



**ANNUAL REPORT AND FINANCIAL
STATEMENTS
31st July 2016**

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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

Martin Tolhurst	Retired as chair 14 th October 2015
Marzien Chipperfield	Chair from 14 th October 2015
Liz Laycock	
Linda Jordan	
Sheila Weeden	
Chris Freestone	Retired 14 th October 2015
Annette Cast	Resigned 2 nd September 2016
Marcia Samuels	Appointed 12 th October 2016
Di Gowland	Appointed 12 th October 2016

Senior Leadership Team:

Chief Executive Pat Edwards
Head of Learning Services Jennifer Marshall
Head of Customer Services Caroline Grant
Head of Commercial Operations Coral Decourcy
Head of Quality and Standards Saher Nijabat

Company Secretary

Pat Edwards

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
Statutory Auditor
The Pinnacle
170 Midsummer Boulevard
Milton Keynes
Buckinghamshire MK9 1BP

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 end of year ended 31st July 2016.

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, the Memorandum and Articles of Association 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 2016 & BEYOND

OUR VISION:

All our children will be happy, healthy & 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 2016

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: seeking creative initiatives to ensure the long-term sustainability of the organisation.

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

SERVICE PROVISION

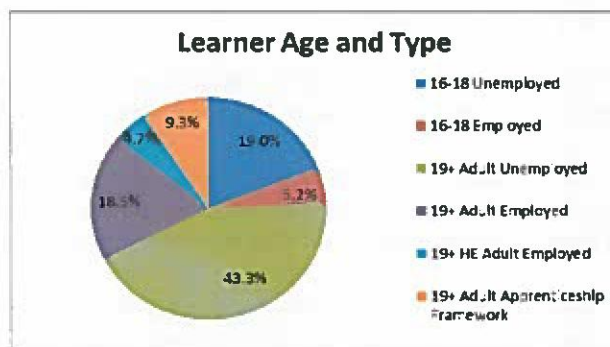
NEWTEC delivers its objectives through its Learning Services and Commercial Operations departments. NEWTEC operates six nurseries: Mark Street, Deanery Road, Cumberland Rd, East Ham, UEL Docklands and its newest addition Plaistow Day Nursery (from September 2016) in addition to an Early Education Centre in West Ham Lane.

Learning Services

- NEWTEC's provision was reviewed by Ofsted in February 2013. Overall a grade of 2 was awarded from the inspection. Grade 1 was awarded for effectiveness of leadership and management, and grade 2 was awarded for the outcomes for learners and the quality of teaching, learning and assessment. NEWTEC maintains very effective links within the industry and all provision meets the needs of both employers and employees and those seeking work. Quality of learning is assured through an annual self-assessment report against the standards of the Common Inspection Framework. In 2015/16 the Apprenticeship programme did not meet the set expectations and as a result, the subcontract arrangement with Newham College of Further Education (NCFE) was discontinued.
- Health, Public Services & Care (Early Years, Childcare and Health & social Care) – 2015/2016 activities remained fairly stable in this particular curriculum area. The focus of the provision involves training unemployed and employed people and apprentices to work in the Care sector through QCF qualifications in Childcare/Early Years and Health & Social Care. NEWTEC also continues to offer a Foundation Degree in Early Years and Early Years Leadership and Management in collaboration with Kingston University.
- Preparation for Life and Work – this broad curriculum area includes Functional Skills English, Maths, ICT; GCSEs in English and Maths, employability, job search, vocational guidance and job preparation. Bespoke employability programmes concentrate on improving "soft skills" such as team working, problem solving, motivation and communication – skills often cited by employers as essential to effective workplace performance Enrolments to count for Success Rates 2015/16 were as follows:

A All Learners enrolled in 2015/16 (including carry over) as at 21/09/16

	No.	%
16-18 Unemployed	182	19.0%
16-18 Employed	50	5.2%
19+ Adult Unemployed	414	43.3%
19+ Adult Employed	177	18.5%
19+ HE Adult Employed	45	4.7%
19+ Adult Apprenticeship Framework	89	9.3%
	957	



Children's Services

Nurseries at Mark Street, Deanery Road and East Ham continue to be successful, all achieving Ofsted Grade 2. Cumberland Rd, Plaistow achieved grade 2 at its first Ofsted inspection in September '16, September also saw NEWTEC acquire its seventh nursery – Plaistow Day Nursery a 56 place provision based in Plaistow Primary School. All provisions welcome families entitled to Early Education Entitlement Grant (EEEG) as well as full cost commercial places. The settings are operating as mixed economy nurseries with subsidised places for learners and local parents, other places are sold at full cost. NEWTEC is also managing the childcare services for Newham College of Further Education (NCFE) under a Service Level Agreement and has been managing the UEL's nursery in Docklands since January '16 after successfully winning a tender to manage the provision. NEWTEC offers a provision that caters solely for families who are entitled to the EEEG in addition each nursery provision also has an allocation for families that are entitled to EEEG.

Whilst NEWTEC has successfully been running the Children Centre for a number of years, due to political changes the borough was under threat of more than half of the Children Centres being closed. This resulted in a much smaller pool of provisions within the community to support those that are the most vulnerable. NEWTEC was successful in the consultation processes regarding these changes and is working in partnership with the selected main hub and an additional centre on the Best Start in Line Initiative that has replaced the children centres albeit in a reduced capacity.

Recruitment Agency

The Recruitment Agency started in July 2010. The Recruitment Agency caters for professionals in the Childcare and Health & Social Care sector; this may be candidates who are looking for full or part-time work or employers who are looking for temporary or permanent staff.

Room Hire

The room hire for the period under review was largely successful due to the current climate of activity in the Stratford area associated with the regeneration process within the borough of Newham. The next financial year should continue to be successful as certain long term commitments to hire have been agreed with NCFE, the controlling entity for a group of companies including NEWTEC.

STRUCTURE, GOVERNANCE & MANAGEMENT

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

NEWTEC is managed by a Senior Leadership Team comprising of the Chief Executive, the Head of Learning Services, Head of Commercial Operations, Head of Quality and Standards and the Head of Customer Services.

On the 17th December 2006, following signature of a Members Agreement between NCFE and NEWTEC (the members, NEWTEC Trustees, the College and the College Governors) decided that (and the constitution of NEWTEC enables it) it is of material benefit to the Parties, if NCFE shall be the parent undertaking of NEWTEC and NEWTEC shall be a subsidiary undertaking of NCFE.

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.

DIRECTORS' REPORT AND ACCOUNTS FOR YEAR ENDED 31ST JULY 2016

PUBLIC BENEFIT

In setting our objectives and planning our activities the Directors have given careful consideration to the Charity Commissions 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 2015/2016 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.

STRATEGIC REPORT

ACHIEVEMENTS & PERFORMANCE

KEY BUSINESS RESULTS FOR YEAR ENDED 31ST JULY 2016

Ten key performance indicators were formulated by the new Senior Leadership Team to drive and monitor organisational performance over 2015. Key Performance Indicators were as follows:-

Ref	Key Business Results	Target	End of Year Performance	Comments
1.	125 Young learners and 125 Adults into Jobs.	100%	46%	Not Achieved
2.	Achieve 90% timely completions for ALL vocational and functional skills programmes.	90%	85%	On-Track
3.	Achieve 4% Operating Surplus.	4%	1.7%	Not Achieved
4.	Enrol 500 EFA Young Learners; 500 Adults (SFA), 300 24+ Student L3 Loans, 50 24+ Student Fee payers; and 60 adult apprentices.	100%	100%	Achieved
5.	Acquire 1 new 60 place nursery.	1	1	Achieved
6.	Ensure all staff have Functional Skills (English and Maths) L2 or equivalent.	100%	57%	Not Achieved
7.	Offer top up Degree with Kingston University.	1	0	On-Hold
8.	Ensure On-Line Learning Resources are available to all learners.	100%	100%	Achieved

The company achieved three (33%) of the eight key performance indicators, with two further objectives on track and on hold. The financial targets are discussed in the Financial Review below.

DIRECTORS' REPORT AND ACCOUNTS FOR YEAR ENDED 31ST JULY 2016

NEWTEC has been awarded the following quality kite-marks:

Investors in People (Gold)
Mindful Employer
Customer First
Investors in Diversity (Stage 2)
Matrix
EFQM –Readiness for Excellence Award (4 Star)

FINANCIAL REVIEW

In the twelve months ended 31st July 2016, NEWTEC made an operating surplus of £99k (after adjusting for the release of capital grants received in previous years and part of accumulated reserves brought forward) against a target of £245k.

The significant events that have affected the financial performance and financial position of the charity during the reporting period are detailed below:

The operating surplus of £99k for the period was below target due to a reduction in available SFA funding relating to NCFE 19+ LR and a reduction in the delivery of the adult apprenticeship programme. Some of this was offset by increased 24+ Student Loan income and due to tight control of expenditure sources.

The financial performance position going forward will be affected by the anticipation of the trustees to opening a new nursery within the next 12 month which is part of the expansion programme to open a new nursery each financial year. Further growth of 10% is anticipated through the EFA contract.

The following financial targets have been identified for 2016/17 to support the continuing return to sustainability:

To achieve a targeted and sustainable mix of charitable/grant income and social enterprise income with the correct contribution to company overheads.

To achieve a 2% operating surplus for 2016/17 through effective management of our cost base and successful income generation in line with the company reserve policy.

To make better use of the improved quality and distribution of financial information across the organisation to enable accurate assessment of financial viability of both ongoing and proposed projects.

To identify problems with high risk projects at an early stage and implement turnaround project management to reduce the potential financial risk and impact.

To review NEWTEC's financial procedures and improve financial controls across the organisation.

Reconciliation of surplus/(deficit)	
	£'000
Operating Surplus	102
Depreciation in respect of assets financed by Capital Grants	-101
recognised in the SOFA in a prior year.	
SOFA Net incoming/ (outgoing) resources being the	
profit for period	1

DIRECTORS' REPORT AND ACCOUNTS FOR YEAR ENDED 31ST JULY 2016

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 2017/18 and to improve the cash held and the future sustainability of the organisation. NEWTEC's cash held are currently approximately £1k. The improved performance will be achieved through the expansion of the childcare activities, increased commercial activities and exposure to SFA apprenticeship funding and future efficiency savings identified through joint working with NCFE. The current level of unrestricted reserves is £2,200k.

The charity will ensure its long term financial sustainability by continuously working towards maintaining positive reserves. Over time Newtec's target has been to reduce the negative reserve by generating a small surplus consistently and this is evident in the unrestricted reserves.

Financial commitments

The financial commitments of the company at the 31st July 2016 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 October 2016. Project specific risks are considered on a six weekly basis in STAR meetings and appropriate action identified. STAR meetings are monthly team Short Term Action & Review 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.

KEY DEVELOPMENTS DURING 2015/2016

Working with Newham College of Further Education (NCFE)

NEWTEC became part of the Newham College group of companies in December 2006 however, directors retained direct control over all NEWTEC affairs. The Members Agreement and Service Level Agreements state that NEWTEC and NCFE will:

Continue to review the extent of collaboration between NEWTEC and NCFE, particularly with regard to childcare training and provision to ensure a full cross borough service meeting the needs of local people and employers in this sector. This will be undertaken in full consultation and co-operation with the Newham Early Years Partnership. The provision will extend beyond Newham where appropriate.

Continue to review Corporate Services (Estates, Finance, Human Resources and Management Information) support for NEWTEC from NCFE and to help further improve NEWTEC's efficiency and effectiveness.

NCFE's aim in undertaking this is to better enable those in the community to take advantage of local childcare, employment and training opportunities. It is expected that the new arrangements will:

Identify and exploit synergies and opportunities for joint working

Enable NEWTEC to benefit from NCFE's strength and high level of capability as a childcare provider and economic and community regeneration agency

Consolidate and increase NEWTEC's childcare provision in each of these areas

Better position NEWTEC to take forward its childcare vision and strategy

Enable NCFE to benefit from NEWTEC's professional expertise in Childcare training and provision

DIRECTORS' REPORT AND ACCOUNTS FOR YEAR ENDED 31ST JULY 2016

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 will 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 2016 & Beyond

The directors have concluded their annual review of strategy and the outcomes are to undertake the following developments, in addition to NEWTEC's existing strategy:-

Key areas to improve: Functional Skills (English, Maths & ICT), Fund raising capacity, Contract administration and Marketing activities

Three key development areas are:

- a) NEWTEC College – To achieve
- b) NEWTEC College – Learners into Jobs – to convert 20% work placements to actual jobs
- c) Functional Skills – 100% of NEWTEC staff to achieve L2 Functional Skills

Other Key Outcomes – ACE 2016/17:

Ref Objectives

Top Three Priority Objectives (Golden Week)

1. **NEWTEC College – To achieve 90% timely success rates for Functional Skills our Young Learners.** The functional skills elements are English, mathematics, and information and communication technology. These elements will provide the learners with essential knowledge, skills and understanding needed to operate confidently, effectively and independently in life and at work.
2. **NEWTEC College – Learners into Jobs- to convert 20% Work Placement to actual jobs.** Work experience is an important part of becoming 'workplace-ready': Building useful skills that cannot be taught in the classroom as well as contacts those learners otherwise would not be exposed to. Perspective employers will always look favorably on the effort taken by learners who have done work experience.
3. **Functional Skills – 80% of NEWTEC employees to achieve L2 Functional Skills.** This objective will help to ensure that NEWTEC employees can apply vital functional skills in work situations which will improve our effectiveness and productivity.

Primary Objectives

4. **To increase the Young Learners contract value to £1.1m.** The young learner's contract is our primary contract and the aim is to improve the economies of scale through growth of the contract to realise a reduced cost per unit of delivery and to also increase quality measures to Ofsted outstanding.
5. **To stabilise the Apprenticeship sub-contract value to £250k.** The aim is to stabilize the apprenticeship sub-contract to pilot and test different modes of delivery to significantly increase the quality thresholds to national rates.

DIRECTORS' REPORT AND ACCOUNTS FOR YEAR ENDED 31ST JULY 2016

- 6 **To grow the Student Loans sub-contract value to £600k.** The aim is to grow the student loan sub-contract to pilot and test different modes of engaging and recruiting level 3 learners in the complimentary curriculum areas.
- 7 **To maintain SFA Classroom sub-contract value to £625k.** The intention is to maintain the SFA classroom sub-contract to increase the quality thresholds to above national rates.
- 8 **To increase the commercial income to £615k.** To reduce the over-reliance on public sector grant income NEWTEC intends to increase the existing commercial activities from the Recruitment Agency, Café and Room Hire.
- 9 **To increase the childcare provision income to £3m.** The aim is to increase the childcare fee by 4.5% and to maintain approximately 80% occupancy across all NEWTEC nurseries.
- 10 **To secure additional grant funds to £150k.** NEWTEC aims to submit a variety of small and large grant applications to support our vulnerable client groups (children, young people and adults) to provide essential wrap around services to the core activities.
- 11 **To achieve the EFQM Five Star rating.** The benefits of the EFQM are to help deliver the NEWTEC 'Nudge' strategy, understand what is important to do as leaders and develop a unique culture where excellence is the given. Other benefits also include the proving the linkages between strategy and operations, pro-actively engaging employees in change and leading quality improvements initiatives. In addition, the EFQM provides a framework to build a common purpose, to fully understand the impact of actions and to monitor progress.
- 12 **To achieve the Stonewall Workplace Equality Index (Top 100 Employers).** At NEWTEC we know that employees perform better when they can be themselves, therefore creating a fully inclusive environment for lesbian, gay, bi-sexual and transgender employees makes perfect business sense and also has a positive impact on the lives of LGBT employees.
- 13 **To achieve the Merlin Standard.** The aim of the Standard is to encourage excellent supply chain management and within this to ensure fair treatment of partners and subcontractors by NEWTEC, to support development of healthy, high performing supply chains.
- 14 **To achieve the Investors in People – Platinum status.** The Investors in People Standard is the benchmark of good people management practice. The framework reflects the latest workplace trends and leading practices. The platinum accreditation indicates higher performance in people management and is benchmarked against global industry practice.
- 15 **To Acquire 1 new Childcare Setting.** The principle benefits are to provide additional childcare settings to place learners into work placement. The other benefits are being part of a chain of training nurseries to draw on support from a range of specialist colleagues, and in particular the wealth of experience its early year's experts and practitioners can share. Additional benefits include the support of career aspirations, bringing opportunities for a wide range of experiences, succession planning and promotion.

DIRECTORS' REPORT AND ACCOUNTS FOR YEAR ENDED 31ST JULY 2016

Potential Strategic Partners:

- (1) UEL – to develop access level 3 courses for early years, to develop work placement experience programme for MA students relating to early years.
- (2) East Thames requested NEWTEC to develop a training academy for all their staff and residents to deliver English and Maths.

Directors

The directors of the company during the year and up to the date of this report as 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 2016, the number of members totalled 6 (2015:6).

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.

DIRECTORS' REPORT AND ACCOUNTS FOR YEAR ENDED 31ST JULY 2016

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 UK 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


Director
Date 28/11/16

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF NEWHAM TRAINING AND EDUCATION CENTRE

We have audited the financial statements of Newham Education and Training Centre for the year ended 31 July 2016 on pages 13 to 29. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

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.

Respective responsibilities of trustees and auditor

As explained more fully in the Statement of Directors' responsibilities set out on page 11 the directors (who are also the trustees of the charitable company for the purposes of charity law) are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

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 2016 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 Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion 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.

Matters on which we are required to report by exception

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

- the charitable company has not kept adequate accounting records, or returns adequate for our audit have not been received from branches not visited by us; or
- the charitable company 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.

RSM UK Audit WHP

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 2016

DIRECTORS' REPORT AND ACCOUNTS FOR YEAR ENDED 31ST JULY 2016

STATEMENT OF FINANCIAL ACTIVITIES (incorporating Income and Expenditure Account)

FOR YEAR ENDED 31ST July 2016

	Note	Restricted funds £	Unrestricted funds £	Total 2016 £	Total 2015 £
Income from:					
Other trading activities: Training room hire	2	-	130,598	130,598	201,156
Charitable activities	3	957,960	4,423,173	5,381,133	5,397,196
Total income		957,960	4,553,771	5,511,731	5,598,352
Expenditure on:					
Charitable activities:					
Cost of social enterprise activities	4	-	2,727,130	2,727,130	2,841,332
Costs of learning and employment	4	1,018,825	1,765,018	2,783,843	2,651,761
Total expenditure expended		1,018,825	4,492,148	5,510,973	5,493,093
Net income / (expenditure) and net movement in funds for the year		(60,865)	61,623	758	105,259
Fund balances brought forward at 1st August 2015		3,277,386	2,138,628	5,416,013	5,310,755
Fund balances carried forward at 31st July 2016		3,216,521	2,200,251	5,416,772	5,416,014

All of the company's operations are classed as continuing. The company had no recognised gains or losses for the year other than those shown above.

DIRECTORS' REPORT AND ACCOUNTS FOR YEAR ENDED 31ST JULY 2016

COMPANY BALANCE SHEET

As at 31st July 2016

	Note	£	2016 £	£	2015 £
Fixed assets					
Intangible assets	7		6,240		10,980
Tangible assets	8		5,683,404		5,800,770
Investments	9		<u>3</u>		<u>3</u>
			5,689,647		5,811,753
Current assets					
Debtors	10	442,479		662,575	
Cash at bank and in hand		<u>672</u>		<u>700</u>	
		443,151		663,275	
Creditors - amounts falling due within one year	11(a)	<u>340,535</u>		<u>660,192</u>	
Net current assets/ (liabilities)			102,616		3,083
Total assets less current liabilities			5,792,263		5,814,836
Creditors - amounts falling due after one year					
Long Term Loan	11(b)	(56,674)		(84,717)	
NCFE Long Term Loan	11(b)	(318,817)		(314,105)	
Net assets			<u>5,416,772</u>		<u>5,416,014</u>
Reserves					
Unrestricted funds	12		2,200,251		2,138,628
Restricted funds	13		<u>3,216,521</u>		<u>3,277,386</u>
			5,416,772		5,416,014

Approved and authorised for issue on

28/11/16

by the Board and signed on their behalf by:



Marzien Chipperfield
Chair of the Board of Directors

NOTES TO THE FINANCIAL STATEMENTS

FOR YEAR ENDED 31ST JULY 2016

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.

First time adoption of FRS 102

These financial statements are the first financial statements the charitable company has prepared in accordance with FRS 102 and the Charities SORP (FRS 102). The financial statements of the charitable company for the year ended 31 July 2015 were prepared in accordance with previous UK GAAP.

Some of the FRS 102 and the Charities SORP (FRS 102) recognition, measurement, presentation and disclosure requirements and accounting policy choices differ from previous UK GAAP. Consequently, the directors have amended certain accounting policies to comply with FRS 102.

Comparative figures have been restated to reflect the adjustments made, except to the extent that the directors have taken advantage of exemptions to retrospective application of FRS 102 and the Charities SORP (FRS 102) permitted by FRS 102 Chapter 35 'Transition to this FRS'. Adjustments are recognised directly in retained earnings at the transition date. Please see note 21 for details.

Going Concern

NEWTEC financial statements have been prepared on the going concern basis due to ongoing support from Newham College of Further Education.

The College's fixed intention with a horizon of at least twelve months from today's date is that no part of the outstanding balance advanced by the College to NEWTEC shall be repaid unless and only to the extent that repayment will not prejudice the ability of NEWTEC to meet its debts as they fall due provided that NEWTEC conducts its business in accordance with its members agreement and otherwise within the law.

Reduced disclosure

These financial statements are the first financial statements the charitable company has prepared in accordance with FRS 102. The financial statements of the charitable company for the year ended 31 July 2015 were prepared in accordance with previous UK GAAP.

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.

DIRECTORS' REPORT AND ACCOUNTS FOR YEAR ENDED 31ST JULY 2016

The financial statements of the charitable company are consolidated in the financial statements of Newham College of Further Education. 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/>.

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.

Income

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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DIRECTORS' REPORT AND ACCOUNTS FOR YEAR ENDED 31ST JULY 2016

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

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. Impairment of revalued assets, are treated as a revaluation loss. All other impairment losses are recognised in comprehensive income.

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 comprehensive income or, for revalued assets, as a revaluation gain. 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, 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, 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 trustees 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.

DIRECTORS' REPORT AND ACCOUNTS FOR YEAR ENDED 31ST JULY 2016

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.

Critical accounting estimates and assumptions

In the application of the charitable company's accounting policies, the trustees 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.

DIRECTORS' REPORT AND ACCOUNTS FOR YEAR ENDED 31ST JULY 2016

2. Income from other trading activities

	2016	2015
	£	£
Training room hire	<u>130,598</u>	<u>201,156</u>

In 2016, income from other trading activities was £130,598 (2015: £201,156) all of which related to income from unrestricted funds.

3. Income from charitable activities

	2016	2015
	£	£
<u>a) Social enterprise income</u>		
Childcare fees	1,898,162	1,753,733
Other misc income	40,176	35,342
	<u>1,938,338</u>	<u>1,789,075</u>
<u>b) Learning and employment income</u>		
Government grants:		
EFA - Revenue	1,034,291	913,568
Apprenticeship Programme	260,000	574,533
NCFE		
19+	589,000	787,000
London Borough of Newham-Capital	27,747	17,507
Other Education Contracts	75,000	75,000
London Borough of Newham	638,619	466,341
Prevista Contract	76,507	-
SSW Contract	3,082	200,000
HE Contracts	165,528	115,052
24+ Loans/Tuition Fees	449,649	332,386
Other	92,906	50,000
	<u>3,412,329</u>	<u>3,531,387</u>
Newtec Recruitment	30,466	76,734
	<u>3,442,795</u>	<u>3,608,121</u>
Total income from charitable activities	<u><u>5,381,133</u></u>	<u><u>5,397,196</u></u>

All grants were given towards the capital expenditure, salaries and running costs of the charity, and have been fully used for this purpose in the accounting period.

Grants from the European Social Fund are shown gross of administration fees.

In 2016, total income from charitable activities was £5,381,133 (2015: £5,397,196) of which £4,423,173 (2015: £4,700,142) related to income from unrestricted funds and £957,960 (2015: £697,054) was from restricted funds.

DIRECTORS' REPORT AND ACCOUNTS FOR YEAR ENDED 31ST JULY 2016

4. Expenditure on charitable activities

(a) Cost of social enterprise activities

	Total 2016	Total 2015
<u>Staffing costs</u>		
Salaries & wages	1,065,904	1,060,165
Temporary staff	370,877	234,193
Other staff costs	11,113	6,802
	<u>1,447,894</u>	<u>1,301,160</u>
<u>Other costs</u>		
Food costs	124,263	99,196
Other direct costs	46,807	60,433
Support costs	1,093,422	1,359,711
	<u>1,264,492</u>	<u>1,519,340</u>
<u>Governance costs</u>		
Auditor's fees	11,080	14,847
Governance assistance (Chief Executive)	3,664	3,664
	<u>14,743</u>	<u>18,511</u>
Total social enterprise costs	<u><u>2,727,130</u></u>	<u><u>2,841,332</u></u>

DIRECTORS' REPORT AND ACCOUNTS FOR YEAR ENDED 31ST JULY 2016

4. Expenditure on charitable activities (continued)

(b) Cost of learning and employment

	Learning Services	Newtec Recruitment	Total 2016	Total 2015
Staffing Costs				
Salaries & Wages	734,143	36,479	770,622	617,890
Temporary Staff	208,547	29,147	237,694	359,654
Other Staff Costs	3,059	-	3,059	26,216
	945,749	65,626	1,011,375	1,003,760
Other costs				
External Course costs	785,642	-	785,642	671,303
Student Travel Costs	304	-	304	369
Other Student Support	45,960	-	45,960	35,709
Course Books & Materials	1,152	-	1,152	1,016
Exam fees	107,024	-	107,024	109,237
Office Costs	27,126	-	27,126	17,063
Allocated overheads	753,096	37,421	790,517	792,472
	1,720,304	37,421	1,757,724	1,627,169
Governance costs				
Auditor's fees			11,080	14,847
			3,664	3,664
Governance assistance (Chief Executive)				
	0	0	14,744	18,511
Total learning and employment costs	2,666,053	103,047	2,783,843	2,651,761
Total expenditure on charitable activities			5,510,973	5,493,093

In 2016, the expenditure on charitable activities was £5,510,973 (2015: £5,493,093) of which £4,492,147 (2015: £4,735,674) was expenditure from unrestricted funds and £1,018,825 (2015: £757,419) was from restricted funds.

5. Net incoming resources for the year

	2016 £	2015 £
This is stated after charging:		
Operating lease payments	246,281	263,562
Depreciation of owned assets	151,836	142,003
Loss on disposal of assets	10,000	-
Amortisation of intangible assets	4,740	7,980
Auditor's remuneration in respect of financial statement audit services	15,540	15,540
Auditor's remuneration in respect of other audit services	6,619	14,154

DIRECTORS' REPORT AND ACCOUNTS FOR YEAR ENDED 31ST JULY 2016

6. Staff costs

	2016	2015
	£	£
Salaries	2,177,475	2,227,432
Social security costs	192,322	191,679
Pension costs	94,177	102,980
Temporary staff	<u>636,715</u>	<u>621,121</u>
	<u>3,100,689</u>	<u>3,143,212</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 £100,515 (2015: £85,000) including employer's national insurance payments of £10,372 (2015: £10,273).

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

No amounts were reimbursed to the directors for expenses for 2016 (2015 - £nil). 1 employee earned £60,000 per annum or more (2015 – 1).

The average number of employees in the year was:

	2016	2015
	Average Number	Average Number
Social enterprise staff	99	86
Learning and employment staff	27	31
Other support services staff	<u>11</u>	<u>17</u>
	<u>137</u>	<u>134</u>

DIRECTORS' REPORT AND ACCOUNTS FOR YEAR ENDED 31ST JULY 2016

7. Intangible fixed assets

	Computer software & website £
Cost:	
1st August 2015	27,966
Additions - separately acquired	-
31st July 2016	<u>27,966</u>
Amortisation:	
1st August 2015	16,986
Charged in the year	4,740
31st July 2016	<u>21,726</u>
Net Book Value:	
As at 31st July 2016	<u>6,240</u>
As at 31st July 2015	<u>10,980</u>

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 2015	6,768,106	1,471,455	1,005,548	371,137	12,572	9,628,818
Additions	18,610	32,847	3,629	-	-	55,085
Disposals	-	(12,000)	-	-	-	(12,000)
Adjustments in respect of VAT	-	(4,735)	-	(5,880)	-	(10,615)
31st July 2016	<u>6,786,716</u>	<u>1,487,567</u>	<u>1,009,177</u>	<u>365,257</u>	<u>12,572</u>	<u>9,661,288</u>
Depreciation:						
1st August 2015	1,458,426	1,036,041	983,882	337,127	12,572	3,828,048
Disposal	-	(2,000)	-	-	-	(2,000)
Charged in the year	115,289	15,810	14,725	6,012	-	151,836
31st July 2016	<u>1,573,715</u>	<u>1,049,851</u>	<u>998,607</u>	<u>343,139</u>	<u>12,572</u>	<u>3,977,884</u>
Net Book Value:						
As at 31st July 2016	<u>5,213,001</u>	<u>437,716</u>	<u>10,570</u>	<u>22,118</u>	<u>-</u>	<u>5,683,404</u>
As at 31st July 2015	<u>1,000,000</u>	<u>4,745,094</u>	<u>21,666</u>	<u>34,010</u>	<u>-</u>	<u>5,800,770</u>

On transition to FRS102 land with a carrying value of £1,000,000 was revalued to fair value and the fair value has been treated as deemed cost at that date. If the land was stated at the historical cost amount it would be included at a carrying value of £650,000.

DIRECTORS' REPORT AND ACCOUNTS FOR YEAR ENDED 31ST JULY 2016

9. Investments

	2016	2015
	£	£
3 ordinary shares (100%) of a subsidiary company,	<u>3</u>	<u>3</u>

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

	2016	2015
	£	£
Trade debtors	82,624	61,928
Accrued income	45,952	265,299
Prepayments	84,932	73,524
Amounts due from parent undertaking	223,570	259,324
Other debtors	5,401	2,500
	<u>442,479</u>	<u>662,575</u>

11. Creditors

	2016	2015
	£	£
(a) Due within one year		
Bank overdraft	28,717	40,589
Bank Loans	23,000	18,000
Trade creditors	54,776	153,116
Taxation and social security	73,826	75,954
Accruals and deferred income	160,216	372,532
	<u>340,535</u>	<u>660,191</u>

Deferred income comprises of funding received in advance relating to the Children's centre £0 (2015: £99,240) and rent received in advance of £8,804 (2015: £8,804).

	£
Balance at 1 August 2015	108,044
Amount released during the year deferred	(108,044)
Amount received during the year	8,804
Balance at 31 July 2016	<u>8,804</u>

DIRECTORS' REPORT AND ACCOUNTS FOR YEAR ENDED 31ST JULY 2016

	2016	2015
	£	£
(b) Due after one year		
Bank loan	56,674	84,717
NCFE Long term balance	<u>318,817</u>	<u>314,105</u>
	<u>375,491</u>	<u>398,822</u>

The bank loan is repayable in the following instalments

	2016	2015
	(£)	(£)
-within one year	23,000	18,000
-within one to two years	46,000	40,000
-in two to five years	<u>10,674</u>	<u>44,717</u>
	<u>79,674</u>	<u>102,717</u>

The NCFE long term balance is interest free, unsecured and has no fixed repayment terms but it is not repayable before 31 July 2017.

12. Unrestricted funds

	1st Aug. 2015	Incoming resources	Outgoing resources	31st Jul. 2016
	£	£	£	£
General funds	2,138,628	4,553,771	(4,492,148)	2,200,251
	<u>2,138,628</u>	<u>4,553,771</u>	<u>(4,492,148)</u>	<u>2,200,251</u>

13. Restricted funds

	1st Aug. 2015	Incoming resources	Outgoing resources	31st Jul. 2016
	£	£	£	£
London Borough of Newham-Capital	-	27,747	(27,747)	-
SRB - Capital	3,277,386	-	(60,865)	3,216,521
	<u>3,277,386</u>	<u>27,747</u>	<u>(88,612)</u>	<u>3,216,521</u>
London Borough of Newham	-	689,685	(689,685)	-
Kingston University	-	165,528	(165,528)	-
Other	-	75,000	(75,000)	-
	<u>-</u>	<u>930,213</u>	<u>(930,213)</u>	<u>-</u>
	<u>3,277,386</u>	<u>957,960</u>	<u>(1,018,825)</u>	<u>3,216,521</u>

DIRECTORS' REPORT AND ACCOUNTS FOR YEAR ENDED 31ST JULY 2016

Description of Funds

London Borough of Newham – Nursery Education and Children Centre grants.
Kingston University – Delivery of childcare foundation degree.
SRB Capital – Grant for Mark Street Land and Building

14. Analysis of net assets between funds

	Unrestricted Reserves £	Restricted Reserves £	Total £
Intangible fixed assets	6,240	-	6,240
Tangible fixed assets	2,377,373	3,306,031	5,683,404
Investments	3	-	3
Current assets	421,211	21,940	443,151
Current liabilities	(285,759)	(54,776)	(340,535)
	2,519,068	3,273,195	5,792,263
Long term liabilities	(318,817)	(56,674)	(375,491)
Net assets at 31st July 2016	2,200,251	3,216,521	5,416,772

15. Capital commitments

At 31st July 2016 the company had nil of capital commitments (2015: £33k).

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 2016 was £25,916 (2015: £24,834). The total number of staff in the scheme at 31st July 2016 was 100 (2015: 95).

DIRECTORS' REPORT AND ACCOUNTS FOR YEAR ENDED 31ST JULY 2016

17. Operating lease commitments

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

	2016 £	2015 £
Amounts Due:		
Within one year	214,668	170,333
Between one and five years	629,000	488,000
After five years	1,802,500	1,924,500
	<u>2,646,168</u>	<u>2,582,833</u>

18. Fixed and floating charge

The company has a long term loan (note 11) of £79,673.83, an overdraft facility of £200,000 (2015: £200,000) and a monthly BACS facility of £250,000 (2015: £200,000). 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 has 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 of the charitable company's ultimate parent undertaking is Newham College of Further Education. As at 31 July 2016 a balance of £282,088 (2015: £274,538) was due to the college.

During the year Newtec received income of £2,148,459 (2015: £2,601,661) from the college and paid management fees of £237,742 (2015: £314,562)

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.

DIRECTORS' REPORT AND ACCOUNTS FOR YEAR ENDED 31ST JULY 2016

21. First time adoption of FRS 102

Reconciliations and descriptions of the effect of the transition to FRS 102 on:

- (i) reserves at the date of transition to FRS 102;
 - (ii) reserves at the end of the comparative period; and
 - (iii) net movements in funds reported under previous UK GAAP
- are given below

RECONCILIATIONS OF RESERVES

	Notes	01-Aug-14 £	31-Jul-15 £
Reserves as previously reported under previous UK GAAP		4,960,840	5,070,741
Holiday pay accrual	a)	(60,622)	(60,622)
Revaluation of land to fair value	b)	350,000	350,000
NCFE long term balance	e)	60,537	55,895
Reserves reported under FRS 102		5,310,755	5,416,014

RECONCILIATION OF NET MOVEMENT IN FUNDS

	Notes	Year End 31-Jul-15 £
Surplus as previously reported under previous UK GAAP		109,901
Interest on NCFE long term balance	e)	(4,642)
Surplus reported under FRS 102		105,259

a) Holiday pay

Under FRS 102, the company is required to recognise a holiday pay accrual for any holiday entitlement not taken by staff at the year end date. The additional charge is recognised in expenditure on charitable activities.

b) Revaluation of land to fair value

The charitable company has elected to revalue its land to fair value on the date of transition and to use that fair value as deemed cost at that date. The land was revalued from cost of £650,000 to fair value at the date of transition of £1,000,000.

c) Computer software & website costs

Purchased computer software and website costs have been reclassified from tangible fixed assets to intangible fixed assets in line with the requirements of FRS 102. Please see note 7 for details.

d) Governance costs

Governance costs are no longer separated out on the face of the Statement of Financial Activities in line with the Charities SORP (FRS 102).

e) NCFE long term balance

Under FRS 102 the interest free balance advanced by the parent entity is a financing transaction. As such the balance has been included at the present value of future cashflows in the Balance Sheet. This also results in interest being charged to the Statement of Financial Activities as the discounted value unwinds.

