



**ANNUAL REPORT AND FINANCIAL
STATEMENTS
31st July 2019**

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REFERENCE & ADMINISTRATIVE INFORMATION

Status

Newham Training and Education Centre (NEWTEC) is a charitable company limited by guarantee without share capital incorporated in England and Wales on 20th November 1989 and registered as a charity on 20th February 1990. The charity's governing document is its Memorandum and Articles of Association.

Directors

Marzieh Chipperfield	Chair	resigned 02/10/2019
Liz Laycock	Interim Chair	appointed 15/10/2019
Linda Jordan		
Sheila Weeden		resigned 12/09/2018
Marcia Samuels		resigned 18/12/2018
Nadege Nakubuhizi		resigned 25/09/2018
Nicola Blatchly-Lewis		appointed 16/10/2018

Senior Leadership Team:

Chief Executive Pat Edwards	resigned 30/11/2019
Head of Adult Learning Saher Nijabat	resigned 28/02/2019
Head of Adult Learning Bola Stevens	appointed 11/03/2019
Head of Young People and HE Marcin Herda	
Head of Stakeholder Engagement Simidele Akinsuyi	
Head of Commercial Operations Coral Decourcy	
Head of Quality and Standards Jennifer Marshall	
Director of Finance Pieter Vermeulen	

Company Secretary

Judith Nelson

Registered office

22 Deanery Road
Stratford
London E15 4LP

Bankers

Bank of Scotland
St James's Gate
14-16 Cockspur Street
London SW1Y 5BL

Solicitors

Irwin Mitchell Solicitors
Riverside East
2 Millsands
Sheffield, S3 8DT

Auditors

RSM UK Audit LLP
Chartered Accountants
The Pinnacle
170 Midsummer Boulevard
Milton Keynes
Buckinghamshire MK9 1BP

DIRECTORS' REPORT AND ACCOUNTS FOR YEAR ENDED 31ST JULY 2019

DIRECTORS' REPORT

The directors, who are also the trustees of the charity, present their annual report (incorporating the Strategic Report) and the audited financial statements of Newham Training and Education Centre (NEWTEC) for the year ended 31st July 2019.

The financial statements have been prepared in accordance with accounting policies set out in the notes to the accounts and comply with the Charities Act 2011, the Companies Act 2006, and the Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102) published on 16th July 2014.

OBJECTIVES & ACTIVITIES

OBJECTIVES OF THE CHARITY

NEWTEC is a company limited by guarantee having charitable status. Its principal aim is to provide learning opportunities for women, men and the community, to enable them to gain access to employment to improve their career development or to participate in further or higher education. NEWTEC provides integrated support for clients by providing quality childcare on and off site in its nursery and with local registered childminders.

STRATEGIC DIRECTION FOR 2019 & BEYOND

OUR VISION:

All our children will be happy, healthy and safe, and supported by well qualified and economically active parents and carers.

OUR MISSION:

To provide the highest quality childcare services and vocational training in care for young people, adults and employers.

OUR STRATEGY:

Prioritise training for young people and adults at risk of non-participation or unemployment, and for those progressing from foundation programmes.

Provide FE/HE training in Vocational Services for young people, adults and employers, to include foundation level services leading to employment.

Provide opportunities for progression into meaningful employment and related training for unemployed young people and adults.

Develop and operate integrated services with key partners for children, their parents/carers, and employers.

Provide high quality childcare at affordable prices.

Develop NEWTEC's strategy to work in an integrated way with relevant local and regional agencies.

Continuously develop and improve all aspects of the organisation, including quality, financial health, human resources, leadership and management, training and development and resources.

OUR VALUES are:

Promoting and safeguarding the interests of children, young people, adults and the community.

Promotion of equality, diversity and inclusion as key aspects of meeting community needs, excellent service delivery, and good employment practice.

DIRECTORS' REPORT AND ACCOUNTS FOR YEAR ENDED 31ST JULY 2019

An ethical organisation reflecting our charitable status, the reliance which communities have on our services and our partner and stakeholder status with other key local organisations.

Business-Innovation in seeking creative initiatives to ensure the long-term sustainability of the organisation.

Determination to succeed in all that we do, achieve excellence and grow the services we provide.

SERVICE PROVISION

NEWTEC currently operates its objectives through its Learning Services and Commercial Operations departments. NEWTEC operates six nurseries: Mark Street, Deanery Road, Cumberland Road, East Ham, UEL Docklands and Plaistow Day Nursery in addition to an Early Education Centre in West Ham Lane.

Young People & HE

- NEWTEC's provision was reviewed by Ofsted in November 2016. Overall a grade of 2 was awarded from the inspection.
- Health, Public Services & Care (Early Years and Health & Social Care) – 2018/2019 activities included learners completing study programmes that include English, Maths, Employability, Business Administration, Early Years and Health & Social Care as well as British Values.
- Preparation for Life and Work – this broad curriculum area includes Functional Skills English and Maths; GCSEs in English and Maths, employability, job search, vocational guidance and job preparation.
- Higher Education - NEWTEC also continues to offer a Foundation Degree in Early Years and Early Years Leadership and Management in collaboration with Kingston University.

Adult Learning

- The Adult Learning provision has maintained a Grade 3 – requires improvement across the four areas.
- Health, Public Services & Care (Early Years, Health & Social Care and Supported Teaching & Learning in Schools) – 2018/2019 activities remained significantly low.
- Preparation for Life and Work – this broad curriculum area includes Functional Skills English, Maths, and ESOL, employability, job search, vocational guidance and job preparation.
- 16-18 & Adult Apprenticeships (Childcare and Health & Social Care). NEWTEC provides apprenticeships to 16-18 years old, adults and employers based in IT, Digital media, Business Administration, Health & Social Care and Childcare sector.

Children's Services

All seven NEWTEC nursery provisions continue to be successful, six nurseries achieving Ofsted Grade 2 (two with strands of Outstanding and one nursery achieving an 'Outstanding' – grade 1). All provisions welcome families entitled to Free Early Education Entitlement (FEEE) as well as full cost commercial places. NEWTEC is also managing the childcare services for Newham College of Further Education under a Service Level Agreement and has been managing the UEL's nursery in Docklands since January 2016.

Staffing Matters

Staffing Matters caters for professionals in the Childcare and Health & Social Care sector. The agency seeks getting learners into jobs and making them financially active.

DIRECTORS' REPORT AND ACCOUNTS FOR YEAR ENDED 31ST JULY 2019

Room Hire

Additional income is being generated by hiring out underutilised rooms.

STRUCTURE, GOVERNANCE & MANAGEMENT

NEWTEC has a Board of Directors who meet regularly to oversee NEWTEC's strategic direction, to ensure legislative compliance and to maintain financial probity.

Directors

The directors of the company during the year and up to the date of this report are listed on page 1.

The directors are elected annually at the annual general meeting by a simple majority and no director is employed by or has any interest in any contract with the company. At 31st July 2019, the number of directors totalled 4 (2018: 6).

NEWTEC is managed by a Senior Leadership Team comprising of the Chief Executive, the Director of Finance, the Head of Young People & HE, Head of Commercial Operations, Head of Quality and Standards, Head of Adult Learning and the Head of Stakeholder Engagement.

The Directors consider the board of directors, who are the charitable company's trustees, and the CEO comprise the key management personnel of the charitable company, at present, in charge of directing and controlling, running and operating the charitable company on a day to day basis.

The pay and remuneration of the key management personnel is set by the Board of Directors. Long term strategic decisions i.e. the strategic plan are set and agreed by the Board of Directors, short term and medium term decisions are made by key members of management.

PUBLIC BENEFIT

In setting our objectives and planning our activities the Directors have given careful consideration to the Charity Commission's general guidance on public benefit and in particular the supplementary public benefit guidance on advancing education.

RECRUITMENT OF DIRECTORS

New directors will continue to be sought through external recruitment in line with NEWTEC's equal opportunities policies.

New directors are inducted into their role by the Chair and supported by the other directors and the CEO.

PARTNERSHIP WORKING

NEWTEC works in partnership with a range of other organisations to deliver learning services in line with its objectives. Significant partners for 2018/2019 include:

- Newham College Group (NCFE) – parent company and member
- London Borough of Newham – Children's Centre; 14 to 19 Leaders' Forum
- Adults Skills Strategic Partnership; Nursery Managers' Forum
- Kingston University – Foundation Degree in Early Years and Leadership & Management
- UEL – Children's Garden Nursery
- London Borough of Tower Hamlets – Education Contract

DIRECTORS' REPORT AND ACCOUNTS FOR YEAR ENDED 31ST JULY 2019

STRATEGIC REPORT

ACHIEVEMENTS & PERFORMANCE

KEY BUSINESS RESULTS FOR YEAR ENDED 31ST JULY 2019

7 Key performance indicators were formulated by the Senior Leadership Team to drive and monitor organisational performance over 2019. Key Performance Indicators were achieved and were as follows:-

Ref	Key Business Results
1.	To establish the NEWTEC Business Cockpit
2.	To secure external quality endorsements
3.	To improve the 'Strategic Marketing' of the NEWTEC brands
4.	To establish the NEWTEC College Pathways
5.	To establish the Higher Education Pathways
6.	To secure a 'Training Nursery' in East London
7.	To Gateway Assure the 'Coaching Skills' of NEWTEC employees

NEWTEC has been awarded the following during 2019:

UK Charity of the Year 2019 – National Centre for Diversity Grand Awards
British Quality Foundation – Excellence in Diversity and Equality Award – Winner
British Quality Foundation – Commended for Adding Value to Customers

FINANCIAL REVIEW

In the twelve months ended 31st July 2019, NEWTEC made an operating deficit of £944k (before adjusting for the release of capital grants received in previous years and part of accumulated reserves brought forward) against a targeted surplus of £305k.

The operating deficit of £944k for the period was due to the loss of a number of significant contracts concerning Adult Education delivery and increase in legal fees regarding a dispute with a training provider.

The following financial targets have been identified for 2019/20 to support and maintain the continuing return to sustainability:

- To achieve a targeted and sustainable mix of charitable/grant income and social enterprise.
- To achieve a £30k operating surplus for 2019/20 through effective management of our cost base and successful income generation.
- To improve quality across the organisation.

DIRECTORS' REPORT AND ACCOUNTS FOR YEAR ENDED 31ST JULY 2019

Reconciliation of surplus/(deficit)	
	£'000
Operating Deficit	-1370
Depreciation in respect of assets financed by Capital Grants recognised in the SOFA in a prior year.	-125
Net expenditure per the SOFA	-1495

Reserves and cash holding policy

One of NEWTEC's long-term aims is to achieve total cash at bank and in hand of £125k by 2019/20 and to improve the cash held and the future sustainability of the organisation. NEWTEC's was overdrawn by 26k as at 31 July 2019 but within the overdraft facility limit. This was due to the loss of a number of significant contracts concerning Adult Education delivery. The current level of unrestricted reserves is £1,521k.

The charity will ensure its long-term financial sustainability by continuously working towards maintaining positive reserves.

Financial commitments

The financial commitments of the company at 31st July 2019 are as shown in notes 15 to 17 of the financial statements.

Risk Management

The major risks, to which NEWTEC is exposed, as identified by the Board of Directors, have been reviewed and systems have been established to mitigate those risks appropriate to the level of materiality and risk. The Risk Register was updated in June 2019. Project specific risks are considered on a six weekly basis in Short Term Action & Review (STAR) meetings and appropriate action identified. STAR meetings are monthly team meetings to monitor the progress of the NEWTEC Quality Improvement Plan. The principal risks are:

- The loss of funding, inability to meet commercial financial income and the 19+ Student Loans resulting in reduced enrolment numbers at Level 3. This will be mitigated by seeking and securing additional funders and direct contracts, increase commercial cash income including fundraising and effective engagement with partner and employers.
- Failure to achieve/recruit for planned learner numbers. This will be mitigated by regular staff meetings such as STAR and LINKS to review the current marketing strategy, effectiveness of Information Advice and Guidance and development of staff skills set.

NEWTEC does not undertake any fundraising, nor does any third party undertake fundraising on NEWTEC's behalf.

KEY DEVELOPMENTS DURING 2019/2020

East London Childcare Institute (ELCI)

NEWTEC's main childcare provision will remain at its flagship site, the East London Childcare Institute at Mark Street. The ELCI strategy has been agreed with the London Development Agency and continues to cover the following:

- Improve employment opportunities through the provision of high quality training to unemployed people interested in working within the Childcare and Early Years sector
- Prioritise the provision of career opportunities through professional development and up skilling for people already employed within this sector
- Provide a day care unit which can be used as an integrated learning resource for learners studying child development, education and early year's management
- Offer business start-up support to help with the establishment of new nurseries and other childcare projects in East London

Support private sector employers in developing a range of childcare models including workplace nurseries

Strategic Plan 2019 & Beyond

No fundraising activities are undertaken by NEWTEC or by a third party during 2018-19 financial year.

Strategic Objectives (2019/20)

Ref	Objectives
1.	To secure a range of sustainable jobs
2.	To ensure meaningful qualifications are obtained
3.	To create meaningful progression pathways within the care sector
4.	To develop and implement a mandatory training strategy
5.	To develop and implement a CPD strategy
6.	To carry out employees' performance reviews (PR4)
7.	To sponsor 11 Hard to Reach" young people in East London
8.	To grow a bank of NEWTEC ambassadors
9.	To Launch NEWTEC's Community Conversations Café (3Cs)

DIRECTORS' REPORT AND ACCOUNTS FOR YEAR ENDED 31ST JULY 2019

Statement as to Disclosure of Information to Auditors

The directors who were in office on the date of the approval of these financial statements have confirmed, as far as they are aware, that there is no relevant audit information of which the auditors are unaware. Each of the directors have confirmed that they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that it has been communicated to the auditors.

Statement of Directors' Responsibilities

The directors (who are also the trustees of NEWTEC for the purpose of charity law) are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the charitable company and of the incoming resources and application of resources, including income and expenditure of the charitable company for that period.

In preparing these financial statements, the directors are required to:

- a. select suitable accounting policies and then apply them consistently;
- b. observe the methods and principles in the Charities SORP;
- c. make judgements and estimates that are reasonable and prudent; and
- d. state whether applicable UK accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- e. prepare the financial statements on the going concern basis unless it is not appropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the charitable company and enable them to ensure that the financial statements comply with the requirements of Companies Act 2006. They are also responsible for safeguarding the assets of the charitable company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By order of the Board



Liz Laycock (Director)
5 December 2019

DIRECTORS' REPORT AND ACCOUNTS FOR YEAR ENDED 31ST JULY 2019

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF NEWHAM TRAINING AND EDUCATION CENTRE

Opinion

We have audited the financial statements of Newham Training and Education Centre (the 'charitable company') for the year ended 31 July 2019 which comprise the Statement of Financial Activities (incorporating the Income and Expenditure Account), the Balance Sheet and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the charitable company's affairs as at 31 July 2019 and of its incoming resources and application of resources, including its income and expenditure, for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Material uncertainty related to going concern

We draw attention to note 1 in the financial statements which indicates that the charity had net expenditure of £1,494,989 for the year ended 31 July 2019 and as at that date net current liabilities of £899,646. As stated in the note, these conditions along with the other matters in note 1 indicate that a material uncertainty exists that may cast significant doubt on the charity's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other information

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the charitable company and its environment obtained in the course of the audit, we have not identified material misstatements in the Directors' Report and the incorporated Strategic Report.

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

DIRECTORS' REPORT AND ACCOUNTS FOR YEAR ENDED 31ST JULY 2019

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

Responsibilities of trustees

As explained more fully in the Statement of Directors' Responsibilities set out on page 9, the trustees (who are also the directors of the charitable company for the purposes of company law) are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the trustees determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

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

RSM UK Audit LLP

SARAH MASON (Senior Statutory Auditor)

For and on behalf of RSM UK AUDIT LLP

Statutory Auditor

Chartered Accountants

The Pinnacle

170 Midsummer Boulevard

Milton Keynes

Buckinghamshire

MK9 1BP

Date 13 December 2019

DIRECTORS' REPORT AND ACCOUNTS FOR YEAR ENDED 31ST JULY 2019

STATEMENT OF FINANCIAL ACTIVITIES (incorporating Income and Expenditure Account)
FOR YEAR ENDED 31ST JULY 2019

	Note	Restricted funds £	Unrestricted funds £	Total 2019 £	Total 2018 £
Income from:					
Other trading activities: Training room hire	2	-	185,474	185,474	166,170
Charitable activities	3	1,234,827	4,706,939	5,941,766	7,274,544
Total income		1,234,827	4,892,413	6,127,240	7,440,714
Expenditure on:					
Charitable activities:					
Social enterprise activities	4(a)	-	3,703,064	3,703,064	3,480,862
Learning and employment	4(b)	1,295,692	2,623,472	3,919,164	3,827,528
Total expenditure		1,295,692	6,326,536	7,622,228	7,308,390
Net (expenditure) / income for the year		(60,865)	(1,434,123)	(1,494,988)	132,322
Fund balances brought forward at 1st August 2018		3,094,791	2,529,359	5,624,150	5,491,828
Fund balances carried forward at 31st July 2019		3,033,926	1,095,236	4,129,162	5,624,150

DIRECTORS' REPORT AND ACCOUNTS FOR YEAR ENDED 31ST JULY 2019

COMPANY BALANCE SHEET

AS AT 31ST JULY 2019

	Note	£	2019 £	£	2018 £
Fixed assets					
Intangible assets	7		17,996		11,466
Tangible assets	8		5,343,551		5,428,779
Investments	9		3		3
			<u>5,361,550</u>		<u>5,440,248</u>
Current assets					
Debtors	10	661,909		1,091,591	
Cash at bank and in hand		410		55,964	
		<u>662,319</u>		<u>1,147,555</u>	
Creditors - amounts falling due within one year	11(a)	<u>1,561,965</u>		<u>627,432</u>	
Net current assets			(899,646)		520,123
Total assets less current liabilities			<u>4,461,904</u>		<u>5,960,371</u>
Creditors - amounts falling due after one year					
Long Term Loan	11(b)		(332,742)		(336,219)
Net assets			<u>4,129,162</u>		<u>5,624,152</u>
Reserves					
Unrestricted funds	12		1,095,236		2,529,362
Restricted funds	13		3,033,926		3,094,791
			<u>4,129,162</u>		<u>5,624,152</u>

The financial statements on page 11 to 24 were approved and authorised for issue on 5 December 2019 by the Board and signed on their behalf by:


Liz Laycock (Director)
5 December 2019

NOTES TO THE FINANCIAL STATEMENTS

FOR YEAR ENDED 31ST JULY 2019

1. Accounting Policies

Basis of accounting

The financial statements of the charitable company have been prepared under the historical cost convention. The financial statements have been prepared in accordance with the Statement of Recommended Practice: Accounting and Reporting by Charities preparing their accounts in accordance with the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102) (effective 1 January 2015) (Charities SORP (FRS 102)), the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102) and the Companies Act 2006.

The charitable company constitutes a public benefit entity as defined by FRS 102.

The financial statements are prepared in sterling, which is the functional currency of the charitable company. Monetary amounts in these financial statements are rounded to the nearest £ unless otherwise specified.

Going Concern

The charity has net expenditure of £1,494,989 for the year ended 31 July 2019 and net current liabilities of £899,646 at the year end. The Directors note and welcome that Newtec's parent company, NCFE, will continue to provide limited financial support in the form of an unsecured long-term loan of £370,000 for the next 12 months.

The directors have taken decisive action in reducing Newtec's cost base and will undertake further restructuring, if necessary, to align the charity's costs to its committed revenue streams. Current income and expenditure projections are that the charity will make very modest surpluses in 2019-20 and 2020-21. A further review, covering business operations and corporate structures, will be undertaken in early Spring 2020, with the aim of focussing ongoing operations in activities that help the charitable company remain financially sustainable.

The Directors consider the balance sheet continues to present a sound net asset position and have taken a cautious approach to using bank loans and overdrafts. The Directors are taking positive actions to ensure they have alternative financing options available to them to include the possibility of increasing the bank overdraft facility and/or taking out longer-term loan finance using freehold property as collateral. As such, the Directors consider it appropriate to prepare the accounts on a going concern basis.

Reduced disclosure

In accordance with FRS 102, the charitable company has taken advantage of the exemptions from the following disclosure requirements;

- Section 7 'Statement of Cash Flows' – Presentation of a Statement of Cash Flows and related notes and disclosures.
- Section 11 'Basic Financial Instruments' & Section 12 'Other Financial Instrument Issues' – Carrying amounts, interest income/expense and net gains/losses for each category of financial instrument.

The financial statements of the charitable company are consolidated in the financial statements of NCFE. A copy of the consolidated financial statements of NCFE may be obtained from <http://www.newham.ac.uk/governance/financial-statements/>.

Group financial statements

These financial statements present the financial results of the charitable company only and do not consolidate those of its wholly owned subsidiary, Newtec Services Ltd, which has remained dormant throughout the year.

DIRECTORS' REPORT AND ACCOUNTS FOR YEAR ENDED 31ST JULY 2019

Donations, training room hire, childcare fees and grants are recognised when the SORP income recognition criteria of entitlement, probability and measurement have been met. Revenue grants are credited to income in the year to which they relate. Grants received or applied for the purchase of fixed assets are credited to income in full in the year in which they are received.

Expenditure

Expenditure is recognised on an accruals basis as a liability is incurred and includes any VAT which cannot be fully recovered and is reported as part of the expenditure to which it relates.

Staff costs are apportioned between course costs, support costs, fund-raising and publicity and management and administration on the basis of time is spent on each of these activities.

Overheads are allocated to course costs if they are direct charitable expenditure; otherwise they are allocated to support costs.

Governance costs comprise the statutory and constitutional costs of governing the charity and include external audit fees and an appropriate proportion of the Chief Executive's costs and these are included in support costs.

Support costs are allocated between charitable activities using apportionment based on salary costs.

Taxation

The company is considered to pass the tests set out in Paragraph 1 Schedule 6 Finance Act 2010 and therefore it meets the definition of a charitable company for UK Corporation tax purposes. Accordingly the company is potentially exempt from taxation in respect of income or capital gains received within categories covered by Chapter 3 Part II Corporation Tax Act or Section 256 of the Taxation of Chargeable Gains Act 1992, to the extent that such income or gains are applied exclusively to charitable purposes.

Intangible fixed assets – other than goodwill

Purchased intangible assets are recognised when future economic benefits are probable and the cost or value of the asset can be measured reliably. Intangible assets are initially recognised at cost and are subsequently measured at cost less accumulated amortisation and accumulated impairment losses. Intangible assets are amortised to the Statement of Financial Activities on a straight-line basis over their useful lives, as follows:-

Computer software & website costs	25% per annum
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Tangible fixed assets

Expenditure on items costing £500 and over is capitalised in the year of acquisition. Items costing less than that are to be written off to the Statement of Financial Activities.

Tangible fixed assets are initially measured at cost and subsequently measured at cost, net of depreciation and any impairment losses. With the exception of land, depreciation is provided on all tangible fixed assets at rates calculated to write off the cost of each asset to its estimated residual value on a straight line basis over its expected useful life, as follows:-

Freehold Buildings	15% per annum
Leasehold Buildings	over term of the lease
Building works	2-15% per annum
Computers	25% per annum
Fixtures, fittings & equipment	15% per annum
Motor vehicle	25% per annum

Full year of depreciation is charged in year of purchase.

Impairment of fixed assets

An assessment is made at each reporting date of whether there are indications that a fixed asset may be impaired or that an impairment loss previously recognised has fully or partially reversed. If such indications exist, an estimate is made of the recoverable amount of the asset.

Shortfalls between the carrying value of fixed assets and their recoverable amounts, being the higher of fair value less costs to sell and value-in-use, are recognised as impairment losses.

Recognised impairment losses are reversed if, and only if, the reasons for the impairment loss have ceased to apply. Reversals of impairment losses are recognised in the Statement for Financial Activities. On reversal of an impairment loss, the depreciation or amortisation is adjusted to allocate the asset's revised carrying amount (less any residual value) over its remaining useful life.

Financial instruments

Financial instruments are classified and accounted for according to the substance of the contractual arrangement as financial assets, financial liabilities or equity instruments. An equity instrument is any contract that evidences a residual interest in the assets of the entity after deducting all of its liabilities.

Financial assets

Basic financial assets, which include trade debtors, other debtors, accrued income, amounts due from the parent undertaking and other debtors, are initially measured at transaction price including transaction costs and are subsequently carried at amortised cost.

Financial liabilities

Basic financial liabilities, which include bank overdraft, loans, trade creditors, accruals, deferred income and NCFE long term balance, are initially measured at transaction price including transaction costs and are subsequently carried at amortised cost.

Funds

Restricted funds comprise monies where a restriction has been placed on their use by a donor (for a purpose which falls within, but is narrower than the general charitable objectives). Restricted funds are distributed in accordance with the terms of the original restriction.

General funds are unrestricted funds which are available for use at the discretion of the directors in furtherance of the general objectives of the charity and which have not been designated for other purposes.

Designated funds are unrestricted funds earmarked for particular purposes by the Board of Directors.

Leases

All leases are considered to be operating leases and rentals are charged to the Statement of Financial Activities on a straight line basis over the lease term.

Defined contribution pension scheme

For defined contribution schemes the amount charged to the Statement of Financial Activities is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments.

DIRECTORS' REPORT AND ACCOUNTS FOR YEAR ENDED 31ST JULY 2019

Critical accounting estimates and assumptions

In the application of the charitable company's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

- The charity is in receipt of a loan from Newham College of Further Education. This loan is interest free and has no fixed repayment date. Under FRS102 the directors have discounted the loan at an estimated interest rate of 1.5% over a period of 20 years.

2. Income from other trading activities

	2019 £	2018 £
Training room hire	185,474	166,170

In 2019, income from other trading activities was £185,474 (2018: £166,170) all of which related to income from unrestricted funds.

3. Income from charitable activities

	2019 £	2018 £
<u>a) Social enterprise income</u>		
Childcare fees	2,159,892	2,228,843
Other misc income	105,365	56,476
	<u>2,265,257</u>	<u>2,285,319</u>
<u>b) Learning and employment income</u>		
Government grants:		
ESFA - Revenue	1,506,583	1,622,154
Apprenticeship Programme	287,496	87,411
NCFE 19+	381,944	966,000
19+ AEB - Revenue	111,065	112,649
London Borough of Newham	1,125,611	1,044,183
Prevista Contract	-	29,500
HE Contracts	109,216	136,482
Learn Direct	-	557,175
South Essex College	9,730	180,468
24+ Loans/Tuition Fees	55,892	147,211
Other	-	6,000
	<u>3,587,537</u>	<u>4,889,233</u>
Newtec Recruitment	88,972	99,992
	<u>3,676,509</u>	<u>4,989,225</u>
Total income from charitable activities	<u>5,941,766</u>	<u>7,274,544</u>

In 2019, total income from charitable activities was £5,941,766 (2018: £7,274,544) of which £4,706,939 (2018: £6,093,879) related to income from unrestricted funds and £1,234,827 (2018: £1,180,665) was from restricted funds.

DIRECTORS' REPORT AND ACCOUNTS FOR YEAR ENDED 31ST JULY 2019

4. Expenditure on charitable activities

(a) Social enterprise activities

	Total 2019	Total 2018
<u>Staffing costs</u>		
Salaries & wages	1,424,099	1,622,537
Temporary staff	281,078	266,558
Other staff costs	11,877	6,863
	1,717,054	1,895,958
<u>Other costs</u>		
Food costs	111,389	138,689
Other direct costs	74,180	54,417
Support costs	1,780,603	1,373,403
	1,966,172	1,566,509
<u>Governance costs</u>		
Professional fees	16,174	14,731
Governance assistance (Chief Executive)	3,664	3,664
	19,838	18,395
Total social enterprise costs	3,703,064	3,480,862

DIRECTORS' REPORT AND ACCOUNTS FOR YEAR ENDED 31ST JULY 2019

4. Expenditure on charitable activities (continued)

(b) Learning and employment

	Newtec Recruitment	Young Learners Services	Adult Learners Services	Total 2019	Total 2018
<u>Staffing Costs</u>					
Salaries & Wages	51,272	256,011	624,959	932,242	958,675
Temporary Staff	101,370	25,754	29,714	156,838	95,260
Other Staff Costs	-	784	1,134	1,918	53,857
	<u>152,642</u>	<u>282,549</u>	<u>655,807</u>	<u>1,090,998</u>	<u>1,107,792</u>
<u>Other costs</u>					
External Course costs	-	932,226	527,198	1,459,424	1,649,059
Student Travel Costs	-	-	1,335	1,335	-
Other Student Support	-	55,813	11,741	67,554	60,451
Course Books & Materials	-	338	-	338	(1,480)
Exam fees	-	47,441	47,441	94,881	128,122
Office Costs	-	5,348	13,833	19,181	53,716
Allocated overheads	64,107	320,100	781,409	1,165,616	811,474
	<u>64,107</u>	<u>1,361,266</u>	<u>1,382,957</u>	<u>2,808,329</u>	<u>2,701,342</u>
<u>Governance costs</u>					
Professional fees				16,173	14,730
Governance assistance (Chief Executive)				3,664	3,664
				<u>19,837</u>	<u>18,394</u>
Total learning and employment costs	<u>216,749</u>	<u>1,643,815</u>	<u>2,038,764</u>	<u>3,919,164</u>	<u>3,827,528</u>
Total expenditure on charitable activities				<u>7,622,229</u>	<u>7,308,390</u>

In 2019, the expenditure on charitable activities was £7,196,485 (2018: £7,308,390) of which £5,900,792 (2018: £6,066,860) was expenditure from unrestricted funds and £1,295,692 (2018: £1,241,350) was from restricted funds.

5. Net income/expenditure for the year

	2019	2018
This is stated after charging:	£	£
Operating lease payments	280,572	241,870
Depreciation of owned assets	161,040	152,428
Loss on disposal of assets	-	6,000
Amortisation of intangible assets	4,612	6,698
Auditor's remuneration in respect of financial statement audit services	<u>14,520</u>	<u>14,750</u>

DIRECTORS' REPORT AND ACCOUNTS FOR YEAR ENDED 31ST JULY 2019

6. Staff costs

	2019 £	2018 £
Salaries	2,772,529	2,892,446
Social security costs	233,161	235,060
Pension costs	117,714	124,461
Temporary staff	498,428	468,177
	<u>3,621,832</u>	<u>3,720,144</u>

The key management personnel of the charitable company comprise the directors and the CEO.

The total employee benefits of the key management personnel of the charitable company were £102,506 (2018: £102,540) including employer's national insurance payments of £10,551 (2018: £10,585).

No directors received any emoluments in their capacity as directors of the charitable company.

No amounts were reimbursed to the directors for expenses for 2019 (2018 - £nil). One employee's emoluments were greater than £60,000 in the year, these were in the range £80,001 to £90,000 (2018: one in the range £80,001 to £90,000).

The average number of employees in the year was:

	2019 <i>Average Number</i>	2018 <i>Average Number</i>
Social enterprise staff	114	120
Learning and employment staff	32	31
Other support services staff	11	11
	<u>157</u>	<u>162</u>

7. Intangible fixed assets

	Computer software & website £	Total £
Cost:		
1st August 2018	34,567	34,567
Additions	11,142	11,142
31st July 2019	<u>45,709</u>	<u>45,709</u>
Amortisation:		
1st August 2018	23,101	23,101
Charged in the year	4,612	4,612
31st July 2019	<u>27,713</u>	<u>27,713</u>
Net Book Value:		
As at 31st July 2019	<u>17,996</u>	<u>17,996</u>
As at 31st July 2018	<u>11,466</u>	<u>11,466</u>

DIRECTORS' REPORT AND ACCOUNTS FOR YEAR ENDED 31ST JULY 2019

The amortisation charge for the year is recognised within expenditure on charitable activities.

8. Tangible fixed assets

	Freehold Land & Buildings £	Leasehold Buildings £	Computers £	Fixtures, Fittings & Equipment £	Motor Vehicle £	Total £
Cost:						
1st August 2018	6,789,038	1,490,327	81,875	65,406	21,311	8,447,957
Additions	-	47,800	-	28,010	-	75,810
31st July 2019	6,789,038	1,538,127	81,875	93,416	21,311	8,523,767
Depreciation:						
1st August 2018	1,804,083	1,086,257	78,585	44,925	5,328	3,019,178
Charged in the year	115,283	26,586	3,290	10,552	5,327	161,038
31st July 2019	1,919,366	1,112,843	81,875	55,477	10,655	3,180,216
Net Book Value:						
As at 31st July 2019	4,869,672	425,284	-	37,939	10,656	5,343,551
As at 31st July 2018	4,984,955	404,070	3,290	20,481	15,983	5,428,779

If the land valued at £1,000,000 were stated at the historical cost amount, it would be included at a carrying value of £650,000.

9. Investments

	2019 £	2018 £
3 ordinary shares (100%) in a subsidiary company,	3	3

The subsidiary company, NEWTEC Services Ltd, is dormant and has net assets of £3. The principal activity of the company was the hire of premises and catering associated with the hire; however it has been dormant for the entire financial period.

The subsidiary is carried in the accounts at original nominal value.

10. Debtors

	2019 £	2018 £
Trade debtors	124,400	92,183
Accrued income	390,626	284,268
Prepayments	99,383	104,368
Amounts due from parent undertaking	-	608,272
Other debtors	47,500	2,500
	661,909	1,091,591

The other debtors balance consists fully of long-term rental deposits

DIRECTORS' REPORT AND ACCOUNTS FOR YEAR ENDED 31ST JULY 2019

11. Creditors

	2019 £	2018 £
(a) Due within one year		
Bank overdraft	26,618	-
Bank Loans	6,401	23,000
Trade creditors	88,334	83,009
Taxation and social security	83,623	90,793
Amounts due to group entity	453,741	106,041
Accruals and deferred income	402,504	324,589
Amounts due to other entities	500,744	-
	<u>1,561,965</u>	<u>627,432</u>

Deferred income comprises rent received in advance of £13,529 (2018: £13,133).

	2019 £	2018 £
(b) Due after one year		
Bank loan	-	8,480
NCFE Long term balance	332,742	327,739
	<u>332,742</u>	<u>336,219</u>

The bank loan is repayable in the following instalments

	2019 £	2018 £
-within one year	6,401	25,079
-within one to two years	-	6,401
	<u>6,401</u>	<u>31,480</u>

The Bank Loan is secured by a legal charge over 1 Mark Street.

The NCFE long term balance is interest free, unsecured and has no fixed repayment terms but it is not repayable before 31 July 2021.

12. Unrestricted funds

	1st Aug. 2018 £	Income £	Expenditure £	31st Jul. 2019 £
General funds	2,529,362	4,892,413	(6,326,538)	1,095,236
	<u>2,529,362</u>	<u>4,892,413</u>	<u>(6,326,538)</u>	<u>1,095,236</u>

DIRECTORS' REPORT AND ACCOUNTS FOR YEAR ENDED 31ST JULY 2019

13. Restricted funds

	1st Aug 2018	Income	Expenditure	31st Jul 2019
	£	£	£	£
SRB - Capital	3,094,791	-	(60,865)	3,033,926
London Borough of Newham	-	1,125,611	(1,125,611)	-
Kingston University	-	109,216	(109,216)	-
	3,094,791	1,234,827	(1,295,692)	3,033,926

Description of Restricted Funds

SRB Capital – Grant for Mark Street Land and Building

London Borough of Newham – Early Education Entitlement Grant (EEEG) funded by London Borough of Newham.

Kingston University – Delivery of foundation degree in early years Leadership and Management.

14. Analysis of net assets between funds

	Unrestricted Funds	Restricted Funds	Total
	£	£	£
Intangible fixed assets	17,996	-	17,996
Tangible fixed assets	2,220,116	3,123,436	5,343,552
Investments	3	-	3
Current assets	660,340	1,979	662,319
Current liabilities	(1,444,268)	(91,489)	(1,535,757)
	1,454,187	3,033,926	4,488,113
Long term liabilities	(332,740)	-	(332,740)
Net assets at 31st July 2019	1,121,447	3,033,926	4,155,373

Analysis of net assets between funds - previous year

	Unrestricted Reserves	Restricted Reserves	Total
	£	£	£
Intangible fixed assets	11,466	-	11,466
Tangible fixed assets	2,244,477	3,184,301	5,428,778
Investments	3	-	3
Current assets	1,145,576	1,979	1,147,555
Current liabilities	(544,423)	(83,009)	(627,432)
	2,857,099	3,103,271	5,960,370
Long term liabilities	(327,739)	(8,480)	(336,219)
Net assets at 31st July 2018	2,529,360	3,094,791	5,624,151

DIRECTORS' REPORT AND ACCOUNTS FOR YEAR ENDED 31ST JULY 2019

15. Capital commitments

At 31st July 2019, the company had £200k of capital commitments regarding Walthamstow Training Nursery (2018: £250k).

16. Pension commitments

The company contributes towards the personal pensions of a group defined contribution scheme for participating employees. NEWTEC contributes 5% on behalf of each participating employee and a minimum of 3% is contributed by participating employees. Contributions are charged to the Statement of Financial Activities as they become payable in accordance with the rules of the scheme.

The outstanding contribution included in creditors at 31st July 2019 was £37,390 (2018: £34,581). The total number of staff in the scheme at 31st July 2019 was 158 (2018: 137).

17. Operating lease commitments

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

	2019 £	2018 £
Amounts Due:		
Within one year	275,819	207,958
Between one and five years	783,000	517,333
After five years	1,441,500	1,558,500
	<u>2,500,319</u>	<u>2,283,792</u>

18. Fixed and floating charge

The company has a loan (note 11) of £6,401 (2018: £31,480), an overdraft facility of £200,000 (2018: £200,000) and a monthly BACS facility of £250,000 (2018: £250,000). These are secured by way of a fixed charge over all book and other debts, and a floating charge over all other assets of the company.

The London Development Agency under the Single Regeneration Budget made a grant of £4,000,000 for the building and operation of 1 Mark Street, Stratford, London. As a condition precedent to the grant agreement, the London Development Agency has a second charge over this property. The grant agreement will remain in force until June 2024.

19. Related party transactions

As disclosed in note 20, the charitable company's ultimate parent undertaking is Newham College of Further Education. As at 31 July 2019 a balance of £332,740 (2018: £327,739) was due to the college.

During the year NEWTEC received income of £1,128,816 (2018: £1,843,304) from the college and paid management fees of £316,072 (2018: £398,692)

During the year NEWTEC paid expenses of £65,527 (2018: £81,815) to Gateway Qualifications Limited, a related party entity by common directorship of Liz Laycock. At year-end, £0 (2018: £9,758) was outstanding.

20. Ultimate parent undertaking

The charitable company's immediate and ultimate parent undertaking is Newham College of Further Education, an unincorporated charity established to facilitate the provision of learning and qualifications in the community. The college is an exempt charity for the purposes of the Charities Act 2011. The address of the college is Newham College of Further Education, The East Ham Campus, High Street South, London, E6 6ER. A copy of the consolidated financial statements of Newham College of Further Education may be obtained from <http://www.newham.ac.uk/governance/financial-statements/>.

The Members Agreement between the charitable company and Newham College of Further Education requires that the College shall be the parent undertaking of NEWTEC and NEWTEC shall be a subsidiary undertaking of the College.