

The Challenge Network

Report and Financial Statements

Year Ended

31 October 2013

Company Number 06845451

Registered Charity Number 1129239

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The Challenge Network

Report and financial statements for the year ended 31 October 2013

Contents

Page:

1	Report of the Trustees
9	Independent auditor's report
11	Consolidated statement of financial activities
12	Consolidated balance sheet
13	Parent balance sheet
14	Cash flow statement
15	Notes to the cash flow statement
16	Notes forming part of the financial statements

Trustees

C Smith - Chair	
P Amadi	Appointed 28 May 2013
P R Armstrong	Reappointed 28 May 2013
M Cummins	Appointed 25 March 2013
M Dowd	
A Evans	Appointed 28 May 2013, resigned 24 September 2013
D Guthrie	
S Peck	Reappointed 28 May 2013
M Quadri	
A Wilkinson	
R Wilson	

Secretary and registered office

R Ovens, 39 York Road, London, SE1 7NQ

Chief Executive

C Morley

Company number

06845451

Registered charity number

1129239

Auditors

BDO LLP, 2 City Place, Beehive Ring Road, Gatwick, West Sussex, RH6 0PA

The Challenge Network

Report of the Trustees for the year ended 31 October 2013

The trustees, who are also directors of the charity for the purposes of the Companies Act 2006, present their report with the financial statements of the charity for the year ended 31 October 2013. The trustees have adopted the provisions of the Statement of Recommended Practice (SORP) 'Accounting and Reporting by Charities' issued in March 2005.

OBJECTIVES AND ACTIVITIES

Mission: 'To connect and inspire people to build stronger communities'

The UK is becoming a much more diverse country, by ethnicity, income and age. Over the coming decades the country is projected to become the most ethnically diverse western nation, at the same time the proportion of the population aged under 18 or over 60 is expected to grow rapidly, increasing the average distance in age between citizens.

As UK society becomes more diverse, The Challenge Network (TCN) believes it is essential that we do not become more segregated. Our differences do not need to divide us. We believe in communities where people feel they understand and trust each other, irrespective of age, income or ethnicity.

The Challenge Network is the UK's leading charity for building a more integrated society. We work on a local level to connect people together across all ages and walks of life.

Strategy

TCN's strategy is to achieve our mission by delivering large scale, financially sustainable youth and community programmes that have the central aim of mixing diverse, but local, groups of people with each other. More specifically,

- (i) Increase our capacity to deliver National Citizen Service (NCS) at significantly increased national scale, with a particular focus on scalable marketing and sales, (driving the number of young people who take up NCS per school) staffing attraction, assessment and training and effective and efficient procurement of programme activities.
- (ii) Develop and expand our alumni programme for graduates of NCS with The Challenge to ensure sustainable impact in their community through volunteering. Pilot a new programme that offers the incentive of guaranteed assessments for paid work for NCS graduates who have continued to volunteer in their local community for a specified period.
- (iii) Pilot a new programme that accesses apprenticeship funding and provides a socially mixed group of young people with quality work training and a nationally recognised qualification to develop their professional skills. This initiative builds on TCN's extensive network of young people, schools, colleges and employers. It will provide an aspirational and accessible alternative to higher education for a wide range of young people whilst helping to meet the needs of Government and employers. If the pilot is successful TCN plans to rapidly scale delivery of this scheme in coming years.
- (iv) Launch a Commission on Social Integration to increase political and media focus on this issue in the run up to the 2015 UK General Election.

Risk management

An overall TCN risk register has been created and is reviewed at least annually by the Board and more regularly by Directors. This includes financial, operational and strategic risks and associated mitigation plans.

Internal control risks are managed by the implementation of procedures for authorisation of transactions and projects. Procedures are in place to ensure compliance with the health and safety of staff, volunteers, clients and visitors to our programmes, including enhanced DBS checks, rigorous staff assessment and training, references, risk assessments and parental consents.

The Challenge Network

Report of the Trustees for the year ended 31 October 2013 (continued)

Risk management (continued)

A key financial risk is that each NCS contract agreement includes an option for the government to terminate the contract on six months' notice without cause. In this event the government would indemnify the Charity against any commitments, liabilities or expenditure incurred by reason of the termination, provided that all costs paid during the delivery year do not exceed the total sum payable for the year. The Charity has therefore ensured that all material contracts do not exceed one year without a break clause.

How our activities deliver public benefit

Our main activities and whom we serve are described below. All our charitable activities focus on connecting and inspiring people to strengthen their communities and are undertaken to further our charitable purposes for the public benefit.

Who used and benefited from our services?

Over 14,500 young people took part in NCS with The Challenge in 2013. Participants were drawn from areas across Greater Manchester, West Midlands, London and Surrey. In addition a further c3,000 young people who have already taken part in NCS with The Challenge were involved in The Challenge Society graduate programme.

The main areas of charitable activity are the provision of community service programmes and educational activities for young people.

Significant activities

In so far as it is complementary to the Charity's objects, the Charity is guided by both local and national policy. At a national level, the relevant policy is the NCS policy that the Government is pursuing.

NCS with The Challenge involves teams of diverse 16 year olds from a local community taking on an intensive programme that includes physical, creative and social action challenges, culminating in them designing and running their own community project. A typical programme of 60 young people is drawn from c10-15 schools in a borough (mainstream, independent, Pupil referral Units, Special Education Needs schools) plus referrals from other youth organisations.

A full-time, 3 week programme (primarily residential) is followed by a month long, part-time social action project in the local community, involving c30 hours of service delivered at weekends. We then offer a graduate programme to signpost and support young people to suitable opportunities that build on their experience.

The way we achieve our goals is by providing intense, challenging experiences, structured reflection and high quality mentoring relationships. This allows young people the opportunity to mix across social boundaries, build skills needed for successful transition to adulthood and make a difference in their local community.

Our NCS with The Challenge programme has three main sections:

The NCS Personal Challenge One week of challenging, outdoor adventure style activities for 5 teams of 12 people plus 2 dedicated mentors in a residential setting to bond the teams together, build self-awareness, sense of personal responsibility and trust.

The NCS Team Challenge Teams are challenged to serve their local community using skills they are passionate about (e.g., Designing and performing a show for residents of an Age Concern day centre, staging a public debate in the community about a local issue, running a multi-sport skills coaching course for young children, researching and piloting a new enterprise opportunity in the community).

The Challenge Network

Report of the Trustees for the year ended 31 October 2013 (*continued*)

Significant activities (*continued*)

The NCS Real Challenge Teams have one week, working alongside community representatives, to explore some of the key challenges facing their neighbourhood and commit to projects that will bring the community together (e.g., fundraise for a local charity, campaign about a local community issue, deliver a physical project such as renovating local youth clubs, parks, canals). Each team then has a month (part-time) to plan and deliver these projects, with the support of a dedicated mentor and a full-time programme manager.

Other features of the programme include:

The NCS with The Challenge programme ends with a formal graduation and accreditation event, which in previous years were hosted at venues such as London City Hall, Dulwich College and Birmingham Council House.

We then offer a graduate programme to signpost and support young people to suitable opportunities that build on their experience, using our mentor relationships to link young people into sustainable opportunities (e.g., work experience, returning as volunteer staff on NCS with The Challenge).

The Challenge Network

Report of the Trustees for the year ended 31 October 2013 (*continued*)

STRATEGIC REPORT

ACHIEVEMENT AND PERFORMANCE

Delivery of NCS contracts

After a competitive tender process in 2012, the Government awarded TCN all five prime contracts it tendered for in delivering the National Citizen Service to approximately 17,000 young people in 2013 (14,000 delivered directly by TCN) and up to 22,000 in 2014 in Greater London, Surrey, Hampshire, the West Midlands and Greater Manchester. We partner with Bolton Lads & Girls Club, The Salford Foundation and the Football League Trust to deliver these contracts. In addition, the Charity is a sub-contractor in a successful bid by Inspira to deliver NCS in Lancashire and Cumbria.

Across the 2013 delivery period TCN exceeded 99% of contracted places on NCS with the Challenge being filled at the start of each programme. Retention rates across the residential and full time period of the programme were approximately 95%. The mix of young people taking part was broadly representative of the ethnic and social make-up of the local authorities they live in.

Young people designed and delivered over 2,900 social action projects, in partnership with over 1,500 community organisations and over a third of a million hours of social action. They raised over £110,000 for local charities.

Over 3,000 volunteering opportunities have been created for 2012 graduates of NCS with The Challenge, including 570 who returned to volunteer as mentors on the 2013 programme.

Recent reports have highlighted that the skills employers feel are most lacking in new employees are interpersonal skills such as communication, teamwork and leadership. Of young people taking part in NCS with The Challenge, 88% stated at the end of the programme that they were better at working in a team, 87% stated they were more confident and 69% stated that they were better at leading people.

FINANCIAL REVIEW

Financial Performance

The Charity has delivered a strong financial performance during the year, driven by a significant increase in income and continued tight control of costs.

Income rose 66% to £27.3m (2012: £16.4m) due principally to the increase in young people who undertook the NCS programme with the Charity and its partners.

The main costs during the year were all related to the delivery of the NCS programme, and the Charity has worked hard at improving its efficiency to continue to deliver a high quality programme at a lower unit cost. This was reflected in the rise of costs in year which rose by 54% to £24.9m (2012: £16.1m).

The consequence of the strategy to deliver NCS with The Challenge to as many young people as possible at the lowest unit cost, has resulted in net income for the year of £2.4m (2012: £0.3m).

Reserves policy

The Charity's strategy is to continue to build reserves through planned operating surpluses. The policy is that unrestricted funds held by the Charity, which are not committed or invested in tangible fixed assets, should be sufficient to meet the ongoing costs of the Charity for a period of up to 6 weeks in the event that the main source of income, the National Citizen Service, were to cease. The basis for this decision is a contractual commitment from the NCS Trust that were NCS funding to cease there would be a six month notice period during which costs would be paid provided that did not exceed the total sum payable for the year.

The Challenge Network

Report of the Trustees for the year ended 31 October 2013 (continued)

Reserves policy (continued)

At the year end the Group had unrestricted reserves of £2.6m (2012: £0.3m). After deducting tangible fixed assets of £0.1m (2012: £0.1m), the unrestricted free reserves stand at £2.5m (2012: £0.2m) of which £1.8m would be required to meet ongoing costs if the NCS income were to cease. Unrestricted reserves are also held to enable the Charity to invest in new programmes and initiatives and £0.25m has been invested in our new StepForward programme. The balance of unrestricted reserves are retained to meet our working capital requirements.

Principal funding sources

The principal funding source for the charity is contract income relating to delivery of the National Citizen Service. In addition TCN supplements its income through opportunities from a wider range of funding sources and high net worth individuals and organisations as well as event based fundraising activities.

Investment policy

The Charity is currently seeking advice on the prudent investment of its funds. Funds are currently held in an instant access savings account, but it is anticipated that better returns will be achieved from a selection of longer term commitments with blue chip institutions.

Going concern

The Charity signed five two year contracts on 7 November 2012 to deliver the government's National Citizen Service in 2013 and 2014 with an option for the Government to extend the contracts for a further year to September 2015.

Risk Management

The principle risk is that each of the 5 NCS agreements includes an option for the government to terminate the contract on six months' notice without cause. In this event the government would indemnify the Charity against any commitments, liabilities or expenditure incurred by reason of the termination, provided that all costs paid during the delivery year do not exceed the total sum payable for the year.

The Charity has therefore ensured that all material contracts do not exceed one year without a break clause. Accordingly the Trustees have a reasonable expectation that the Charity has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual accounts.

The Charity is conscious that its main source of income is from the NCS programme, and is actively developing other programmes to diversify its income streams.

The Challenge Network

Report of the Trustees for the year ended 31 October 2013 (continued)

FUTURE DEVELOPMENTS

Plans for future periods

In 2014 more than 19,000 young people will complete NCS with The Challenge, and a further 3,000 with our sub-contractors. Our aim over the coming few years is that TCN maintains its position as the leading provider of the National Citizen Service, known for our quality, social impact and value for money. We envisage growing our delivery of NCS by c30% p a in the next few years, such that at least 1 in 4 of all sixteen years old take part in the programme in the regions we serve by 2018. This will be dependent on TCN being successful in the contract tender process for 2015-2018, planned to be concluded by autumn 2014.

In addition to expanding our NCS delivery, TCN will launch Step Forward, a new one year programme for school leavers aged 18. The programme provides a socially mixed group of young people with quality work training and a nationally recognised qualification to develop their professional skills and help launch their careers. By accessing apprenticeship funding, TCN can cover all recruitment costs and provide 12 months of free training for all new recruits, with employers paying salary costs.

A second new initiative, HeadStart, is also being piloted. This programme offers young people, primarily graduates of the NCS programme, the incentive of a guaranteed assessment for paid part-time or seasonal work if they volunteer for a local community group for at least 16 hours. TCN provides support to young people finding volunteering opportunities and coaching in CV writing and interview skills.

In early 2014, TCN launched The Social Integration Commission, a twelve month national inquiry into the nature and effects of social integration within the UK. It will bring together leading figures from business, politics, academia and civil society and is being supported by our partner, British Gas.

STRUCTURE, GOVERNANCE AND MANAGEMENT

Governing document

The organisation is a charitable company limited by guarantee, incorporated on 12 March 2009 and registered as a charity on 21 April 2009. The Company was established under a Memorandum of Association that established the objects and powers of the charitable company and is governed under its Articles of Association. In the event of the Company being wound up members are required to contribute an amount not exceeding £10.

Recruitment and appointment of new trustees

During the year we expanded the Board with the appointment of two new Trustees. The new appointments include a trustee with experience as an HR director with FTSE 250 companies, and a trustee with experience as a Fundraising Director for some of the UK's largest charities. Positions were advertised externally and appointments made following a formal selection process by the Nomination Committee.

Trustees are required to seek re-election after serving for a period of 3 years.

Induction and training of new trustees

Training is provided through 1-1 sessions by management, briefings at Board meetings, and mentoring to individual Trustees as required. Trustees are invited to attend the general staff induction training programme and are usually 'paired' with one of TCN's five regional teams. This allows trustees to gain a greater operational perspective whilst increasing their visibility to the wider staff team.

Organisational structure

The Charity has a Board consisting of 10 members who meet at a full Board meeting at least every other month and are responsible for the strategic direction and governance of the charity. The Trustees are from a variety of professional backgrounds relevant to the work of the charity. There are three Board sub-committees, covering remuneration, nomination and risk and audit matters.

The Challenge Network

Report of the Trustees for the year ended 31 October 2013 (continued)

Organisational structure (continued)

A scheme of delegation is in place and day-to-day responsibility for the provision of services rests with the Chief Executive along with four other members of the Director Team (Marketing & Sales Director, Operations Director, Strategy & Development Director, Chief Financial Officer). The Director Team is responsible for ensuring that the Charity delivers the services specified and that key performance indicators are met.

After 6 years in the role Craig Morley, Chief Executive, has decided to step down once a suitable replacement has been identified and an orderly handover completed. This process is now underway.

Related parties

Two trustees, Richard Wilson, (a Partner at Ernst & Young), and Paul Armstrong, (a Principal at Permira), are employed by member organisations of the Social Business Trust which provides financial and in kind support to TCN. In addition, trustees Colin Smith and Daniel Guthrie made donations to the work of TCN during the year by sponsoring staff members in a fundraising sporting event. In addition Michelle Cummins and Paul Armstrong both raised money for The Challenge by taking part in a fundraising sporting event. Further information relating to the services provided by related parties can be found in Note 15 to these financial statements.

Communications with staff

We have established arrangements for consulting and involving staff in the work of TCN. There are formal and informal opportunities for consultation over terms and conditions of employment. Regular meetings are held between local zones and leadership teams to provide opportunities for communication of information and discussion of events as they develop and there is always one member of the leadership team in attendance.

To keep staff informed, TCN produces regular newsletters and weekly emails from the Chief Executive containing minutes from the weekly leadership team meetings, any news, updates and important information such as internal opportunities, stories or changes. The weekly leadership team minutes also contain an update on the financial performance of TCN. Furthermore, our staff handbook is kept updated regularly with information about key performance indicators, policies, procedures and information of relevance to employees.

Every 2 months we send all employees a staff satisfaction survey which is aimed at capturing staff's feelings and motivation levels which is followed up by local discussion groups where the results are discussed and analysed. In their local zones they then have the power to make any reasonable changes necessary.

Finally, when any employee leaves TCN we always ensure a thorough exit interview is held where we try to give them a last opportunity to influence decision makers by giving advice and recommendations on how to make TCN a better place to work.

Diversity and disability

TCN recognises that by embracing the principles of equality and diversity we will be more effective in pursuing our organisational aims. We are committed to treating job applicants and workers fairly and equally, throughout its operations, irrespective of sex, marital status, sexuality, gender identity, age, colour, race, nationality, religion, ethnic or national origin, disability, working pattern, educational or social background.

This policy applies to all aspects of the employment process, including recruitment and selection, training, promotion, career development, and, where necessary, selection for redundancy.

We especially have a strong commitment to developing the diversity of staff through equal opportunities policies, training, targets and practical action. This includes giving equal consideration to applications from disabled people, developing their skills and taking every reasonable measure to adapt our premises and working conditions to enable disabled people to work for us.

The Challenge Network

Report of the Trustees for the year ended 31 October 2013 (continued)

Statement of Trustees' responsibilities

The trustees (who are also the directors of TCN for the purposes of company law) are responsible for preparing the Report of the Trustees incorporating the Strategic 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 trustees 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 the income and expenditure, of the charitable company for that period. In preparing those financial statements, the trustees are required to

- select suitable accounting policies and then apply them consistently,
- observe the methods and principles in the Charity SORP,
- make judgements and estimates that are reasonable and prudent,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the charitable company will continue in business

The trustees are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the charitable company and to enable them to ensure that the financial statements comply with the 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

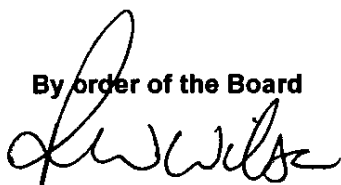
Auditors

BDO LLP was appointed as the company's new auditors for the year ended 31 October 2013, taking over from HPCA Limited. BDO have expressed their willingness to continue in office. A resolution to re-appoint them will be proposed at the annual general meeting.

Statement as to disclosure of information to auditors

So far as the trustees are aware, there is no relevant information (as defined by Section 418 of the Companies Act 2006) of which the charitable company's auditors are unaware, and each trustee has taken all the steps that they ought to have taken as a trustee in order to make them aware of any audit information and to establish that the charitable company's auditors are aware of that information.

By order of the Board



R Wilson
Trustee

Date 25 March 2014

The Challenge Network

Independent auditor's report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE CHALLENGE NETWORK

We have audited the financial statements of The Challenge Network for the year ended 31 October 2013 which comprise the Group Statement of Financial Activities, the Group and Parent Charitable Company Balance Sheets, the Group Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the charity'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 charity'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 charity and the charity'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 Trustees' Responsibilities, 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.

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 Financial Reporting Council's (FRC'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 FRC's website at 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 group's and the parent charitable company's affairs as at 31 October 2013, and of the group's 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.

The Challenge Network

Independent auditor's report (*continued*)

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Trustees' Annual Report incorporating the 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 parent 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 parent 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



Andrew Stickland
Senior Statutory Auditor
for and on behalf of BDO LLP, Statutory Auditor
Gatwick
United Kingdom

Date 25 March 2014

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127)

The Challenge Network

Consolidated statement of financial activities for the year ended 31 October 2013

	Note	Unrestricted funds £	Restricted Funds £	Total funds 2013 £	Total funds 2012 (Restated) £
Incoming resources					
<i>Incoming resources from generated funds</i>					
Voluntary income		1,543,148	338,239	1,881,387	16,123,703
Activities for generating funds		-	-	-	415
Investment income		8,610	-	8,610	5,972
<i>Incoming resources from charitable activities</i>					
NCS with The Challenge		25,389,159	-	25,389,159	303,189
Total incoming resources	2	26,940,917	338,239	27,279,156	16,433,279
Resources expended					
<i>Charitable activities</i>					
NCS with The Challenge	3	24,622,189	-	24,622,189	16,120,756
The Challenge Society	3	-	270,000	270,000	-
Governance costs	5	28,450	-	28,450	16,600
Total resources expended		24,650,639	270,000	24,920,639	16,137,356
Net income for the year before transfers		2,290,278	68,239	2,358,517	295,923
Gross transfers between funds	12	-	-	-	-
Net income for the year		2,290,278	68,239	2,358,517	295,923
Reconciliation of funds					
Total funds brought forward		340,160	-	340,160	44,237
Total funds carried forward		2,630,438	68,239	2,698,677	340,160

All amounts relate to continuing activities

The notes on pages 16 to 24 form part of these financial statements

The Challenge Network

Consolidated balance sheet at 31 October 2013

Company number 06845451	Note	2013 £	2012 £
Fixed assets			
Tangible assets	8	63,382	76,306
Current assets			
Debtors amounts falling due within one year	9	1,577,737	304,202
Cash at bank and in hand		3,111,054	1,675,746
		4,688,791	1,979,948
Creditors: amounts falling due within one year	10	(2,053,496)	(1,716,094)
Net current assets		2,635,295	263,854
Total assets less current liabilities		2,698,677	340,160
Net assets		2,698,677	340,160
Funds			
Unrestricted funds	12	2,630,438	340,160
Restricted funds	12	68,239	-
Total funds		2,698,677	340,160

The financial statements were approved by the Board of Trustees and authorised for issue on 25 March 2014



R Wilson
Trustee

The notes on pages 16 to 24 form part of these financial statements

The Challenge Network

Parent charity balance sheet at 31 October 2013

Company number 06845451	Note	2013 £	2012 £
Fixed assets			
Tangible assets	8	63,382	76,306
Current assets			
Debtors amounts falling due within one year	9	1,550,021	304,202
Cash at bank and in hand		3,111,054	1,675,746
		4,661,075	1,979,948
Creditors: amounts falling due within one year	10	(2,025,780)	(1,716,094)
Net current assets		2,635,295	263,854
Total assets less current liabilities		2,698,677	340,160
Net assets		2,698,677	340,160
Funds			
Unrestricted funds	12	2,630,438	340,160
Restricted funds	12	68,239	-
Total funds		2,698,677	340,160

The financial statements were approved by the Board of Trustees and authorised for issue on 25 March 2014.



R Wilson
Trustee

The notes on pages 16 to 24 form part of these financial statements

The Challenge Network

Consolidated cash flow statement for the year ended 31 October 2013

	Note	2013 £	2012 £
Net cash inflow/(outflow) from operating activities	1	1,475,686	(2,186,103)
Returns on investments and servicing of finance	2	8,610	5,972
Capital expenditure and financial investment	2	(48,988)	(92,833)
		<u>1,435,308</u>	<u>(2,272,964)</u>
Increase / (decrease) in cash in the year			
Reconciliation of net cash flow to movement in net debt	3		
Increase / (decrease) in cash in the year		<u>1,435,308</u>	<u>(2,272,964)</u>
Change in net debt resulting from cash flows		<u>1,435,308</u>	<u>(2,272,964)</u>
Movement in net cash in the year		<u>1,435,308</u>	<u>(2,272,964)</u>
Net cash at 1 November		<u>1,675,746</u>	<u>3,948,710</u>
Net cash at 31 October		<u>3,111,054</u>	<u>1,675,746</u>

The notes on pages 16 to 24 form part of these financial statements

The Challenge Network

Notes to the consolidated cash flow statement for the year ended 31 October 2013

1 Reconciliation of net incoming resources to net cash inflow/(outflow) from operating activities

	2013 £	2012 £
Net incoming resources	2,358,517	295,923
Depreciation charges	61,912	47,437
Interest received	(8,610)	(5,972)
Increase in debtors	(1,273,535)	(197,798)
Increase / (decrease) in creditors	337,402	(2,325,693)
Net cash inflow/(outflow) from operating activities	1,475,686	(2,186,103)

2 Analysis of cash flows for headings netted in the cash flow statement

	2013 £	2012 £
Returns on investments and servicing of finance		
Interest received	8,610	5,972
Net cash inflow for returns on investments and servicing of finance	8,610	5,972
Capital expenditure and financial investment		
Purchase of tangible fixed assets	(48,988)	(92,833)
Net cash outflow for capital expenditure and financial investment	(48,988)	(92,833)

3 Analysis of changes in net cash

	At 1 November 2012 £	Cash flow £	At 31 October 2013 £
Net cash			
Cash at bank and in hand	1,675,746	1,435,308	3,111,054

The Challenge Network

Notes forming part of the financial statements for the year ended 31 October 2013

1 Accounting policies

Basis of preparation

The financial statements have been prepared under the historical cost convention. They have been prepared on a going concern basis and in compliance with Accounting and Reporting by Charities Statement of Recommended Practice 2005 ('SORP') issued by the Charity Commission, applicable UK accounting standards and with the Companies Act 2006.

The prior year comparative balances have been restated to more accurately reflect participant fees as income from charitable activities rather than voluntary income.

Basis of consolidation

The consolidated financial statements incorporate the results of The Challenge Network and its subsidiary undertaking, The Challenge Trading Company Limited, on a line-by-line basis. Details of The Challenge Trading Company Limited can be found in Note 14 to the financial statements.

No separate Statement of Financial Activities has been prepared for the parent charity as permitted by section 408 of the Companies Act 2006 and section 397 of the SORP.

Incoming resources

All incoming resources are included on the Statement of Financial Activities when the charity is legally entitled to the income and the amount can be quantified with reasonable accuracy. Income is allocated to general funds unless otherwise restricted by the donor or specifically designated by the Trustees. Income is included on an accruals basis and shown as accrued income until invoiced.

Specifically where funding is received in relation to a specific programme the income is recognised in the period in which the programme is delivered.

Donated services and facilities are only included in incoming resources, with an equivalent amount in resources expended, where the benefit to the charity is reasonably quantifiable, measurable and material. The value placed on these resources is the estimated value to the charity of the service or facility received.

Commercial discounts are only recognised as incoming resources where they clearly represent a donation.

Resources expended

Expenditure is accounted for on an accruals basis and has been classified under headings that aggregate all cost related to the category. Where costs cannot be directly attributed to particular headings they have been allocated to activities on a basis consistent with the use of resources. Grants offered subject to conditions which have not been met at the year-end date are noted as a commitment but not accrued as expenditure.

Irrecoverable VAT incurred is allocated to the expenditure category to which it relates.

The Challenge Network

Notes forming part of the financial statements for the year ended 31 October 2013 (*continued*)

1 Accounting policies (*continued*)

Allocation and apportionment of costs

Resources expended are included in the Statement of Financial Activities on an accruals basis and are allocated to a specific activity where costs relate directly to that activity

Costs of generating funds are the costs directly attributable to raising funds

Charitable activity costs include all costs directly relating to the objective of the charity and the costs involved in supporting that work

Governance costs relate to audit fees

Support costs include those costs connected with the management of the charity's assets, organisational management and administration and compliance with constitutional and statutory requirements. These include all expenditure not directly related to the charitable activity or fundraising ventures

Depreciation

Depreciation is provided at the following annual rates in order to write off each asset over its estimated useful life

Fixtures and fittings	-	25% on reducing balance
Motor vehicles	-	25% on cost
Computer equipment	-	33% on cost

The charitable company does not capitalise any fixed assets costing less than £500

Taxation

The charity is exempt from corporation tax on its charitable activities

Pension

The charity has introduced a defined contribution pension scheme which is available to all permanent employees who have successfully completed their probationary period. Contributions to the company's defined contribution pension scheme are charged to the Statement of Financial Activities in the year in which they become payable. The assets of the scheme are held separately in an independently administered fund

Fund accounting

Unrestricted funds can be used in accordance with the charitable objectives at the discretion of the trustees

Restricted funds can only be used for particular restricted purposes within the objects of the charity. Restrictions arise when specified by the donor or when funds are raised for particular restricted purposes

Further explanation of the nature and purpose of each fund is included in the notes to the financial statements

The Challenge Network

Notes forming part of the financial statements
for the year ended 31 October 2013 (continued)

2 Income

2 (a) Voluntary income

	2013 £	2012 £
Donations	1,218,112	417,398
Grants	524,697	15,664,676
Other income	138,578	41,629
	<u>1,881,387</u>	<u>16,123,703</u>

Donations include £937,743 (2012 £307,143) for in-kind support from a number of different suppliers. The largest of these was £120,320 from Social Business Trust for legal support from Clifford Chance related to the NCS contract, data protection and employment law advice. In addition Credit Suisse provided professional support during the selection of a new outsourced IT provider (2012 £98,985 from Social Business Trust for support with the Bain strategy projects for mentoring services). The corresponding expenses are included within charitable activities. Several places for venue hire were obtained at substantial discounts amounting to £405,091 (2012 £142,158).

Grants received, included in the above, are as follows

	2013 £	2012 £
The Big Lottery	-	70,125
London Borough of Hammersmith & Fulham	-	14,100
General Government Grants	-	15,295,621
BAA Communities Trust	36,500	8,200
City of London	-	45,000
Social Investment Business	280,739	231,630
Other Grants	207,458	-
	<u>524,697</u>	<u>15,664,676</u>

In 2012 the funding of NCS was by means of a grant from the Cabinet Office and was therefore accounted for as voluntary income. Under a new agreement, NCS delivery is now through a contract, which is recognised as incoming resources from charitable activities in the current year (see Note 2 (b)).

The grant from BAA Communities Trust of £36,500 was for young people in Ealing, Hounslow and Hillingdon to participate in the Challenge Society (TCS).

Other grants include £21,000 from the Dulverton Trust, which is also restricted to The Challenge Society (TCS).

The Social Investment Business Limited provided a restricted grant to The Challenge Network for a consortium of partners to deliver post NCS activities. The Challenge Network's share of the grant is £280,739 (2012 - £231,630).

The Challenge Network

Notes forming part of the financial statements
for the year ended 31 October 2013 (continued)

2 (b) Incoming resources from charitable activities				
		2013	2012	
		£	Restated	£
Income from Participants		579,363		303,189
Contract income (Note 2 (a))		24,809,796		-
		25,389,159		303,189
2 (c) Investment income				
		2013	2012	
		£	£	
Deposit account interest		8,610		5,972
3 Charitable activities costs				
	Direct costs	Support costs	Total	
		(Note 4)	2013	
	£	£	£	
NCS with The Challenge and The Challenge Society	21,180,525	3,711,664	24,892,189	
4 Support costs				
	Staff costs	Other costs	Total 2013	2012
	£	£	£	£
NCS with The Challenge and The Challenge Society	2,077,165	1,634,499	3,711,664	2,523,067

The Challenge Network

Notes forming part of the financial statements
for the year ended 31 October 2013 (*continued*)

5 Governance costs

	2013 £	2012 £
Auditors' remuneration	26,500	15,400
Auditors' remuneration for non-audit work	1,950	1,200
	<hr/>	<hr/>
	28,450	16,600
	<hr/>	<hr/>

There were no trustees' remuneration or other benefits for the current or prior year

Trustee expenses

Trustees expenses relating to travel and subsistence totalling £1,340 (2012 - £598) were reimbursed to trustees in the year to 31 October 2013. These were paid to four (2012 – two) trustees

6 Net incoming resources

	2013 £	2012 £
Net resources are stated after charging		
Auditors' remuneration	26,500	15,400
Auditors' remuneration for non-audit work	1,950	1,200
Depreciation - owned assets	61,912	47,437
	<hr/>	<hr/>

The Challenge Network

Notes forming part of the financial statements
for the year ended 31 October 2013 (continued)

7 Employees

	2013 £	2012 £
Staff costs consist of		
Wages and salaries	9,244,790	6,604,684
Social security costs	692,593	560,274
Pension costs	51,273	-
	<u>9,988,656</u>	<u>7,164,958</u>

The average monthly number of full-time equivalent employees during the year was as follows

	2013 Number	2012 Number
Core permanent staff -	246	182
Temporary programme staff	256	162
	<u>502</u>	<u>344</u>

In order to operate NCS with The Challenge, the charity employed 2,220 (2012 - 1,250) temporary programme staff during the Summer and Autumn programmes

The number of higher paid staff with emoluments are as follows

	2013 Number	2012 Number
£70,000 to £79,999	4	3
£80,000 to £89,999	1	-
	<u>5</u>	<u>3</u>

The Challenge Network

Notes forming part of the financial statements
for the year ended 31 October 2013 (*continued*)

8 Tangible fixed assets

Group and parent	Fixtures and fittings £	Motor vehicles £	Computer Equipment £	Total £
<i>Cost</i>				
At 1 November 2012	13,528	25,199	115,340	154,067
Additions	-	13,400	35,588	48,988
At 31 October 2013	13,528	38,599	150,928	203,055
<i>Depreciation</i>				
At 1 November 2012	4,286	7,909	65,566	77,761
Charge for the year	2,310	9,362	50,240	61,912
At 31 October 2013	6,596	16,271	115,806	139,673
<i>Net book value</i>				
At 31 October 2013	6,932	22,328	35,122	63,382
At 31 October 2012	9,242	17,290	49,774	76,306

9 Debtors: amounts falling due within one year

	Group 2013 £	Group 2012 £	Charity 2013 £	Charity 2012 £
Trade debtors	363,639	5,772	197,345	5,772
Other debtors	86,996	289,181	86,996	289,181
Amounts due from subsidiaries	-	-	138,578	-
Prepayments and accrued income	1,127,102	9,249	1,127,102	9,249
	1,577,737	304,202	1,550,021	304,202

The Challenge Network

Notes forming part of the financial statements
for the year ended 31 October 2013 (continued)

10 Creditors: amounts falling due within one year

	Group 2013 £	Group 2012 £	Charity 2013 £	Charity 2012 £
Trade creditors	977,261	511,176	977,261	511,176
Social security and other taxes	192,740	126,876	192,740	126,876
Other creditors	165,432	240,991	137,716	240,991
Deferred income	-	339,057	-	339,057
Accrued expenses	718,063	497,994	718,063	497,994
	<u>2,053,496</u>	<u>1,716,094</u>	<u>2,025,780</u>	<u>1,716,094</u>

Deferred income relates to funding received from various sources in advance of the year end in respect of activities which were carried out after the year end

11 Analysis of net assets between funds

Group	Unrestricted Funds £	Restricted Funds £	Total funds 2013 £	Total funds 2012 £
Fixed assets	63,382	-	63,382	76,306
Current assets	4,620,552	68,239	4,688,791	1,979,948
Current liabilities	(2,053,496)	-	(2,053,496)	(1,716,094)
	<u>2,630,438</u>	<u>68,239</u>	<u>2,698,677</u>	<u>340,160</u>

12 Movement in funds

Group and parent	At 1 November 2012 £	Net Movement in funds £	At 31 October 2013 £
<i>Unrestricted funds</i>			
General funds	340,160	2,290,278	2,630,438
<i>Restricted funds</i>			
The Challenge Society	-	68,239	68,239
Total funds	<u>340,160</u>	<u>2,358,517</u>	<u>2,698,677</u>

The Challenge Network

Notes forming part of the financial statements
for the year ended 31 October 2013 (continued)

12 Movement in funds (continued)

Net movement in funds, included in the above, are as follows

Group and parent	Incoming Resources £	Resources Expended £	Movement In funds £
<i>Unrestricted funds</i>			
General funds	26,940,917	24,650,639	2,290,278
<i>Restricted funds</i>			
The Challenge Society	338,239	270,000	68,239
	<u>27,279,156</u>	<u>24,920,639</u>	<u>2,358,517</u>

The Challenge Society is a separate fund to finance the alumni programme for graduates of The Challenge as referred to in the report of the Trustees

13 Members' liability

The liability of the members is limited. Members are liable to contribute to the assets of the company in the event of a winding up. They are liable while they are members and for a year after. The amount of this liability is restricted to £10 per member.

14 Subsidiary undertaking

The Challenge Trading Company Limited is a wholly owned subsidiary company limited by shares and registered and incorporated in the United Kingdom on 27 December 2012. Share capital of £1 is held by The Challenge Network. The results of the subsidiary undertaking are summarised below.

The Challenge Trading Company Limited

	2013 £
Income	138,578
Surplus for the year gifted to parent charity	(138,578)
Assets	166,295
Liabilities	(166,294)
Net assets	<u>1</u>

15 Related party transactions

The company has taken advantage of the exemption in FRS 8 'Related Party Transactions' extended to subsidiary undertakings of 90% or more of whose voting rights are controlled within a group, where the consolidated financial statements are publically available. Accordingly, no disclosure has been made of transactions with entities that are part of the group, or investees of the group qualifying as related parties.