



**ANNUAL REPORT AND FINANCIAL
STATEMENTS
YEAR ENDED 31 JULY 2014**



NATURE, OBJECTIVES AND STRATEGIES:

The members present their report and the audited financial statements for the year ended 31 July 2014.

Legal status

The Corporation was established under the Further and Higher Education Act 1992 for the purpose of conducting Newham College of Further Education. The College is an exempt charity for the purposes of the Charities Act 2011.

Mission

Governors adopted the College's vision, mission and strategy in 2013 and reviewed in 2014.

The Board approved a statement as follows:

College Vision

A Learning & Skills Revolution *spurring:*

- full participation in learning, employment & enterprise
- high skill levels, inward investment and economic growth
- Newham's regeneration as an exemplary area for enterprise, ambition, and social and economic inclusion

College Mission

Learning, Skills & Enterprise Services for All *that:*

- are highly responsive to individual, employer & community demand
- enable achievement & progression for all at every stage
- stimulate new demand and greater success through innovation

College Strategy

What we do:

- widen & boost participation in learning and skills among key target groups
- make provision on a scale that builds local strategic capacity for regeneration and social cohesion
- continuously improve rates of success and progression
- personalise learning and services, wherever possible, around learners' needs, and customise training around employers' needs
- increasingly integrate employment and enterprise services with skills provision
- provide an increasingly diverse and inclusive environment and ethos both in terms of respect and the provision of services

How we do this:

- be customer focused at all times
- continuously improve standards of teaching, learning and other services



- work in partnership with learners and employers to identify and meet their needs
- innovate, collaborate & transfer knowledge
- continuously develop the staff team, its skills and leadership
- have corporate governance systems that enable the overall strategic development required by this plan

How we support this:

- make effective use of reliable, secure and relevant information at all levels of the organisation
- integrate modern, highly reliable, and intelligent information, learning and communication technologies into all aspects of college life
- maintain strong financial health
- undertake continuous capital investment in the modernisation and future of the College
- embed sustainable environmental and ethical business approaches to all aspects of the College

Key achievements towards this strategy in 2013/14 were:

In curriculum

- a new £1m centre for learners with additional learning needs was opened at East Ham campus in collaboration with the local authority and grant-funded by the Education Funding Agency, and specialising in acute autism spectrum.
- Newham College held its glittering annual Awards Ceremony at the Troxy venue in East London where families and friends gathered to see students receive awards celebrating their success and achievement at an event sponsored by many College partners in support of the College's bursary and student support charity Learning Revolution Trust.
- The learner voice in the College was strengthened with a switch to electronic elections seeing increased voter turn-out in the annual officer elections up by 300%; 400+ course representatives elected; the Student Union President leading a delegation to the National Union of Students National Conference in Liverpool to vote on national policy; and the Staff Student Liaison Officer co-ordinating the London section of the Learner Voice Practitioners' Network.
- Sporting activity continued to grow across the College with teams winning the SESSA Central Men's Football League, BCS London Region Cricket T20, University of East London Indoor Cricket League, and its Sports Coaching and Mentoring Programme in Basketball.

In supporting 16-18 learners

- the College continued free lunches for all 16-18 learners, in advance of the Government initiative to be introduced in 2014/15. This was an important initiative to assist young learners to stay in college.



Across the Group operations. . . .

- the Newham College University Centre (NUC) celebrated its formal degree awards in a ceremony at a Docklands hotel celebrating students who had successfully completed courses in leadership and management, counselling, combined studies, education studies, and the post graduate certificate in education; the Reverend Prebendary Rose Hudson-Wilkin, Chaplain to the Speaker of the House of Commons, gave a keynote speech to over 200 people including graduates, their families and friends and special guests.
- the subsidiary Newham Training and Education Centre (NewTEC) strengthened its external recognitions in gaining accreditations of:
 - Mindful Employer
 - Customer First
 - Investors in Diversity Stage 2
 - Investors in People GOLD
 - Matrix (for advice, guidance and information)
- the 2013/14 Fashion and Textiles Museum (FTM) exhibition programme was the most successful in the Museum's history, in terms of both visitor numbers and critical praise. Sunday opening was introduced profitably to add visitor capacity.

as an employer

- Newham College was once again recognised as the country's most gay staff-friendly college when the equality organisation Stonewall placed the College in its Top 100 Employers' 2014 Workplace Equality Index.

working with local employers

- the College's Centre for Innovation and Partnerships (CIPs) led the London Capital Colleges Federation (LCC) in delivering a London Enterprise Panel grant-funded project of £3m of European Social Fund to up skill employees across London – LCC comprises the 12 largest colleges in London.
- the College opened its new Samsung Digital Academy at its East Ham Campus, part-funded by Samsung and with all equipment from the company, to provide a state-of-art digital technology experience and demonstration centre with training facilities for College students in digital technology and development of applications, to provide opportunities leading to jobs in the technology market place.

Financial objectives

The College's financial objectives are:

- to maintain category "Satisfactory" financial health status with the SFA;
- to generate, annual cash operating surpluses in excess of 3% of income throughout the SFA two year planning period:



- by continuing to achieve the necessary improvements in efficiency as identified in the annual approved budget for 2014/2015.
- by achieving the planned activity levels and related funding as identified in the College business plan.
- to achieve a level of non-SFA/EFA funding of at least 15% of annual income.
- to maintain a current ratio (current assets: current liabilities) of, at least, 0.9:1 over the planning period.
- to maintain a minimum of 10 cash days level in hand at all times based on the SFA formula.
- to operate actual cash investment balances at no less than £1,250k within the planning period.
- to maintain general reserves (as represented by the income and expenditure account balance) at 30%, or more, of annual turnover.
- to achieve, annual net cash inflow from operating activities of at least £2,000k.
- to restrict on-going re-investment plans at a maximum of £0.5 million in each of the next two years, taking up loan funding as approved and required.
- to achieve a gearing ratio (total debt as a % of NAV) of not more than 12.7%.
- to reward staff fairly, and to achieve pay levels that are competitive with other regional and national colleges;
 - to make pay awards in a timely manner.
 - to make awards that take account of the Government's public sector pay policy and the ability of the College to meet the resultant cost without adverse impact on the financial strategy of the College.

A series of performance indicators have been agreed to monitor the successful implementation of the policies.

Performance indicators

The Skills Funding Agency (SFA) measures further education colleges' performance in terms of contribution to national targets and reviews individual colleges against annual funding targets which contains discrete qualification targets.

In 2013/14 the College performed well against its funding targets and there was no claw back of funding from any agency.

The ultimate performance measure of a college is its Ofsted grade. In February 2013, Ofsted recognised Newham College as Grade 2, Good.

FINANCIAL POSITION

Financial results

The results for the financial year 2013/14 were substantially worse than the previous year mainly as a result of lower 16-18 delivery volumes and difficulty with meeting SFA delivery targets with classroom learning from our own internal operation. There were also some internal issues that resulted in the necessity to incur exceptional expenditure. The Group generated an operating deficit in the year of £5,080k (2012/13 deficit of £492k) and after surplus on disposal of assets and historic cost adjustment, the deficit in the year was £3,057k (2012/13 surplus of £148k).

The Group has accumulated general reserves of £17,754k, before inclusion of the pension reserve, and cash investments of £65k. There was a significant reduction in Group reserves over the previous financial year of £2,563k and this result created the inability to achieve the financial objective of



increasing the accumulating of reserves and cash investments in order to create a sufficient contingency to combat any further negative changes in Government funding for FE Colleges.

Group tangible fixed assets additions during the year amounted to £1,945k. This was split between land and buildings improvements of £691k and equipment purchases of £1,254k and in the main related to small electrical and engineering work over both main campuses, classroom upgrades and the continuing upgrade of IT software and hardware.

The College has significant reliance on the SFA/EFA for its principal funding source, largely from recurrent grants, and to a lesser extent non-recurrent grant. In the 2013/14 year the total funding body grants provided 76.9% (80.9% in 2012/13) of the College's total income.

The College has vested interest in seven companies, East London College Services Limited, Newham Foundation, NHCL Limited (formerly East London e Learning Limited), Newham Training and Education Centre, Learning Revolution Trust, The Fashion and Textile Museum Limited and East London College Federation Limited. Any surpluses generated by the subsidiaries may be transferred to the College by way of gift aid. In the current year East London College Services Limited, The Fashion and Textile Museum Limited and East London College Federation Limited did not trade, Newham Foundation recorded a break even its activities, NHCL Limited recorded a £440k deficit in its activities, Newham Training and Education Centre recorded surplus of £64k and Learning Revolution Trust Limited recorded a deficit of £10k.

Treasury policies and objectives

Treasury management is the management of the College's cash flows, its banking, money market and capital market transactions; the effective control of risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

The College has a separate treasury management policy in place where short term borrowing for temporary revenue purposes is authorised by the Deputy Principal (Planning and Group Operations). The College complies with any requirements of the Skills Funding Agency (SFA) Financial Memorandum in arranging borrowing facilities and all medium or long-term borrowing is subject to the approval of the Corporation Board.

Cash flows

At £100k positive (2012/13 - £2.2 million positive inflow) operating cash flow was substantially lower than the prior year mainly as a result of the deterioration in operating performance. The £0.4 million reduction in cash position (2012/13 - £1.5 million reduction) was a combination of the acquisition costs of fixed assets (net of capital grants received and sale of asset) - £0.2 million, a reduction of £0.8 million in liquid resources, financing at a negative £0.9 million and a £0.1 million deterioration in servicing of finance.

Liquidity

During the year the College spent £1.9 million on the acquisition of fixed assets and with the exception of capital grants of £0.2 million the balance of the cost was internally generated.

The size of the College's total borrowing and its approach to interest rates has been calculated to ensure a safe cushion between the cost of servicing debt and operating cash flow. During the year this margin was comfortably exceeded, despite continuing financial market uncertainties.



CURRENT AND FUTURE DEVELOPMENT AND PERFORMANCE

Student numbers

In 2013/14 the College has delivered activity that has produced £36.5 million in funding body main allocation funding (2012/13 - £40.9 million). The College had approximately 19,468 funded and 1,638 non-funded students.

Student achievements

Students continue to prosper at the College. The College organised a prestigious and successful celebration of student achievements at the Troxy in Whitechapel, attended by local dignitaries and many sponsoring employers.

Curriculum developments

The College has a national reputation for curriculum innovation and change. This is reflected in its contributions to the design of the national tests and trials of the Qualification and Curriculum Framework and the Foundation Learning Tier. It has introduced new courses in many areas of the curriculum in response to the needs of students, the local market and community.

Courses have been devised to not only extend student choice but also to develop students' skills so that they are able to compete effectively in the job market. This dual approach has resulted in major curriculum initiatives this year and included:

- the information technology (IT) curriculum offer was transformed to offer vendor certificated vocational qualifications, rather than academic, to train the network and applications technicians and engineers needed by employers to support their computing facilities such as in Tech City, Canary Wharf, Stratford City, and the Queen Elizabeth Olympic Park developments. The management of the provision was sub-contracted within the Group to its specialist IT training company, New Horizons.
- expansion of the College funding and management programme of apprenticeships, including working with local collaborative partners, for in excess of 1,500 apprenticeships.
- opening of a new Samsung Digital Academy and Experience Centre, with funding from Samsung UK, hosted at the East Ham campus; offering new accredited courses.
- opening of a £1m centre for learners with additional learning needs at East Ham campus specialising in acute autism spectrum in collaboration with the local authority and grant-funded by the Education Funding Agency.

Additionally the College offers many courses that prepare students for higher education. These include:

- A strong, vibrant and wide ranging (level 3) programme.
- Access to Higher Education courses for adults.
- Close liaison with a range of universities.
- Development of Level 4 courses where they clearly fit the progression needs of our students and demand in the labour market.



Payment performance

The Late Payment of Commercial Debts (Interest) Act 1998, which came into force on 1 November 1998, requires Colleges, in the absence of agreement to the contrary, to make payments to suppliers within 30 days of either provision of goods or services or the date on which the invoice was received. The target set by the Treasury for payment to suppliers within 30 days is 95 per cent. During the accounting period 1 August 2013 to 31 July 2014, the College paid 67 per cent of its invoices within 30 days and/or within Board approved policy. The College incurred no interest charges in respect of late payment for this period.

Future developments

The following developments relate to better financial performance for the College.

- Apprentices – A substantial increase in 16-18 apprentices delivery over the next two years in line with development of in-house apprentice/ collaborative partner team.
- To make up for the loss of both SFA/EFA funding the College anticipates an 80% increase in higher education commercial income over the next two years based on current trend in the Newham Borough. Increased space may require to be made available to ensure these targets can be met.
- The London Borough of Newham (LBN) will continue to support programmes both full and part time for Year 10 and Year 11 learners at least at 2013/14 levels.
- Continuing success in winning European Funding project funding.
- Ongoing staff efficiencies and reductions over the next financial year to further ensure that reduced public sector funding cuts does not place too much financial stress on the College.
- The capital programme will be significantly reduced over the next two financial years to allow the College to generate additional cash to fund both working capital and the cost of restructuring the College to meet the needs of future developments, including the expected substantial increase in 16-18 students in the London Borough of Newham from 2017.

RESOURCES

The College has diverse resources that it can deploy in pursuit of its strategic objectives, including:

Property

Main college sites are at East Ham and Stratford, both of which have been upgraded and have the resources and capability to deliver teaching objectives, as well as ten other smaller sites.

Financial

The College Group has £30.1 million of net assets (including £11.0 million pension liability) and long-term debt of £3.5 million.



People

The College Group employed 690 staff (expressed as full time equivalents), of whom 242 were direct teaching staff and 448 are Teaching Support / Business Support staff. These employees include hourly paid staff, agency temporary personnel and self-employed consultants.

Reputation

The College has an excellent local, regional, national and international reputation.

Knowledge

The College has excellent know-how in all aspects of further education and in the majority of the subject specialisms. It also has exceptional know-how in terms of innovation, collaboration and project development and completion.

PRINCIPAL RISKS AND UNCERTAINTIES:

The College has undertaken further work during the year to develop and embed the system of internal control, including financial, operational and risk management, which is designed to protect the College's assets and reputation.

Based on the strategic plan, the Executive Board acts as a high level risk management group to undertake a comprehensive review of the risks to which the College is exposed. The Executive Board identifies systems and procedures, including specific preventable actions which should mitigate any potential impact on the College. The internal controls are then implemented and the subsequent year's appraisal will review their effectiveness and progress against risk mitigation actions. In addition to the annual review, the Executive Board will also consider any risks which may arise as a result of a new area of work being undertaken by the College.

A risk register is formulated by the Executive Board monthly and maintained at the College level, which is reviewed at least three times yearly by the Audit Committee. The risk register identifies the key risks, the likelihood of those risks occurring, their potential impact on the College and the actions being taken to reduce and mitigate the risks. Risks are prioritised using a consistent scoring system. Project plans include risk registers.

Outlined below is a description of the principal risk factors that may affect the College. Not all the factors are within the College's control. Other factors besides those listed below may also adversely affect the College.



1. Government Funding

The College relies considerably on government funding through its respective funding agencies. Following the Coalition Government's Comprehensive Spending Review published in October 2010 the funding environment can be said to be, at best, volatile.

In the budget for 2014/15, government main funding has reduced by £5.657m. The College had to continue to reduce its cost structure, including staffing redundancies of over 130 posts, and still can only achieve a -£1.5m deficit budget. There is a robust recovery programme to ensure financial recovery in 2015/16.

Funding stress is further mitigated in a number of ways:

- Funding is derived through a number of direct and partnership contractual arrangements
- Rigorous quality assurance is applied to education and training programmes
- Considerable focus and investment is placed on maintaining and managing key relationships, to ensure the College is focused on those priority sectors that continue to benefit from public funding
- Regular dialogue is maintained with the funding agencies and the local authority
- Maximum effort is applied to diversification of funding streams to take advantage of various governmental initiatives and European funding opportunities.

2. Tuition fee loans

In 2013/14, the government introduced tuition fee loans for adults aged 24+ on level three provision. A fund of £2.4m was made available to local students through the College. Take up was critically low at only 30%. This is likely to be repeated in 2014/15 and beyond and represents a significant reduction in local adult higher vocational activity.

A fund-raising trust, the Learning Revolution Trust, has been launched to generate funds to offer bursaries to students.

3. Maintain adequate funding of pension liabilities

The financial statements report the share of the pension scheme deficit on the College's balance sheet in line with the requirements of Financial Reporting Standard (FRS) 17. Accounting for defined benefit pension schemes, such as the local government pension scheme, under FRS17 is a potential risk as the relevant pension scheme is not under the direct control of the College and is accounted for in accordance with the advice of independent qualified actuaries. However, the valuation is underpinned by actuarial assessment for future salary increases (except in the first three years when College pay assumptions have been used), inflation, investment returns and member longevity which are analytically unverifiable and may in the medium to long term prove to be materially different. The College accepts that the accounting standard presents a deficit as shown but in fact there is a significantly less of a deficit in actuality.

4. Accommodation Strategy

The College has reviewed its accommodation strategy, following appointment of a new strategic property adviser, and is considering various site options.