and promoted psychology in a wide range of settings and organisations

## Butler Trust Awards

The 2014-15 winners of the prestigious Butler Trust Awards included 6 individuals or teams from public and private sector prisons in England and Wales, 2 from Probation Trusts, 1 from Youth Offending, and 1 from Community Rehabilitation Companies in England and Wales. The winners and an additional 20 commendees attended a ceremony at Buckingham Palace presented by The Butler Trust's patron, HRH The Princess Royal.

This year's Princess Royal's Prize for Outstanding Achievement went to James Bamford for his work as a Probation Officer in Wiltshire. He is now Senior Probation Officer at Bristol, Gloucestershire, Somerset & Wiltshire Community Rehabilitation Company.

Full list of winners and commendees: <http://www.butlertrust.org.uk/our-winners/>

## Prison Officer of the Year awards (internal)

Paul Murray, from HMP Liverpool, winner of the Safer Custody category was named overall Prison Officer of the Year 2014 by Michael Spurr, NOMS Chief Executive Officer. Explaining why he chose Paul as the winner Michael Spurr said: 'Not only has he developed an innovative programme to tackle gang culture, he has worked really well with individuals to help them change.'

## Probation Champion of the Year (internal)

Kate Taylor, winner of the Offender Management category, was named as the overall winner of the Probation Awards 2014. Michael Spurr chose Kate from the category finalists saying: 'Her chief executive has said Kate is an exceptional offender manager and I agree. She provides practical support, motivation and belief that change can happen which has made a real difference to people's lives.'

## Prison Radio Association won:

2014 Radio Academy Radio Production Awards winner: Indie of the Year (Silver)

And also:

2014 winner: Third Sector Excellence Award (Enterprise)



## 3.5 Sustainability Report

### Introduction

This is the fourth Sustainability Report for the National Offender Management Service (NOMS) prepared in accordance with 2014-15 guidelines laid down by HM Treasury in 'Public Sector Annual Reports: Sustainability Reporting', and in line with the Government's Greening Government Commitments (GGC). These form the primary Sustainable Development efficiency driver across government and include a series of reduction targets in areas such as carbon from energy, waste and water.

Further details are available at:

[www.hm-treasury.gov.uk/frem\\_sustainability.htm](http://www.hm-treasury.gov.uk/frem_sustainability.htm)

<https://www.gov.uk/government/policies/making-sustainable-development-a-part-of-all-government-policy-and-operations>

This report covers 105 public sector prisons, NOMS shared service and administration buildings and sites, four privately operated prisons contracted to provide sustainability data to MoJ, 35 Probation Trusts until their dissolution on 1 October 2014, and 21 Community Rehabilitation Companies (CRC) until share sale on 31 January 2015.

NOMS National Probation Service Directorate (NPS) and privately owned CRC shared occupations are accounted for together in this report for a 2 month period between 1 February 2015 and 31 March 2015, resulting in data which is transparent and comparable to prior years reporting.

Utilities consumed in prison industries are removed from consumption reporting to provide greater operational consistency between prisons. We do not consider that the exclusion of these areas has a material impact on sustainability reporting as a whole.

Except for 'Expenditure on official business travel', where full year results were available, three months of results are estimated based on previous performance, the actual performance data is unavailable at the reporting date.

### Governance, responsibilities and internal assurance

Overall governance and assurance is the responsibility of the MoJ Sustainable Development team (SDT). Energy efficiency projects are managed through a variety of means including the MoJ Carbon Reduction Programme which prioritises projects against potential cost and carbon savings.



There remain some limitations to the accuracy of our financial and non-financial sustainability data. We are continuing to improve the quality of our internal and external controls for example through internal audit, further engagement with both internal and external stakeholders and enhanced monitoring devices such as automated meter readers.

## Business Plan commitments and Overall Sustainable Development Strategy


MoJ sustainability commitments are set out in an annexe to the MoJ Business Plan 2012-15 as follows:

### **Assess and manage environmental, social and economic impacts and opportunities in its policy development and decision-making:**

To enable the embedding of sustainable development principles into day to day working practices MoJ holds monthly Sustainable Development Board meetings, chaired by an MoJ Board-level 'Sustainable Development Champion', to steer and agree programmes of work and improve working practices across the different disciplines in the Ministry.

**Implement the Department's plan to deliver on the Greening Government Commitments (GGC), supplying quarterly information and contributing to an annual report on progress:** GGC was launched on 1 April 2011, requiring government departments to take action to significantly reduce environmental impact by 2014-15 (compared to a 2009-10 baseline). GGC objectives are a key priority for MoJ Estates Directorate, and are managed, reviewed and monitored by the Sustainable Development Team (SDT).

**Sustainable procurement: Procure from small businesses with the aspiration that 25 percent of contracts should be awarded to Small and Medium Enterprises (SME):** The Ministry of Justice is one of the top performing departments in Government in respect of expenditure with SMEs. In 2013-14, £1.7bn (37.2 percent) of MOJ spend went to SMEs, exceeding the Government's aspiration of 25 percent, and is well on track to meet an aspiration set by the Cabinet Office of 38 percent spend with SMEs by the end of 2015. The full MoJ SME Action Plan including desired outcomes, success factors, contracting opportunities and case studies/success stories of the MoJ's embedding of sustainable procurement, and ongoing relationship with SMEs is available at:  
[www.gov.uk/government/organisations/ministry-of-justice/about/procurement](http://www.gov.uk/government/organisations/ministry-of-justice/about/procurement)



The MoJ is also mandated to comply with DEFRA Government Buying Standards (GBS), in its tendering activity, with 100 percent compliance reported against most of the standards.

**Our Overall Sustainable development strategy includes the following:**

**i) Social and environmental awareness:** NOMS have been working with both the MoJ Ecology Team and the Sustainable Development (SD) Champion in the NOMS Co-financing Organisation to deliver the MoJ Statement on Social and Community Issues. Much of the practical delivery has been through national and local partnerships and Memorandums of Understanding, which support the Restorative Justice Agenda whilst encouraging offenders to work with nature and the communities.

**ii) Climate Change Adaptation:** NOMS continues to manage and review its high risk buildings database, which highlights susceptible buildings and sites to the effects of climate change such as temperature increases, rise in sea levels and flooding. This enables the MoJ to evaluate risks to strategy for programme delivery on vulnerable flood plains, prioritise its management of high risk sites, and establishes a strategic process by which the MoJ can put in place measures necessary to adapt to future climate change challenges.

**iii) Sustainable construction:** All major refurbishments and new builds are required to be Building Research Establishment Environmental Assessment Method (BREEAM) assessed to a standard of 'very good' for refurbishments and 'excellent' for new builds. In addition the Department is committed to reducing construction waste to landfill and ensures that all major refurbishment and new build projects have clauses requiring details on waste streams. In 2014-15 a total of three new builds were completed or registered as 'excellent'.

**iv) Rural Proofing:** As part of the MoJ estate management rationale, new estate management contracts highlight where countryside and local transport impacts are of prime importance to rural proofing. Transport plans are an important aspect of our environmental strategy through local planning requirements on new build properties. Every aspect including nature, archaeology, tourism, leisure and rural diversification are assessed in the early stages of planning and design for all new builds across the MoJ estate as part of our rural proofing policy.

## Biodiversity Action Planning

NOMS have fully reviewed its National Biodiversity Action Plan (BAP) and 57 Habitat and Species Action Plans, through its Central and Lead partners, which are ultimately working towards the 2020 Biodiversity Targets.

With reference to the UK Biodiversity Strategy and the reduction of species decline by 2020, NOMS have incorporated a National BAP Coordinator within the MoJ Ecology Team; working closely with the National Biodiversity Network.

NOMS have established a national database for all of its UK and European designated sites, including databases for priority species such as Bats, Great Crested Newts and Schedule 1 Birds, and priority habitats so that its programme delivery and projects can react to planning and policy guidance and biodiversity offsetting.

NOMS are now working with the MoJ Ecology Team to deliver a structured programme of works that takes account of both Landscape Scale Conservation and Ecosystem services as part of a wider Rural Proofing Programme.

## Energy

| GREENHOUSE GAS (GHG) EMISSIONS                |  | 2014-15   | 2013-14   | 2012-13   | 2011-12   | 2010-11   |
|---|--|-----------|-----------|-----------|-----------|-----------|
| Non-Financial Indicators (tCO <sub>2</sub> e) | Gross emissions for (scopes 1 and 2)         | 337,909   | 325,072   | 394,102   | 371,835   | 414,088   |
|   | Electricity: green/renewable                 | 41,290    | 38,421    | 45,668    | 44,583    | 49,649    |
|   | Net emissions (scopes 1 and 2)               | 296,619   | 286,651   | 348,434   | 327,252   | 364,439   |
|   | Travel emissions (scope 3)                   | 22,603    | 21,037    | 10,283    | 10,427    | 10,360    |
|   | Gross GHG emissions (all scopes)             | 360,512   | 346,109   | 404,385   | 382,262   | 424,448   |
| Non-Financial (mWh)                           | Electricity: (Grid, CHP, non-renewable)      | 250,615   | 239,998   | 263,561   | 271,046   | 274,879   |
|   | Electricity: renewable                       | 83,538    | 79,999    | 87,651    | 90,349    | 91,262    |
|   | Gas  | 776,472   | 757,454   | 941,902   | 782,307   | 896,421   |
|   | Other energy sources                         | 84,100    | 72,206    | 95,558    | 102,329   | 123,583   |
|   | Total energy                                 | 1,194,725 | 1,149,657 | 1,388,672 | 1,246,031 | 1,386,145 |
| Financial indicators                          | Expenditure on energy (including CRC) (£m)   | 77.4      | 81.0      | 90.4      | 84.0      | 64.0      |
|   | Expenditure on official business travel (£m) | 15.7      | 17.0      | 24.6      | 23.6      | 25.2      |

### Performance commentary (including targets), controllable and influenced impacts

NOMS is committed to reducing greenhouse gas emissions through energy efficiency.

The Greenhouse Gas target is to reduce emissions by 25 percent between 2009-10 and 2014-15. Targets are managed at site, regional and corporate level.

Gross emissions have increased slightly compared to the previous year, but have decreased by 12.0 percent compared to a 2009-10 baseline of 409,694 tCO<sub>2</sub>e. Climatic conditions for 2014-15 were very similar to those experienced in 2013-14.

Electricity consumption has increased 4.2 percent compared to the previous year, but has decreased by 10.2 percent compared to a 2009-10 baseline of 279,177 MWh.

Gas consumption has increased by 2.5 percent against the previous year but decreased by 12.9 percent compared to a 2009-10 baseline of 891,395 MWh.

The MoJ's SD Energy Policy outlines its preference and criteria for investment in energy efficiency and low carbon technology. Written with the engagement of a number of diverse stakeholders (including the Regional Estate Managers, Programme and Project Delivery Unit and prison site managers), it was reiteratively challenged by the Estates Directorate Sustainable Development Board. It will serve as a fundamental document for all sustainable energy matters. Numerous sites have made significant inroads in reducing their carbon emissions, most notably HMP Wayland and HMP Leyhill who, through replacing their heating systems with biomass, will save 2,648 tCO<sub>2</sub> and 1,238 tCO<sub>2</sub>, respectively.

A steering group has been established to facilitate collaboration between business units in order to identify and implement carbon savings in future.

## Waste

| All disposed waste by type in tonnes (Tt)  |   | 2014-15 <sup>1</sup> | 2013-14 <sup>2</sup> | 2012-13 <sup>3</sup> | 2011-12 <sup>4</sup> | 2010-11 <sup>5</sup> |
|--|---|----------------------|----------------------|----------------------|----------------------|----------------------|
| Non-financial Indicators (by waste stream) | Total waste to landfill                             | 11,961               | 12,717               | 18,618               | 20,772               | 22,185               |
|  | Total waste to anaerobic digestion and composting   | 1,170                | 3,269                | 3,599                | n/a                  | n/a                  |
|  | Total waste to incineration (not EfW)               | 162                  | 111                  | 0                    | 0                    | 0                    |
|  | Total waste to reuse, recycling                     | 20,500               | 21,262               | 27,154               | 25,720               | 30,295               |
|  | Total waste to energy from waste (EfW) incineration | 7,503                | 6,273                | 1,487                | 472                  | 141                  |
|  | Total waste disposals                               | 41,296               | 43,632               | 50,858               | 46,964               | 52,621               |
| Financial Indicators                       | Total waste disposal costs <sup>6</sup> (£m)        | 5.7                  | 4.7                  | 3.6                  | 3.7                  | 3.7                  |

1 Figures up-lifted to represent a total prisoner population of 87,300 (as at March 2015)

2 Figures up-lifted to represent a total prisoner population of 87,792 (as at March 2014)

3 Figures up-lifted to represent a total prisoner population of 83,852 (as at March 2013)

4 Figures up-lifted to represent a total prisoner population of 86,131 (as at March 2012) and excludes the Probation Estate which was managed by HM Home Office.

5 Figures up-lifted to represent a total prisoner population of 85,173 (as at August 2010) and exclude the Probation Estate which was managed by HM Home Office

6 Waste disposal costs include Probation Trusts where data is available

### Performance commentary (including targets), controllable and influenced impacts

The Government's 'Greening Government Commitments' target for waste management is to achieve a 25 percent reduction in the amount of waste generated in comparison to a 2009-10 baseline total and to achieve this by 2015. Across the NOMS estate, waste management performance is driven towards meeting this target and, in particular, to realise the full value of materials through the reuse and recycling of waste.

During the period, the NOMS estate achieved a 17 percent reduction (8,444 tonnes) in waste arising against the 2009-10 baseline of 49,740 tonnes. Of the waste generated, some 29,335 tonnes (71 percent) of the total waste was diverted from landfill disposal to reuse, recycling and value recovery operations compared to 50 percent of waste diverted from landfill in 2009-10. Additionally, 18 prisons achieved the aspirational target of zero-waste-to-landfill.

Detailed waste management data is sourced directly from both public sector and private sector prisons.

The MoJ procurement team engages with suppliers regarding the government buying standards in relation to sustainability. At the earliest possible juncture, the SD team highlight where project specifications and business cases can be improved with low cost amendments to make sure they are as sustainable as possible. Prison staff are encouraged to minimise waste through publications such as 'Sustainability Matters' and campaigns such as 'climate week'.

## Water

|                          |                                  | 2014-15   | 2013-14   | 2012-13   | 2011-12   | 2010-11   |
|--------------------------|----------------------------------|-----------|-----------|-----------|-----------|-----------|
| Non-Financial Indicators | Water consumption (cubic metres) | 8,015,221 | 8,152,840 | 8,114,430 | 8,293,786 | 8,134,344 |
| Financial Indicators     | Water Supply Cost (£m)           | 22.0      | 22.1      | 22.0      | 19.1      | 17.9      |

The GGC target requires a reduction in water consumption between 2009-10 and 2014-15. Water consumption and expenditure for the 2014-15 demonstrates a slight reduction compared with the previous year. Water consumption reduction across the NOMS estate continues to remain a priority and a NOMS steering group will help to identify further reductions.

NOMS is committed to reducing water consumption and its associated costs, and this remains a priority for the NOMS estate. Sites with high rates of water consumption are identified and innovative ways to fund remedial works are explored. The MoJ Estates Directorate has worked to embed sustainability in project delivery. Guidance to reduce water consumption in the refurbishment of custodial areas (such as communal shower areas) is provided to both constructors and client representatives. In this way, the MoJ is taking a pragmatic approach to its investment in Sustainable Development.

The MoJ procurement team engages with suppliers regarding the government buying standards in relation to efficiency, sustainability and cost reduction. Prison staff are also encouraged to reduce water usage through MoJ publications such as 'Sustainability Matters', behavioural change initiatives and campaigns such as 'Climate Week'.

## Paper

|                         | 2014-15 | 2013-14 | 2012-13 | 2011-12 | 2010-11 |
|-------------------------|---------|---------|---------|---------|---------|
| Cost excluding VAT (£m) | 0.9     | 0.9     | 1.9     | n/a     | n/a     |

GOSG (Government Office Supplies Contract) commenced in 2011 and under the terms of the contract, Management Information is distributed by the Government Procurement Service. The above figure highlights a 51 percent reduction in expenditure on paper compared to 2012-13. This can be attributed to the continuous improvement of data collection and awareness campaigns.

### Michael Spurr

Agency Accounting Officer  
4 June 2015







# Accounts

# 4

## Directors' Report

### Statutory background

On 1 April 2008 the National Offender Management Service (NOMS) became an executive agency of the Ministry of Justice (MoJ) bringing together the Probation Service, former NOMS HQ and HM Prison Service to enable more efficient and effective delivery of services.

These accounts have been prepared in accordance with the Government Financial Reporting Manual (FRm) issued by HM Treasury (HMT) and in accordance with a direction given by HMT pursuant to section 7(2) of the Government Resources and Accounts Act 2000.

### The National Offender Management Service Agency Board and Executive Management Committee

The governance arrangements within NOMS for the period April 2014 to March 2015, as agreed by the Permanent Secretary of the MoJ and the NOMS Agency Board, included the following:

- nine NOMS Agency Board meetings focusing on strategic Agency priorities including change, performance, risk and investment;
- a weekly NOMS Executive Management Committee meeting to support the Chief Executive Officer in the day to day running of the Agency;
- a comprehensive range of sub-committees reporting to the Board and Executive Management Committee.

The Chief Executive Officer was appointed by the Permanent Secretary of the MoJ in June 2010, under the terms of the Senior Civil Service Management Code.

The Chief Executive Officer's pay is determined under the rules set out in chapter 7.1 Annex A of the Senior Civil Service Management Code. Other members of the NOMS Agency Board and the Executive Management Committee are appointed by the Chief Executive Officer with agreement of the Permanent Secretary of the MoJ. Details of the remuneration of Directors of the Agency Board and the Executive Management Committee are set out in the Remuneration Report on pages 53 to 59.

During 2014-15 the following were members of the NOMS Agency Board, and the NOMS Executive Management Committee.

|  |                      |                        | NOMS<br>Agency<br>Board | NOMS<br>Executive<br>Management<br>Committee |
|--|----------------------|------------------------|-------------------------|--|
| Chief Executive  | Michael Spurr        |                        | ✓                       | ✓  |
| Director of Probation  | Colin Allars         |                        | ✓                       | ✓  |
| Director of Commissioning  | Ian Blakeman         | Until 30 November 2014 | ✓                       | ✓  |
| Director of Commissioning and Contract Management, Custodial Services      |                      | From 1 December 2014   |                         |  |
| Director of Commissioning and Contract Management, Rehabilitation Services | Ian Porée            | From 1 December 2014   | ✓                       | ✓  |
| Director of Change and ICT (Interim)                                       | Ben Booth            | Until 17 February 2015 | ✓                       | ✓  |
| Director of Digital and Change   | Bryan Clark          | From 2 March 2015      | ✓                       | ✓  |
| Director of HR   | Carol Carpenter      |                        | ✓                       | ✓  |
| Director of Public Sector Prisons  | Phil Copple          |                        | ✓                       | ✓  |
| Director of Finance and Analysis   | Andrew Emmett        |                        | ✓                       | ✓  |
| Director of National Operational Services                                  | Digby Griffith       |                        | ✓                       | ✓  |
| Director of NOMS in Wales  | Sarah Payne          |                        | ✓                       | ✓  |
| Non-executive Director   | David Hadfield       |                        | ✓                       |  |
| Non-executive Director   | Mike Hawker          |                        | ✓                       |  |
| Non-executive Director   | Elizabeth McLoughlin |                        | ✓                       |  |
| Non-executive Director   | Paul Wilson          | Until 11 February 2015 | ✓                       |  |

#### Ex-officio members

|                                      |                 |                       | NOMS<br>Agency<br>Board | NOMS<br>Executive<br>Management<br>Committee |
|--------------------------------------|-----------------|-----------------------|-------------------------|--|
| Head of Communications               | Lisa Appleyard  | Until 11 July 2014    | ✓                       | ✓  |
| Head of Communications (Interim)     | Matt Hutton     | From 14 July 2014     | ✓                       | ✓  |
| Head of Internal Audit               | Tim Watkinson   |                       | ✓                       |  |
| Head of Planning and Analysis Group  | Paul Ibrahim    |                       | ✓                       |  |
| Chief Executive's Office             | Hayley Ward     | Until 16 January 2015 | ✓                       | ✓  |
| Chief Executive's Office (Interim)   | Emma Seaton     | From 19 January 2015  | ✓                       | ✓  |
| Legal Adviser                        | Julia Crouch    |                       |                         | ✓  |
| Media Adviser                        | Debbie Kirby    | Until 17 April 2014   |                         | ✓  |
| Media Adviser                        | Jen Wood        |                       |                         | ✓  |
| Secretary to the Board and Committee | Katherine Myatt |                       | ✓                       | ✓  |

All MoJ Executive Management Committee members have a standing invitation to attend the NOMS Agency Board when there are agenda items relevant to their area.

There are no company directorships and other significant interests held by Board members which may conflict with their management responsibilities. Further information on Related Parties is given in Note 22 to the accounts.

## Significant Changes to NOMS reporting

As a result of the Transforming Rehabilitation programme announced by the Secretary of State for Justice, on 1 June 2014, the National Probation Service (NPS) – a new directorate within NOMS - came into operation providing supervision of the highest risk offenders in the community and advice to the Courts. Twenty one new Community Rehabilitation Companies (CRCs) across England and Wales also came into operation on 1 June 2014 delivering services with lower risk offenders.

These changes to the delivery of probation services were effected by Staff and Property Transfer Schemes (the Schemes) ordered by the Secretary of State for Justice, under the Offender Management Act 2007 in May 2014. As a result of the Schemes former Probation Trust staff, property, assets and liabilities were transferred either to NPS within NOMS, or the CRCs. The Probation Trusts ceased operations on 31 May 2014 and were formally dissolved on 31 October 2014.

On 31 January 2015 the ownership of the CRCs transferred from NOMS to new owners, as such the CRCs are reported as discontinued operations within NOMS consolidated accounts for the period of public sector ownership. The Secretary of State for Justice holds one special share in each of the 21 CRCs, which are listed in Note 29. In accordance with the FReM, NOMS does not recognise the special shares on its statement of financial position.

The NOMS Accounts for 2014-15 have been structured to report the results of:

- NOMS Core – including the NPS from 1 June 2014
- consolidated financial results from the 35 Probation Trusts – until their formal closure on 31 October 2014
- consolidated financial results from the 21 CRCs for the period 1 June 2014 to 31 January 2015 – whilst they were in public ownership – are reported as discontinued operations
- financial results from the newly structured NOMS Agency for February and March 2015 following the transfer of the CRCs to new owners on 31 January 2015. At this date NOMS ceased to be a Group, the Statement of Financial Position as at 31 March 2015 is reported on that basis.

## Communications and employee involvement

NOMS remains committed to engaging and communicating with its staff and partners as we continue to manage high levels of change.

The restructure of probation services delivery, together with the Through the Gate resettlement programme led to the creation of the NPS, 21 Community Rehabilitation Companies and the development of resettlement prisons in support of Through the Gate. NOMS in Wales, a directorate of NOMS, was also created in 2014, to reflect the devolved nature of Welsh government.

Our communications and engagement strategy during the year has been key to ensure that employees understood what the changes meant to them. To support this understanding, especially within the NPS, NOMS developed and maintained new channels of communication with staff, including the introduction of a series of regular newsletters distributed to all effected employees.

It is important that our leadership is visible within the Agency and we have developed ways of working to ensure this is facilitated. Direct communication with Directors and senior leaders is provided through webchats, teleconferences, and senior leaders' briefings and events. We primarily use our intranet to communicate with staff through news articles, notices and bulletins, and have increased the use of video messages. Importantly, the intranet also provides a forum to recognise staff successes and innovations.

The number of organisations which NOMS commissions to deliver services has increased. The creation of 21 Community Rehabilitation Companies has resulted in much closer working relationships with providers and we have continued to develop a communications strategy to ensure this is reflected.

A change in the Government's digital communications offering means NOMS now has its own section on gov.uk. This has given us a new platform to communicate with the public, our partners and with other external stakeholders. We will also be developing our use of social media further over the next year.

## Staff diversity

NOMS is committed to fairness for all and our staff have the right to expect transparent and equitable treatment. Equality and diversity remain central to all our business activities and we insist on respectful and decent behaviour. We recognise that discrimination, harassment and bullying can nevertheless occur, and we take prompt and appropriate action whenever we discover them.

Detailed information about the representation of, and outcomes for, staff with different protected characteristics is published in the Ministry of Justice Diversity Report, available at: <http://www.gov.uk/government/publications/diversity-report-2013-to-2014>

During 2014-15, with the advent of Transforming Rehabilitation, and to ensure that we can properly respond to this important new area, we integrated equality for Probation staff into NOMS, creating a Probation Equality Model.

Following integration, a review of NOMS Staff Networks and Probation Staff Associations was undertaken, and we are in the process of implementing the recommendations of this review. This will lead to the creation of new structures that reflect the changes within our organisation and which will contribute to realising our equality objectives.

We have developed an overarching NOMS Equality Strategy, which provides a framework to drive progress towards a more diverse and inclusive workforce. The Strategy has five core objectives, two of which relate directly to staff equality. They outline our commitment to better understanding and working to improve the experience of disabled staff in NOMS, and to ensuring our workforce reflects the society it serves at all levels. We will achieve these objectives by a series of measurable actions that will benefit all staff. The objectives for staff in the Equality Strategy complement and build on the work that we progressed over the year such as the Disability Toolkit, which will contribute to the HR pathway defining how the needs of staff with disabilities can be appropriately met within the workplace.

We have developed a new way of undertaking Equality Impact Assessment, Equality Analysis, which will be promoted via an Agency Instruction. It emphasises the importance of considering equality at the beginning of and throughout any policy or project development.

We have developed staff guidance to further improve declaration of personal information. We continue to encourage and remind staff of the value of this information to better inform our understanding of our workforce.

During 2014-15 we saw the creation of a high level Equality Sub Committee, which meets quarterly and reports directly to NEMC. The Equality Sub Committee authorises key decisions in relation to equality and will monitor the organisation's progress in delivering the objectives within the Equality Strategy.

## Gender data

As at 31st March 2015 there were a total of 46,442 employees in the prison estate, NPS and HQ, of which 20,786 (45 percent) are female and 25,656 (55 percent) are male. Within this there were a total of 776 Senior Managers<sup>1</sup>, of whom 372 (48 percent) are female and 404 (52 percent) are male.

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<sup>1</sup> Senior Managers are defined as: Senior Civil Servants, NOMS Senior Manager bands C to A and bands 9 to 11, NPS Senior Managers band A to D

## Sickness absence data

The overall rate of staff sickness in 2014-15 was 11.3 days. This figure includes HQ, public sector prisons, NPS, Probation Trusts and CRCs (for the period they were in the public sector). This was an increase on the most comparable figure for 2013-14 of 10.5 days for HQ, public sector prisons and Probation Trusts.

## Treatment of pension liabilities

Present and past employees of NOMS, excluding LGPS members, receive pension benefits covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS), which is unfunded. Although the scheme is a defined benefit scheme, liability for payment of future benefits is a charge to the PCSPS. NOMS meets the cost of pension cover provided for the staff employed, by payment of charges calculated on an accruing basis. There is a separate scheme statement for the PCSPS as a whole.

Past employees of the Probation Trusts, and employees who transferred from the Trusts to NOMS or the CRCs, are covered by the provisions of the Local Government Pension Scheme (LGPS) via one pension fund, administered by the Greater Manchester Pension Fund (GMPF). This is a funded defined benefit scheme meaning that retirement benefits are determined independently of the investments of the scheme, and employers are obliged to make additional contributions where assets are insufficient to meet retirement benefits.

On 1 June 2014 the Trusts' existing pension liabilities and corresponding assets were transferred to NOMS. At the date of transfer the Trusts' pension liabilities totalled £4,036m and pension assets totalled £2,817m, a net pension liability of £1,219m. The valuation of the LGPS pension liabilities at year-end has resulted in the net pension liability increasing by £195m to £1,442m in 2014-15 (2013-14: £1,247m). The change is due to the value of pension assets increasing by £378m and the value of liabilities increasing by £573m.

The responsibility for funding the past service liabilities associated with the former Probation Trust employees who are deferred or pensioner members of the LGPS transferred to NOMS. NOMS also ensures that the past service liabilities associated with employees who transferred to the CRCs are fully funded on an ongoing basis from the date of transfer. Any increases in employer contributions, other than those made on a discretionary basis by the CRCs are also fully funded by NOMS.

Further information can be found in the Remuneration Report, Accounting Policies and in Note 20 to the Accounts.

## Sustainable development

NOMS falls within the scope of reporting under the Government's Greening commitment. As such we have produced a separate Sustainability Report showing performance against sustainability targets for greenhouse gas emissions, waste minimisation and management and the use of finite resources and their related expenditure. Further information can be found on pages 38 to 44 of the Strategic Report.

## Future Developments

Information about future developments can be found on page 14 of the Strategic Report.

## Research and development

During 2014-15, the NEMC Research Sub-Committee met on a quarterly basis, overseeing the NOMS research priorities, programme and budget, and establishing coherent links with other MoJ analytical work. The focus was upon ensuring that research evidence would support the delivery of NOMS business priorities and the Agency Business Plan. A range of NOMS and MoJ-led research reports were published on: <https://www.gov.uk/government/publications>

The National Research Committee (NRC) continued to review and quality assure internal and external research applications across prison establishments and probation – 165 applications were considered

by the NRC during 2014-15. In all cases attention was given to the links to NOMS business priorities, the appropriateness and robustness of the proposals and the anticipated demands on resources. When approving applications, all researchers were requested to prepare a research summary for NOMS, helping to ensure that the findings from the research projects could drive operational policy and delivery and feed into the policy cycle. Further information on research and development is available at:

<https://www.gov.uk/government/organisations/national-offender-management-service/about/research>

## Financial Instruments

Details of the Agency's policy towards financial risk management can be found in the Accounting Policies and in Note 10 to the accounts.

## Personal data related incidents

No personal data related incidents were reported to the Information Commissioner's Office (ICO) in 2014-15. In September 2014 NOMS paid on behalf of MoJ a monetary penalty of £144k to the ICO in relation to two previously reported incidents. This penalty notice followed the ICO's investigation into two data loss incidents related to: HMP High Down, where in October 2011 a back-up disk containing details of 14,000 offenders was lost; and HMP Erlestoke, involving the loss in May 2013 of a back-up device containing the details of 2,935 offenders. The payment incorporated a 20 percent discount for paying within one month of notification.

## Events after the reporting period

In accordance with the requirements of IAS 10, events after the reporting period are considered up to the date on which the accounts are authorised for issue. This is interpreted as the date of the Certificate and Report of the Comptroller and Auditor General.

As at the date of the Certificate and Report of the Comptroller and Auditor General, no reportable events had occurred.

## Audit

In accordance with the direction given by the Treasury, these accounts have been prepared in accordance with the FReM. The Certificate and Report of the Comptroller and Auditor General to the House of Commons is attached to the Accounts.

Total audit fees reported in the Accounts are £1,302,794. This is made up of:

- a notional cost of £300,000 in respect of the National Audit Office's audit of the NOMS 2014–15 Agency Accounts
- invoiced fees of £960,000 payable to the National Audit Office and £42,794 to the Wales Audit Office as auditors of the Probation Trusts

As Accounting Officer, I have taken all steps to ensure that:

- I am aware of any relevant audit information
- the Auditor is aware of that information, and
- there is no relevant audit information of which the Auditor is unaware.

My thanks and appreciation is extended to all past and present members of the Executive Management Committee and the Agency Board for their hard work and effort during this reporting year.

**Michael Spurr**  
Agency Accounting Officer  
4 June 2015

## Remuneration Report

### Remuneration policy

The remuneration of senior civil servants is set by the Prime Minister following independent advice from the Review Body on Senior Salaries.

The Review Body also advises the Prime Minister from time to time on the pay and pensions of Members of Parliament and their allowances; on Peers' allowances and on the pay, pensions and allowances of Ministers and others whose pay is determined by the Ministerial and Other Salaries Act 1975.

In reaching its recommendations, the Review Body is to have regard to the following considerations:

- the need to recruit, retain and motivate suitably able and qualified people to exercise their different responsibilities
- regional/local variations in labour markets and their effects on the recruitment and retention of staff
- government policies for improving the public services including the requirement on departments to meet the output targets for the delivery of departmental services
- the funds available to departments as set out in the Government's departmental expenditure limits
- the Government's inflation target.

The Review Body takes account of the evidence it receives about wider economic considerations and the affordability of its recommendations.

Further information about the work of the Review Body can be found at <https://www.gov.uk/government/organisations/review-body-on-senior-salaries>

### Service contracts

The Constitutional Reform and Governance Act 2010 require Civil Service appointments to be made on merit on the basis of fair and open competition. The Recruitment Principles published by the Civil Service Commission specify the circumstances when appointments may be made otherwise.

Unless otherwise stated below, the officials covered by this report hold appointments which are open-ended. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme.

Further information about the work of the Civil Service Commissioners can be found at: <http://civilservicecommission.independent.gov.uk>



## **A) Remuneration – Audited**

The following sections provide details of the remuneration and pension interests of the most senior management (i.e. board members) of the Agency.

### **Salary**

'Salary' includes the gross salary; overtime; reserved rights to London weighting or London allowances; recruitment and retention allowances; and any other allowance to the extent that it is subject to UK taxation. This report is based on accrued payments made by the Agency and thus recorded in these accounts.

### **Benefits in kind**

The monetary value of benefits in kind covers any benefits provided by the Agency and treated by HM Revenue and Customs as a taxable emolument. The total value of benefits in kind paid to Directors and Non-Executive Directors was £92,126 (2013-14: £77,200). This comprised of travel and accommodation of £83,448 and subsistence of £8,678.

### **Bonuses**

Directors' bonuses are determined by the MoJ SCS Pay Committees – Chaired by Ursula Brennan for SCS pay band 1 and SCS pay band 2. Working within the set parameters for the management of senior level pay an individual can only be awarded a bonus if they have exceeded at least one finance and efficiency objective.

Bonuses are based on performance levels attained and are made as part of the appraisal process. Bonus payments made in 2014-15 are for bonuses awarded in 2013-14. Bonus payments made in 2013-14 are for bonuses awarded in 2012-13.



### Single total figure of remuneration

| Officials   | 2014-15                                |  |                       |  |              | 2013-14                                |  |                       |  |              |
|---|--|--|-----------------------|--|--------------|--|--|-----------------------|--|--------------|
|   | Total amount of salary and fees (£000) | All taxable benefits (to nearest £100) | Bonus Payments (£000) | Pension related benefits (to nearest £1000) <sup>3</sup> | Total (£000) | Total amount of salary and fees (£000) | All taxable benefits (to nearest £100) | Bonus Payments (£000) | Pension related benefits (to nearest £1000) <sup>3</sup> | Total (£000) |
| <b>Michael Spurr</b><br>Chief Executive Officer   | 145-150                                | -                                      | -                     | 22   | 165-170      | 140-145                                | -                                      | -                     | 2  | 145-150      |
| <b>Colin Allars</b><br>Director of Probation  | 100-105                                | -                                      | 10-15                 | 18   | 130-135      | 100-105                                | -                                      | 10-15                 | 4  | 115-120      |
| <b>Ian Blakeman</b><br>Director of Commissioning  | 95-100                                 | 26.2                                   | -                     | 18   | 140-145      | 95-100                                 | 30.1                                   | 5-10                  | 48   | 185-190      |
| <b>Ben Booth<sup>1</sup></b><br>Interim Director of ICT and Change (until 17 February 2015)                           | 215-220 (annualised 250-255)           | -                                      | -                     | 47   | 265-270      | 40-45 (annualised 250-255)             | -                                      | -                     | -  | 40-45        |
| <b>Bryan Clark</b><br>Director of Digital and Change (from 2 March 2015)  | 10-15 (annualised 160-165)             | -                                      | -                     | 5  | 15-20        | -                                      | -                                      | -                     | -  | -            |
| <b>Carol Carpenter</b><br>Director of Human Resources   | 85-90                                  | -                                      | 10-15                 | 22   | 120-125      | 85-90                                  | -                                      | 5-10                  | 38   | 135-140      |
| <b>Phil Cople</b><br>Director of Public Sector Prisons  | 105-110                                | 33.4                                   | 10-15                 | 17   | 165-170      | 100-105                                | 38.8                                   | 10-15                 | 65   | 220-225      |
| <b>Andrew Emmett</b><br>Director of Finance and Analysis  | 130-135                                | -                                      | -                     | 74   | 205-210      | 130-135                                | -                                      | -                     | 49 <sup>2</sup>  | 180-185      |
| <b>Digby Griffith</b><br>Director of National Operational Services  | 100-105                                | -                                      | -                     | 42   | 140-145      | 100-105                                | -                                      | -                     | (3)  | 95-100       |
| <b>Sarah Payne</b><br>Director of NOMS in Wales   | 110-115                                | 26.0                                   | -                     | 42   | 180-185      | 25-30 (annualised 110-115)             | -                                      | -                     | 11 <sup>2</sup>  | 35-40        |
| <b>Ian Porée</b><br>Director of Commissioning and Contract Management, Rehabilitation Services (from 1 December 2014) | 45-50 (annualised 135-140)             | -                                      | -                     | 11   | 55-60        | -                                      | -                                      | -                     | -  | -            |

<sup>1</sup> As an interim director, Ben Booth was remunerated through a third party agency from 1st April 2014 to 17th August 2014. The fees are net of irrecoverable VAT and exclusive of agency fees Ben was paid by NOMS from 18th August 2014 to 17th February 2015.

<sup>2</sup> Amounts have been restated as revised information has been received during the year from our pension provider.

<sup>3</sup> The value of pension benefits accrued during the year is calculated as (the real increase in pension multiplied by 20) plus (the real increase in any lump sum) less (the contributions made by the individual). The real increases exclude increases due to inflation or any increase or decreases due to a transfer of pension rights.

### Compensation for loss of office

No directors were compensated for loss of office in 2014-15 (2013-14: 0)

### Pay Multiples

Reporting bodies are required to disclose the relationship between the remuneration of the highest-paid director in their organisation and the median remuneration of the organisation's workforce. Total remuneration includes salary, non-consolidated performance-related pay and benefits-in-kind. It does not include severance payments, employer pension contributions and the cash equivalent transfer value of pensions.

|   | 2014-15 | 2013-14 |
|---|---------|---------|
| Band of highest paid director's total remuneration (£000) | 250-255 | 250-255 |
| Median total remuneration (£)                             | 29,219  | 28,930  |
| Ratio   | 8.6:1   | 8.8:1   |

The highest paid director is the Interim Director of ICT and Change. NOMS is undergoing significant organisational change at the present time and the NOMS board deemed that the post of Director of ICT and Change should be occupied whilst a formal competition for the post was undertaken.

In 2014-15, no employee received remuneration in excess of the highest paid director (2013-14: Nil). Remuneration ranged from £13,991 to £250,000-£255,000 (2013-14: £11,626 to £250,000-£255,000).

The average number of permanent staff in post in 2014-15, was 42,051 (2013-14: 38,551). The National Probation Service (NPS) was formed as a directorate of NOMS on 1 June 2014, adding an average of 8,441 staff in post for the ten month period to 31 March 2015. Excluding NPS, the average number of permanent staff in post decreased by 3,536 during 2014-15. The reduction is largely due to prison closures during 2013-14, and other voluntary exit schemes. Further details of staff costs and numbers are provided in Note 3 of the accounts.

### Non-Executive Directors' Remuneration

|   | 2014-15                               |  |                        | 2013-14                               |  |                        |
|---|---------------------------------------|--|------------------------|---------------------------------------|--|------------------------|
|   | Fees (excluding bonuses paid)<br>£000 | All taxable benefits (to nearest £100)<br>£000 | Bonus Payments<br>£000 | Fees (excluding bonuses paid)<br>£000 | All taxable benefits (to nearest £100)<br>£000 | Bonus Payments<br>£000 |
| Mike Hawker<br>Chair of the Audit Committee | 10-15                                 | 2.5  | -                      | 10-15                                 | 3.4  | -                      |
| David Hadfield                              | 10-15                                 | 0.5  | -                      | 10-15                                 | 0.5  | -                      |
| Elizabeth McLoughlin                        | 10-15                                 | 1.4  | -                      | 10-15                                 | 2.3  | -                      |
| Paul Wilson<br>(until 11 February 2015)     | 10-15<br>(annualised 10-15)           | 2.0  | -                      | 10-15                                 | 2.1  | -                      |

## B) PENSION BENEFITS – Audited

### Cash Equivalent Transfer Value (CETV)

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies.

The figures include the value of any pension benefit in another scheme or arrangement which the member has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of them buying additional pension benefits at their own cost. CETVs are worked out in accordance with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008 and do not take account of any actual or potential reduction in benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

### Real increase in CETV

This reflects the increase in CETV that is funded by the employer funded by the employer. It excludes increases due to inflation and contributions paid by the employee. It is worked out using common market valuation factors for the start and end of the period.

| Officials  | Accrued pension at pension age as at 31/3/15 and related lump sum | Real increase in pension and related lump sum at pension age | CETV at 31/3/15 | CETV at 31/3/14  | Real increase in CETV |
|--|---|--|-----------------|------------------|-----------------------|
|  | £000  | £000   | £000            | £000             | £000                  |
| Michael Spurr<br>Chief Executive Officer   | 60-65 plus lump sum of 180-185                                    | 0-2.5 plus lump sum of 2.5-5                                 | 1,129           | 1,056            | 15                    |
| Colin Allars<br>Director of Probation  | 35-40 plus lump sum of 115-120                                    | 0-2.5 plus lump sum of 2.5-5                                 | 738             | 688              | 13                    |
| Ian Blakeman<br>Director of Commissioning  | 30-35 plus lump sum of 100-105                                    | 0-2.5 plus lump sum of 2.5-5                                 | 568             | 527              | 10                    |
| Ben Booth<br>Interim Director of ICT and Change (until 17 February 2015)                                       | 0-5 plus lump sum of 0  | 2.5-5 plus lump sum of 0                                     | 41              | -                | 30                    |
| Bryan Clark<br>Director of Digital and Change (from 2 March 2015)  | 0-2.5 plus lump sum of 0  | 0-2.5 plus lump sum of 0                                     | 4               | -                | 3                     |
| Carol Carpenter<br>Director of Human Resources   | 15-20 plus lump sum of 0  | 0-2.5 plus lump sum of 0                                     | 218             | 193              | 9                     |
| Phil Copple<br>Director of Public Sector Prisons   | 30-35 plus lump sum of 95-100                                     | 0-2.5 plus lump sum of 2.5-5                                 | 482             | 448              | 9                     |
| Andrew Emmett<br>Director of Finance and Analysis  | 5-10 plus lump sum of 0   | 2.5-5 plus lump sum of 0                                     | 122             | 57 <sup>1</sup>  | 50                    |
| Digby Griffith<br>Director of National Operational Services  | 55-60 plus lump sum of 0  | 2.5-5 plus lump sum of 0                                     | 886             | 806 <sup>1</sup> | 30                    |
| Sarah Payne<br>Director of NOMS in Wales   | 0-5 plus lump sum of 0  | 2.5-5 plus lump sum of 0                                     | 48              | 9 <sup>1</sup>   | 28                    |
| Ian Porée<br>Director of Commissioning and Contract Management, Rehabilitation Services (from 1 December 2014) | 15-20 plus lump sum of 0  | 0-2.5 plus lump sum of 0                                     | 244             | 234              | 5                     |

<sup>1</sup> Amounts have been restated as revised information has been received during the year from our pension provider.

There were no employer contributions paid to partnership pension accounts or the LGPS in relation to NOMS directors.

## Civil Service Pensions

Pension benefits are provided to employees of the NOMS Agency, excluding Local Government Pension Scheme (LGPS) members, through the Civil Service pension arrangements. From 30 July 2007, civil servants may be in one of four defined benefit schemes; either a final salary scheme (**classic**, **premium** or **classic plus**); or a whole career scheme (**nuvos**). These statutory arrangements are unfunded, with the cost of benefits met by monies voted by Parliament each year. Pensions payable under **classic**, **premium**, **classic plus** and **nuvos** are increased annually in line with Pensions Increase legislation. Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a ‘money purchase’ stakeholder pension with an employer contribution (**partnership** pension account).

Employee contributions are salary-related and range between 1.5 percent and 6.85 percent of pensionable earnings for **classic** and 3.5 percent and 8.85 percent for **premium**, **classic plus** and **nuvos**. Increases to employee contributions applied from 1 April 2014. Benefits in **classic** accrue at a rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years initial pension is payable on retirement. For **premium**, benefits accrue at a rate of 1/60th of final pensionable earnings for each year of service. Unlike **classic**, there is no automatic lump sum. **classic plus** is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per **classic** and benefits for service from October 2002 worked out as in **premium**. In **nuvos** a member builds up a pension based on their pensionable earnings during the period of scheme membership. At the end of the scheme year (31 March) the member’s earned pension account is credited with 2.3 percent of their pensionable earnings in that scheme year and the accrued pension is up-rated in line with Pensions Increase legislation. In all cases members may opt to give up (commute) pension for a lump sum up to the limits set by the Finance Act 2004.

The **partnership** pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3 percent and 12.5 percent (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of three providers. The employee does not have to contribute, but where they do make contributions, the employer will match these up to a limit of 3 percent of pensionable salary (in addition to the employer’s basic contribution). Employers also contribute a further 0.8 percent of pensionable salary to cover the cost of centrally provided risk benefit cover (death in service and ill health retirement).

The accrued pension quoted is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of **classic**, **premium** and **classic plus** and 65 for members of **nuvos**.

Further details about the Civil Service pension arrangements can be found at the website:

<http://www.civilservicepensionscheme.org.uk>

New Career Average pension arrangements (**Alpha**) were introduced from 1 April 2015 and the majority of **classic**, **premium**, **classic plus** and **nuvos** members will join the new scheme. Further details of this new scheme are available at:

<http://www.civilservicepensionscheme.org.uk/members/the-new-pension-scheme-alpha/>

## **Local Government Pension Scheme**

Up to 31 March 2014 the fund was administered under the Local Government Pension Scheme 2008. From 1 April 2014, the pension scheme is administered under the Local Government Pension Scheme (LGPS) 2014, which replaced the 2008 scheme. Under the LGPS 2014 scheme the pension added for each member, each year, is based on 1/49th of their earnings (1/98th if opted to be a member of the 50/50 section of the scheme). The individual pension accounts will then be increased each year by the Consumer Price Index up to retirement. Repeating this calculation for each year of membership provides what is known as a Career Average Revalued Earnings (CARE) Pension.

This is a change from the 2008 scheme which provided benefits to employees of the Probation Trusts on Benefits accrue at the rate of 1/60th of the pensionable salary for service from 1 April 2008 with no automatic lump sum. For pensionable service up to 31 March 2008, benefits accrued at the rate of 1/80th of pensionable salary for each year of service. In addition, a lump sum equivalent to 3/80th of final pay of every year of total membership is payable on retirement.

Details of these schemes are in Note 20 to the accounts.

**Michael Spurr**

Agency Accounting Officer

4 June 2015

## Statement of Accounting Officer's Responsibilities

Under the Government Resources and Accounts Act 2000, HM Treasury has directed the National Offender Management Service (NOMS) to prepare for each financial year a statement of accounts in the form and on the basis set out in the Accounts Direction.

The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of NOMS and of its income and expenditure, Statement of Financial Position and cash flows for the financial year.

In preparing the accounts, the Accounting Officer is required to comply with the requirements of the Government Financial Reporting Manual and in particular to:

- observe the Accounts Direction issued by HM Treasury including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards as set out in the Government Financial Reporting Manual have been followed, and disclose and explain any material departures in the accounts and,
- prepare the accounts on a going concern basis.

The Principal Accounting Officer of the Ministry of Justice has appointed the Chief Executive Officer of NOMS as Accounting Officer.

The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding NOMS assets, are set out in Managing Public Money published by the HM Treasury.

### **Michael Spurr**

Agency Accounting Officer  
4 June 2015

# Governance Statement

## 1. Introduction

**1.1** As Agency Accounting Officer, I have put in place sound governance arrangements which comply fully with the relevant sections of the Corporate Governance Code. I have policies and procedures in place which enable me to maintain a sound system of internal control that supports the achievement of National Offender Management Service (NOMS) policies, aims and objectives, whilst safeguarding the public funds and assets for which I am personally responsible, in accordance with the responsibilities assigned to me in my letter of delegation and in Managing Public Money.

**1.2** My Executive Management Committee colleagues support me and the Agency Board in the day to day management of NOMS business and quickly identify and resolve issues that could impact on the delivery of NOMS core objectives. For example, during the year both the Committee and Board have kept a very close eye on expenditure to ensure that meeting NOMS' contribution to the Department's Spending Review savings target allowed for the delivery of safe, decent and secure custodial services and that public protection in the community was prioritised. Where savings plans have had to change, the associated risks were regularly reviewed and mitigating actions taken where necessary.

**1.3** I have reported later in this statement on action we have taken in response to some significant risks and issues that the Agency has faced during the year.

**1.4** The forthcoming year is, once again, a challenging one. During 2014-15, we implemented 'Transforming Rehabilitation: A Strategy for Reform'. This transforms the way in which offenders are managed in the community in order to bring down reoffending rates. During the next 12 months our current priority is to build upon and embed the reforms we have introduced across prisons and probation whilst maintaining a quality and efficient service for the public. Key to this will be increased and better integration of our services, especially with Through the Gate community based resettlement services reaching into prisons, and the integration of services in Wales.

**1.5** This statement sets out in more detail the arrangements I have put in place to govern NOMS and how we have reviewed our risks to ensure that we maintain our focus on the areas that are most likely to prevent us from achieving our objectives. I am confident that we have the governance, risk management and assurance arrangements in place to ensure that we can rise to the challenges we face.

## 2. Governance Framework

### NOMS Agency Board

**2.1** Overall responsibility for NOMS rests with me as Chief Executive. I chair NOMS Agency Board (NAB). Membership includes the Directors and Agency Non-Executive Board members.

**2.2** I am also a member of the Ministry of Justice (MoJ) Departmental Board which is chaired by the Secretary of State and a member of the (MoJ) Executive Management Committee which is chaired by the Permanent Secretary. I have regular meetings with the Minister with responsibility for Prisons and Rehabilitation and with the Secretary of State for Justice.

**2.3** NAB is the main decision making body at Agency level. It is responsible for NOMS' strategic direction; performance management (including finance); and risk assessment and management, within the context of overall MoJ strategy. NAB gives direction to, and ensures achievement of the objectives of NOMS operations and major change programmes; ensuring competent and prudent management, sound planning, proper procedures for the maintenance of adequate accounting and other records and systems of internal control, and compliance with legislative and corporate governance requirements. NAB ensures that in the delivery of prison and probation services the NOMS Vision and Values are upheld.



2.4 As well as regular oversight of the change portfolio, performance, risk and finance, among the matters considered by NAB in 2013-14 were:

- Transforming Rehabilitation
- Prison population and capacity management
- NOMS budget allocation for 2015-16
- The Agency Framework Document
- Future Operating Model for ICT
- Strategic Planning
- Commissioning strategy

### **NOMS Executive Management Committee (NEMC)**

2.5 To support the Board and manage the day-to-day business of NOMS, I chair weekly meetings of the NOMS Executive Management Committee (NEMC). Towards the end of 2013, the Director of Finance and Analysis led a review by NEMC of the governance structure within NOMS and explored options for enhancing our operating model and governance. The review focused on the role of NEMC and its sub-committees. As a result, from April 2014, with the exception of the Audit and Risk Committee, the work of individual sub-committees is now carried out through NEMC focusing on each of the following themes in rotation: Change Delivery, Operational Performance and Corporate Services. This has provided further clarity of decision making and rationalised the demands on Executive Directors. NEMC also meets with an 'open agenda', when this is considered necessary. All NEMC meetings are chaired by the Chief Executive and each NED rotates between meetings.

### **NEMC - Change Delivery**

2.6 Maintains an overview of all change delivery within the Agency. The Committee provides a decision making forum to address key portfolio risks and issues on behalf of the Agency. It ensures the NOMS Portfolio remains appropriately balanced against the Agency's strategic objectives. Overall, NOMS has a complex and significant change agenda, including:

- the Prison Unit Cost Programme consists of three related projects: Delivering the Public Sector Benchmark, Reconfiguring the Prison Estate and Competing the Delivery of Services. The overall aim is to reduce the unit cost of prison while maintaining safety and decency and optimising outcomes to protect the public and reduce reoffending. It is expected to complete in 2016.
- the Offender Services Competitions Programme includes Prison Competitions, PCP2, which formally closed in January 2015, and Electronic Monitoring (EM) Recompetition, which is being delivered in three stages and will continue into 2016.
- the NOMS ICT Services Contract provides business continuity and services with options to exit to Future Information Technology Sourcing Programme (FITS) towers earlier, as they become available. FITS provides a MoJ wide approach to Information and Communication Technology (ICT) contracting based upon service towers.
- the ICT Transition & Strategy Programme will support the 21 CRCs move to their end-state operating models and ICT solutions. The Programme is expected to complete in 2017.
- the construction of the new North Wales Prison is a key part of the restructuring the prison estate workstream within the Prison Unit Cost Programme.



### **NEMC - Operational Delivery**

**2.7** Reviews Agency wide operational performance in Prisons and Probation. The Committee also reviews and approves proposals for new initiatives, ensuring alignment with NOMS objectives. Among issues considered in 2014-15 were:

- Self-inflicted deaths in custody
- Performance Framework for the National Probation Service
- Serious organised crime in prisons
- Strategic security risks and threats
- Smoking in prisons; and
- Violence reduction

### **NEMC - Corporate Services**

**2.8** Develops and approves corporate support strategies across HR, Finance and ICT. Among the matters covered in 2014-15 were:

- Monthly management accounts
- MoJ Shared Services Strategy
- National Probation Service policy harmonisation
- Staff engagement
- People Strategy and Delivery plan
- Probation Officer Workforce Planning
- Probation and Prison recruitment and training
- Talent Management data; and
- Pay, Reward and Pensions

### **Audit & Risk Committee**

**2.9** An advisory body, which has a non-executive membership and provides independent advice on risk, control and governance issues, the Internal Audit work programme, and considers key recommendations from Internal Audit Reports and those of the National Audit Office. The Committee also reviews the implementation of internal audit, PAC and NAO recommendations. During the year, the Committee also focused attention on:

- Transforming Rehabilitation
- NOMS 2014-15 accounts production
- Progress against the implementation of contract management changes
- Operational risks associated with workforce planning
- Probation Trust closure accounts; and
- Agency Assurance Framework

**2.10** Full details of NAB and Committee membership including attendance records can be found in the tables in section 5 of this statement.

**2.11** Over the past year the Board has remained committed to their on-going development. They have engaged collectively in planned interventions to support the continuous improvement of organisational performance, particularly in light of significant organisational change, and have also focused collectively on their effectiveness as a Board and are maintaining that focus into the current year.

**2.12** The Board is satisfied that it has sound governance in place, that NOMS is compliant with the relevant sections of the Code. As NOMS is not a main Department, it is not chaired by a minister but by the Chief Executive Officer. Nor does it have a specific remuneration committee as the scope for making decisions on pay is limited and decisions on remuneration and bonuses are ratified by the MoJ Remuneration Committee.

**2.13** The Board is content that the data with which it is provided is adequate, timely and comprehensive and there are robust arrangements for reviewing and checking data.

### 3. Oversight and Assurance Arrangements

**3.1** The Board exercises oversight of the performance of NOMS by:

- using the integrated performance, risk and planning framework to check the progress against delivery of the NOMS' key priorities. This includes monitoring performance using a performance scorecard which has been developed with the Board to meet their needs. The Board has been asked to make decisions when performance is off track, in particular if there were potential implications for front line delivery;
- receiving up to date reports on the in year financial position and regular updates on the progress of major change projects and programmes. They have made decisions, based on agreed thresholds, on any issues that arise. They have also discussed issues that exceed the agreed thresholds (e.g. overspend, significant risks to delivery etc);
- detailed scrutiny of the financial accounts production process; and
- agreeing delegations to Directorates and throughout the governance structure to ensure the right decisions are being taken by the right people in the right place, whilst ensuring NAB is provided with the appropriate level of assurance.

**3.2** The Board also considers information from a range of external sources which include:

- HM Chief Inspector of Probation
- HM Chief Inspector of Prisons
- The Independent Monitoring Boards
- The Prisons and Probation Ombudsman
- National Audit Office

**3.3** One of the key sources of independent assurance within NOMS comes from the integrated audit and assurance activities of Internal Audit and Assurance, which where applicable meets the Public Sector Internal Audit Standards. The audit and assurance programme is closely linked to the key risks to NOMS. I have bi-lateral meetings with the Head of Internal Audit, who reports direct to me on all audit matters, to discuss emerging issues. The Head of Internal Audit has concluded in his annual report that, although he reported a number of weaknesses in the areas reviewed, he was satisfied that actions were in place to remedy them, and therefore he was able to give a 'moderate' assurance on the adequacy, effectiveness and reliability of risk management, control and governance.

### 3.4 Sources of internal assurance from which I draw include:

- annual assurance statements from each of the Directors covering the key systems for which they are responsible;
- bi-lateral meetings with Non-Executive Directors to discuss any concerns they may have;
- regular reports from managers on the steps they are taking to manage risks in their areas of responsibility including progress reports on key projects;
- a process which requires all Governors and Deputy Directors, Custody to provide assurance on those areas that are considered key to the delivery of their objectives in the form of assurance statements on selected key systems. The assurance statements are subject to review by Internal Audit and Assurance;
- a report from the Chair of the Audit & Risk Committee; and
- attendance at Audit & Risk Committee meetings.

## 4. Risk Management

4.1 NOMS operates in a high risk operational environment and this is reflected in the types of risks managed as well as the risk management process which is driven by NAB. NAB reviews the key risks to NOMS at each meeting and also considers them in conjunction with the Agency Performance Scorecard. The risks to our strategic priorities were identified at a workshop in July and included risks such as those related to the delivery of the change agenda impacting on performance and employee relations, as well as overarching risks in failing to meet our duty of care. Major corporate changes in the way ICT services will be delivered to NOMS (moving from a Silo-ed set of services, to a holistic Tower approach) and for a Shared Services single operating platform will need to be managed into next year.

4.2 We worked closely with the MoJ Transforming Rehabilitation Programme to manage risks as the work to create a National Probation Service and 21 Community Rehabilitation Companies progressed. For the period 1 June 2014 until 1 February 2015 the Transforming Rehabilitation Programme structure provided the governance and assurance of the change programme for the probation delivery in England and Wales through the Permanent Secretary to the Secretary of State. This included Major Project Authority reviews and key test gates. The NOMS Implementation Strategy Assurance Board ensured that key operational decisions had contribution and agreement from within the business. This board was chaired throughout the year by the Chief Executive Officer or the Director of Probation. Governance was also systematically provided through the Permanent Secretary Accounting Officer Advice, Submissions and regular Ministerial weekly meetings. On 1 February 2015 at the point of service transfer to the new Community Rehabilitation providers the system was working satisfactorily against agreed core metrics, but work is ongoing to embed changes in continuing transition to steady state. The Efficiency Effectiveness and Excellence (E3) Programme has been established to take forward business process improvements and refinement within the National Probation Service. The individual Community Rehabilitation providers each have their own programmes of transformation which were set out in their bids. Further work is being undertaken to ensure that the ICT interfaces with the providers can work effectively and there are ongoing operational and financial risks around volumes of cases allocated to providers, quality and levels of service delivery and payments. These risks will be closely monitored and managed through a structured consistent approach to contract management put in place by the Agency. A contract assurance process will cover contract performance, contract management and commercial issues and system interfaces.

4.3 During the first half of the year we managed risks around the prison population being above the published projections. This created operational pressure in the system and financial pressures for the Agency. We implemented a range of measures to maintain sufficient capacity. These included changing the role of two prisons to maximise use of available places, re-opening previously closed wings at two prisons,

purchasing additional places in private prisons and extending the use of crowding in public sector prisons. In addition, new houseblocks at four prisons provided an additional 1,200 places in the first quarter of 2015.

**4.4** Considerable effort has gone into managing risks around staff vacancies, as the period of prison closures and benchmarking began to come to an end and to tackle shortfalls caused by the unexpected rise in the prison population (as highlighted above) and a higher than anticipated turnover of staff particularly in London and the South East. Alongside large volume permanent recruitment, NOMS also created HMPS Reserve, consisting of former prison officers, to support capacity changes and unplanned shortfalls in officer numbers. Short term measures have been used, whilst officers were being recruited and trained, such as Detached Duty and Payment Plus. The Agency has also recruited substantial numbers of Operational Support Grades (uniformed staff who undertake a wide range of security based work) and Instructors (who manage prisoners in workshop activities and training). We are establishing workforce requirements for the National Probation Service and for the provision of probation services for NOMS in Wales. Between October 2014 and May 2015, we will have made over 650 training places available for new probation officers. All these recruits will have relevant degrees, for example in Criminology, will be assigned and available for work within the system and undertake professional training to become fully qualified Probation staff.

**4.5** Safety and security issues continue to receive close attention and have been raised during the year in HMCIP reports. The historically low escape rate has been maintained and whilst the number of reported incidents in prisons has increased serious disorder remains rare. There has been an increase in the numbers of serious assaults and self inflicted deaths, which is a concern. Specific actions have been taken to address these risks, including the setting up a Violence Reduction Project to gain a better understanding of the causes of the levels of violence in prisons and to ensure strengthened handling of it, in terms of both prevention and response. We also put in place additional resources in high risk prisons and staff at regional level to support safer custody work in establishments. There is also a wide-ranging programme of work being undertaken to consider the potential impact of the use of New Psychoactive Substances. The presence of New Psychoactive Substances within prison establishments is a relatively new issue and appears to be growing in significance. Intelligence suggests that these have been linked to an increase in disturbed and disruptive behaviour by prisoners. It also appears to be generating increased levels of debt within prisons and associated heightened levels of intimidation and violence.

**4.6** Following three serious offences in 2013 by offenders on temporary release, reviews of the cases were ordered by the Secretary of State, which was undertaken by HM Chief Inspector of Prisons. In addition an internal review of temporary release (ROTL) as a whole was carried out by the MOJ. The Internal review reported in December 2013 and a draft of the HMIP review was provided in January 2014. In terms of general policy and practice the findings from both reviews were similar. ROTL still serves a rehabilitative purpose but there were substantive concerns and room for improvement. In March 2014 a broad package of measures was agreed which would improve consistency, risk assessment and monitoring of releases on temporary licence and an intention to tag offenders on ROTL once suitable equipment was available. In May 2014, following a high profile ROTL failure from an open prison, some of the ROTL review actions were brought forward. The most significant changes in the policy are the introduction of Restricted ROTL (for all indeterminate sentence prisoners, any prisoner presenting a high or very high risk of serious harm and MAPPA nominals) which precludes temporary release from closed conditions and introduces a set of stringent processes and monitoring arrangements. Policy also includes a ban on prisoners with a history of escape, abscond or serious ROTL failure during the current sentence from transferring to open conditions or ROTL in the absence of exceptional circumstances.

4.7 The Supreme Court judgment in the cases of Osborne, Booth and Reilly, delivered in October 2013, presented a significant challenge to the Parole Board, in terms of the additional oral hearings which will need to be held. The number of hearings adjourned on the day or shortly before the day of the oral hearing remains unacceptably high. The backlog of oral hearings within the Parole Board is predicted to rise during 2015-16 to the equivalent of around 650-700 prison places. NOMS and the MoJ Arms Length Bodies Division have identified a strategic programme of work to address the pressures on the parole process. There is close cooperation between NOMS and the Parole Board in seeking to improve the operation of the generic parole process, including by reducing the high deferral rate.

4.8 On 11 November 2014, the Secretary of State announced to Parliament that NOMS had discovered that between 2006 and 2014, a number of telephone calls between prisoners and MPs or their offices had been recorded and listened to. The Secretary of State also announced that he had commissioned HM Chief Inspector of Prison to investigate the matter. Prisoners' communications with family members, friends and others is an important part of the Prison Service's work to help prisoners in maintaining family and other ties that support their rehabilitation. While prisoners' phone calls to friends and family members may be recorded and monitored, phone calls between prisoners their constituency Members of Parliament are regarded as confidential and may not. HM Chief Inspector of Prisons was asked to investigate the circumstances of the phone calls between prisoners and MPs or their offices. HMCIP provided Secretary of State with an interim report, which was published on 16 December. The main conclusion of interim report was that the issue was not systemic and action taken by NOMS has largely (but not wholly) addressed the issues. We have taken further action in response to the interim report and the final report is expected by the end of June 2015.

### Information Assurance

4.9 NEMC maintained a close interest in Information Assurance over the reporting period. No incidents were reported to the Information Commissioner's Office during the year. In September 2014 NOMS paid on behalf of MoJ a monetary penalty of £144k to the Information Commissioners Office (ICO) in relation to incidents in 2011 and 2013. The Agency is committed to ensuring effective Information Management and is alert to the risks around cyber security.

4.10 During 2014-15, the Agency took the following steps to improve arrangements:

- supported the implementation of information sharing agreements at all levels through work with headquarters groups, prisons and the new National Probation Service and ensuring that privacy impact assessments are completed in the early stages of all new IT projects.
- carried out an 'Information Matters' training and communications campaign to support the implementation of NOMS policies and practices.
- worked closely with the ICO's Best Practice – Audit Team to run a series of ten regional workshops for prison staff. The workshops have been designed to help NOMS better comply with Data Protection Act regulations.
- published an updated Archiving Retention and Disposal policy to ensure compliance with the Data Protection Act across, prisons, the National Probation Service and headquarters groups.
- worked closely on the Transforming Rehabilitation Programme to address Information Assurance / Records Management issues and put in place measures to mitigate related risks to the Agency such as co-location and shared access to national IT systems by both the public and private sectors.

4.11 During the coming year the Agency will continue to improve by:

- continuing to work together with the MoJ to identify effective methods for measuring the compliance of external suppliers with NOMS IA policies.
- supporting the implementation of controls to reduce the risk surrounding the data handling processes across ICT systems in prisons.
- working with the ICO's Best Practice – Audit Team to run a series of regional workshops for National Probation Service and headquarters staff.
- continuing to operate a pro-active incident management service.
- continuing to embed information assurance policies across NOMS, in particular within the National Probation Service and NOMS headquarters with progress to be monitored by NEMC.

NEMC will continue to receive and review periodic reports on information assurance.

## 5. Board Attendance

5.1 The tables below show the membership of NAB, NEMC and Audit and Risk Committee and attendance records of members at meetings during the period 1 April 2014 to 31 March 2015. Other officials are invited to attend when required but these attendees are not recorded below.

| Name                  | Role   | NEMC     | NAB    |
|-----------------------|--|----------|--------|
| Michael Spurr         | CEO  | 35 of 38 | 5 of 6 |
| Phil Copple           | Director of Public Sector Prisons  | 32 of 38 | 5 of 6 |
| Ian Blakeman          | Director of Commissioning  | 34 of 38 | 5 of 6 |
| Ian Porée             | From December 2014: Director of Commissioning and Contract Management, Rehabilitation Services                                 | 13 of 14 | 1 of 2 |
| Carol Carpenter       | Director of HR   | 32 of 38 | 5 of 6 |
| Digby Griffith        | Director of National Operational Services  | 31 of 38 | 5 of 6 |
| Andrew Emmett         | Director of Finance and Analysis   | 31 of 38 | 5 of 6 |
| Sarah Payne           | Director of NOMS in Wales  | 33 of 38 | 4 of 6 |
| Colin Allars          | Director of Probation  | 32 of 38 | 4 of 6 |
| Ben Booth             | To 17 February 2015: Director of Change and ICT  | 25 of 33 | 5 of 5 |
| Bryan Clark           | From 2 March 2015: Director of Digital and Change (interim)  | 3 of 4   | 0 of 1 |
| David Hadfield        | NOMS Non-Executive Director  | 6 of 8   | 3 of 6 |
| Mike Hawker           | NOMS Non-Executive Director  | 5 of 6   | 5 of 6 |
| Elizabeth McLoughlin  | NOMS Non-Executive Director  | 6 of 8   | 4 of 6 |
| Paul Wilson           | Until 11 February 2015: NOMS Non-Executive Director  | 7 of 8   | 5 of 5 |
| <b>In attendance:</b> |  |          |        |
| Lisa Appleyard        | Until 11 July 2014: Head of NOMS Communications  | 6 of 8   | 0 of 1 |
| Matt Hutton           | From 14 July 2014: Head of NOMS Communications (interim)   | 18 of 30 | 3 of 5 |
| Debbie Kirby          | Until 17 April 2014: Media Advisor   | 0 of 1   | N/A    |
| Jen Wood              | From 17 April 2014: Media Advisor  | 10 of 37 | N/A    |
| Julia Crouch          | Legal Advisor  | 27 of 38 | N/A    |
| Hayley Ward           | Until 16 January 2015: CEO's Office  | 19 of 31 | 3 of 4 |
| Emma Seaton           | From 19 January 2015: CEO's Office   | 6 of 9   | 1 of 2 |
| Katherine Myatt       | Board Secretary  | 36 of 38 | 3 of 6 |
| Paul Ibrahim          | Head of Performance and Analysis   | N/A      | 5 of 6 |
| Tim Watkinson         | MoJ Head of Internal Audit and Assurance   | N/A      | 3 of 6 |
| Ann Beasley           | MoJ Finance DG (as with all MoJ DGs, has a standing invite to attend the NAB when subjects relevant to her area are discussed) | N/A      | 1 of 6 |

## Audit and Risk Committee

| Name                 | Role  |        |
|----------------------|---|--------|
| Mike Hawker          | Chair – Non-Executive Director                    | 4 of 4 |
| Elizabeth McLoughlin | Non-Executive Director                            | 4 of 4 |
| Paul Wilson          | Non-Executive Director                            | 3 of 4 |
| In Attendance:       |   |        |
| Michael Spurr        | CEO   | 4 of 4 |
| Andrew Emmett        | Director of Finance and Analysis                  | 4 of 4 |
| Carol Carpenter      | HR Director                                       | 1 of 4 |
| Ted Kirby            | Head of Financial Management & Control            | 4 of 4 |
| Tim Watkinson        | MoJ Head of Internal Audit and Assurance          | 4 of 4 |
| Liam Orme            | Head of Audit Operations NOMS                     | 4 of 4 |
| Sajid Rafiq          | Director, National Audit Office                   | 4 of 4 |
| Jeremy Lonsdale      | Director, National Audit Office (until June 2014) | 2 of 2 |
| Oliver Lodge         | Director, National Audit Office (since June 2014) | 2 of 2 |
| James Edmands        | Audit Manager, National Audit Office              | 3 of 4 |
| Sebert Cox           | Chair, Probation Association                      | 2 of 2 |

### **Michael Spurr**

Agency Accounting Officer

4 June 2015



## The Certificate and Report of the Comptroller and Auditor General to the House of Commons

I certify that I have audited the financial statements of the National Offender Management Service and of its group for the year ended 31 March 2015 under the Government Resources and Accounts Act 2000. The financial statements comprise: the Core Agency and Consolidated Statements of Comprehensive Net Expenditure, Cash Flows, Changes in Taxpayers' Equity; the Agency Statement of Financial Position; and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

### Respective responsibilities of the Accounting Officer and auditor

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Chief Executive as Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the Government Resources and Accounts Act 2000. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the National Offender Management Service's and the group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the National Offender Management Service and the group; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

### Opinion on regularity

In my opinion, in all material respects the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

### Opinion on financial statements

In my opinion:

- The financial statements give a true and fair view of the state of the National Offender Management Service's affairs as at 31 March 2015 and of the Consolidated and Core Agency net operating cost after taxation for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

## Opinion on other matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000; and
- the information given in the ‘Strategic Report’ and the ‘Directors’ Report’ sections for the financial year for which the financial statements are prepared is consistent with the financial statements.

## Matters on which I report by exception

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury’s guidance.

## Report

I have no observations to make on these financial statements.

**Sir Amyas C E Morse**  
**Comptroller and Auditor General**

National Audit Office  
157-197 Buckingham Palace Road  
Victoria  
London  
SW1W 9SP

5 June 2015

**Consolidated Statement of Comprehensive Net Expenditure** for the year ended 31 March 2015

|   | Notes | 2014–2015   |                  | 2013–2014    |                  |             |                  |              |                  |
|---|-------|-------------|------------------|--------------|------------------|-------------|------------------|--------------|------------------|
|   |       | Core Agency |                  | Consolidated |                  | Core Agency |                  | Consolidated |                  |
|   |       | £'000       | £'000            | £'000        | £'000            | £'000       | £'000            | £'000        | £'000            |
| <b>Administration Costs</b>                             |       |             |                  |              |                  |             |                  |              |                  |
| Staff costs   | 3     | 91,562      | 91,562           | 71,063       | 71,063           | 71,063      | 71,063           | 71,063       | 71,063           |
| Other administrative costs                              | 4     | 70,694      | 71,699           | 78,960       | 80,710           | 78,960      | 80,710           | 78,960       | 80,710           |
| Income  | 6     | (5,188)     | (5,188)          | (4,365)      | (4,362)          | 145,658     | (4,362)          | 145,658      | 147,411          |
| <b>Programme Costs</b>                                  |       |             |                  |              |                  |             |                  |              |                  |
| Staff costs   | 3     | 1,660,964   | 1,773,121        | 1,459,445    | 2,135,719        | 1,459,445   | 2,135,719        | 1,459,445    | 2,135,719        |
| Other programme costs                                   | 5     | 2,229,300   | 1,876,086        | 2,548,575    | 1,996,255        | 2,548,575   | 1,996,255        | 2,548,575    | 1,996,255        |
| Income  | 6     | (298,129)   | (308,408)        | (315,934)    | (359,711)        | (315,934)   | (359,711)        | (315,934)    | (359,711)        |
| Consolidated Fund Extra Receipts (CFERs)                |       | 0           | 3,592,135        | 0            | 3,340,799        | (163,731)   | 3,528,355        | (163,731)    | 3,608,532        |
| <b>Discontinued operations</b>                          |       |             |                  |              |                  |             |                  |              |                  |
| Change in value of investment in CRCs                   | 10    |             | 365              |              | 0                |             | 0                |              | 0                |
| Results of CRCs as discontinued operations <sup>1</sup> | 2c    |             | 0                |              | 263,228          |             | 0                |              | 0                |
| <b>Net operating costs before taxation</b>              |       |             | <b>3,749,568</b> |              | <b>3,762,100</b> |             | <b>3,674,013</b> |              | <b>3,755,943</b> |
| Taxation  |       |             | 0                |              | (424)            |             | 0                |              | 893              |
| <b>Net operating costs after taxation</b>               |       |             | <b>3,749,568</b> |              | <b>3,761,676</b> |             | <b>3,674,013</b> |              | <b>3,756,836</b> |
| <b>Non-operating activities</b>                         |       |             |                  |              |                  |             |                  |              |                  |
| Net loss on transfers by absorption <sup>2</sup>        | 27    |             | 1,195,740        |              | 0                |             | 0                |              | 0                |
| <b>Net Expenditure</b>                                  |       |             | <b>4,945,308</b> |              | <b>3,761,676</b> |             | <b>3,674,013</b> |              | <b>3,756,836</b> |

Note 1: The 21 Community Rehabilitation Companies (CRCs) were discontinued operations within NOMS group while in public sector ownership, from 1 June 2014 to 31 January 2015.

Note 2: Net loss on transfers by absorption represents net assets and liabilities transferred from the 35 Probation Trusts, formerly non-departmental public bodies of NOMS, to NOMS Core Agency and the CRCs. The majority of the value transferred to NOMS Core Agency comprised local government pension scheme net liabilities.

The notes on pages 79 to 129 form part of these accounts

**Consolidated Statement of Comprehensive Net Expenditure for the year ended 31 March 2015 (continued)**  
**Other Comprehensive Expenditure**

|  | Notes | 2014–2015        |                  | 2013–2014        |                  |
|--|-------|------------------|------------------|------------------|------------------|
|  |       | Core Agency      |                  | Core Agency      |                  |
|  |       | £'000            | £'000            | £'000            | £'000            |
|  |       |                  | Consolidated     |                  | Consolidated     |
|  |       | £'000            | £'000            | £'000            | £'000            |
| <b>Items that will not be reclassified to net operating costs:</b> |       |                  |                  |                  |                  |
| Net (gain)/loss on recognition of investment in CRCs               | 10    | (505)            | 0                | 0                | 0                |
| Net (gain)/loss on revaluation of property, plant and equipment    | 7     | (358,626)        | (358,626)        | (142,040)        | (142,101)        |
| Net (gain)/loss on revaluation of intangibles                      | 8     | 6                | 6                | (326)            | (331)            |
| Net (gain)/loss on revaluation of assets held for sale             | 9     | 1,847            | 1,847            | 0                | 0                |
| Remeasurement of net pension liabilities                           | 20    | 143,296          | 104,689          | 0                | (173,213)        |
| <b>Total comprehensive expenditure</b>                             |       | <b>4,731,326</b> | <b>3,509,592</b> | <b>3,531,647</b> | <b>3,441,191</b> |

The notes on pages 79 to 129 form part of these accounts

Statement of Financial Position as at 31 March 2015

|  | 31 March 2015 |                    | 31 March 2014    |                    |              |
|--|---------------|--------------------|------------------|--------------------|--------------|
|  | Core Agency   |                    | Core Agency      |                    | Consolidated |
|  | £'000         | £'000              | £'000            | £'000              | £'000        |
| <b>Non-current assets</b>                              |               |                    |                  |                    |              |
| Property, plant and equipment                          | 7             | 6,494,285          | 6,063,335        | 6,068,379          |              |
| Intangible assets                                      | 8             | 119,594            | 88,886           | 89,521             |              |
| Financial assets                                       |               | 367                | 367              | 367                |              |
| Trade and other receivables                            | 13a           | 1,824              | 1,971            | 1,973              |              |
| <b>Total non-current assets</b>                        |               | 6,616,070          | 6,154,559        | 6,160,240          |              |
| <b>Current assets</b>                                  |               |                    |                  |                    |              |
| Assets held for sale                                   | 9             | 12,337             | 18,069           | 18,069             |              |
| Inventories  | 12            | 37,731             | 38,681           | 38,681             |              |
| Trade and other receivables                            | 13a           | 156,857            | 172,228          | 182,002            |              |
| Cash and cash equivalents                              | 14            | 15,667             | 2,759            | 32,076             |              |
| <b>Total current assets</b>                            |               | 222,592            | 231,737          | 270,828            |              |
| <b>Total assets</b>                                    |               | <b>6,838,662</b>   | <b>6,386,296</b> | <b>6,431,068</b>   |              |
| <b>Current liabilities</b>                             |               |                    |                  |                    |              |
| Trade and other payables                               | 15a           | (495,719)          | (430,662)        | (449,582)          |              |
| Provisions   | 19            | (51,156)           | (35,850)         | (37,248)           |              |
| Bank overdraft   | 14            | (19,090)           | (19,264)         | (19,264)           |              |
| <b>Total current liabilities</b>                       |               | (565,965)          | (485,776)        | (506,094)          |              |
| <b>Non-current assets less net current liabilities</b> |               | <b>6,272,697</b>   | <b>5,900,520</b> | <b>5,924,974</b>   |              |
| <b>Non-current liabilities</b>                         |               |                    |                  |                    |              |
| Provisions   | 19            | (177,344)          | (144,346)        | (144,364)          |              |
| Trade and other payables                               | 15b           | (282,151)          | (310,850)        | (310,850)          |              |
| Pension deficit liability                              | 20            | (1,441,995)        | 0                | (1,247,156)        |              |
| <b>Total non-current liabilities</b>                   |               | <b>(1,901,490)</b> | <b>(455,196)</b> | <b>(1,702,370)</b> |              |
| <b>Assets less liabilities</b>                         |               | <b>4,371,207</b>   | <b>5,445,324</b> | <b>4,222,604</b>   |              |
| <b>Taxpayers' equity</b>                               |               |                    |                  |                    |              |
| General fund   |               | 2,861,448          | 4,250,166        | 3,026,045          |              |
| Revaluation reserve                                    |               | 1,509,759          | 1,195,158        | 1,196,559          |              |
| <b>Total taxpayers' equity</b>                         |               | <b>4,371,207</b>   | <b>5,445,324</b> | <b>4,222,604</b>   |              |

As at 31 March 2015, balances were held by the Core Agency only, as NOMS ceased to be a group on 31 January 2015. See Note 1.5.

The main component of the year on year reduction in Core Agency total taxpayers' equity was £1.2bn pension liabilities transferred from the Probation Trusts. See Note 20.

**Michael Spurr** Agency Accounting Officer 4 June 2015

**Consolidated Statement of Cash Flows for the year ended 31 March 2015**

|  | Notes   | 2014–2015   |             | 2013–2014   |              |       |       |           |              |
|--|---------|-------------|-------------|-------------|--------------|-------|-------|-----------|--------------|
|  |         | Core Agency |             | Core Agency |              |       |       |           |              |
|  |         | £'000       | £'000       | £'000       | £'000        |       |       |           |              |
|  |         |             |             |             | Consolidated |       |       |           | Consolidated |
|  |         | £'000       | £'000       | £'000       | £'000        | £'000 | £'000 | £'000     | £'000        |
| <b>Cash flows from operating activities</b>  |         |             |             |             |              |       |       |           |              |
| <b>Net operating cost</b>  |         |             | (3,749,568) | (3,761,676) | (3,674,013)  |       |       |           | (3,756,836)  |
| Adjustments for non-cash transactions  | 3,4,5   | 372,871     | 381,940     |             | 444,071      |       |       | 505,563   |              |
| Adjustment for notional charges to and from MoJ group  |         | 81,554      | 81,554      |             | 58,049       |       |       | 58,049    |              |
| Adjustment for movement in Probation Trust post audit accounts   |         | 0           | 1,009       |             | 0            |       |       | (315)     |              |
| Adjustment for pension contributions paid less service costs   | 20      | 7,321       | 8,781       |             | 0            |       |       | 24,655    |              |
| Adjustment for change in value of investment in CRCs   |         | 365         | 365         |             | 0            |       |       | 0         |              |
| <b>(Increase)/decrease in trade and other receivables</b>  |         |             |             |             |              |       |       |           |              |
| Movement in trade receivables  | 13      | 15,518      | 25,294      |             | (23,726)     |       |       | (28,702)  |              |
| Less: Transfer on absorption   | 27      | 9,831       | 0           |             | 0            |       |       | 0         |              |
| Less: Reclassify CRC receivables to assets held for sale   |         | 0           | (1,688)     |             | 0            |       |       | 0         |              |
| Less: Impairments in trade and other receivables   | 4,5     | (536)       | (536)       |             | (423)        |       |       | (423)     |              |
| Less: Movement in disposal proceeds receivables  |         | (4,000)     | (4,000)     |             | 7,000        |       |       | 7,000     |              |
| (Increase)/decrease in inventories   | 12      | 950         | 950         |             | 2,208        |       |       | 2,208     |              |
| <b>Increase/(decrease) in trade payables</b>   |         |             |             |             |              |       |       |           |              |
| Movement in trade and other payables   | 15a,15b | 36,358      | 17,438      |             | 3,605        |       |       | (4,056)   |              |
| Less: Transfer on absorption   | 27      | (11,365)    | 0           |             | 0            |       |       | 0         |              |
| Less: Reclassify CRC payables to liabilities held for sale   |         | 0           | 8,338       |             | 0            |       |       | 0         |              |
| Less: Movements on capital elements of payments in respect of finance leases and on-balance sheet (SoFP) PFI contracts | 15a,15b | 26,309      | 26,309      |             | 24,611       |       |       | 24,611    |              |
| Less: Movement in property, plant & equipment payable  |         | 1,545       | 1,538       |             | (13,097)     |       |       | (13,097)  |              |
| Less: Payments of amounts due to the Consolidated Fund to MoJ  |         | 59          | 59          |             | 3            |       |       | 3         |              |
| Utilisation of provisions  | 19      | (33,917)    | (34,609)    |             | (46,039)     |       |       | (48,660)  |              |
| <b>Net cash outflow from operating activities</b>  |         |             | 502,863     | 512,742     | 456,263      |       |       | 526,836   |              |
| <b>Cash flows from investing activities</b>  |         |             |             |             |              |       |       |           |              |
| Purchase of property, plant & equipment  |         | (164,225)   | (164,236)   |             | (176,450)    |       |       | (177,572) |              |
| Purchase of intangibles  | 8       | (1,700)     | (1,700)     |             | (55)         |       |       | (80)      |              |
| Proceeds on disposal of property, plant and equipment  |         | 24,415      | 24,415      |             | 33,822       |       |       | 33,932    |              |
| Proceeds on disposal of CRCs   |         | 140         | 140         |             | 0            |       |       | 0         |              |
| <b>Net cash outflow from investing activities</b>  |         |             | (141,370)   | (141,381)   | (142,683)    |       |       | (143,720) |              |

**Consolidated Statement of Cash Flows** for the year ended 31 March 2015 (continued)

|  | 2014–2015     |                 | 2013–2014    |                 | Notes   | Core Agency | Consolidated | Core Agency | Consolidated |
|--|---------------|-----------------|--------------|-----------------|---------|-------------|--------------|-------------|--------------|
|  | £'000         | £'000           | £'000        | £'000           |         |             |              |             |              |
|  | Core Agency   | Consolidated    | Core Agency  | Consolidated    |         |             |              |             |              |
| <b>Cash flow from financing activities</b>   |               |                 |              |                 |         |             |              |             |              |
| Net funding received from MoJ  | 3,403,510     | 3,403,510       | 3,552,000    | 3,552,000       |         |             |              |             |              |
| Adjustments for income received and paid to the Consolidated Fund by MoJ on behalf of NOMS         | 0             | 0               | (163,731)    | (163,731)       |         |             |              |             |              |
| Payments of amounts due to the Consolidated Fund to MoJ  | (59)          | (59)            | (3)          | (3)             |         |             |              |             |              |
| Capital element of payments in respect of finance leases and on-balance sheet (SoFP) PFI contracts | (26,309)      | (26,309)        | (24,611)     | (24,611)        | 15a,15b |             |              |             |              |
| <b>Net financing</b>   | 3,377,142     | 3,377,142       | 3,363,655    | 3,363,655       |         |             |              |             |              |
| Transfer of cash on absorption   | 24,015        | 0               | 0            | 0               | 14      |             |              |             |              |
| Transfer of CRC cash to assets held for sale   | 0             | (3,062)         |              |                 |         |             |              |             |              |
| <b>Net (decrease)/increase in cash and cash equivalents in the year</b>                            | <b>13,082</b> | <b>(16,235)</b> | <b>3,222</b> | <b>(10,065)</b> |         |             |              |             |              |
| <b>Cash and cash equivalents at the beginning of the year</b>                                      | (16,505)      | 12,812          | (19,727)     | 22,877          | 14      |             |              |             |              |
| <b>Cash and cash equivalents at the end of the year</b>  | (3,423)       | (3,423)         | (16,505)     | 12,812          | 14      |             |              |             |              |
| <b>(Decrease)/increase in cash and cash equivalents</b>  | <b>13,082</b> | <b>(16,235)</b> | <b>3,222</b> | <b>(10,065)</b> |         |             |              |             |              |

The notes on pages 79 to 129 form part of these accounts

**Consolidated Statement of Changes in Taxpayers' Equity** for the year ended 31 March 2015

|   | Notes | General Fund     |                  |                  |                  | Revaluation Reserve |                  | Total Reserves |       |
|---|-------|------------------|------------------|------------------|------------------|---------------------|------------------|----------------|-------|
|   |       | Core Agency      |                  | Consolidated     | Core Agency      |                     | Consolidated     | Core Agency    |       |
|   |       | £'000            | £'000            | £'000            | £'000            | £'000               | £'000            | £'000          | £'000 |
| <b>Balance as at 31 March 2013</b>                              |       | <b>4,317,034</b> | <b>3,002,723</b> | <b>1,123,190</b> | <b>1,124,640</b> | <b>5,440,224</b>    | <b>4,127,363</b> |                |       |
| Prior year adjustments  |       | (68,349)         | (68,349)         | 0                | 0                | (68,349)            | (68,349)         |                |       |
| <b>Restated balance as at 1 April 2013</b>                      |       | <b>4,248,685</b> | <b>2,934,374</b> | <b>1,123,190</b> | <b>1,124,640</b> | <b>5,371,875</b>    | <b>4,059,014</b> |                |       |
| <b>Changes in taxpayers' equity for 2013-2014</b>               |       |                  |                  |                  |                  |                     |                  |                |       |
| Net operating cost for the year to 31 March 2014                |       | (3,674,013)      | (3,756,836)      | 0                | 0                | (3,674,013)         | (3,756,836)      |                |       |
| Net gain/(loss) on revaluation of property, plant and equipment | 7     | 0                | 0                | 142,040          | 142,101          | 142,040             | 142,101          |                |       |
| Net gain/(loss) on revaluation of intangible assets             | 8     | 0                | 0                | 326              | 331              | 326                 | 331              |                |       |
| Release of reserves to the general fund                         |       | 70,398           | 70,513           | (70,398)         | (70,513)         | 0                   | 0                |                |       |
| Remeasurement of net pension liabilities                        |       | 0                | 173,213          | 0                | 0                | 0                   | 173,213          |                |       |
| Movement in Probation Trusts' post audit accounts               |       | 0                | (315)            | 0                | 0                | 0                   | (315)            |                |       |
| Funding from the Consolidated Fund (Supply)                     |       | 3,552,000        | 3,552,000        | 0                | 0                | 3,552,000           | 3,552,000        |                |       |
| Settlement of transactions with MoJ                             |       | 114,664          | 114,664          | 0                | 0                | 114,664             | 114,664          |                |       |
| Consolidated Fund Extra Receipts due to HM Treasury             |       | (163,731)        | (163,731)        | 0                | 0                | (163,731)           | (163,731)        |                |       |
| <b>Notional items</b>   |       |                  |                  |                  |                  |                     |                  |                |       |
| Auditor's remuneration  | 4     | 330              | 330              | 0                | 0                | 330                 | 330              |                |       |
| Corporate overhead charges                                      | 4,5   | 101,833          | 101,833          | 0                | 0                | 101,833             | 101,833          |                |       |
| <b>Balance as at 31 March 2014</b>                              |       | <b>4,250,166</b> | <b>3,026,045</b> | <b>1,195,158</b> | <b>1,196,559</b> | <b>5,445,324</b>    | <b>4,222,604</b> |                |       |
| <b>Changes in taxpayers' equity for 2014-2015</b>               |       |                  |                  |                  |                  |                     |                  |                |       |
| Net expenditure for the year to 31 March 2015                   |       | (4,945,308)      | (3,761,676)      | 0                | 0                | (4,945,308)         | (3,761,676)      |                |       |
| Net gain/(loss) on revaluation of property, plant and equipment | 7     | 0                | 0                | 358,626          | 358,626          | 358,626             | 358,626          |                |       |
| Net gain/(loss) on revaluation of intangible assets             | 8     | 0                | 0                | (6)              | (6)              | (6)                 | (6)              |                |       |
| Net gain/(loss) on revaluation of assets held for sale          | 9     | 0                | 0                | (1,847)          | (1,847)          | (1,847)             | (1,847)          |                |       |
| Net (gain)/loss on recognition of investment in CRCs            | 10    | 505              | 0                | 0                | 0                | 505                 | 0                |                |       |
| Release of reserves to the general fund                         |       | 42,172           | 42,172           | (42,172)         | (42,172)         | 0                   | 0                |                |       |
| Absorption accounting transfer between reserves                 |       | 0                | 1,401            | 0                | (1,401)          | 0                   | 0                |                |       |
| Remeasurement of net pension liabilities                        | 20    | (143,296)        | (104,689)        | 0                | 0                | (143,296)           | (104,689)        |                |       |
| Movement in Probation Trusts' post audit accounts               |       | 0                | 986              | 0                | 0                | 0                   | 986              |                |       |
| Funding from the Consolidated Fund (Supply)                     |       | 3,403,510        | 3,403,510        | 0                | 0                | 3,403,510           | 3,403,510        |                |       |
| Settlement of transactions with MoJ                             |       | 134,585          | 134,585          | 0                | 0                | 134,585             | 134,585          |                |       |
| <b>Notional items</b>   |       |                  |                  |                  |                  |                     |                  |                |       |
| Auditor's remuneration  | 4     | 300              | 300              | 0                | 0                | 300                 | 300              |                |       |
| Corporate overhead charges                                      | 4,5   | 118,814          | 118,814          | 0                | 0                | 118,814             | 118,814          |                |       |
| <b>Balance as at 31 March 2015</b>                              |       | <b>2,861,448</b> | <b>2,861,448</b> | <b>1,509,759</b> | <b>1,509,759</b> | <b>4,371,207</b>    | <b>4,371,207</b> |                |       |

The notes on pages 79 to 129 form part of these accounts



# Notes to the Accounts

## 1. Statement of Accounting Policies

### 1.1 Basis of preparation

The financial statements have been prepared in accordance with the 2014–15 Government Financial Reporting Manual (FRoM) issued by HM Treasury. The accounting policies contained in the FRoM follow International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context.

Where the FRoM permits a choice of accounting policy, the policy which has been judged to be the most appropriate to the particular circumstances of the National Offender Management Service (NOMS, or 'the Agency') for the purpose of giving a true and fair view has been selected. The particular accounting policies adopted by NOMS are described below. They have been applied consistently in dealing with items considered material to the accounts.

The functional and presentational currency of NOMS is the British pound sterling (£).

### 1.2 Accounting convention

These accounts have been prepared on an accruals basis under the historical cost convention, modified to account for the revaluation of non-current assets, assets held for sale, inventories and financial assets.

### 1.3 Changes in accounting policy and disclosures

There have been no changes to existing accounting policies for the year ended 31 March 2015.

#### a) New and amended standards adopted

IFRS 10 'Consolidated Financial Statements' was issued jointly with IFRS 11 'Joint Arrangements', IFRS 12 'Disclosure of Interests in Other Entities', and amendments to IAS 27 'Separate Financial Statements' and IAS 28 'Investments in Associates and Joint Ventures'. The new group accounting standards introduce a single concept of control to clarify the basis for producing consolidated accounts and develop disclosure requirements, to allow better user understanding of the nature, extent and financial effects of the reporting entity's relationship with other entities and joint arrangements, including off balance sheet vehicles.

The FRoM's adaptation of these standards for public sector application is effective from 1 April 2014 and has been applied to the NOMS Group in accounting for the Community Rehabilitation Companies, while in public sector ownership. See Note 1.5.

#### b) New standards, amendments and interpretations issued, but not effective, for the financial year beginning 1 April 2014, and not adopted early

New standards, amendments and interpretations which are not yet effective are not expected to have a material impact on NOMS' future accounts.

### 1.4 Going concern

NOMS is an Executive Agency to the Ministry of Justice (MoJ). The future financing of NOMS' activities is expected to be met by the MoJ from funds, which are voted annually under the relevant Appropriation Act.

Under the Transforming Rehabilitation programme, the Probation Trusts ('the Trusts') ceased operating on 31 May 2014. From 1 June 2014, the Trusts' activities were taken over by

the National Probation Service (NPS) directorate within NOMS, and by 21 new Community Rehabilitation Companies (CRCs). See the section ‘Significant Changes to NOMS reporting’ in the Directors’ Report for further details.

The Trusts’ operations ceased prior to the dissolution of the Trusts on 31 October 2014, so the Trusts were no longer a going concern as at that date, and their accounts were prepared on a basis other than that of a going concern.

Applying a basis other than that of a going concern had no material impact on the Trusts’ accounts. All assets and liabilities were transferred out of the Trusts at carrying value under absorption accounting prior to dissolution.

NOMS management has concluded that these changes do not raise any uncertainty around the going concern status of the NOMS Group accounts.

### **1.5 Basis of consolidation**

Under Treasury direction, these accounts comprise a consolidation of NOMS Core Agency, the Probation Trusts, which were Non-Departmental Public Bodies (NDPBs), and the CRCs while in public sector ownership. All significant intra-group transactions have been eliminated in NOMS Consolidated accounts.

Consolidated statements of comprehensive net expenditure, cash flows and taxpayers’ equity are presented for 2014-15, to reflect the use of taxpayers’ funds. NOMS ceased to be a group on 31 January 2015, when the CRCs were sold, so there is no consolidated statement of financial position as at 31 March 2015.

The accounting policies of the Trusts until dissolution and of the CRCs while in public sector ownership are aligned with those of the Agency in all material areas.

A full list of the entities included within the NOMS Agency boundary during 2014-15 is given in Note 29.

#### **Probation Trusts**

The Trusts’ final accounts were prepared to 31 October 2014, when they were dissolved. NOMS consolidated accounts include the results and cash flows of the Trusts up to that date. The Trusts held no balances at the point of dissolution.

#### **Community Rehabilitation Companies**

CRCs provide rehabilitation and offender management services for lower risk offenders in the community in England and Wales.

Until 31 January 2015 the CRCs were owned by the Secretary of State for Justice. Following a tender process for the CRCs, sale and purchase agreements were signed in December 2014, and the successful bidders took ownership of the CRCs from 1 February 2015.

Probation services will continue to be commissioned by MoJ/NOMS from the CRCs under this arrangement. The contracts will influence the operations of the CRCs. MoJ/NOMS has committed to fund and ensure all current probation services continue under the new structure, using the same assets and resources, for the foreseeable future.

The CRCs are accounted for as discontinued operations, as described in Note 1.7. NOMS consolidated accounts include the results of the CRCs from 1 June 2014, when they became operational, until 31 January 2015, when they ceased to be in public sector ownership.

## 1.6 Transfers under absorption accounting

The Secretary of State made a Staff Transfer Scheme and a Property Transfer Scheme ('the Schemes') under the Offender Management Act 2007. The Schemes came into effect on 1 June 2014, transferring staff from the Probation Trusts to the Secretary of State and the CRCs, and transferring assets and liabilities to the Secretary of State.

Immediately following the transfer from the Trusts on 31 May 2014, the Secretary of State transferred some of the rights and obligations to the CRCs.

In the rest of this document, transfers of staff, operational activities, rights and obligations from the Trusts are referred to as being either to NOMS or to the CRC, to distinguish between those remaining with the Secretary of State and those transferred to the CRC.

In accordance with the FReM, absorption accounting has been applied to the transfers, as the Probation Trusts and the CRCs were within NOMS Agency boundary at the time of the transfers. The impact is a transfer of net assets/liabilities from the Probation Trusts to NOMS and CRCs, at their carrying value. This is reflected as a non-operating gain/loss in the Agency SoCNE, which is eliminated on consolidation and does not affect the NOMS Consolidated position. This transfer has no budgetary impact.

### **Basis of allocation of balances**

Assets and liabilities of the Probation Trusts were allocated between NOMS and CRCs as follows:

#### **Pensions**

The responsibility for funding the past service liabilities associated with the original employees who are deferred or pensioner members of the LGPS has transferred to NOMS under the Secretary of State for Justice. Any increase to employer contribution levels, other than those caused by discretionary actions of the CRC will be funded by NOMS. As a result the Trusts' pension liabilities and corresponding assets were transferred to NOMS in full.

#### **Leases and service contracts**

Property and IT leases remain within the MoJ. All other service contracts were transferred to the relevant entity based on where the services of that contract will be provided. Where the services are shared by both entities, in most cases the contract will have been transferred to the majority user.

#### **Staff related balances**

All staff related balances, not settled by the Trusts shortly after 31 May 2014, were allocated to the relevant entity to which each staff member was transferred.

#### **All other balances**

Existing debtors and creditors that remained within the Trusts were settled from existing funds. All other balances were allocated on a practical basis taking in to account future use, staff member allocation and services provided by that entity. Where an asset, liability or service was utilised by both entities it transferred to NOMS.

See Note 27 for transferred balances.

## 1.7 Discontinued operations

CRCs are treated as discontinued operations in NOMS Consolidated accounts, in accordance with the FReM adaptation of IFRS 5.

The results of the CRCs while in public sector ownership, after eliminating funding and other transactions with NOMS, are reflected in a single line in the CSoCNE. Further details are provided in Note 2c.

There are no comparative figures for 2013-14. The CRCs did not become active until 1 June 2014, and the services delivered by the CRCs were not previously operated as a separate line of business by the Probation Trusts.

Balances transferred from Probation Trusts to the CRCs under absorption accounting were transferred into disposal groups at fair value, in line with IFRS 5. The disposal took place when the CRCs were sold on 31 January 2015. See Note 2c.

NOMS Core Agency recognised an investment in the CRCs while in public sector ownership, which was disposed of on 31 January 2015. See Note 1.26.

The Secretary of State for Justice holds a special share in each CRC, details of which are in Note 10b. In accordance with the FReM, special shares are not recognised on the CSoFP.

## **1.8 Property, plant and equipment**

### **Recognition and capitalisation threshold**

Property, plant and equipment, including subsequent expenditure on existing assets, are initially recognised at cost. The threshold for capitalising individual assets is £10,000 (including irrecoverable VAT).

Where significant purchases of individual assets which are separately beneath the capitalisation threshold arise in connection with a single project, they are treated as a grouped asset. The capitalisation threshold for grouped assets is £1 million (including irrecoverable VAT).

### **Assets under construction**

Assets under construction are valued at historic cost within property, plant and equipment and are not subject to depreciation until completed. On completion, the asset's carrying value is transferred to the respective asset category.

Expenditure is capitalised where it is directly attributable to bringing an asset into working condition, such as external consultant costs, relevant employee costs and an appropriate portion of relevant overheads.

### **Valuation**

Property, plant and equipment are carried at fair value in accordance with the FReM.

Land and buildings (including dwellings) are included at fair value, as interpreted by the FReM, on the basis of professional valuations, which are conducted for each property at least once every five years.

Professional valuations are undertaken by the Valuation Office Agency (VOA), an independent body, using Royal Institution of Chartered Surveyors (RICS) Valuation - Professional Standards, known as the 'Red Book'. In between professional valuations, carrying values are adjusted by the application of indices or through desktop valuations, which are carried out by the professional valuers.

Farms and surplus freehold land, prison officers' quarters – including some leaseholds – and some other non-specialised buildings are carried at open market valuations.

Freehold prison buildings are specialised buildings which cannot be sold on the open market. Specialised properties are carried at depreciated replacement cost to a modern equivalent basis in accordance with the Red Book, adjusted for functional obsolescence.

Non-property assets are recorded at cost on purchase and restated at each Consolidated Statement of Financial Position (CSoFP) date using the Producer Price Index published by the Office for National Statistics.

### Revaluation

The revaluation reserve reflects the unrealised element of the cumulative balance of revaluation and indexation adjustments of property, plant and equipment.

Gains on revaluation are credited to the revaluation reserve and shown in other comprehensive expenditure, unless they reverse a revaluation decrease on the same asset. Reversals are credited to net operating costs in the Consolidated Statement of Comprehensive Net Expenditure (CSoCNE) to the extent of the amount previously expensed, and any excess is credited to the revaluation reserve.

When an asset's carrying value decreases as a result of a permanent diminution in the value of the asset, due to a clear consumption of economic benefit or service potential, the decrease is charged directly to net operating costs, with any remaining revaluation reserve balance released to the general fund.

A revaluation decrease, other than as a result of a permanent diminution, is reversed against any existing amount held in the revaluation reserve in respect of that same asset. Any residual decrease is charged to net operating costs.

The difference between depreciation based on the revalued carrying amount of the asset charged to the CSoCNE and depreciation based on the asset's original cost is transferred from the revaluation reserve to the general fund.

### Depreciation

Depreciation is charged on a straight-line basis at rates calculated to write off the value of assets less estimated residual value evenly over their estimated useful lives or for leased assets, over the life of the lease or the period implicit in the repayment schedule. The useful lives of assets or asset categories are reviewed annually. Where a change in asset life is agreed, the asset is depreciated on a straight-line basis over its remaining assessed life.

Depreciation commences in the month following acquisition of the non-current asset.

If an item of property, plant and equipment comprises two or more significant components, with substantially different useful lives, then each component is treated separately for depreciation purposes and depreciated over its individual useful life. Estimated useful asset lives are within the following ranges:

|   |  |
|---|--|
| Freehold land                           | Not depreciated  |
| Freehold buildings including Dwellings  | Shorter of remaining life or up to 60 years (up to 55 years for dwellings) depending on building                             |
| Grouped assets                          | Depending on individual asset types comprising this asset  |
| Leasehold buildings including Dwellings | Shorter of remaining life, remaining lease period or up to 50 years (up to 55 years for dwellings); whichever is appropriate |
| Information technology                  | 3 to 15 years depending on individual asset type   |
| Plant & equipment                       | 3 to 15 years depending on individual asset type   |
| Vehicles                                | 5 to 15 years depending on individual asset type   |
| Furniture, fixtures & fittings          | 3 to 15 years depending on individual asset type   |
| Assets under construction               | Not depreciated  |

### 1.9 Intangible assets

NOMS recognises intangible assets only if it is probable that future service potential will flow to NOMS and the cost of the asset can be measured reliably. Intangibles comprise software developed by third parties, including MoJ, and licenses for purchased software. Intangibles are initially valued at cost.

The threshold for capitalising individual assets is £10,000 (including irrecoverable VAT). The threshold for capitalising grouped assets is £1 million (including irrecoverable VAT).

Intangible assets are amortised using the straight-line method over their anticipated useful lives. The useful lives of the software range from 3 to 10 years. Licences are amortised over the length of the licence.

As there is no active market for these intangible assets, their fair value is assessed at the re-valued amount less any accumulated amortisation and accumulated impairment losses. Intangible assets are revalued at each reporting period end date using the Services Producer Price Index published by the Office for National Statistics.

### 1.10 Impairment

An impairment reflects a permanent diminution in the value of an asset as a result of a clear consumption of economic benefits or service potential. At each reporting date, NOMS assesses all assets for indications of impairment. If any such indication exists, the assets in question are tested for impairment by comparing the carrying value of those assets with their recoverable amounts. Where the recoverable amount of an asset is less than its carrying value, the carrying value of the asset is reduced to its recoverable amount.

The recoverable amount of an asset is the higher of its 'fair value less costs to sell' and 'value in use'. For the purposes of the public sector, the FReM defines the 'value in use' of a non-cash-generating asset as the present value of the asset's remaining service potential, which can be assumed to be at least equal to the cost of replacing that service potential.

Impairment losses resulting from a clear consumption of economic benefit are recognised as expenditure in the CSoCNE. If the impaired asset had been revalued previously, an amount equal to the impairment charge is transferred from the revaluation reserve to the general fund, up to the extent that a revaluation reserve is held for the asset.

Other impairment losses arising on an asset that had been revalued previously are recognised as a reduction in the revaluation reserve, up to the extent that a revaluation reserve is held for the asset, and any excess is recognised as expenditure in the CSoCNE. If an impaired asset had not been revalued previously, the impairment is recognised in full as a charge to the CSoCNE.

At each reporting date NOMS reviews impairment losses recognised in previous periods. Any reversal of an impairment loss is then recognised, in the CSoCNE, to the extent that the original charge, adjusted for subsequent depreciation, was recognised, with any remaining amount recognised in the revaluation reserve.

## 1.11 Leases

A distinction is made between finance leases and operating leases.

### Finance leases

Leases of assets where NOMS retains substantially all the risks and rewards of ownership are classified as finance leases. At the commencement of the lease term, finance lease assets and liabilities are capitalised at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in payables. NOMS is contractually obliged to make rental payments. The interest element of the finance cost is charged to the CSoCNE over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset and the lease term.

### Operating leases

Leases other than finance leases are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the CSoCNE on a straight-line basis.

## 1.12 Service Concession Arrangements including Private Finance Initiative arrangements

Service Concession Arrangements (SCA), including Private Finance Initiative (PFI) arrangements, are arrangements whereby private sector operators are contractually obliged to provide services to the public in relation to certain infrastructure assets. NOMS defines such arrangements as SCA if they meet the conditions set out in IFRIC 12 'Service Concession Arrangements', as adapted for the public sector context by the FReM. The future payment streams are assessed to identify separately the infrastructure interest and service components.

NOMS recognises the infrastructure asset at fair value (or the present value of future minimum infrastructure payments, if lower) as a non-current asset in the CSoFP with a corresponding liability for future payments under the agreement. The service element is charged to the CSoCNE in the period in which the services are rendered by the operator.

The interest element is charged to the CSoCNE over the contract period so as to produce a constant periodic rate of interest on the remaining balance of the liability. Older prison PFI arrangements and other SCA use Treasury discount rates. HMP Thameside PFI and, where possible, any future PFI contracts will be accounted for using the interest rate implicit in the contract.

In addition to PFI prison contracts, the contracts for Prisoner Escort and Custody Services (PECS), and certain new contracts for Electronic Monitoring Services (EM) meet the conditions for SCA.

Transitional EM contracts with the former suppliers ended in 2013-14. An interim (and later bridge) contract with a new supplier, using existing assets, is in place until the commencement of new contracts in 2016. At 31 March 2015, there was no SCA liability on the CSoFP. Commitments are recognised in Note 16.



### **1.13 Non-current assets held for sale**

Non-current assets are classified as held for sale when their carrying amount is to be recovered through sale, and a sale is considered highly probable. Property assets held for sale are stated at the lower of their carrying amount immediately prior to classification as held for sale or their fair value less the costs of sale. Any subsequent impairment or reversal of impairment is recognised in the CSoCNE. Non-current assets held for sale are not subject to depreciation. See Note 1.7 for CRC assets and liabilities classified as held for sale and sold during 2014-15.

### **1.14 Inventories**

Inventories comprise raw materials, work-in-progress, finished goods and consumable stores. Inventories are valued at the lower of current replacement cost and net realisable value. Current replacement cost is not considered materially different from historical cost.

### **1.15 Cash and cash equivalents**

Cash and cash equivalents recorded in the CSoFP and Consolidated Statement of Cash Flows (CSoCF) includes cash in hand, deposits held at call with banks, and bank overdrafts.

### **1.16 Employee benefits**

#### **Pensions – PCSPS**

The provisions of the Principal Civil Service Pension Scheme (PCSPS) cover most past and present employees. While this is an unfunded defined benefit scheme, in accordance with the FReM adaptation of IAS 19, NOMS accounts for it as a defined contribution scheme. NOMS recognises contributions payable to defined contribution schemes as an expense in the year in which it is incurred, and the legal or constructive obligation is limited to the amount that it agrees to contribute to the fund.

#### **Probation LGPS Defined Benefit Plan**

Past employees of the Probation Trusts are covered by the provisions of the LGPS. Between 1 April and 31 May 2014, this was via locally administered pension funds. From 1 June 2014 past employees of the Probation Trusts, and probation staff who transferred to CRCs and NOMS are covered by the provisions of the LGPS via one pension fund, administered by the Greater Manchester Pension Fund (GMPF). This is a funded defined benefit scheme. Retirement benefits are determined independently of the investments of the scheme and employers are obliged to make additional contributions where assets are insufficient to meet retirement benefits.

The Secretary of State for Justice has provided a guarantee to GMPF in respect of the CRCs' participation in the GMPF for pension liabilities that transfer to the CRCs.

The pension fund is subject to an independent triennial actuarial valuation to determine each employer's contribution rate. The last formal actuarial valuation was at 31 March 2013.

The entire pension liability recognised by the Probation Trusts transferred to NOMS on 1 June 2014. The absorption values of assets and liabilities at the date of transfer were based on a desk-based valuation as described in Note 20.

NOMS obtains a professional calculation of the pension position at the reporting date from Hymans Robertson LLP, the independent actuary for GMPF. The assumptions underpinning the actuarial calculations are subject to review as part of NOMS' annual reporting and audit process. The value of pension assets and liabilities transferred into the GMPF was also recalculated by Hymans Robertson as at 1 June 2014. The difference between the professional and desk-based valuations is shown separately in Note 20 remeasurements.



The liability recognised in the CSoFP in respect of defined benefit pension plan at the reporting date is the present value of the defined benefit obligation less the fair value of plan assets. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using discount rates as advised by the scheme actuary. In between formal actuarial valuations, the obligation is approximated by adjusting the most recent full valuation using latest available membership data.

Remeasurement gains and losses are recognised within Other Comprehensive Expenditure in full in the period in which they arise. Service costs to the CSoCNE are spread systematically over the working lives of the employees. The interest charge to the CSoCNE reflects the unwinding of the discount applied to the net liabilities of the scheme.

### **Early Departure Costs**

NOMS is required to pay the additional cost of benefits beyond the normal PCSPS benefits in respect of employees who retire early, unless the retirement is on approved medical grounds. The total cost is provided in full when the early departure programme has been announced and is binding on NOMS. The estimated cash flow is discounted using HM Treasury's discount rate of 1.3% in real terms (2013–14: 1.8%).

### **Civil Service Injury Benefit Scheme**

From 1 April 1998 NOMS is required to pay benefits under the Civil Service Injury Benefits Scheme. From 2014-15, the Government Actuarial Department (GAD) provide NOMS with annual annuity rates covering whole of life (for total liability value), 1 year and 1 to 5 years (for cash flow values). These assumptions take the time value of money into account, and further discounting adjustments are not needed.

As at 31 March 2014, NOMS estimated the value of the provision, and cash flow values were discounted using HM Treasury's discount rate of 1.8% in real terms.

### **1.17 Operating income**

Operating income includes receipts from the Youth Justice Board (YJB) and MoJ for the provision of youth custody places, from the Home Office for the provision of custodial services to foreign national prisoners and running immigration removal centres, from the European Union for resettlement services, and from NHS England, private sector providers and Welsh Government for the provision of healthcare services.

Income in respect of services rendered is recovered in line with the related service level agreement (SLA) on a full cost basis.

Operating income also includes income from sales of goods produced by prison industries, and sales to prisoners through the prison shop and incentives and earned privileges scheme.

The income of the Probation Trusts and of the CRCs (while in public sector ownership) comprised rent, income from EU sources, income from other government departments and miscellaneous income.

Operating income is stated net of recoverable VAT.

### **1.18 Administration and programme expenditure**

The CSoCNE is analysed between administration and programme income and expenditure. The classification of expenditure as administration or programme follows the definition of administration

costs set out in HM Treasury's Consolidated Budgeting Guidance.

Administration budgets cover the costs of all NOMS administration including the provision of a corporate management and governance framework, policy setting, legislative reporting and associated back office support services.

Programme budgets cover the costs of direct frontline service provision, such as public and private prison establishments, probation services, prisoner escorts and electronic monitoring, or support activities that are directly associated with frontline service delivery.

Examples of such support activities are centralised shared services, case working units, operational training, custodial capacity and property maintenance.

### **1.19 Notional costs**

Notional costs in Notes 4 and 5 are credited directly to the general fund and comprise NAO's cost for the external audit of the accounts, and recharges by MoJ for central services – for example, NOMS' notional share of Private Office costs, Finance, HR, Expenses, Procurement, Estates and IT.

### **1.20 Segmental reporting**

The statement of net expenditure by operating segments – see Note 2 – presents net operating cost information based on the structure reported to the NOMS Agency Board. The segments reflect the main directorate structure within NOMS, allowing the Board to have a clear view on the costs of front-line operations.

### **1.21 Provisions**

Provisions represent liabilities of uncertain timing or amount. Provisions are recognised when NOMS has a present legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will be required to settle the obligation, and for which a reliable estimate can be made of the amount.

Provisions reflect the best estimate of the expenditure required to settle the obligation. Provisions are discounted to their present value using the real rates set by HM Treasury, where the effect is material.

### **1.22 Contingent liabilities**

As required by Managing Public Money, in addition to contingent liabilities disclosed in accordance with IAS 37, NOMS discloses, for Parliamentary reporting and accountability purposes, certain statutory and non-statutory contingent liabilities where the likelihood of transfer of economic benefit is remote.

Where the time value of money is material, contingent liabilities required to be disclosed under IAS 37 are stated at discounted amounts and the amount reported to Parliament separately noted. Contingent liabilities that are not required to be reported under IAS 37 are stated at the amount reported to Parliament.

### **1.23 Value Added Tax**

Most of the activities of NOMS are outside the scope of VAT and, in general, output tax does not apply and input tax on purchases is not recoverable. Irrecoverable VAT is charged to the relevant expenditure category or included in the capitalised purchase costs of fixed assets. Where output tax is charged or input tax is recoverable, the amounts are stated net of VAT.

### 1.24 Corporation Tax

Under the Offender Management Act 2007, Probation Trusts were defined as corporate bodies and as such fell in scope for Corporation Tax. CRCs are companies and so fall in scope for Corporation Tax. The CSocNE and CSocFP include estimates of Corporation Tax costs and liabilities.

### 1.25 Third party assets

NOMS holds, as custodian or trustee, certain assets belonging to third parties. These assets are not recognised on the CSocFP and are disclosed in Note 26.

### 1.26 Financial Instruments

#### **Classification and measurement - financial assets**

In addition to cash, NOMS has four categories of financial assets:

#### **Loans and Receivables**

Loans and receivables comprise trade receivables, other receivables and accrued income that have fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially recognised at fair value and are measured subsequently at amortised cost using the effective interest method less impairment.

#### **Financial Assets at fair value through profit and loss**

Share investments including milk production quotas were acquired at no cost by NOMS as a result of trading activities. They are held at fair value. Fair value is equal to market value at the reporting date, and the movement in the value of assets is recognised immediately in the CSocNE, as income or as an expense.

#### **Financial Assets available for sale**

NOMS Core Agency held an investment in the CRCs while the CRCs were in public sector ownership. The investments were valued at fair value in accordance with IAS 39. Fair value was equal to the carrying value of net assets held by the CRCs, which was the sale price of the CRCs.

The investments were recognised on the NOMS Core Agency SoFP when the CRCs started operations on 1 June 2014. The CRCs' net assets were equal to the balances transferred in on absorption from the Probation Trusts, as disclosed in Note 27. As the CRCs were sold before the reporting date, and NOMS' accounting policy is to revalue at the reporting date, the investments were not revalued prior to sale.

On consolidation, the investment is eliminated, and the CRCs' net assets are reflected by assets and liabilities held for sale in discontinued operations. The net value is equal to that of the investment. See Note 1.7 for details.

The CRCs were operational in public sector ownership between 1 June 2014 and 31 January 2015, which is reflected in the CRCs' results and corresponding movement in net assets. The sale price is equal to the closing net asset value. On sale, the difference between the carrying value of the CRC investment and the disposal proceeds was recognised in the NOMS Core Agency SoCNE as the change in value of investments in CRCs.

On consolidation, that movement is equal to the difference between the carrying value of assets and liabilities held for sale and disposal proceeds. The difference is reflected in the CSocNE by results of discontinued operations.

### **Classification and measurement - financial liabilities**

NOMS has financial liabilities, comprising PFI liabilities, finance lease liabilities, trade payables, other payables and accruals. Financial liabilities are measured initially at fair value, net of transaction costs, and subsequently at amortised cost using the effective interest method. Where the effect is material, estimated cash flows of financial liabilities are discounted.

### **1.27 Critical accounting estimates and judgements**

Estimates and judgements are evaluated continually and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

### **Critical accounting estimates and assumptions**

The Agency 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.

### **Valuation of non-current assets**

Land and buildings (including dwellings) comprise mainly prisons that are shown at fair value, based on professional valuations. The value of land and buildings fluctuates with changes in construction costs and the current market value of buildings.

### **Pension costs**

The present value of the net pension liability detailed in Note 20 depends on a number of actuarially derived assumptions about inflation, salary and pension trends, discount factors and mortality rates. The estimated liability is subject to fluctuation and uncertainty due to changes in these assumptions over time and differences between assumptions and actual events.

### **Provisions for liabilities and charges**

The recognition and measurement of provisions for liabilities and charges reported in Note 19 rely on the application of professional judgment, historical experience and other factors expected to influence future events. Provision balances which contain regular, homogeneous transactions are often derived from complex financial models. Where the likelihood of a liability crystallising is deemed probable and can be measured with reasonable certainty, a provision is recognised.

### **Lease accounting**

Judgement is required on initial classification of leases as either operating leases or finance leases. Where a lease is taken out for land and buildings combined both the building and land elements may be capitalised as separate finance leases if they meet the criteria for a finance lease. If the contracted lease payments are not split between land and buildings in the lease contract, the split is made based on the market values of the land and buildings at the inception of the lease.

### **Service Concession Arrangements**

The Agency is party to a number of SCAs, including PFI. The classification of such arrangements as SCAs requires the Agency to determine, based on an evaluation of the terms and conditions of the arrangements, whether it controls the infrastructure. Where the Agency is judged to control the infrastructure, the contract assets are reflected in the SoFP.

## 2. Statement of Operating Costs by Operating Segment

### 2a Total net resource expenditure as reported to Board

| 2014-2015              | Public Sector Prisons | Probation      | Other contracted services | NOMS in Wales  | HQ             | Budgets Held by MoJ | Total            |
|------------------------|-----------------------|----------------|---------------------------|----------------|----------------|---------------------|------------------|
|                        | £'000                 | £'000          | £'000                     | £'000          | £'000          | £'000               | £'000            |
| Gross expenditure      | 1,765,684             | 740,462        | 627,728                   | 143,524        | 323,790        | 0                   | 3,601,188        |
| Income                 | (217,391)             | (16,850)       | (14,144)                  | (13,808)       | (34,585)       | 0                   | (296,778)        |
| <b>Net expenditure</b> | <b>1,548,293</b>      | <b>723,612</b> | <b>613,584</b>            | <b>129,716</b> | <b>289,205</b> | <b>0</b>            | <b>3,304,410</b> |

Total net expenditure in Table 2a represents resource expenditure, which is reported to the Board by segment. Table 2b reconciles this total to the CSocNE, which also includes Annually Managed Expenditure (AME) and expenditure which counts towards Capital for budgeting purposes.

### 2b Reconciliation between operating segments and CSocNE

| 2014-2015  | Public Sector Prisons | Probation      | Other contracted services | NOMS in Wales  | HQ             | Budgets Held by MoJ | Total            |
|--|-----------------------|----------------|---------------------------|----------------|----------------|---------------------|------------------|
|  | £'000                 | £'000          | £'000                     | £'000          | £'000          | £'000               | £'000            |
| <b>Net expenditure reported to Board</b>                                     | <b>1,548,293</b>      | <b>723,612</b> | <b>613,584</b>            | <b>129,716</b> | <b>289,205</b> | <b>0</b>            | <b>3,304,410</b> |
| PFI prisons and service concession arrangements accounting treatment         | 0                     | 0              | (44,712)                  | 3,606          | 0              | 0                   | (41,106)         |
| NOMS depreciation and impairment costs where the budget is held within MoJ   | 0                     | 0              | 0                         | 0              | 0              | 63,217              | 63,217           |
| NOMS other costs where the budget is held within MoJ                         | 0                     | 0              | 0                         | 0              | 0              | 135,663             | 135,663          |
| Notional recharge from MoJ   | 0                     | 0              | 0                         | 0              | 118,814        | 0                   | 118,814          |
| Probation Trusts' net expenditure difference from NOMS funding               | 0                     | 12,108         | 0                         | 0              | 0              | 0                   | 12,108           |
| Discontinued operations - CRCs' net expenditure difference from NOMS funding | 0                     | 340            | 0                         | 25             | 0              | 0                   | 365              |
| Other, including accounting treatment of provisions                          | 2,906                 | 38,686         | (573)                     | 2,470          | 124,716        | 0                   | 168,205          |
| <b>Total net operating costs after taxation per CSocNE</b>                   | <b>1,551,199</b>      | <b>774,746</b> | <b>568,299</b>            | <b>135,817</b> | <b>532,735</b> | <b>198,880</b>      | <b>3,761,676</b> |

'Probation' reflects the costs of delivering probation services, including funding the Probation Trusts (including Wales Probation Trust) for two months of operation to 31 May 2014, and the National Probation Service and CRCs (excluding Wales CRC) from 1 June 2014 to 31 January 2015.

'NOMS in Wales' includes all other activities in Wales: public sector prisons, other contracted services and Wales CRC.

#### Resource outturn

Resource expenditure against a budget of £3,346m delegated to NOMS by MoJ was £3,304m as reported to the Board in the management accounts. The equivalent outturn after financial accounts adjustments is £3,346m.

## 2. Statement of Operating Costs by Operating Segment (continued)

### Annually Managed Expenditure outturn

The provisional AME outturn reported to the Board was £183m. The equivalent outturn after financial accounts adjustments is £140m.

### Capital outturn

The Capital outturn reported to the Board was £24m, against a budget of £26m. The equivalent outturn after financial accounts adjustments is £24m.

### 2a Total net resource expenditure as reported to Board

| 2013-2014              | Public Sector Prisons | Probation      | Other contracted services | NOMS in Wales | HQ             | Budgets Held by MoJ | Total            |
|------------------------|-----------------------|----------------|---------------------------|---------------|----------------|---------------------|------------------|
|                        | £'000                 | £'000          | £'000                     | £'000         | £'000          | £'000               | £'000            |
| Gross expenditure      | 1,864,722             | 811,255        | 634,095                   | 97,503        | 339,823        | 0                   | 3,747,398        |
| Income                 | (242,251)             | (1,555)        | (23,638)                  | (10,123)      | (32,778)       | 0                   | (310,345)        |
| <b>Net expenditure</b> | <b>1,622,471</b>      | <b>809,700</b> | <b>610,457</b>            | <b>87,380</b> | <b>307,045</b> | <b>0</b>            | <b>3,437,053</b> |

### 2b Reconciliation between operating segments and CSoCNE

| 2013-2014  | Public Sector Prisons | Probation      | Other contracted services | NOMS in Wales | HQ             | Budgets Held by MoJ | Total            |
|--|-----------------------|----------------|---------------------------|---------------|----------------|---------------------|------------------|
|  | £'000                 | £'000          | £'000                     | £'000         | £'000          | £'000               | £'000            |
| <b>Net expenditure reported to Board</b>                                     | <b>1,622,471</b>      | <b>809,700</b> | <b>610,457</b>            | <b>87,380</b> | <b>307,045</b> | <b>0</b>            | <b>3,437,053</b> |
| PFI prisons and service concession arrangements accounting treatment         | 0                     | 0              | (10,878)                  | (639)         | 0              | 0                   | (11,517)         |
| NOMS depreciation and impairment costs where the budget is held within MoJ   | 0                     | 0              | 0                         | 0             | 0              | 232,570             | 232,570          |
| NOMS other costs where the budget is held within MoJ                         | 0                     | 0              | 0                         | 0             | 0              | 92,830              | 92,830           |
| Notional recharge from MoJ   | 0                     | 0              | 0                         | 0             | 101,833        | 0                   | 101,833          |
| Probation Trusts' net expenditure difference from NOMS funding               | 0                     | 0              | (163,731)                 | 0             | 0              | 0                   | (163,731)        |
| Discontinued operations - CRCs' net expenditure difference from NOMS funding | 0                     | 82,822         | 0                         | 0             | 0              | 0                   | 82,822           |
| Other, including accounting treatment of provisions                          | 151                   | (621)          | (534)                     | 0             | (14,020)       | 0                   | (15,024)         |
| <b>Total net operating costs after taxation per CSoCNE</b>                   | <b>1,622,622</b>      | <b>891,901</b> | <b>435,314</b>            | <b>86,741</b> | <b>394,858</b> | <b>325,400</b>      | <b>3,756,836</b> |

Prior year comparatives have been reclassified to align with current segments used in management reporting. The main changes are to show probation separately from other contracted services and to show NOMS in Wales as a separate segment.

'Probation' reflects the costs of delivering probation services, mostly running the Probation Trusts (including Wales Probation Trust).

'NOMS in Wales' includes all other activities in Wales: public sector prisons and other contracted services.

## 2. Statement of Operating Costs by Operating Segment (continued)

### 2c. Discontinued operations

The 21 CRCs were operational under public sector ownership from 1 June 2014 to 31 January 2015, when they were sold. See Notes 1.4 to 1.6 for details of the ownership and sale of the CRCs.

The CRCs are treated as discontinued operations, and their results to 31 January 2015 are shown accordingly as a single line on the CSocNE. See Note 1.7 for details of the accounting treatment. Further details of the results of discontinued operations and related staff numbers are set out below.

#### Results of all CRCs for the period from 1 June 2014 to 31 January 2015

|   | £'000     | £'000        |
|---|-----------|--------------|
| <b>Administration Costs</b>                                       |           |              |
| Staff costs   | 0         |              |
| Other administrative costs  | 666       |              |
| Income  | 0         | <b>666</b>   |
| <b>Programme Costs</b>  |           |              |
| Staff costs   | 228,212   |              |
| Other programme costs   | 50,169    |              |
| Income  | (278,686) | <b>(305)</b> |
| <b>Results of discontinued operations before taxation</b>         |           | <b>361</b>   |
| Taxation  |           | 4            |
| <b>Results of discontinued operations after taxation</b>          |           | <b>365</b>   |
| Elimination of intra-group transactions <sup>1</sup>              |           | 262,863      |
| Results of discontinued operations after intra-group eliminations |           | 263,228      |

| Staff numbers -<br>programme | 2014-2015            |            |              |
|------------------------------|----------------------|------------|--------------|
|                              | Permanently Employed | Other      | Total        |
| Directly employed            | 8,469                | 0          | 8,469        |
| Other                        | 0                    | 819        | 819          |
| <b>Total</b>                 | <b>8,469</b>         | <b>819</b> | <b>9,288</b> |

Note 1: Intra-group transactions are between CRCs or with NOMS Core Agency.

The table above shows average full time equivalent (FTE) staff numbers for the eight months of operation. Average FTE staff numbers pro-rated for the twelve month group accounting period, to be equivalent to the numbers for NOMS Core Agency and the Probation Trusts in Note 3b, were 6,192.



## 2. Statement of Operating Costs by Operating Segment (continued)

### 2c. Discontinued operations (continued)

#### Results by CRC for the period from 1 June 2014 to 31 January 2015

| Community Rehabilitation Company                                 | Income           | Staff costs    | Other expenditure | Net expenditure before tax | Tax      | Net expenditure after tax |
|--|------------------|----------------|-------------------|----------------------------|----------|---------------------------|
|  | £'000            | £'000          | £'000             | £'000                      | £'000    | £'000                     |
| Bedfordshire, Cambridgeshire, Hertfordshire and Northamptonshire | (13,500)         | 11,694         | 1,833             | 27                         | 0        | 27                        |
| Bristol, Gloucestershire, Somerset and Wiltshire                 | (12,639)         | 9,959          | 2,580             | (100)                      | 0        | (100)                     |
| Cheshire and Greater Manchester                                  | (19,861)         | 17,339         | 2,989             | 467                        | 0        | 467                       |
| Cumbria and Lancashire   | (11,564)         | 10,191         | 1,347             | (26)                       | 0        | (26)                      |
| Derbyshire, Leicestershire, Nottinghamshire and Rutland          | (20,008)         | 17,244         | 2,663             | (101)                      | 0        | (101)                     |
| Dorset, Devon and Cornwall                                       | (8,868)          | 7,173          | 1,748             | 53                         | 0        | 53                        |
| Durham Tees Valley   | (6,906)          | 5,149          | 1,729             | (28)                       | 0        | (28)                      |
| Essex  | (7,045)          | 5,789          | 1,262             | 6                          | 0        | 6                         |
| Hampshire and Isle of Wight                                      | (7,819)          | 6,423          | 1,319             | (77)                       | 0        | (77)                      |
| Humberside, Lincolnshire and North Yorkshire                     | (10,662)         | 9,222          | 1,439             | (1)                        | 0        | (1)                       |
| West Yorkshire   | (13,417)         | 10,269         | 3,134             | (14)                       | 0        | (14)                      |
| Kent, Surrey and Sussex  | (14,136)         | 11,168         | 3,169             | 201                        | 0        | 201                       |
| London   | (43,583)         | 35,446         | 8,103             | (34)                       | 0        | (34)                      |
| Merseyside   | (10,112)         | 7,932          | 2,196             | 16                         | 0        | 16                        |
| Norfolk and Suffolk  | (6,231)          | 4,952          | 1,533             | 254                        | 0        | 254                       |
| Northumbria  | (9,370)          | 7,621          | 1,755             | 6                          | 0        | 6                         |
| South Yorkshire  | (7,617)          | 5,954          | 1,650             | (13)                       | 4        | (9)                       |
| Staffordshire and West Midlands                                  | (21,775)         | 18,422         | 3,252             | (101)                      | 0        | (101)                     |
| Thames Valley  | (8,952)          | 6,764          | 2,088             | (100)                      | 0        | (100)                     |
| Wales  | (17,222)         | 14,366         | 2,881             | 25                         | 0        | 25                        |
| Warwickshire and West Mercia                                     | (7,399)          | 5,135          | 2,165             | (99)                       | 0        | (99)                      |
| <b>Total</b>   | <b>(278,686)</b> | <b>228,212</b> | <b>50,835</b>     | <b>361</b>                 | <b>4</b> | <b>365</b>                |
| Elimination of intra-group transactions <sup>1</sup>             |                  |                |                   |                            |          | 262,863                   |
| <b>Results of discontinued operations after taxation</b>         |                  |                |                   |                            |          | <b>263,228</b>            |

Note 1: Intra-group transactions are between CRCs or with NOMS Core Agency

Net balances of £505k were transferred to the CRCs from Probation Trusts under absorption accounting (see Note 27) and then re-classified as disposal groups within the NOMS consolidated accounts, under IFRS 5. Assets and liabilities held for sale were recognised in separate disposal groups. The CRCs were sold on 31 January 2015, at a sale price set at the carrying value of each CRC's net assets at that date. The re-classification and disposal of assets and liabilities held for sale is shown in the table in note 27.



## 2. Statement of Operating Costs by Operating Segment (continued)

### 2c. Discontinued operations (continued)

#### Assets and liabilities held for sale in CRC disposal groups

|                            | Consolidated |             |                  |
|----------------------------|--------------|-------------|------------------|
|                            | 2014-2015    |             |                  |
|                            | Assets       | Liabilities | Total Net Assets |
|                            | £'000        | £'000       | £'000            |
| <b>Cost or valuation</b>   |              |             |                  |
| As at 1 April              | 0            | 0           | 0                |
| Reclassifications          | 8,882        | (8,377)     | 505              |
| Disposals                  | (8,882)      | 8,377       | (505)            |
| <b>As at 31 March 2015</b> | <b>0</b>     | <b>0</b>    | <b>0</b>         |

## 3. Staff numbers and related costs

### 3a. Staff costs – continuing operations

|   | 2014-2015                  |               |                  | 2013-2014        |
|---|----------------------------|---------------|------------------|------------------|
|   | Permanently employed staff | Others        | Total            | Total            |
|   | £'000                      | £'000         | £'000            | £'000            |
| <b>Core Agency</b>  |                            |               |                  |                  |
| Wages and salaries  | 1,291,925                  | 57,132        | 1,349,057        | 1,174,968        |
| Social security costs   | 97,144                     | 0             | 97,144           | 86,108           |
| Other pension costs, departures and severance payments                | 279,562                    | 0             | 279,562          | 268,947          |
| <b>Sub-total</b>  | <b>1,668,631</b>           | <b>57,132</b> | <b>1,725,763</b> | <b>1,530,023</b> |
| Less recoveries in respect of outward secondments                     | (10,111)                   | 0             | (10,111)         | (3,014)          |
| Less recoveries in respect of ICT project labour costs charged to MoJ | 0                          | 0             | 0                | (1,090)          |
| Early departure provisions created net of releases                    | 5,078                      | 0             | 5,078            | 880              |
| Injury benefit scheme provision created                               | 31,796                     | 0             | 31,796           | 3,709            |
| <b>Total net costs</b>  | <b>1,695,394</b>           | <b>57,132</b> | <b>1,752,526</b> | <b>1,530,508</b> |
| Administration related staff costs                                    | 81,909                     | 9,653         | 91,562           | 71,063           |
| Programme related staff costs   | 1,613,485                  | 47,479        | 1,660,964        | 1,459,445        |
| <b>Total net costs</b>  | <b>1,695,394</b>           | <b>57,132</b> | <b>1,752,526</b> | <b>1,530,508</b> |
| <b>Consolidated</b>   |                            |               |                  |                  |
| Wages and salaries  | 1,377,810                  | 62,371        | 1,440,181        | 1,711,814        |
| Social security costs   | 103,533                    | 9             | 103,542          | 125,022          |
| Other pension costs, departures and severance payments                | 296,330                    | 25            | 296,355          | 379,435          |
| <b>Sub-total</b>  | <b>1,777,673</b>           | <b>62,405</b> | <b>1,840,078</b> | <b>2,216,271</b> |
| Less recoveries in respect of outward secondments                     | (12,249)                   | (20)          | (12,269)         | (13,823)         |
| Less recoveries in respect of ICT project labour costs charged to MoJ | 0                          | 0             | 0                | (1,090)          |
| Early departure provisions created net of releases                    | 5,078                      | 0             | 5,078            | 1,715            |
| Injury benefit scheme provision created                               | 31,796                     | 0             | 31,796           | 3,709            |
| <b>Total net costs</b>  | <b>1,802,298</b>           | <b>62,385</b> | <b>1,864,683</b> | <b>2,206,782</b> |
| Administration related staff costs                                    | 81,909                     | 9,653         | 91,562           | 71,063           |
| Programme related staff costs   | 1,720,389                  | 52,732        | 1,773,121        | 2,135,719        |
| <b>Total net costs</b>  | <b>1,802,298</b>           | <b>62,385</b> | <b>1,864,683</b> | <b>2,206,782</b> |

### 3. Staff numbers and related costs (continued)

#### Senior managers

Details of the salary and pension entitlements of the most senior managers of NOMS are detailed in the remuneration report. These costs are included within the totals on page 97.

#### Pension costs

233 persons retired early on ill health grounds (2013-14: 208). The total additional accrued pension liabilities in the year amounted to £0.4m (2013-14: £0.4m).

#### Principal Civil Service Pension Scheme

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme, but NOMS is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation of the PCSPS was carried out at 31 March 2012. Details can be found at [www.civilservicepensionscheme.org.uk](http://www.civilservicepensionscheme.org.uk).

For the year to 31 March 2015, employer's contributions of £191.0m were payable to the PCSPS (2013-14: £201.3m) at one of four rates in the range of 16.7% to 24.3% (2013-14: 16.7% to 24.3%) of pensionable pay (25.8% for prison officer grades with reserved rights) based on salary bands.

The scheme's actuary reviews employer contributions every four years following a full scheme valuation. New employer contribution rates apply from 1 April 2015 in the range 20.0% to 24.5% (27.9% for prison officer grades with reserved rights), based on salary bands, plus 0.15% to cover central administration expenses. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

Employees can opt to open a partnership pension account, which is a stakeholder pension with an employer contribution. Employers' contributions were paid to one or more of the panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 3% to 12.5% (2013-14: 3% to 12.5%) of pensionable pay. Employers also match employee contributions up to 3% of pensionable pay.

#### Probation staff

The Local Government Pension Scheme (LGPS) for former Probation Trust staff is a funded multi-employer defined benefit scheme. The Probation Trusts' share of the net underlying assets and liabilities transferred to NOMS Core Agency as at 1 June 2014. See Transfers to NOMS from Probation Trusts within Pensions Note 20.

For the year to 31 March 2015, employers' contributions of £60.9m were paid by NOMS and £14.8m by Probation Trusts to the LGPS (2013-14: £87.7m) in a range from 10.1% to 29.4% (2013-14: 10.1% to 27.8%). The scheme's actuaries review employer contributions every three years following a full scheme valuation. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

#### Discontinued operations

Staff costs in the CRCs totalled £228.2m for the period of operation in public sector ownership, from 1 June 2014 to 31 January 2015. The CRCs incurred employers' pension costs of £23.8m during that period.

### 3. Staff numbers and related costs (continued)

#### 3b. Average number of persons employed – continuing operations

The average number of full time equivalent (FTE) persons, including senior management, employed during the year was as follows:

|                                   | 2014-2015            |              |               | 2013-2014 restated <sup>1</sup> |              |               |
|-----------------------------------|----------------------|--------------|---------------|---------------------------------|--------------|---------------|
|                                   | Permanently employed | Other        | Total         | Permanently employed            | Other        | Total         |
| <b>Core Agency</b>                |                      |              |               |                                 |              |               |
| Directly employed <sup>2</sup>    | 42,166               | 0            | 42,166        | 38,552                          | 0            | 38,552        |
| Other                             | 0                    | 1,743        | 1,743         | 0                               | 1,177        | 1,177         |
| Staff engaged on capital projects | 0                    | 152          | 152           | 0                               | 0            | 0             |
| <b>Total</b>                      | <b>42,166</b>        | <b>1,895</b> | <b>44,061</b> | <b>38,552</b>                   | <b>1,177</b> | <b>39,729</b> |
| Admin                             | 1,227                | 45           | 1,272         | 1,033                           | 52           | 1,085         |
| Programme                         | 40,939               | 1,850        | 42,789        | 37,519                          | 1,125        | 38,644        |
| <b>Total</b>                      | <b>42,166</b>        | <b>1,895</b> | <b>44,061</b> | <b>38,552</b>                   | <b>1,177</b> | <b>39,729</b> |

|                                   | 2014-2015            |              |               | 2013-2014 restated <sup>1</sup> |              |               |
|-----------------------------------|----------------------|--------------|---------------|---------------------------------|--------------|---------------|
|                                   | Permanently employed | Other        | Total         | Permanently employed            | Other        | Total         |
| <b>Consolidated</b>               |                      |              |               |                                 |              |               |
| Directly employed <sup>2</sup>    | 44,840               | 0            | 44,840        | 54,995                          | 0            | 54,995        |
| Other                             | 0                    | 1,869        | 1,869         | 0                               | 1,916        | 1,916         |
| Staff engaged on capital projects | 0                    | 152          | 152           | 0                               | 0            | 0             |
| <b>Total</b>                      | <b>44,840</b>        | <b>2,021</b> | <b>46,861</b> | <b>54,995</b>                   | <b>1,916</b> | <b>56,911</b> |
| Admin                             | 1,227                | 45           | 1,272         | 1,033                           | 52           | 1,085         |
| Programme                         | 43,613               | 1,976        | 45,589        | 53,962                          | 1,864        | 55,826        |
| <b>Total</b>                      | <b>44,840</b>        | <b>2,021</b> | <b>46,861</b> | <b>54,995</b>                   | <b>1,916</b> | <b>56,911</b> |

Note 1: The format of this note has been amended and prior year figures reclassified to align more closely with the FReM, which simplifies the presentation.

Note 2: NOMS Core staff numbers include staff on secondment from Probation Trusts and CRCs (during public sector ownership) to prisons.

Staff numbers reflect significant changes in the structure of probation services over the year. Until May 2014, approximately seventeen thousand FTE worked in Probation Trusts and are reflected in Consolidated figures above. In June 2014, probation staff transferred either to the National Probation Service or to the CRCs (see Discontinued operations below). An average FTE staff 7,035 in the NPS are shown within NOMS Core figures above.

See Note 2c for staff numbers in discontinued operations.

#### Restatement

NOMS Core Agency staff numbers for 2013-14 have been restated from 743 to 1,177. The movement of 434 relates to programme staff identified following a change to reporting processes during the current year.

### 3. Staff numbers and related costs (continued)

#### 3c. Reporting of civil service and other compensation schemes - exit packages

##### Continuing operations

For the Core Agency, redundancy and other departure costs have been paid in accordance with the provisions of the Civil Service Compensation Scheme, a statutory scheme made under the Superannuation Act 1972. Where the Agency has agreed early retirements, the additional costs are met by the Agency and not by the Principal Civil Service Pension Scheme. Ill-health retirement costs are met by the pension scheme and are not included in the table below.

For Probation Trusts, redundancy and other departure costs have been paid in accordance with Trusts' redundancy policies. The Trusts paid the statutory minimum redundancy allocation based on age and length of service as set out in the Employment Rights Act 1996 and, where applicable, and subject to the Pension Plan and Redundancy rules, meet the additional costs of early retirement. Ill-health retirement costs are met by the pension scheme and are not included in the table below.

Exit costs are accounted for in full within Other pension costs in Note 3a in the year in which the exit package is confirmed. These costs reflect an element of pension costs which crystallise on confirmation of departure.

|  | 2014-2015                         |                                   |  | 2013-2014 Restated                |                                   |               |
|--|-----------------------------------|-----------------------------------|--|-----------------------------------|-----------------------------------|---------------|
|  | Number of compulsory redundancies | Number of other agreed departures | Total number of exit packages by cost band | Number of compulsory redundancies | Number of other agreed departures | Total number  |
| <b>Core Agency - Exit package cost and band</b>  |                                   |                                   |  |                                   |                                   |               |
| <£10,000   | 0                                 | 42                                | 42   | 0                                 | 104                               | 104           |
| £10,001 - £25,000                                | 0                                 | 129                               | 129  | 0                                 | 1,088                             | 1,088         |
| £25,001 - £50,000                                | 0                                 | 203                               | 203  | 0                                 | 794                               | 794           |
| £50,001 - £100,000                               | 0                                 | 55                                | 55   | 0                                 | 659                               | 659           |
| £100,001 - £150,000                              | 0                                 | 4                                 | 4  | 0                                 | 46                                | 46            |
| £150,001 - £200,000                              | 0                                 | 1                                 | 1  | 0                                 | 8                                 | 8             |
| £200,001 - £250,000                              | 0                                 | 0                                 | 0  | 0                                 | 4                                 | 4             |
| <b>Total number of exit packages</b>             | <b>0</b>                          | <b>434</b>                        | <b>434</b>                                 | <b>0</b>                          | <b>2,703</b>                      | <b>2,703</b>  |
| <b>Total cost of exit packages (£'000)</b>       | <b>0</b>                          | <b>12,982</b>                     | <b>12,982</b>                              | <b>0</b>                          | <b>94,018</b>                     | <b>94,018</b> |
| <b>Consolidated - Exit package cost and band</b> |                                   |                                   |  |                                   |                                   |               |
| <£10,000   | 1                                 | 42                                | 43   | 5                                 | 152                               | 157           |
| £10,001 - £25,000                                | 0                                 | 129                               | 129  | 2                                 | 1,137                             | 1,139         |
| £25,001 - £50,000                                | 0                                 | 203                               | 203  | 1                                 | 814                               | 815           |
| £50,001 - £100,000                               | 0                                 | 55                                | 55   | 0                                 | 667                               | 667           |
| £100,001 - £150,000                              | 0                                 | 4                                 | 4  | 0                                 | 51                                | 51            |
| £150,001 - £200,000                              | 0                                 | 1                                 | 1  | 0                                 | 10                                | 10            |
| £200,001 - £250,000                              | 0                                 | 0                                 | 0  | 0                                 | 5                                 | 5             |
| £250,001 - £300,000                              | 0                                 | 0                                 | 0  | 0                                 | 2                                 | 2             |
| <b>Total number of exit packages</b>             | <b>1</b>                          | <b>434</b>                        | <b>435</b>                                 | <b>8</b>                          | <b>2,838</b>                      | <b>2,846</b>  |
| <b>Total cost of exit packages (£'000)</b>       | <b>2</b>                          | <b>12,982</b>                     | <b>12,984</b>                              | <b>91</b>                         | <b>97,982</b>                     | <b>98,073</b> |

Total exit packages provided for as at 31 March 2015 under voluntary early departure schemes are disclosed in provisions Note 19 and will be included in Note 3c when accepted. Included within 'other agreed departures' above in 2014-15 there are 390 medical inefficiency dismissal exit packages at a value of £10.9m, within payment bands <£10k to £100k.

### 3. Staff numbers and related costs (continued)

#### 3c. Reporting of civil service and other compensation schemes - exit packages (continued)

##### Restatement of prior year comparatives

Prior year comparatives have been restated to include staff dismissed on the grounds of medical inefficiency, in line with Cabinet Office disclosure requirements. An additional 218 exit packages are disclosed at a value of £5.6m, within payment bands <£10k to £100k.

Prior year comparative figures have been restated to reflect additional costs charged as a result of a review of invoicing by MyCSP, who identified that employers had not been recharged the full cost of voluntary exits between 2011 and 2014. The effect on 2013-14 data is that 102 exit packages disclosed last year are now shown in higher payment bands, at a total additional cost of £5.0m. The additional cost for financial years prior to 2013-14, which is not included in the table above, was £0.9m.

##### Discontinued operations

Redundancy and other departure costs have been paid in accordance with CRCs' redundancy policies. Ill-health retirement costs are met by the pension scheme and are not included in the table below.

|  | 2014-2015                         |                                   |  |
|--|-----------------------------------|-----------------------------------|--|
|  | Number of compulsory redundancies | Number of other agreed departures | Total number of exit packages by cost band |
| <b>Discontinued Operations</b>             |                                   |                                   |  |
| Exit package cost and band                 |                                   |                                   |  |
| <£10,000                                   | 0                                 | 30                                | 30   |
| £10,001 - £25,000                          | 0                                 | 74                                | 74   |
| £25,001 - £50,000                          | 0                                 | 128                               | 128  |
| £50,001 - £100,000                         | 0                                 | 88                                | 88   |
| £100,001 - £150,000                        | 0                                 | 22                                | 22   |
| £150,001 - £200,000                        | 0                                 | 9                                 | 9  |
| £200,001 - £250,000                        | 0                                 | 1                                 | 1  |
| <b>Total number of exit packages</b>       | <b>0</b>                          | <b>352</b>                        | <b>352</b>                                 |
| <b>Total cost of exit packages (£'000)</b> | <b>0</b>                          | <b>16,412</b>                     | <b>16,412</b>                              |

#### 4. Other administrative costs – continuing operations

|   | Notes | 2014-2015            |                       | 2013-2014            |                       |
|---|-------|----------------------|-----------------------|----------------------|-----------------------|
|   |       | Core Agency<br>£'000 | Consolidated<br>£'000 | Core Agency<br>£'000 | Consolidated<br>£'000 |
| Accommodation and maintenance costs                   |       | 2,996                | 2,996                 | 3,981                | 3,981                 |
| Rentals under operating leases                        |       | 179                  | 179                   | 110                  | 110                   |
| IT services including service concession arrangements |       | 2,100                | 2,100                 | 5,827                | 5,827                 |
| Auditor's remuneration - internal                     |       | 3,280                | 3,282                 | 2,559                | 3,218                 |
| Auditor's remuneration - external <sup>1</sup>        |       | 0                    | 1,003                 | 40                   | 1,131                 |
| Communications  |       | 655                  | 655                   | 618                  | 618                   |
| Travel, subsistence and hospitality                   |       | 6,255                | 6,255                 | 3,921                | 3,921                 |
| Professional services                                 |       | 340                  | 340                   | 600                  | 600                   |
| Other staff related costs                             |       | 11,773               | 11,773                | 5,610                | 5,610                 |
| Other costs   |       | 8,180                | 8,180                 | 6,341                | 6,341                 |
|   |       | <b>35,758</b>        | <b>36,763</b>         | <b>29,607</b>        | <b>31,357</b>         |
| <b>Non cash items</b>                                 |       |                      |                       |                      |                       |
| Depreciation  | 7     | 325                  | 325                   | 1,088                | 1,088                 |
| Amortisation  | 8     | 898                  | 898                   | 825                  | 825                   |
| (Profit)/ loss on disposal of non-current assets      |       | (7)                  | (7)                   | 1                    | 1                     |
| Impairments on trade receivables                      |       | 539                  | 539                   | 98                   | 98                    |
| Impairments on other receivables                      |       | 0                    | 0                     | 168                  | 168                   |
| Auditor's remuneration - external                     |       | 300                  | 300                   | 330                  | 330                   |
| MoJ overhead recharges                                |       | 32,881               | 32,881                | 46,843               | 46,843                |
|   |       | <b>34,936</b>        | <b>34,936</b>         | <b>49,353</b>        | <b>49,353</b>         |
| <b>Total other administration costs</b>               |       | <b>70,694</b>        | <b>71,699</b>         | <b>78,960</b>        | <b>80,710</b>         |

Note 1: There was no external auditor's remuneration for non-audit work. The 2013-14 Core Agency fee was for an independent actuarial review of the LGPS pension liabilities to support the external audit opinion.

See Note 2c for other administrative costs of discontinued operations

## 5. Other programme costs – continuing operations

|  | Notes | 2014-2015            |                       | 2013-2014            |                       |
|--|-------|----------------------|-----------------------|----------------------|-----------------------|
|  |       | Core Agency<br>£'000 | Consolidated<br>£'000 | Core Agency<br>£'000 | Consolidated<br>£'000 |
| Accommodation and maintenance costs  |       | 303,315              | 303,810               | 255,616              | 323,983               |
| Rentals under operating leases   |       | 1,781                | 1,879                 | 1,854                | 2,659                 |
| PFI, managed prisons and service concession arrangements                                   |       | 579,338              | 579,338               | 587,217              | 587,217               |
| Interest charges   |       | 22,495               | 22,496                | 24,024               | 24,026                |
| IT services including service concession arrangements                                      |       | 137,974              | 138,250               | 106,410              | 138,112               |
| Communications   |       | 10,803               | 13,477                | 12,129               | 28,232                |
| Offender related costs   |       | 303,674              | 309,154               | 287,206              | 313,248               |
| Contracted probation costs   |       | 109,574              | 109,574               | 0                    | 0                     |
| Intra-NOMS transactions <sup>1</sup>   |       | 377,322              | 0                     | 804,505              | 0                     |
| Travel, subsistence and hospitality  |       | 19,459               | 21,774                | 11,249               | 24,235                |
| Professional services  |       | 17,580               | 19,461                | 15,575               | 26,551                |
| Other staff related costs  |       | 27,585               | 28,747                | 25,961               | 38,388                |
| Other costs  |       | 17,339               | 17,996                | 26,700               | 38,818                |
|  |       | <b>1,928,239</b>     | <b>1,565,956</b>      | <b>2,158,446</b>     | <b>1,545,469</b>      |
| <b>Non cash items</b>  |       |                      |                       |                      |                       |
| Depreciation   | 7     | 215,962              | 216,148               | 230,997              | 232,822               |
| Amortisation   | 8     | 25,603               | 25,690                | 23,270               | 23,778                |
| (Profit)/ loss on disposal of non-current assets   |       | (3,254)              | (3,254)               | 498                  | 547                   |
| Provisions created net of releases   | 19    | 43,799               | 43,645                | 17,869               | 18,315                |
| Unwinding of discount on provisions  | 19    | 994                  | 994                   | 6,597                | 6,597                 |
| Recognition of orphan pension liabilities  | 20    | 32,082               | 32,082                | 0                    | 0                     |
| Net interest cost on pension assets / liabilities  | 20    | 40,436               | 49,287                | 0                    | 57,829                |
| Impairments on trade receivables   |       | (3)                  | (3)                   | 157                  | 157                   |
| Net impairment (reversal)/charge on property, plant and equipment and assets held for sale |       | (140,491)            | (140,392)             | 55,716               | 55,716                |
| (Increase)/decrease in value of investments  |       | 0                    | 0                     | 35                   | 35                    |
| MoJ overhead recharges   |       | 85,933               | 85,933                | 54,990               | 54,990                |
|  |       | <b>301,061</b>       | <b>310,130</b>        | <b>390,129</b>       | <b>450,786</b>        |
| <b>Total other programme costs</b>   |       | <b>2,229,300</b>     | <b>1,876,086</b>      | <b>2,548,575</b>     | <b>1,996,255</b>      |

Note 1: Intra-NOMS transactions relate to funding and other arrangements between NOMS and the Probation Trusts and CRCs while in public sector ownership.

See Note 2c for other programme costs of discontinued operations

## 6. Operating income – continuing operations

|   | 2014-2015 |                      | 2013-2014             |                      |                       |
|---|-----------|----------------------|-----------------------|----------------------|-----------------------|
|   | Notes     | Core Agency<br>£'000 | Consolidated<br>£'000 | Core Agency<br>£'000 | Consolidated<br>£'000 |
| <b>Total administration income</b>              |           | <b>5,188</b>         | <b>5,188</b>          | <b>4,365</b>         | <b>4,362</b>          |
| <b>Programme income</b>                         |           |                      |                       |                      |                       |
| Juvenile funding (YJB & MoJ)                    |           | 69,374               | 69,374                | 96,413               | 96,413                |
| Home Office                                     |           | 3,956                | 3,957                 | 4,807                | 4,921                 |
| NHS and other healthcare providers              |           | 59,345               | 59,705                | 60,918               | 62,262                |
| Welsh Government                                |           | 6,644                | 6,644                 | 5,215                | 5,215                 |
| UK Visas and Immigration                        |           | 54,685               | 54,685                | 60,958               | 60,958                |
| Non-Central Government                          |           | 783                  | 4,394                 | 644                  | 24,523                |
| Probation Trusts                                |           | 0                    | 0                     | 284                  | 0                     |
| Community Rehabilitation Companies <sup>1</sup> |           | 7,565                | 7,565                 | 0                    | 0                     |
| European Social Fund and other European funding |           | 25,736               | 26,767                | 24,084               | 30,050                |
| External sales of industries                    |           | 10,162               | 10,162                | 9,251                | 9,251                 |
| Retail prison shop income                       |           | 48,584               | 48,584                | 42,887               | 42,887                |
| In-cell TV income                               |           | 1,943                | 1,943                 | 2,042                | 2,042                 |
| Other income                                    |           | 9,352                | 14,628                | 8,431                | 21,189                |
| <b>Total programme income</b>                   |           | <b>298,129</b>       | <b>308,408</b>        | <b>315,934</b>       | <b>359,711</b>        |
| <b>Total operating income</b>                   |           | <b>303,317</b>       | <b>313,596</b>        | <b>320,299</b>       | <b>364,073</b>        |

Note 1: Income from CRCs as external suppliers from 1 February 2015, after they left public sector ownership  
See Note 2c for income of CRCs while in public sector ownership as discontinued operations



## 7. Property, plant and equipment

| Core Agency<br>2014-2015                      | Land           | Buildings        | Dwellings      | Information<br>Technology | Plant &<br>Equipment | Furniture,<br>Fixtures &<br>Fittings | Payments<br>on Account<br>& Assets<br>under<br>Construction | Total            |
|---|----------------|------------------|----------------|---------------------------|----------------------|--------------------------------------|---|------------------|
|   | £'000          | £'000            | £'000          | £'000                     | £'000                | £'000                                | £'000   | £'000            |
| <b>Cost or Valuation</b>                      |                |                  |                |                           |                      |                                      |   |                  |
| As at 1 April 2014                            | 701,229        | 5,204,430        | 42,859         | 188,260                   | 245,963              | 18,138                               | 148,754   | <b>6,549,633</b> |
| Additions                                     | 0              | 7,263            | 0              | 2,742                     | 11,289               | 59                                   | 140,381   | <b>161,734</b>   |
| Disposals                                     | 0              | 0                | 0              | (23,544)                  | (9,079)              | (6,866)                              | 0   | <b>(39,489)</b>  |
| Transfers                                     | 0              | 0                | 0              | 1,228                     | 0                    | 0                                    | (3,919)   | <b>(2,691)</b>   |
| Transfers from Probation<br>Trusts            | 0              | 0                | 0              | 286                       | 5,780                | 1,208                                | 0   | <b>7,274</b>     |
| Reclassification                              | (8,762)        | 168,408          | (7,307)        | 66                        | 3,551                | 12                                   | (172,516)   | <b>(16,548)</b>  |
| Impairments                                   | (310)          | 141,917          | 44             | 0                         | (180)                | 0                                    | (1,573)   | <b>139,898</b>   |
| Indexation/ Revaluation                       | 47,237         | 246,220          | 3,574          | 1,227                     | 2,546                | 4                                    | 0   | <b>300,808</b>   |
| <b>As at 31 March 2015</b>                    | <b>739,394</b> | <b>5,768,238</b> | <b>39,170</b>  | <b>170,265</b>            | <b>259,870</b>       | <b>12,555</b>                        | <b>111,127</b>  | <b>7,100,619</b> |
| <b>Depreciation</b>                           |                |                  |                |                           |                      |                                      |   |                  |
| As at 1 April 2014                            | 0              | (184,505)        | (2,273)        | (154,979)                 | (130,067)            | (14,474)                             | 0   | <b>(486,298)</b> |
| Charge in year                                | 0              | (181,931)        | (935)          | (9,662)                   | (22,143)             | (1,616)                              | 0   | <b>(216,287)</b> |
| Disposals                                     | 0              | 0                | 0              | 23,392                    | 8,576                | 5,960                                | 0   | <b>37,928</b>    |
| Transfers                                     | 0              | 0                | 0              | 0                         | 0                    | 0                                    | 0   | <b>0</b>         |
| Transfers from Probation<br>Trusts            | 0              | 0                | 0              | (212)                     | (4,837)              | (1,033)                              | 0   | <b>(6,082)</b>   |
| Reclassification                              | 0              | 54               | 504            | 0                         | 0                    | 0                                    | 0   | <b>558</b>       |
| Impairments                                   | 0              | 5,960            | 0              | 0                         | 69                   | 0                                    | 0   | <b>6,029</b>     |
| Indexation/ Revaluation                       | 0              | 59,907           | 62             | (1,017)                   | (1,134)              | 0                                    | 0   | <b>57,818</b>    |
| <b>As at 31 March 2015</b>                    | <b>0</b>       | <b>(300,515)</b> | <b>(2,642)</b> | <b>(142,478)</b>          | <b>(149,536)</b>     | <b>(11,163)</b>                      | <b>0</b>  | <b>(606,334)</b> |
| <b>Carrying value</b>                         |                |                  |                |                           |                      |                                      |   |                  |
| <b>As at 31 March 2015</b>                    | <b>739,394</b> | <b>5,467,723</b> | <b>36,528</b>  | <b>27,787</b>             | <b>110,334</b>       | <b>1,392</b>                         | <b>111,127</b>  | <b>6,494,285</b> |
| <b>As at 1 April 2014</b>                     | <b>701,229</b> | <b>5,019,925</b> | <b>40,586</b>  | <b>33,281</b>             | <b>115,896</b>       | <b>3,664</b>                         | <b>148,754</b>  | <b>6,063,335</b> |
| <b>Asset financing:</b>                       |                |                  |                |                           |                      |                                      |   |                  |
| Owned   | 736,832        | 4,811,644        | 35,828         | 22,678                    | 86,103               | 1,392                                | 111,127   | 5,805,604        |
| Finance leased                                | 2,562          | 13,175           | 700            | 5,109                     | 24,231               | 0                                    | 0   | 45,777           |
| On-balance sheet<br>(SoFP) PFI contracts      | 0              | 642,904          | 0              | 0                         | 0                    | 0                                    | 0   | 642,904          |
| <b>Carrying value as at 31<br/>March 2015</b> | <b>739,394</b> | <b>5,467,723</b> | <b>36,528</b>  | <b>27,787</b>             | <b>110,334</b>       | <b>1,392</b>                         | <b>111,127</b>  | <b>6,494,285</b> |

### Non-operational assets

Included in the carrying values above are eight non-operational sites with a combined value of £19.5m (2013-14: 14 with a combined value of £26.3m). These sites are now vacant, but do not yet meet the criteria for classification as assets held for sale.

### Reclassification as assets held for sale

Property with a carrying value of £16.0m was reclassified to assets held for sale in 2014-15.

## 7. Property, plant and equipment (continued)

| Core Agency<br>2013-2014                      | Land           | Buildings        | Dwellings      | Information<br>Technology | Plant &<br>Equipment | Furniture,<br>Fixtures &<br>Fittings | Payments<br>on Account<br>& Assets<br>under<br>Construction | Total            |
|---|----------------|------------------|----------------|---------------------------|----------------------|--------------------------------------|---|------------------|
|   | £'000          | £'000            | £'000          | £'000                     | £'000                | £'000                                | £'000   | £'000            |
| <b>Cost or Valuation</b>                      |                |                  |                |                           |                      |                                      |   |                  |
| As at 1 April 2013                            | 672,319        | 5,321,193        | 43,057         | 234,331                   | 293,929              | 41,303                               | 104,179   | 6,710,311        |
| Additions                                     | 0              | 5,696            | 0              | 52                        | 13,861               | 7                                    | 169,438   | 189,054          |
| Disposals                                     | 0              | 0                | 0              | (51,205)                  | (70,659)             | (22,531)                             | 0   | (144,395)        |
| Transfers                                     | (105)          | (642)            | 0              | 5,897                     | 0                    | 0                                    | 0   | 5,150            |
| Reclassification                              | (22,571)       | 111,478          | (3,416)        | 60                        | 6,721                | 0                                    | (123,071)   | (30,799)         |
| Impairments                                   | 793            | (51,976)         | (618)          | (73)                      | (656)                | (857)                                | (1,792)   | (55,179)         |
| Indexation/<br>Revaluation                    | 50,793         | (181,319)        | 3,836          | (802)                     | 2,767                | 216                                  | 0   | (124,509)        |
| <b>As at 31 March 2014</b>                    | <b>701,229</b> | <b>5,204,430</b> | <b>42,859</b>  | <b>188,260</b>            | <b>245,963</b>       | <b>18,138</b>                        | <b>148,754</b>  | <b>6,549,633</b> |
| <b>Depreciation</b>                           |                |                  |                |                           |                      |                                      |   |                  |
| As at 1 April 2013                            | 0              | (273,587)        | (1,713)        | (182,492)                 | (176,326)            | (35,150)                             | 0   | (669,268)        |
| Charge in year                                | 0              | (183,279)        | (971)          | (24,416)                  | (21,521)             | (1,898)                              | 0   | (232,085)        |
| Disposals                                     | 0              | 0                | 0              | 51,201                    | 68,655               | 22,466                               | 0   | 142,322          |
| Transfers                                     | 0              | 89               | 0              | 0                         | 0                    | 0                                    | 0   | 89               |
| Reclassification                              | 0              | 1,354            | 128            | 0                         | 0                    | 0                                    | 0   | 1,482            |
| Impairments                                   | 0              | 3,687            | 117            | 60                        | 471                  | 278                                  | 0   | 4,613            |
| Indexation/<br>Revaluation                    | 0              | 267,231          | 166            | 668                       | (1,346)              | (170)                                | 0   | 266,549          |
| <b>As at 31 March 2014</b>                    | <b>0</b>       | <b>(184,505)</b> | <b>(2,273)</b> | <b>(154,979)</b>          | <b>(130,067)</b>     | <b>(14,474)</b>                      | <b>0</b>  | <b>(486,298)</b> |
| <b>Carrying value</b>                         |                |                  |                |                           |                      |                                      |   |                  |
| <b>As at 31 March 2014</b>                    | <b>701,229</b> | <b>5,019,925</b> | <b>40,586</b>  | <b>33,281</b>             | <b>115,896</b>       | <b>3,664</b>                         | <b>148,754</b>  | <b>6,063,335</b> |
| <b>As at 1 April 2013</b>                     | <b>672,319</b> | <b>5,047,606</b> | <b>41,344</b>  | <b>51,839</b>             | <b>117,603</b>       | <b>6,153</b>                         | <b>104,179</b>  | <b>6,041,043</b> |
| <b>Asset financing:</b>                       |                |                  |                |                           |                      |                                      |   |                  |
| Owned   | 698,779        | 4,379,586        | 39,976         | 26,687                    | 88,442               | 3,664                                | 148,754   | 5,385,888        |
| Finance leased                                | 2,450          | 13,753           | 610            | 6,594                     | 27,454               | 0                                    | 0   | 50,861           |
| On-balance sheet<br>(SoFP) PFI contracts      | 0              | 626,586          | 0              | 0                         | 0                    | 0                                    | 0   | 626,586          |
| <b>Carrying value as at<br/>31 March 2014</b> | <b>701,229</b> | <b>5,019,925</b> | <b>40,586</b>  | <b>33,281</b>             | <b>115,896</b>       | <b>3,664</b>                         | <b>148,754</b>  | <b>6,063,335</b> |

## 7. Property, plant and equipment (continued)

| Consolidated<br>2013-2014                 | Land           | Buildings        | Dwellings      | Information<br>Technology | Plant &<br>Equipment | Furniture,<br>Fixtures &<br>Fittings | Payments<br>on Account<br>& Assets<br>under<br>Construction | Total            |
|---|----------------|------------------|----------------|---------------------------|----------------------|--------------------------------------|---|------------------|
|   | £'000          | £'000            | £'000          | £'000                     | £'000                | £'000                                | £'000   | £'000            |
| <b>Cost or Valuation</b>                  |                |                  |                |                           |                      |                                      |   |                  |
| As at 1 April 2013                        | 672,319        | 5,321,193        | 43,057         | 235,424                   | 311,719              | 42,706                               | 104,409   | 6,730,827        |
| Additions                                 | 0              | 5,696            | 0              | 556                       | 14,435               | 70                                   | 169,419   | 190,176          |
| Disposals                                 | 0              | 0                | 0              | (51,419)                  | (72,735)             | (22,778)                             | (67)  | (146,999)        |
| Transfers                                 | (105)          | (642)            | 0              | 5,897                     | 163                  | (19)                                 | (144)   | 5,150            |
| Reclassification                          | (22,571)       | 111,478          | (3,416)        | 60                        | 6,721                | 0                                    | (123,071)   | (30,799)         |
| Impairments                               | 793            | (51,976)         | (618)          | (73)                      | (657)                | (857)                                | (1,792)   | (55,180)         |
| Indexation/ Revaluation                   | 50,793         | (181,319)        | 3,836          | (806)                     | 2,885                | 231                                  | 0   | (124,380)        |
| <b>As at 31 March 2014</b>                | <b>701,229</b> | <b>5,204,430</b> | <b>42,859</b>  | <b>189,639</b>            | <b>262,531</b>       | <b>19,353</b>                        | <b>148,754</b>  | <b>6,568,795</b> |
| <b>Depreciation</b>                       |                |                  |                |                           |                      |                                      |   |                  |
| As at 1 April 2013                        | 0              | (273,587)        | (1,713)        | (183,140)                 | (189,134)            | (36,366)                             | 0   | (683,940)        |
| Charge in year                            | 0              | (183,279)        | (971)          | (24,652)                  | (23,058)             | (1,950)                              | 0   | (233,910)        |
| Disposals                                 | 0              | 0                | 0              | 51,405                    | 70,650               | 22,713                               | 0   | 144,768          |
| Transfers                                 | 0              | 89               | 0              | 0                         | 0                    | 0                                    | 0   | 89               |
| Reclassification                          | 0              | 1,354            | 128            | 0                         | 0                    | 0                                    | 0   | 1,482            |
| Impairments                               | 0              | 3,687            | 117            | 60                        | 472                  | 278                                  | 0   | 4,614            |
| Indexation/ Revaluation                   | 0              | 267,231          | 166            | 669                       | (1,404)              | (181)                                | 0   | 266,481          |
| <b>As at 31 March 2014</b>                | <b>0</b>       | <b>(184,505)</b> | <b>(2,273)</b> | <b>(155,658)</b>          | <b>(142,474)</b>     | <b>(15,506)</b>                      | <b>0</b>  | <b>(500,416)</b> |
| <b>Carrying value</b>                     |                |                  |                |                           |                      |                                      |   |                  |
| <b>As at 31 March 2014</b>                | <b>701,229</b> | <b>5,019,925</b> | <b>40,586</b>  | <b>33,981</b>             | <b>120,057</b>       | <b>3,847</b>                         | <b>148,754</b>  | <b>6,068,379</b> |
| <b>As at 1 April 2013</b>                 | <b>672,319</b> | <b>5,047,606</b> | <b>41,344</b>  | <b>52,284</b>             | <b>122,585</b>       | <b>6,340</b>                         | <b>104,409</b>  | <b>6,046,887</b> |
| <b>Consolidated asset financing:</b>      |                |                  |                |                           |                      |                                      |   |                  |
| Owned                                     | 698,779        | 4,379,586        | 39,976         | 27,387                    | 92,603               | 3,847                                | 148,754   | 5,390,932        |
| Finance leased                            | 2,450          | 13,753           | 610            | 6,594                     | 27,454               | 0                                    | 0   | 50,861           |
| On-balance sheet (SoFP) PFI contracts     | 0              | 626,586          | 0              | 0                         | 0                    | 0                                    | 0   | 626,586          |
| <b>Carrying value as at 31 March 2014</b> | <b>701,229</b> | <b>5,019,925</b> | <b>40,586</b>  | <b>33,981</b>             | <b>120,057</b>       | <b>3,847</b>                         | <b>148,754</b>  | <b>6,068,379</b> |

### Transfers and reclassification

Property with a carrying value of £29.3m was reclassified to assets held for sale in 2013-14.

## 8. Intangible assets

| Core Agency<br>2014-2015                      | Internally<br>generated<br>software | Software         | Licences        | Payments on<br>account &<br>assets under<br>construction | Total            |
|---|-------------------------------------|------------------|-----------------|--|------------------|
|   | £'000                               | £'000            | £'000           | £'000  | £'000            |
| <b>Cost or valuation</b>                      |                                     |                  |                 |  |                  |
| As at 1 April 2014                            | 0                                   | 188,988          | 16,042          | 0  | 205,030          |
| Additions                                     | 0                                   | 86               | 0               | 1,614  | 1,700            |
| Disposals                                     | 0                                   | (1,634)          | (2,735)         | 0  | (4,369)          |
| Impairments                                   | 0                                   | (2,405)          | 0               | 0  | (2,405)          |
| Reclassifications                             | 0                                   | 16               | 0               | 0  | 16               |
| Indexation/Revaluation                        | 0                                   | 3                | (128)           | 0  | (125)            |
| Transfers                                     | 0                                   | 56,668           | 0               | 0  | 56,668           |
| Transfers to/from Probation<br>Trusts         | 0                                   | 88               | 0               | 0  | 88               |
| <b>As at 31 March 2015</b>                    | <b>0</b>                            | <b>241,810</b>   | <b>13,179</b>   | <b>1,614</b>   | <b>256,603</b>   |
| <b>Amortisation</b>                           |                                     |                  |                 |  |                  |
| As at 1 April 2014                            | 0                                   | (101,681)        | (14,463)        | 0  | (116,144)        |
| Charge in year                                | 0                                   | (26,111)         | (390)           | 0  | (26,501)         |
| Disposals                                     | 0                                   | 1,625            | 2,735           | 0  | 4,360            |
| Impairments                                   | 0                                   | 1,244            | 0               | 0  | 1,244            |
| Reclassifications                             | 0                                   | 0                | 0               | 0  | 0                |
| Indexation/Revaluation                        | 0                                   | 0                | 119             | 0  | 119              |
| Transfers                                     | 0                                   | 0                | 0               | 0  | 0                |
| Transfers to/from Probation<br>Trusts         | 0                                   | (87)             | 0               | 0  | (87)             |
| <b>As at 31 March 2015</b>                    | <b>0</b>                            | <b>(125,010)</b> | <b>(11,999)</b> | <b>0</b>   | <b>(137,009)</b> |
| <b>Carrying value</b>                         |                                     |                  |                 |  |                  |
| <b>As at 31 March 2015</b>                    | <b>0</b>                            | <b>116,800</b>   | <b>1,180</b>    | <b>1,614</b>   | <b>119,594</b>   |
| <b>As at 1 April 2014</b>                     | <b>0</b>                            | <b>87,307</b>    | <b>1,579</b>    | <b>0</b>   | <b>88,886</b>    |
| <b>Asset financing</b>                        |                                     |                  |                 |  |                  |
| Owned   | 0                                   | 116,800          | 1,180           | 1,614  | 119,594          |
| <b>Carrying value as at 31<br/>March 2015</b> | <b>0</b>                            | <b>116,800</b>   | <b>1,180</b>    | <b>1,614</b>   | <b>119,594</b>   |

## 8. Intangible assets (continued)

| Core Agency<br>2013-2014                      | Internally<br>generated<br>software | Software         | Licences        | Payments on<br>account &<br>assets under<br>construction | Total            |
|---|-------------------------------------|------------------|-----------------|--|------------------|
|   | £'000                               | £'000            | £'000           | £'000  | £'000            |
| <b>Cost or valuation</b>                      |                                     |                  |                 |  |                  |
| As at 1 April 2013                            | 0                                   | 138,937          | 15,997          | 0  | 154,934          |
| Additions                                     | 0                                   | 55               | 0               | 0  | 55               |
| Disposals                                     | 0                                   | (2,565)          | (14)            | 0  | (2,579)          |
| Impairments                                   | 0                                   | 0                | 0               | 0  | 0                |
| Reclassifications                             | 0                                   | 0                | 0               | 0  | 0                |
| Indexation/Revaluation                        | 0                                   | 692              | 59              | 0  | 751              |
| Transfers                                     | 0                                   | 51,869           | 0               | 0  | 51,869           |
| <b>As at 31 March 2014</b>                    | <b>0</b>                            | <b>188,988</b>   | <b>16,042</b>   | <b>0</b>   | <b>205,030</b>   |
| <b>Amortisation</b>                           |                                     |                  |                 |  |                  |
| As at 1 April 2013                            | 0                                   | (80,206)         | (13,996)        | 0  | (94,202)         |
| Charge in year                                | 0                                   | (23,667)         | (428)           | 0  | (24,095)         |
| Disposals                                     | 0                                   | 2,564            | 14              | 0  | 2,578            |
| Impairments                                   | 0                                   | 0                | 0               | 0  | 0                |
| Reclassifications                             | 0                                   | 0                | 0               | 0  | 0                |
| Indexation/Revaluation                        | 0                                   | (372)            | (53)            | 0  | (425)            |
| Transfers                                     | 0                                   | 0                | 0               | 0  | 0                |
| <b>As at 31 March 2014</b>                    | <b>0</b>                            | <b>(101,681)</b> | <b>(14,463)</b> | <b>0</b>   | <b>(116,144)</b> |
| <b>Carrying value</b>                         |                                     |                  |                 |  |                  |
| <b>As at 31 March 2014</b>                    | <b>0</b>                            | <b>87,307</b>    | <b>1,579</b>    | <b>0</b>   | <b>88,886</b>    |
| <b>As at 1 April 2013</b>                     | <b>0</b>                            | <b>58,731</b>    | <b>2,001</b>    | <b>0</b>   | <b>60,732</b>    |
|   |                                     |                  |                 |  |                  |
| <b>Asset financing</b>                        |                                     |                  |                 |  |                  |
| Owned   | 0                                   | 87,307           | 1,579           | 0  | 88,886           |
| <b>Carrying value as at 31<br/>March 2014</b> | <b>0</b>                            | <b>87,307</b>    | <b>1,579</b>    | <b>0</b>   | <b>88,886</b>    |

## 8. Intangible assets (continued)

| Consolidated<br>2013-2014                     | Internally<br>generated<br>software | Software         | Licences        | Payments on<br>account &<br>assets under<br>construction | Total            |
|---|-------------------------------------|------------------|-----------------|--|------------------|
|   | £'000                               | £'000            | £'000           | £'000  | £'000            |
| <b>Cost or valuation</b>                      |                                     |                  |                 |  |                  |
| As at 1 April 2013                            | 23                                  | 141,150          | 16,629          | 49   | 157,851          |
| Additions                                     | 0                                   | 104              | 25              | (49)   | 80               |
| Disposals                                     | (9)                                 | (2,601)          | (34)            | 0  | (2,644)          |
| Impairments                                   | 0                                   | 0                | 0               | 0  | 0                |
| Reclassifications                             | 0                                   | 0                | 0               | 0  | 0                |
| Indexation/Revaluation                        | 0                                   | 702              | 61              | 0  | 763              |
| Transfers                                     | 0                                   | 51,869           | 0               | 0  | 51,869           |
| <b>As at 31 March 2014</b>                    | <b>14</b>                           | <b>191,224</b>   | <b>16,681</b>   | <b>0</b>   | <b>207,919</b>   |
| <b>Amortisation</b>                           |                                     |                  |                 |  |                  |
| As at 1 April 2013                            | (18)                                | (81,602)         | (14,385)        | 0  | (96,005)         |
| Charge in year                                | (3)                                 | (24,046)         | (554)           | 0  | (24,603)         |
| Disposals                                     | 9                                   | 2,599            | 34              | 0  | 2,642            |
| Impairments                                   | 0                                   | 0                | 0               | 0  | 0                |
| Reclassifications                             | 0                                   | 0                | 0               | 0  | 0                |
| Indexation/Revaluation                        | 0                                   | (377)            | (55)            | 0  | (432)            |
| Transfers                                     | 0                                   | 0                | 0               | 0  | 0                |
| <b>As at 31 March 2014</b>                    | <b>(12)</b>                         | <b>(103,426)</b> | <b>(14,960)</b> | <b>0</b>   | <b>(118,398)</b> |
| <b>Carrying value</b>                         |                                     |                  |                 |  |                  |
| <b>As at 31 March 2014</b>                    | <b>2</b>                            | <b>87,798</b>    | <b>1,721</b>    | <b>0</b>   | <b>89,521</b>    |
| <b>As at 1 April 2013</b>                     | <b>5</b>                            | <b>59,548</b>    | <b>2,244</b>    | <b>49</b>  | <b>61,846</b>    |
| <b>Asset financing</b>                        |                                     |                  |                 |  |                  |
| Owned   | 2                                   | 87,798           | 1,721           | 0  | 89,521           |
| <b>Carrying value as at 31<br/>March 2014</b> | <b>2</b>                            | <b>87,798</b>    | <b>1,721</b>    | <b>0</b>   | <b>89,521</b>    |

## 9. Assets held for sale

|                          | 2014-2015     | 2013-2014                    |
|--------------------------|---------------|------------------------------|
|                          | Core Agency   | Core Agency and Consolidated |
|                          | £'000         | £'000                        |
| <b>Cost or valuation</b> |               |                              |
| As at 1 April            | 18,069        | 33,149                       |
| Disposals                | (15,584)      | (39,247)                     |
| Re-classifications       | 15,974        | 29,317                       |
| Impairments              | (4,275)       | (5,150)                      |
| Indexation/Revaluation   | (1,847)       | 0                            |
| <b>As at 31 March</b>    | <b>12,337</b> | <b>18,069</b>                |

NOMS has committed to a plan to sell various surplus properties, which are to be sold for commercial use and domestic dwellings. The properties are available for sale in their present condition and the sales are highly probable to occur within one year from the date of classification as an asset held for sale.

## 10. Financial instruments

### Categories of financial instrument

Details of receivables, cash balances and payables can be found in Notes 13, 14 and 15.

Financial assets held at fair value through profit or loss total £0.4m and consist of quoted and unquoted shares relating to the sale of milk and milk quotas. Whilst NOMS produces and provides milk for sale, these assets are not held for sale. These assets were acquired by NOMS as a result of trading activities at no cost.

### Credit risk

NOMS is exposed to minimal credit risk as loans and receivables are comprised of trade and other debtors. The maximum exposure to credit risk is the risk that arises from potential default of a debtor and is equal to the total amount of these outstanding. NOMS manages its credit risk by undertaking background and credit checks prior to establishing a debtor relationship. NOMS has no collateral to mitigate against credit risk.

### Interest rate risk

Most of NOMS' cash balances carry nil or fixed rates of interest. NOMS is therefore not exposed to significant interest rate risk.

### Liquidity risk

NOMS' financial liabilities are trade payables, other payables, accruals and finance leases. It is unlikely that NOMS will encounter difficulty in meeting its obligations associated with these liabilities, as it is financed by the MoJ, whose resources and capital are voted annually by Parliament.

### Foreign currency risk

NOMS undertakes only a small number of foreign currency transactions and is therefore not exposed to significant exchange rate risk.

## 10. Financial instruments (continued)

### 10a. Available for sale financial assets - investment in CRCs

Until 31 January 2015 the Secretary of State for Justice held 100% of the shares in the 21 Community Rehabilitation Companies, while the companies were in public sector ownership. This investment was held within NOMS Agency boundary (see Note 29). Initially one ordinary share was issued by each CRC at a nominal value of £1. Share issues during January 2015 increased the holding to 10 £1 ordinary shares in each CRC.

The substance of NOMS' investment was a holding of net assets in each CRC as an operational company for sale. Accordingly, the investment was recognised in NOMS Core accounts on 1 June 2014, when the CRCs became operational, as an available-for-sale financial asset, valued at fair value under IAS 39. Fair value as at 1 June 2014 was the value of net assets brought into the CRCs under absorption from the Probation Trusts. On consolidation, the financial asset in each CRC was replaced by a disposal group, as shown in Note 2c.

The CRCs were sold on 31 January 2015. The sale price was the value of net assets in each CRC's statement of financial position as at that date. This is shown as disposal proceeds in the statement of cash flows. The difference between the carrying amount of the disposal and the sale price reflects the movement in CRCs' net assets arising from eight months of operations while under public sector ownership. NOMS made no gain or loss from the sale, as illustrated below:

|  | 2014-15     |
|--|-------------|
|  | Core Agency |
|  | £'000       |
| Recognise financial assets (Net assets of CRCs at 1 June 2014)         | 505         |
| Results of CRCs from 1 June 2014 to 31 January 2015                    | (365)       |
| <b>Value of financial assets (Net assets of CRCs) at point of sale</b> | <b>140</b>  |
| Proceeds on sale of CRCs   | (140)       |
| <b>(Gain)/Loss on sale of CRCs</b>                                     | <b>0</b>    |

### 10b. Special shares in CRCs

The Secretary of State for Justice holds one special share in each of the 21 CRCs, which are listed in Note 29. In accordance with the FReM, NOMS does not recognise the special shares on its statement of financial position.



In summary, the key terms of the shareholding are:

Special shareholder consent is required for a number of decisions, including:

- Transferring or disposing of:
  - any security interest in relation to the services agreement. The services agreement with NOMS is for the delivery of rehabilitation services by the CRC
  - a substantial part of the business, its assets or employees, which would materially affect the ability of the company to carry out the services agreement
  - legal or beneficial interest in the company's ordinary shares
- Voluntary winding-up or dissolution of the company, or appointing an administrator
- Creating, issuing, purchasing, reducing, buying-back or redeeming shares in the company, or varying voting rights attached to shares.

In accordance with the services agreement, the special shareholder may require the transfer of assets from the company to a replacement service provider.

The special shareholder has the right to require a CRC to effect the disposal of shares held by 'prohibited persons', who are persons who are subject to sanctions or whose holding appears to the special shareholder to be prejudicial to the security interests of the community, in the context of the management of offender services within the community.

The special shareholders has voting rights in regard to any attempt to change the role of the special shareholder, rights attached to the special shareholding or key definitions within a CRC's articles of association.

The special shareholder may appoint a representative, who would be entitled to observer rights and access to the same information as the company directors.

The shareholding may be redeemed at any time by the shareholder.

The shareholder has no right to capital or profits of the company, other than redeeming the nominal £1 value of the share.

## 11. Impairments

The impairment of property, plant and equipment resulted in a net credit of £145.9m, reflecting a reversal of previous impairment charges. The impairment of intangible assets resulted in a charge of £1.1m, while the impairment of assets held for sale resulted in a charge of £4.3m. The total credit was £140.5m (2013-14 net impairment charge of £55.7m). All impairment was recognised in the CSocNE in both financial years.

## 12. Inventories

|                             | 31 March 2015 | 31 March 2014                |
|-----------------------------|---------------|------------------------------|
|                             | Core Agency   | Core Agency and Consolidated |
|                             | £'000         | £'000                        |
| <b>Industries and farms</b> |               |                              |
| Raw materials               | 2,803         | 2,109                        |
| Work-in-progress            | 2,153         | 2,292                        |
| Finished goods              | 2,068         | 2,520                        |
|                             | <b>7,024</b>  | <b>6,921</b>                 |
| <b>Consumables</b>          | 30,707        | 31,760                       |
|                             | <b>37,731</b> | <b>38,681</b>                |

## 13. Trade receivables and other current assets

### 13a. Analysis by type

|   | 31 March 2015  |  | 31 March 2014  |                |
|---|----------------|--|----------------|----------------|
|   | Core Agency    |  | Core Agency    | Consolidated   |
|   | £'000          |  | £'000          | £'000          |
| <b>Amounts falling due within one year</b>                      |                |  |                |                |
| Trade receivables   | 15,414         |  | 3,982          | 6,089          |
| VAT   | 59,522         |  | 75,266         | 76,108         |
| MoJ intra-group receivables, prepayments and accrued income     | 17,467         |  | 30,069         | 27,886         |
| Other HM government receivables, prepayments and accrued income | 30,925         |  | 32,265         | 37,568         |
| Staff receivables   | 954            |  | 1,750          | 2,076          |
| Other receivables   | 3,960          |  | 7,557          | 8,358          |
| Prepayments   | 5,228          |  | 5,591          | 6,937          |
| Accrued income  | 23,387         |  | 15,748         | 16,980         |
|   | <b>156,857</b> |  | <b>172,228</b> | <b>182,002</b> |
| <b>Amounts falling due after more than one year</b>             |                |  |                |                |
| Other receivables   | 0              |  | 0              | 1              |
| Staff receivables   | 1,824          |  | 1,971          | 1,972          |
|   | <b>1,824</b>   |  | <b>1,971</b>   | <b>1,973</b>   |

### 13b. Intra-government receivables

|   | 31 March 2015   |                          |                 |                          | 31 March 2014   |                          |
|---|-----------------|--------------------------|-----------------|--------------------------|-----------------|--------------------------|
|   | Core Agency     |                          | Core Agency     |                          | Consolidated    |                          |
|   | within one year | after more than one year | within one year | after more than one year | within one year | after more than one year |
|   | £'000           | £'000                    | £'000           | £'000                    | £'000           | £'000                    |
| Balances with other central government bodies       | 90,429          | 0                        | 124,873         | 0                        | 124,201         | 0                        |
| Balances with local authorities                     | 2,665           | 0                        | 559             | 0                        | 4,603           | 0                        |
| Balances with NHS bodies                            | 14,820          | 0                        | 12,165          | 0                        | 12,705          | 0                        |
| Balances with public corporations and trading funds | 0               | 0                        | 3               | 0                        | 53              | 0                        |
|   | <b>107,914</b>  | <b>0</b>                 | <b>137,600</b>  | <b>0</b>                 | <b>141,562</b>  | <b>0</b>                 |
| Balances with bodies external to government         | 48,943          | 1,824                    | 34,628          | 1,971                    | 40,440          | 1,973                    |
|   | <b>156,857</b>  | <b>1,824</b>             | <b>172,228</b>  | <b>1,971</b>             | <b>182,002</b>  | <b>1,973</b>             |

## 14. Cash and cash equivalents

|   | 2014-2015      |                 | 2013-2014   |               |
|---|----------------|-----------------|-------------|---------------|
|   | Core Agency    | Core Agency     | Core Agency | Consolidated  |
|   | £'000          | £'000           | £'000       | £'000         |
| Balance as at 1 April                                   | (16,505)       | (19,727)        |             | 22,877        |
| Transfer from Probation Trusts to NOMS                  | 24,015         | 0               |             | 0             |
| Net change in cash and cash equivalents                 | (10,933)       | 3,222           |             | (10,065)      |
| <b>Balance as at 31 March</b>                           | <b>(3,423)</b> | <b>(16,505)</b> |             | <b>12,812</b> |
| <b>The following balances at 31 March were held at:</b> |                |                 |             |               |
| Government Banking Service                              | 14,160         | 1,183           |             | 5,612         |
| Commercial banks and cash in hand                       | 1,507          | 1,576           |             | 26,464        |
| <b>Cash at bank and in hand</b>                         | <b>15,667</b>  | <b>2,759</b>    |             | <b>32,076</b> |
| Overdraft   | (19,090)       | (19,264)        |             | (19,264)      |
| <b>Cash at bank and in hand</b>                         | <b>(3,423)</b> | <b>(16,505)</b> |             | <b>12,812</b> |

NOMS' overdraft relates to uncleared items as at 31 March 2015.

## 15. Trade payables and other current liabilities

### 15a. Amounts falling due within one year

|  | 31 March 2015  |                | 31 March 2014 |                |
|--|----------------|----------------|---------------|----------------|
|  | Core Agency    | Core Agency    | Core Agency   | Consolidated   |
|  | £'000          | £'000          | £'000         | £'000          |
| Trade payables   | 63,828         | 25,165         |               | 35,725         |
| VAT  | 0              | 0              |               | 23,581         |
| Imputed finance lease element of on-balance sheet (SoFP) PFI and other service concession arrangements | 27,789         | 25,986         |               | 25,986         |
| Current part of finance lease  | 2,018          | 1,431          |               | 1,431          |
| MoJ intra-group payables, accruals and deferred income   | 86,294         | 107,556        |               | 52,116         |
| Other HM government payables, accruals and deferred income   | 26,180         | 23,556         |               | 28,250         |
| Other payables   | 956            | 979            |               | 979            |
| Other taxes and social security  | 0              | 16             |               | 7,194          |
| Accruals   | 268,870        | 220,269        |               | 244,053        |
| Deferred income  | 19,777         | 25,702         |               | 30,265         |
|  | <b>495,712</b> | <b>430,660</b> |               | <b>449,580</b> |
| Amounts due to the Consolidated Fund :   |                |                |               |                |
| Consolidated Fund Extra Receipts (CFERs)   | 7              | 2              |               | 2              |
|  | <b>495,719</b> | <b>430,662</b> |               | <b>449,582</b> |

Included above is £7k (2013-14: £2k) due to the Ministry of Justice for payment to the Consolidated Fund. £59k was paid over to the Ministry of Justice in 2014-15 for payment to the Consolidated Fund.

### 15b. Amounts falling due after more than one year

|  | 31 March 2015  |                | 31 March 2014  |                |
|--|----------------|----------------|----------------|----------------|
|  | Core Agency    |                | Core Agency    | Consolidated   |
|  | £'000          |                | £'000          | £'000          |
| Imputed finance lease element of on-balance sheet (SoFP) PFI and other service concession arrangements | 278,979        | 306,768        | 306,768        | 306,768        |
| Finance leases   | 3,172          | 4,082          | 4,082          | 4,082          |
|  | <b>282,151</b> | <b>310,850</b> | <b>310,850</b> | <b>310,850</b> |

### 15c. Intra-government payables

|   | 31 March 2015   |                          |                 |                          | 31 March 2014   |                          |  |
|---|-----------------|--------------------------|-----------------|--------------------------|-----------------|--------------------------|--|
|   | Core Agency     |                          | Core Agency     |                          | Consolidated    |                          |  |
|   | within one year | after more than one year | within one year | after more than one year | within one year | after more than one year |  |
|   | £'000           | £'000                    | £'000           | £'000                    | £'000           | £'000                    |  |
| Balances with other central government bodies       | 97,516          | 0                        | 119,108         | 0                        | 96,181          | 0                        |  |
| Balances with local authorities                     | 10,093          | 0                        | 10,166          | 0                        | 12,891          | 0                        |  |
| Balances with NHS bodies                            | 4,850           | 0                        | 1,798           | 0                        | 2,012           | 0                        |  |
| Balances with public corporations and trading funds | 15              | 0                        | 56              | 0                        | 57              | 0                        |  |
|   | <b>112,474</b>  | <b>0</b>                 | <b>131,128</b>  | <b>0</b>                 | <b>111,141</b>  | <b>0</b>                 |  |
| Balances with bodies external to government         | 383,245         | 282,151                  | 299,534         | 310,850                  | 338,441         | 310,850                  |  |
|   | <b>495,719</b>  | <b>282,151</b>           | <b>430,662</b>  | <b>310,850</b>           | <b>449,582</b>  | <b>310,850</b>           |  |

## 16. Commitments under PFI contracts and other service concession arrangements

### 16a. On-balance sheet (SoFP) PFI contracts and other service concession arrangements

| Project Name                        | Contract Signature Date | Duration (years) | Description  |
|-------------------------------------|-------------------------|------------------|--|
| HMP Altcourse                       | December 1995           | 25               | Design, build, finance and operate a category B prison at HMP Altcourse at Fazakerley, Liverpool   |
| HMP Parc                            | January 1996            | 25               | Design, build, finance and operate a category B prison near Bridgend, South Wales  |
| HMP Lowdham Grange                  | November 1996           | 25               | Design, build, finance and operate a category B prison at HMP Lowdham Grange, Nottingham   |
| HMP Ashfield                        | July 1998               | 25               | Design, build, finance and operate a young offenders and juveniles category B prison at Pucklechurch, near Bristol; converted in 2013 to hold adult offenders.             |
| HMP Forest Bank                     | July 1998               | 25               | Design, build, finance and operate a category B prison HMP Forest Bank, on site of former Agecroft power station   |
| HMP Rye Hill                        | July 1999               | 25               | Design, build, finance and operate a category B prison HMP Rye Hill at Onley, near Rugby   |
| HMP Dovegate                        | September 1999          | 25               | Design, build, finance and operate a category B prison and therapeutic community facility at HMP Dovegate, Marchington   |
| HMP Bronzefield                     | December 2002           | 25               | Design, build, finance and operate a category B prison at Ashford in Middlesex   |
| HMP Peterborough                    | February 2003           | 25               | Design, build, finance and operate a category B prison at Peterborough in Cambridgeshire   |
| HMP Thameside                       | June 2010               | 25               | Design, build, finance and operate a category B prison at Woolwich in London   |
| Prisoner Escort and Custody Service | August 2011             | 7                | Supply and operate Prison Vans and Escorts   |
| IT and Telephony System             | January 2013            | 3                | Supply and support IT and Telephony Systems  |
| Electronic Monitoring System        | July 2014               | 7                | The supply and operation of certain Electronic tagging and monitoring systems. A bridge contract is in place until service delivery begins under the new contracts in 2016 |

## 16. Commitments under PFI contracts and other service concession arrangements

(continued)

### 16b. Commitments under PFI and other service concession contracts

|  | 31 March 2015    | 31 March 2014                |
|--|------------------|------------------------------|
|  | Core Agency      | Core Agency and Consolidated |
|  | £'000            | £'000                        |
| <b>(1) Details of the imputed finance lease charges are given in the table below for each of the following periods:</b>                                  |                  |                              |
| Rentals due not later than one year  | 47,584           | 47,584                       |
| Rentals due later than one year but not later than five years  | 151,719          | 169,291                      |
| Rentals due later than five years  | 276,132          | 306,143                      |
|  | <b>475,435</b>   | <b>523,018</b>               |
| Less interest element  | (168,667)        | (190,264)                    |
| <b>Present value of obligations</b>  | <b>306,768</b>   | <b>332,754</b>               |
| <b>(2) Present value of imputed finance lease charges are given in the table below for each of the following periods:</b>                                |                  |                              |
| Rentals due not later than one year  | 27,789           | 25,986                       |
| Rentals due later than one year and not later than five years  | 89,817           | 100,974                      |
| Rentals due later than five years  | 189,162          | 205,794                      |
| <b>Total present value of obligations</b>  | <b>306,768</b>   | <b>332,754</b>               |
| <b>(3) The service element of on-balance sheet PFI payments or other service concession transactions to which the Agency is committed is as follows:</b> |                  |                              |
| Not later than one year  | 574,647          | 557,174                      |
| Later than one year but not later than five years  | 1,664,610        | 1,800,229                    |
| Later than five years  | 2,139,795        | 2,267,771                    |
| <b>Total</b>   | <b>4,379,052</b> | <b>4,625,174</b>             |

### Electronic Monitoring

In February 2014 NOMS entered into an interim, and later a bridge, contract for the provision of Electronic Monitoring services, using existing assets acquired under the previous on-balance sheet service concession arrangements. These assets are fully depreciated, and new assets are expected to be rolled out in 2016. It is anticipated there will be an extension to the bridge contract until early 2016. Commitments disclosed within table (3) to a value of £343m at 31 March 2015 include the expected extension.

### 16c. Charge to the Consolidated Statement of Comprehensive Net Expenditure

The total amount charged in the CSoCNE in respect of on-balance sheet (CSoFP) PFI and other service concession arrangements transactions was £582m for the year to 31 March 2015 (2013-14: £619m). Of this total the service element was £560m (2013-14: £596m) and the interest charges were £22m (2013-14: £23m).

## 17. Commitments under leases

### 17a. Operating leases

Total future minimum lease payments under operating leases are given in the table below for each of the following periods:

|   |   | 31 March 2015 | 31 March 2014                |
|---|---|---------------|------------------------------|
|   |   | Core Agency   | Core Agency and Consolidated |
|   |   | £'000         | £'000                        |
| <b>Obligations under operating leases comprise:</b> |   |               |                              |
| Land and Buildings                                  | Not later than one year                           | 15,833        | 14,735                       |
|   | Later than one year but not later than five years | 37,916        | 42,727                       |
|   | Later than five years                             | 24,489        | 30,544                       |
|   |   | <b>78,238</b> | <b>88,006</b>                |

### 17b. Finance leases

The net present value of total future minimum lease payments under finance leases is £5.2m (2013-14: £5.5m), comprising mainly prison radios, due to be paid in less than five years.

## 18. Other financial commitments

NOMS has entered into non-cancellable contracts (which are not leases or PFI contracts), for the provision of services including: the management of prisons which are owned by NOMS and other contracted out services. The payments to which NOMS is committed as at 31 March 2015 are as follows:

|   | 31 March 2015    |                  | 31 March 2014    |  |
|---|------------------|------------------|------------------|--|
|   | Core Agency      | Core Agency      | Consolidated     |  |
|   | £'000            | £'000            | £'000            |  |
| Not later than one year                           | 697,414          | 162,158          | 162,210          |  |
| Later than one year but not later than five years | 2,230,143        | 355,549          | 355,549          |  |
| Later than five years                             | 1,191,805        | 729,581          | 729,581          |  |
|   | <b>4,119,362</b> | <b>1,247,288</b> | <b>1,247,340</b> |  |

Included within the table above is a commitment of £2,551m relating to the Fee for Service (FfS) element of contracts for Community Rehabilitation Companies. A maximum additional £857m over the duration of the contracts will be payable on a sliding scale for the Payments by Results (PbR) element of the contract if CRCs achieve targeted reductions in re-offending. This additional value has not been disclosed in the table above, due to uncertainty of the amounts at this early stage of the contracts. Also, FfS and PbR are based on a predicted volume of offenders, changes in which will result in a corresponding change in the amount payable to CRCs.

## 19. Provisions for liabilities and charges

|   | 2014-2015              |                                  |                           |                       |                  |                |
|---|------------------------|----------------------------------|---------------------------|-----------------------|------------------|----------------|
|   | Early retirement costs | Leasehold property dilapidations | Voluntary early departure | Injury benefit scheme | Other provisions | Total          |
| <b>Core Agency</b>                      | £'000                  | £'000                            | £'000                     | £'000                 | £'000            | £'000          |
| Balance as at 1 April                   | 13,166                 | 24,933                           | 349                       | 75,817                | 65,931           | 180,196        |
| Transfers from Probation Trusts         | 0                      | 0                                | 65                        | 0                     | 489              | 554            |
| Provided in year                        | 135                    | 750                              | 4,970                     | 31,796                | 75,279           | 112,930        |
| Provisions not required written back    | 0                      | (45)                             | (27)                      | 0                     | (32,185)         | (32,257)       |
| Provisions utilised in year             | (4,582)                | (790)                            | (460)                     | (4,487)               | (23,598)         | (33,917)       |
| Borrowing costs (unwinding of discount) | 512                    | 415                              | 0                         | 0                     | 67               | 994            |
| <b>Balance as at 31 March</b>           | <b>9,231</b>           | <b>25,263</b>                    | <b>4,897</b>              | <b>103,126</b>        | <b>85,983</b>    | <b>228,500</b> |

|   | 2013-2014              |                                  |                           |                       |                  |                |
|---|------------------------|----------------------------------|---------------------------|-----------------------|------------------|----------------|
|   | Early retirement costs | Leasehold property dilapidations | Voluntary early departure | Injury benefit scheme | Other provisions | Total          |
| <b>Core Agency</b>                      | £'000                  | £'000                            | £'000                     | £'000                 | £'000            | £'000          |
| Balance as at 1 April                   | 17,334                 | 26,376                           | 21,558                    | 68,349                | 63,562           | 197,179        |
| Provided in year                        | 600                    | 1,576                            | 349                       | 3,709                 | 35,171           | 41,405         |
| Provisions not required written back    | 0                      | 0                                | (69)                      | 0                     | (18,878)         | (18,947)       |
| Provisions utilised in year             | (5,187)                | (1,349)                          | (21,489)                  | (3,941)               | (14,072)         | (46,038)       |
| Borrowing costs (unwinding of discount) | 419                    | (1,670)                          | 0                         | 7,700                 | 148              | 6,597          |
| <b>Balance as at 31 March</b>           | <b>13,166</b>          | <b>24,933</b>                    | <b>349</b>                | <b>75,817</b>         | <b>65,931</b>    | <b>180,196</b> |

|   | 2013-2014              |                                  |                           |                       |                  |                |
|---|------------------------|----------------------------------|---------------------------|-----------------------|------------------|----------------|
|   | Early retirement costs | Leasehold property dilapidations | Voluntary early departure | Injury benefit scheme | Other provisions | Total          |
| <b>Consolidated</b>                     | £'000                  | £'000                            | £'000                     | £'000                 | £'000            | £'000          |
| Balance as at 1 April                   | 17,334                 | 26,376                           | 23,017                    | 68,349                | 64,860           | 199,936        |
| Provided in year                        | 600                    | 1,576                            | 1,258                     | 3,709                 | 36,100           | 43,243         |
| Provisions not required written back    | 0                      | 0                                | (143)                     | 0                     | (19,361)         | (19,504)       |
| Provisions utilised in year             | (5,187)                | (1,349)                          | (23,120)                  | (3,941)               | (15,063)         | (48,660)       |
| Borrowing costs (unwinding of discount) | 419                    | (1,670)                          | 0                         | 7,700                 | 148              | 6,597          |
| <b>Balance as at 31 March</b>           | <b>13,166</b>          | <b>24,933</b>                    | <b>1,012</b>              | <b>75,817</b>         | <b>66,684</b>    | <b>181,612</b> |



## 19. Provisions for liabilities and charges (continued)

### Analysis of expected timing of discounted cash flows

| 31 March 2015                                     |                        |                                  |                           |                       |                  |                |
|---|------------------------|----------------------------------|---------------------------|-----------------------|------------------|----------------|
|   | Early retirement costs | Leasehold property dilapidations | Voluntary early departure | Injury benefit scheme | Other provisions | Total          |
| <b>Core Agency</b>                                | £'000                  | £'000                            | £'000                     | £'000                 | £'000            | £'000          |
| Not later than one year                           | 3,770                  | 8,364                            | 4,897                     | 4,287                 | 29,838           | 51,156         |
| Later than one year but not later than five years | 5,449                  | 10,167                           | 0                         | 16,172                | 49,448           | 81,236         |
| Later than five years                             | 12                     | 6,732                            | 0                         | 82,667                | 6,697            | 96,108         |
| <b>Balance as at 31 March</b>                     | <b>9,231</b>           | <b>25,263</b>                    | <b>4,897</b>              | <b>103,126</b>        | <b>85,983</b>    | <b>228,500</b> |

| 31 March 2014                                     |                        |                                  |                           |                       |                  |                |
|---|------------------------|----------------------------------|---------------------------|-----------------------|------------------|----------------|
|   | Early retirement costs | Leasehold property dilapidations | Voluntary early departure | Injury benefit scheme | Other provisions | Total          |
| <b>Core Agency</b>                                | £'000                  | £'000                            | £'000                     | £'000                 | £'000            | £'000          |
| Not later than one year                           | 4,447                  | 7,298                            | 349                       | 3,669                 | 20,087           | 35,850         |
| Later than one year but not later than five years | 8,503                  | 9,576                            | 0                         | 14,000                | 36,528           | 68,607         |
| Later than five years                             | 216                    | 8,059                            | 0                         | 58,148                | 9,316            | 75,739         |
| <b>Balance as at 31 March</b>                     | <b>13,166</b>          | <b>24,933</b>                    | <b>349</b>                | <b>75,817</b>         | <b>65,931</b>    | <b>180,196</b> |

| 31 March 2014                                     |                        |                                  |                           |                       |                  |                |
|---|------------------------|----------------------------------|---------------------------|-----------------------|------------------|----------------|
|   | Early retirement costs | Leasehold property dilapidations | Voluntary early departure | Injury benefit scheme | Other provisions | Total          |
| <b>Consolidated</b>                               | £'000                  | £'000                            | £'000                     | £'000                 | £'000            | £'000          |
| Not later than one year                           | 4,447                  | 7,298                            | 1,012                     | 3,669                 | 20,822           | 37,248         |
| Later than one year but not later than five years | 8,503                  | 9,576                            | 0                         | 14,000                | 36,546           | 68,625         |
| Later than five years                             | 216                    | 8,059                            | 0                         | 58,148                | 9,316            | 75,739         |
| <b>Balance as at 31 March</b>                     | <b>13,166</b>          | <b>24,933</b>                    | <b>1,012</b>              | <b>75,817</b>         | <b>66,684</b>    | <b>181,612</b> |

#### Early retirement provision (PCSPS members)

Under a scheme that closed in 2011, NOMS meets the additional costs of benefits beyond the normal PCSPS benefits and for employees who retire early by paying the required amounts annually to the PCSPS over the period between early departure and normal retirement date. NOMS provides for this in full when the early retirement programme becomes binding by establishing a provision for the estimated payments discounted by HM Treasury real discount rate of 1.3% (2013-14: 1.8%).

#### Leasehold property dilapidations

Dilapidation costs are an estimate of the expenditure required to return vacated leased buildings to their original condition. The movement in year is as a result of:

- updated information relating to property vacations,
- new properties leased during the year,
- an increase in the cost per square metre of the properties leased due to the general market conditions which has increased prices.

Costs are discounted by HM Treasury (HMT) real discount rates. HM Treasury (HMT) have issued revised discount rates for 2014-15, which are:

- up to five years: -1.50%
- between five and ten years: -1.05%
- more than ten years: 2.20%

## **19. Provisions for liabilities and charges (continued)**

### **Other provisions**

Other provisions primarily comprise legal claims against the Agency. This provision reflects all known claims where legal advice indicates that it is more likely than not that the claim will be successful and the amount of the claim can be reliably estimated.

Legal claims which are likely to succeed with a lesser degree of certainty or cannot be estimated reliably are disclosed as contingent liabilities in Note 23.

Provisions for four cases which have resulted in annuities arising from litigation are discounted using the HMT rates as these provisions span a number of years, over 20 years in some cases. Other general litigation provisions are not discounted, on the basis that most claims would normally crystallise within twelve months and the potential discounting on those that could continue for longer is uncertain and is not material.

### **Civil Service Injury Benefits Scheme provisions**

From 1 April 1998 NOMS is required to pay benefits under the Civil Service Injury Benefits Scheme. The scheme pays benefits to any individual who suffers disease or injury, which is wholly or partially attributable to the nature of the duty, or who suffers an attack or similar act which is directly attributable to employment within the service. Benefits are paid only in respect of loss of earning capacity and are designed to enhance a beneficiary's income up to a guaranteed minimum of 85%.

As at 31 March 2015, the Government Actuarial Department (GAD) provided NOMS with annual annuity rates covering whole of life (for total liability value), 1 year and 1 to 5 years (for cash flow values). These assumptions take the time value of money into account, and further discounting adjustments are not needed. This estimation technique will continue to be used in future years. As at 31 March 2014, NOMS estimated the value of the provision, and cash flow values were discounted using HM Treasury's discount rate of 1.8% in real terms.

## **20. Pension liability**

As part of the terms and conditions of employment of its officers and other employees, NOMS offers retirement benefits within the Local Government Pension Scheme (LGPS) to probation staff working within the National Probation Service (NPS), with effect from 1 June 2014.

Past employees of the Probation Trusts are also covered by the provisions of the LGPS. Between 1 April and 31 May 2014, this was via locally administered pension funds. On 1 June 2014 past employees of the Probation Trusts, and probation staff who transferred to CRCs and NOMS NPS are covered by the provisions of LGPS via one pension fund, administered by Greater Manchester Pension Fund (GMPF). A liability arises as employees earn their future entitlement to payments when they retire. The pension fund is subject to an independent triennial actuarial valuation every three years to determine each employer's contribution rate. The last formal actuarial valuation was at 31 March 2013. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect the past experience of the schemes.

The LGPS provides benefits on a 'final salary' basis, up to 31 March 2014, at a normal retirement age of 65. Benefits accrued at the rate of 1/60th of pensionable salary for service from 1 April 2008 with no automatic lump sum. For pensionable service up to 31 March 2008, benefits accrued at the rate of 1/80th of pensionable salary for each year of service.

With effect from 1 April 2014, the scheme provides benefits on a career average revalued earnings (CARE) basis. Benefits accrue at the rate of 1/49th of pensionable salary for each year of service. In addition, a lump sum equivalent to 3/80ths of final pay of every year of total membership is payable on retirement.

The scheme permits employees to take an increase in their lump sum payment on retirement in exchange for a reduction in their future annual pension. Members pay contributions of between 5.5% and 12.5% of pensionable earnings. Member contributions changed from 1 April 2014 and any benefits accrued from this date are based on a career average revalue salary, with various protections in place for those members in the scheme before the changes took effect. This is a funded defined benefit scheme. Retirement benefits are determined independently of the investments of the scheme and employers are obliged to make additional contributions where assets are insufficient to meet retirement benefits.

The pension liability from Probation Trusts transferred to NOMS on 1 June 2014, under absorption accounting, following a desk-based valuation by Probation Trusts. In preparing the Trust accounts, given the proximity to the most recent roll-forward actuarial valuation, an assumption was made that there would have been no significant change to the financial assumptions made in the 31 March 2014 actuarial report. To support this assumption management undertook a sensitivity analysis using data provided in the 31 March 2014 actuarial valuation. The results of the sensitivity analysis were broadly analogous with market movements over the period and suggest that had an actuarial valuation been performed at 31 May 2014 the likely impact would have been an increase in the liability in the order of 2%. Management assessed that this estimated impact is not significant to the overall liability, and have therefore not commissioned individual Probation Trust actuarial valuations as at 31 May 2014.

The value of pension assets and liabilities transferred into GMPF was recalculated by Hymans Robertson LLP as at 1 June 2014. The difference between the professional and desk-based valuations is shown separately below within remeasurements.

For 2014–15 employers' contributions of £14.8m were paid by Probation Trusts up to 31 May 2014 and £60.9m by NOMS from 1 June 2014 to 31 March 2015 to the LGPS (2013–14: £87.7m) in a range from 10.1% to 29.4% (2013-14: 10.1% to 27.8%). CRCs incurred £23.8m employer pension costs from 1 June 2014 to 31 January 2015.

The pension position as at 31 March 2015 was based on the actuary report from Hymans Robertson LLP, the independent actuary for GMPF, following the transfer of assets and liabilities from Probation Trust's own pension funds to GMPF on 1 June 2014.

A number of orphan pension liabilities for deferred and pensioner members of former Probation Committees have also been identified and accepted as the responsibility of NOMS and are being transferred to GMPF with effect from 1 June 2015. Additional actuary reports have also been obtained from the ceding Pension Funds as at 31 March 2015 and have been included within the current pension position below. The assumptions underpinning the actuarial calculations are subject to review as part of NOMS' annual reporting and audit process.

Partnership accounts are offered to staff, but are excluded from pension liabilities under IAS 19.

The major assumptions used by the actuaries were in the ranges of:

|  | 2014-2015   | 2013-2014    |
|--|-------------|--------------|
|  | Core Agency | Consolidated |
|  | %           | %            |
| Inflation assumption   | 2.0 - 2.4   | 2.4 – 2.9    |
| Rate of increase in salaries                                   | 3.5 - 4.0   | 3.6 – 4.7    |
| Rate of increase for pensions in payment and deferred pensions | 1.8 - 2.1   | 2.3 – 2.9    |
| Discount rate  | 2.8 - 3.2   | 4.2 – 4.5    |
| Pension accounts revaluation rate                              | 1.8 - 2.0   | 0            |

## 20. Pension liability (continued)

### Movements in the defined benefit obligation during the year:

|   | 2014-2015                      |                              |                    |
|---|--------------------------------|------------------------------|--------------------|
|   | Present value of<br>obligation | Fair value of plan<br>assets | Total              |
|   | £'000                          | £'000                        | £'000              |
| <b>Core Agency</b>  |                                |                              |                    |
| <b>Opening balance at 1 April</b>   | <b>0</b>                       | <b>0</b>                     | <b>0</b>           |
| Plan assets   | 0                              | 2,817,469                    | 2,817,469          |
| Funded liabilities  | (3,993,961)                    | 0                            | (3,993,961)        |
| Unfunded liabilities  | (42,368)                       | 0                            | (42,368)           |
| <b>Transfers to NOMS from Probation Trusts</b>  | <b>(4,036,329)</b>             | <b>2,817,469</b>             | <b>(1,218,860)</b> |
| Plan assets   | 0                              | 25,020                       | 25,020             |
| Funded liabilities  | (54,694)                       | 146                          | (54,548)           |
| Unfunded liabilities  | (2,554)                        | 0                            | (2,554)            |
| <b>Gain/(loss) on recognition of orphan assets and liabilities held by ceding Funds</b> | <b>(57,248)</b>                | <b>25,166</b>                | <b>(32,082)</b>    |
| Current service costs   | (93,000)                       | 0                            | (93,000)           |
| Past service costs (including curtailments)   | (3,500)                        | 0                            | (3,500)            |
| <b>Total current and past service costs</b>   | <b>(96,500)</b>                | <b>0</b>                     | <b>(96,500)</b>    |
| <b>Net interest (cost) income</b>   | <b>(137,294)</b>               | <b>96,858</b>                | <b>(40,436)</b>    |
| <b>Remeasurements</b>   |                                |                              |                    |
| Gain/(loss) on recognition of assets and liabilities transferred to GMPF on 1 June      | 61,729                         | 8,231                        | 69,960             |
| Returns on plan assets, excluding amounts included in interest expense/(income)         | 0                              | 186,224                      | 186,224            |
| Gain/(loss) from change in financial assumptions  | (371,891)                      | 0                            | (371,891)          |
| Experience gains/(losses)   | (27,589)                       | 0                            | (27,589)           |
| <b>Total remeasurements</b>   | <b>(337,751)</b>               | <b>194,455</b>               | <b>(143,296)</b>   |
| <b>Contributions</b>  |                                |                              |                    |
| Employers   | 0                              | 85,900                       | 85,900             |
| Plan participants   | (25,900)                       | 25,900                       | 0                  |
| Unfunded benefits   | 0                              | 3,279                        | 3,279              |
| <b>Payments from plans</b>  |                                |                              |                    |
| Benefit payments  | 107,829                        | (107,829)                    | 0                  |
| Unfunded benefit payments   | 3,279                          | (3,279)                      | 0                  |
| <b>Closing balance at 31 March</b>  | <b>(4,579,914)</b>             | <b>3,137,919</b>             | <b>(1,441,995)</b> |
| Plan assets   | 0                              | 3,137,919                    | 3,137,919          |
| Funded liabilities  | (4,531,054)                    | 0                            | (4,531,054)        |
| Unfunded liabilities  | (48,860)                       | 0                            | (48,860)           |
| <b>Closing balance at 31 March</b>  | <b>(4,579,914)</b>             | <b>3,137,919</b>             | <b>(1,441,995)</b> |

## 20. Pension liability (continued)

|   | 2013-2014                   |                           |                    |
|---|-----------------------------|---------------------------|--------------------|
|   | Present value of obligation | Fair value of plan assets | Total              |
|   | £'000                       | £'000                     | £'000              |
| <b>Consolidated</b>   |                             |                           |                    |
| Plan assets   | 0                           | 2,635,202                 | 2,635,202          |
| Funded liabilities  | (3,928,113)                 | 0                         | (3,928,113)        |
| Unfunded liabilities  | (44,974)                    | 0                         | (44,974)           |
| <b>Opening balance at 1 April</b>   | <b>(3,973,087)</b>          | <b>2,635,202</b>          | <b>(1,337,885)</b> |
| Current service costs   | (108,235)                   | (1,080)                   | (109,315)          |
| Past service costs (including curtailments)                                     | (3,059)                     | 0                         | (3,059)            |
| <b>Total current and past service costs</b>                                     | <b>(111,294)</b>            | <b>(1,080)</b>            | <b>(112,374)</b>   |
| <b>Net interest (cost) income</b>   | <b>(174,067)</b>            | <b>116,238</b>            | <b>(57,829)</b>    |
| <b>Remeasurements</b>   |                             |                           |                    |
| Returns on plan assets, excluding amounts included in interest expense/(income) | 0                           | 18,618                    | 18,618             |
| Gain/(loss) from change in demographic assumptions                              | (4,444)                     | 0                         | (4,444)            |
| Gain/(loss) from change in financial assumptions                                | 66,450                      | 166                       | 66,616             |
| Experience gains/(losses)   | 94,894                      | (2,471)                   | 92,423             |
| <b>Total remeasurements</b>   | <b>156,900</b>              | <b>16,313</b>             | <b>173,213</b>     |
| <b>Contributions</b>  |                             |                           |                    |
| Employers   | 0                           | 86,668                    | 86,668             |
| Plan participants   | (29,637)                    | 29,637                    | 0                  |
| Unfunded benefits   | 0                           | 1,051                     | 1,051              |
| <b>Payments from plans</b>  |                             |                           |                    |
| Benefit payments  | 121,544                     | (122,075)                 | (531)              |
| Unfunded benefit payments   | 2,873                       | (2,342)                   | 531                |
| <b>Closing balance at 31 March</b>  | <b>(4,006,768)</b>          | <b>2,759,612</b>          | <b>(1,247,156)</b> |
| Plan assets   | 0                           | 2,759,612                 | 2,759,612          |
| Funded liabilities  | (3,964,059)                 | 0                         | (3,964,059)        |
| Unfunded liabilities  | (42,709)                    | 0                         | (42,709)           |
| <b>Closing balance at 31 March</b>  | <b>(4,006,768)</b>          | <b>2,759,612</b>          | <b>(1,247,156)</b> |

## 20. Pension liability (continued)

The plan assets in the scheme were:

|                           | Value at 31 March<br>2015 | Value as a<br>percentage of total<br>scheme assets at<br>31 March 2015 | Value at 31 March<br>2014 | Value as a<br>percentage of total<br>scheme assets at<br>31 March 2014 |
|---------------------------|---------------------------|--|---------------------------|--|
|                           | £'000                     | %  | £'000                     | %  |
| Equities                  | 2,281,837                 | 72.7   | 1,517,401                 | 55.0   |
| Government Bonds          | 2,707                     | 0.1  | 139,093                   | 5.0  |
| Other Bonds               | 622,676                   | 19.8   | 190,300                   | 6.9  |
| Property                  | 1,414                     | 0.1  | 184,345                   | 6.7  |
| Cash and cash equivalents | 2,003                     | 0.1  | 81,891                    | 3.0  |
| Other                     | 227,282                   | 7.2  | 646,582                   | 23.4   |
| <b>Total Plan Assets</b>  | <b>3,137,919</b>          | <b>100.0</b>   | <b>2,759,612</b>          | <b>100.0</b>   |

## Sensitivity Analysis

The actuary's assessment of the impact on pension liabilities of increases and reductions in key actuarial assumptions:

|  | 31 March 2015               |   |
|--|-----------------------------|---|
|  | Approximate monetary amount | Approximate increase to<br>Employer Liability |
|  | £'000                       | %   |
| 0.5% decrease in real discount rate        | 438,600                     | 10.0%   |
| 1 year increase in member life expectancy  | 135,600                     | 3.0%  |
| 0.5% increase in the salary increase rate  | 135,100                     | 3.0%  |
| 0.5% increase in the pension increase rate | 294,700                     | 7.0%  |

## 21. Capital commitments

|                               | 31 March 2015  |                              | 31 March 2014  |
|-------------------------------|----------------|------------------------------|----------------|
|                               | Core Agency    | Core Agency and Consolidated |                |
|                               | £'000          |                              | £'000          |
| Property, plant and equipment | 208,718        |                              | 116,000        |
| Software                      | 10,337         |                              | 0              |
|                               | <b>219,055</b> |                              | <b>116,000</b> |

In March 2015 NOMS entered into a contract to build a new prison in North Wales, giving rise to capital commitments of £173m as at 31 March 2015.

## 22. Related party transactions

The Ministry of Justice (MoJ), the parent entity, provided funding of £3,404m during the year (2013-14: £3,552m). In addition MoJ provides a number of shared services to NOMS. These services are recharged notionally by MoJ for services provided at a total cost of £118.8m (2013-14: £101.8m) and are included in Notes 4 and 5. Additionally, a number of transactions take place between NOMS and MoJ for services provided.

During the year, NOMS provided custodial services to the Youth Justice Board (part of MoJ) and the Home Office. NOMS also receives funding from other Government departments and local authorities for education, healthcare and resettlement services; such income is included in Note 6.

Three staff mutuals, which were developed in 2013-14 with the support of the Probation Trusts, formed community interest companies. These were either part of successful bids for the purchase of CRCs or are in strategic partnerships with CRCs:

- Staff from Durham Tees Valley Probation Trust formed Changing Lives in Durham Tees Valley, a Community Interest Company holding a 12.5 percent share in ARCC, a joint venture company which owns Durham Tees Valley CRC.
- Staff from London Probation Trust formed RISE operating in strategic partnership with MTC Novo, owners of the London and Thames Valley CRCs.
- Staff from Devon and Cornwall and Dorset Probation Trusts formed Innovation Wessex operating a strategic partnership with Working Links, owners of the: Wales; Bristol, Gloucester and Somerset; and Devon and Cornwall CRCs.

During the period of public sector ownership from 1 June 2014 to 31 January 2015, the CRCs did not enter into related party transactions, other than in relation to these staff mutuals.

Details of Probation Trusts' other related parties are disclosed in the individual Trusts' report and accounts to 31 October 2014, when the Trusts were dissolved.

### 23. Contingent liabilities

#### **NOMS has the following contingent liabilities:**

Claims for injury to staff, prisoners and the public amounting to £56.3m (£49.2m at 31 March 2014) have been indicated to NOMS, where the likelihood of a liability arising is deemed possible but not likely. Other claims for compensation where it is more likely than not that a liability will arise have been provided for in the accounts – see Note 19.

#### **Civil Service Injury Benefit Scheme:**

NOMS meets the costs of the Civil Service Injury Benefits Scheme (CSIBS) for payments granted under the scheme after 1 April 1998. CSIBS pays benefits to any individual who suffers an injury which is wholly or partially attributable to the nature of their duty, or who suffers an attack or similar act which is directly attributable to employment within the service. Benefits are paid only in respect of loss of earning capacity and are designed to enhance a beneficiary's income up to a guaranteed minimum figure. NOMS considers that at 31 March 2015 the potential future liability arising from unsettled cases is not material to these accounts.

#### **Payment by Results (PbR):**

Contracts are in place for Payment by Results (PbR) schemes at HMP Doncaster and HMP Peterborough in relation to reducing reoffending.

The contracts are based on programmes for cohorts of offenders, who are then monitored for 12 to 24 months. Following that period, reoffending by members of the cohort during the monitoring period is assessed. The contracts stipulate a mechanism by which an additional payment would be payable to the contractor on a sliding scale in the event of reoffending rates for the cohorts of offenders meeting or exceeding targets. In the case of HMP Doncaster there is also a mechanism to claw back payments in the event of reoffending targets not being met.

The maximum possible additional payments by NOMS under the two contracts totalled £12.75m. The outcome of the first cohorts under each scheme did not result in additional payments by NOMS.

At 31 March 2015, two cohorts were underway or being monitored.

NOMS considers that at 31 March 2015, the likelihood of costs arising from the success of the remaining cohorts remains uncertain.



### 23. Contingent liabilities (continued)

#### Other contingent liabilities reported to Parliament:

The Secretary of State for Justice has provided a guarantee to the GMPF in respect of the CRCs' participation in the GMPF for pension liabilities that transferred to the CRCs.

The responsibility for funding the past service liabilities associated with the original employees who are deferred or pensioner members of the LGPS transferred to NOMS under the Secretary of State for Justice.

An indemnity of up to £50m, in respect of any one accident, has been given to the Heathrow Airport Holdings Limited. This is in respect of damage or injury caused to third parties arising out of the negligence of NOMS in their use of vehicles travelling airside for the repatriation of prisoners. The likelihood of a liability arising from these contingencies is considered to be uncertain.

NOMS would be liable as underwriter of last resort to meet losses incurred by the privately managed prisons.

### 24. Events after the reporting period

In accordance with the requirements of IAS 10, events after the reporting period are considered up to the date on which the accounts are authorised for issue. This is interpreted as the date of the Audit Certificate of the Comptroller and Auditor General.

As at the date of the Audit Certificate, no reportable events had occurred.

### 25. Losses and special payments

The following losses and special payments in continuing operations are included within the CSocNE:

| Core Agency                                | 2014-2015     |               | 2013-2014    |               |
|--|---------------|---------------|--------------|---------------|
|  | Cases         | £'000         | Cases        | £'000         |
| Cash losses                                | 1,406         | 1,646         | 1,274        | 417           |
| Losses of accountable stores               | 7,041         | 1,134         | 6,832        | 1,397         |
| Fruitless payments and constructive losses | 9             | 145           | 16           | 4             |
| Claims waived or abandoned                 | 3             | 53            | 12           | 291           |
| Administrative write-offs                  | 0             | 0             | 5            | 439           |
| <b>Losses statement</b>                    | <b>8,459</b>  | <b>2,978</b>  | <b>8,139</b> | <b>2,548</b>  |
| <b>Special payments</b>                    | <b>13,851</b> | <b>28,855</b> | <b>7,386</b> | <b>21,126</b> |

| Consolidated                               | 2014-2015     |               | 2013-2014    |               |
|--|---------------|---------------|--------------|---------------|
|  | Cases         | £'000         | Cases        | £'000         |
| Cash losses                                | 1,447         | 1,668         | 1,296        | 419           |
| Losses of accountable stores               | 7,041         | 1,134         | 6,832        | 1,397         |
| Fruitless payments and constructive losses | 9             | 145           | 23           | 7             |
| Claims waived or abandoned                 | 7             | 113           | 44           | 296           |
| Administrative write-offs                  | 32            | 12            | 72           | 459           |
| <b>Losses statement</b>                    | <b>8,536</b>  | <b>3,072</b>  | <b>8,267</b> | <b>2,578</b>  |
| <b>Special payments</b>                    | <b>13,851</b> | <b>28,855</b> | <b>7,415</b> | <b>21,369</b> |



In 2014-15 NOMS made seven (2013–2014: three) special payments over £300,000, which were:

- Six compensation payments to operational NOMS staff injured in the course of their duties: £326,000; £342,843; £345,547; £641,214; £650,620 and £785,328; and
- One compensation payment of £869,352 to a third party, due to a contractual dispute.

In 2014-15 NOMS made 24 (2013–2014: 70) special severance payments. The total value of these payments was £377,332 (2013-14: £908,954). The maximum, minimum and median values for 2014-15 were £55,000, £2,000 and £10,000 respectively (2013-14: £69,000; £250 and £9,750 respectively).

### Discontinued operations

The CRCs incurred five losses cases at a cost of £3,000 and no special payments cases during the period of public sector ownership, from 1 June 2014 to 31 January 2015.

### 26. Third party assets

At 31 March 2015 NOMS held third parties' monies of £12.0m (£11.1m at 31 March 2014). This relates to monies held on behalf of offenders and is therefore not included in the accounts.

### 27. Transfers under absorption accounting

A disaggregation exercise was carried out on each Probation Trust's statement of financial position as at 31 May 2014, which assigned the majority of balances to the CRC or NOMS. See Note 1.6 for details of the rationale. In accordance with the FReM, such transfers were accounted for using the absorption method.

Certain balances were retained in the Trusts to be settled prior to dissolution. Any residual unsettled balances were transferred to NOMS prior to dissolution under absorption accounting, including the cash balance.

Under absorption accounting, balances are transferred at carrying value on the date of transfer. The total gain or loss on absorption, which reflects the net assets or liabilities being transferred, is recognised as a non-operating gain or loss in the transferor and recipient's SoCNE. As all transfers were within the NOMS group, there is no net effect on NOMS' CSoCNE or CSoFP.

#### The assets and liabilities transferred from the Trusts to NOMS and CRCs were:

|                                      | Notes        | Transfers from Trusts<br>£'000 | Transfers to NOMS<br>£'000 | Transfers to CRCs<br>£'000 | Net transfers<br>£'000 |
|--------------------------------------|--------------|--------------------------------|----------------------------|----------------------------|------------------------|
| <b>Non-current assets</b>            |              |                                |                            |                            |                        |
| Property, plant and equipment        | 7            | (4,776)                        | 1,192                      | 3,584                      | 0                      |
| Intangible assets                    | 8            | (549)                          | 1                          | 548                        | 0                      |
| <b>Current assets</b>                |              |                                |                            |                            |                        |
| Trade and other receivables          |              | (11,519)                       | 9,831                      | 1,688                      | 0                      |
| Cash and cash equivalents            | 14           | (27,077)                       | 24,015                     | 3,062                      | 0                      |
| <b>Current liabilities</b>           |              |                                |                            |                            |                        |
| Trade and other payables             |              | 19,703                         | (11,365)                   | (8,338)                    | 0                      |
| Provisions                           | 19           | 593                            | (554)                      | (39)                       | 0                      |
| <b>Non-current liabilities</b>       |              |                                |                            |                            |                        |
| Pension liability                    | 20           | 1,218,860                      | (1,218,860)                | 0                          | 0                      |
| <b>Total transfers</b>               |              | <b>1,195,235</b>               | <b>(1,195,740)</b>         | <b>505</b>                 | <b>0</b>               |
| <b>Net (gain)/loss on absorption</b> | <b>SoCNE</b> | <b>(1,195,235)</b>             | <b>1,195,740</b>           | <b>(505)</b>               | <b>0</b>               |

## 28. Fees and charges

NOMS is required, in accordance with HM Treasury's Managing Public Money, to disclose results for the areas of its activities where fees and charges are made. NOMS makes fees and charges in relation to the provision of healthcare and for operating juvenile places. NOMS fee recovery targets are 100% in all cases. See Note 6 for details of these funding streams.

## 29. The Agency boundary

The Probation Trusts were within the NOMS Agency boundary until their dissolution on 31 October 2014. The results and cashflows of the 35 Probation Trusts to 31 October 2014 are consolidated in NOMS group accounts.

The Community Rehabilitation Companies were incorporated in December 2013 and commenced operations on 1 June 2014. Until 31 January 2015, they were within the NOMS Agency boundary, in accordance with a decision by the Office for National Statistics (ONS) in September 2014. The ONS classified the CRCs as public sector entities prior to their sale and as private sector entities after their sale. The results of the 21 CRCs while operating in public sector ownership, from 1 June 2014 to 31 January 2015, are reflected in NOMS group accounts as discontinued operations – see Note 2c.

From 1 February 2015, NOMS is no longer an accounting group, and in future years only Core Agency accounts will be prepared.

### Entities within the NOMS Agency boundary during 2014-15:

#### Until 31 October 2014:

|   |   |
|---|---|
| Avon and Somerset Probation Trust               | London Probation Trust                          |
| Bedfordshire Probation Trust                    | Merseyside Probation Trust                      |
| Cambridgeshire and Peterborough Probation Trust | Norfolk and Suffolk Probation Trust             |
| Cheshire Probation Trust                        | Northamptonshire Probation Trust                |
| Cumbria Probation Trust                         | Northumbria Probation Trust                     |
| Derbyshire Probation Trust                      | Nottinghamshire Probation Trust                 |
| Devon and Cornwall Probation Trust              | South Yorkshire Probation Trust                 |
| Dorset Probation Trust                          | Staffordshire and West Midlands Probation Trust |
| Durham Tees Valley Probation Trust              | Surrey and Sussex Probation Trust               |
| Essex Probation Trust                           | Thames Valley Probation Trust                   |
| Gloucestershire Probation Trust                 | Wales Probation Trust                           |
| Greater Manchester Probation Trust              | Warwickshire Probation Trust                    |
| Hampshire Probation Trust                       | West Mercia Probation Trust                     |
| Hertfordshire Probation Trust                   | West Yorkshire Probation Trust                  |
| Humberside Probation Trust                      | Wiltshire Probation Trust                       |
| Kent Probation Trust                            | York and North Yorkshire Probation Trust        |
| Lancashire Probation Trust                      |   |
| Leicestershire and Rutland Probation Trust      |   |
| Lincolnshire Probation Trust                    |   |

**Until 31 January 2015:**

The Bedfordshire, Cambridgeshire, Hertfordshire and Northamptonshire Community Rehabilitation Company Limited

The Bristol, Gloucestershire, Somerset and Wiltshire Community Rehabilitation Company Limited

The Cheshire and Greater Manchester Community Rehabilitation Company Limited

The Cumbria and Lancashire Community Rehabilitation Company Limited

The Derbyshire, Leicestershire, Nottinghamshire and Rutland Community Rehabilitation Company Limited

The Dorset, Devon and Cornwall Community Rehabilitation Company Limited

The Durham Tees Valley Community Rehabilitation Company Limited

The Essex Community Rehabilitation Company Limited

The Hampshire and Isle of Wight Community Rehabilitation Company Limited

The Humberside, Lincolnshire and North Yorkshire Community Rehabilitation Company Limited

The West Yorkshire Community Rehabilitation Company Limited

The Kent, Surrey and Sussex Community Rehabilitation Company Limited

The London Community Rehabilitation Company Limited

The Merseyside Community Rehabilitation Company Limited

The Norfolk and Suffolk Community Rehabilitation Company Limited

The Northumbria Community Rehabilitation Company Limited

The South Yorkshire Community Rehabilitation Company Limited

The Staffordshire and West Midlands Community Rehabilitation Company Limited

The Thames Valley Community Rehabilitation Company Limited

The Wales Community Rehabilitation Company Limited

The Warwickshire and West Mercia Community Rehabilitation Company Limited

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