

The Challenge Network

Report and Financial Statements

Year Ended

31 October 2014

Company Number 06845451

Registered Charity Number 1129239

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The Challenge Network

Report and financial statements for the year ended 31 October 2014

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Trustees

C Smith - Chair	
P Amadi	Resigned 12 September 2014
P R Armstrong	
M Cummins	
M Dowd	
D Guthrie	
S Peck	Resigned 27 January 2015
M Quadri	
A Wilkinson	Resigned 13 August 2014
R Wilson	

Secretary and registered office

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

Chief Executive

C Morley	Resigned 5 September 2014
O Lee	Appointed 16 June 2014

Company number

06845451

Registered charity number

1129239

Auditors

External - BDO LLP, 2 City Place, Beehive Ring Road, Gatwick, West Sussex, RH6 0PA
Internal - Sayer Vincent LLP, 8 Angel Gate, City Road, London, EC1V 2SJ

The Challenge Network

Report of the Trustees for the year ended 31 October 2014

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 group for the year ended 31 October 2014. 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) Grow 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) Scale up our HeadStart programme to cover two-thirds of London and a pilot in Birmingham. As a result expand the programme to inspire just under 2000 young people to mix with people from diverse backgrounds through volunteering in their community with the incentive of gaining an interview for a part-time job.
- (iii) Complete our first pilot for our Step Forward apprenticeship programme for 40 young people and be ready to launch the second Step Forward cohort at a larger scale of 150-200 young people.
- (iv) Complete the work of the Social Integration Commission to increase political and media focus on this issue in the run up to the 2015 UK General Election and build on this work to launch campaigns that build demand for the Commission's recommendations.

The Challenge Network

Report of the Trustees for the year ended 31 October 2014 (*continued*)

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 22,000 young people took part in NCS (including via our local delivery partners) in 2014. Participants were drawn from areas across Greater Manchester, Lancashire, West Midlands, London, Surrey and Hampshire. In addition a further circa 3,000 young people who have already taken part in NCS with The Challenge were involved in The Challenge Society graduate programme.

Over 500 young people took part in HeadStart – which prepares young people for the world of work by challenging them to build their skills interacting with people from different backgrounds through volunteering in their local community and attending a series of workshops. Participants were drawn from North London and West London. They delivered over 7,000 hours of volunteering activity as part of the programme which benefitted community projects across London including those working with older people, young children and the environment. In all projects young people mixed and interacted with people from different backgrounds.

40 young adults started their Step Forward programme which provides employment and training as part of an apprenticeship. These 40 Associates benefit from the interactions with those of different backgrounds on the programme as well as the opportunity to build their employability skills.

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 involves teams of diverse 16 and 17 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 circa 10-15 schools in a borough (mainstream, independent, pupil referral units, special education needs schools) plus referrals from other youth organisations.

The Challenge Network

Report of the Trustees for the year ended 31 October 2014 (*continued*)

Significant activities (*continued*)

A full-time, 3 week programme (primarily residential) is followed by a month long, part-time social action project in the local community, involving circa 30 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 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, confidence, 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 UK 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 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.

Our Spring and Autumn programmes share the same delivery model, taking place over eleven days rather than the eighteen of the summer model. Delivery occurs over seven continuous days during half term and then the three following weekends. Additionally, only the first phase of the programme is fully residential. By 2018 the scale of The Challenge's direct delivery during the Spring and Autumn seasons will have risen from 13% to over 21%.

The NCS programme ends with a formal graduation and accreditation event, 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).

HeadStart inspires young people to strengthen their communities through volunteering, whilst supporting them to get ahead through skills workshops and a guaranteed interview for paid part-time or seasonal work. HeadStart is delivered in partnership with the Mayor of London and leading employers.

Step Forward provides school leavers from all backgrounds with a year in industry straight after school. All participants build a diverse professional and peer network across sectors and gain skills training.

The Social Integration Commission is an independent review which aims to explore how integrated the UK is by ethnicity, age and income, whether integration matters and what we could do to be more integrated. The Challenge provides the secretariat to the Commission.

The Challenge Network

Report of the Trustees for the year ended 31 October 2014 (*continued*)

STRATEGIC REPORT

ACHIEVEMENTS AND PERFORMANCE

Delivery of NCS contracts

After a competitive tender process in 2014, the government awarded TCN seven prime contracts (out of the 19 prime contracts available nationally), with seven being the maximum number that the NCS Trust could award to any individual provider. In addition, TCN will continue to be a sub-contractor in Lancashire following Inspira's successful bid to deliver NCS in Lancashire and Cumbria. As such, TCN remains the largest national provider of NCS. During the tender process, 19 providers were shortlisted following the Framework agreement stage and 10 providers (including TCN and Inspira) were awarded prime contracts.

The seven prime contracts awarded to TCN will entail delivering NCS to circa 34,000 young people in 2015, 47,000 in 2016, 62,000 in 2017 and 78,000 in 2018. The contract regions cover Hampshire, Surrey, Greater London, Berkshire, Buckinghamshire, Oxfordshire, the West Midlands, Greater Manchester, Leeds, Bradford and North Yorkshire. In order to deliver the contracts, TCN will partner with the following sub-contractors: Mountbatten School, the Football League Trust, Action 4 Youth, University of the First Age, Oxfordshire County Council, Bolton Lads & Girls Club, The Salford Foundation and Flying Futures.

Across the 2014 delivery period TCN exceeded 100% of contracted places on NCS 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 1,400 social action projects, in partnership with over 2,400 community organisations and over a third of a million hours of social action. They raised over £200,000 for local charities.

Eight hundred graduates returned to volunteer as mentors on the 2014 programme and we also saw a small number of older graduates returning in a paid capacity.

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, 88% stated at the end of the programme that they were better at working in a team and 77% stated that they were better at leading people.

Delivery of HeadStart

HeadStart has been delivered successfully with twice as many young people as expected completing their 16 hours of volunteering, three times as many young people gaining jobs, twice as many hours of volunteering completed to help community organisations and more money committed than projected.

Step Forward Launched

Step Forward has been successfully launched in London with 40 young people starting the programme with jobs successfully sourced, curriculum designed and staff hired and trained ready for launch.

Social Integration Commission Launched

The Social Integration Commission has been launched with publicity gained in a number of newspapers including the Telegraph, the Times, the Independent, the Evening Standard and the Daily Mirror. As a result The Challenge has been invited to meet with thinkers, politicians and journalists interested in social integration.

The Challenge Network

Report of the Trustees for the year ended 31 October 2014 (continued)

FINANCIAL REVIEW

Financial performance

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

Income rose 38% to £37.6m (2013: £27.3m) 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 related to the delivery of the NCS programme, and the Charity has continued to work hard at improving its efficiency in order to deliver a high quality programme at a lower unit cost. This was reflected in the rise of NCS costs in year which rose by 33% to £32.7m (2013: £24.6m).

The other significant expenditure during the year related to the investment in the two new programmes, Step Forward and HeadStart, where combined costs were £0.4m. Overall costs for the organisation in 2014 rose 34% to £33.4m (2013: £24.9m).

The successful delivery of the NCS programme to significantly more young people and the drive to be ever more cost efficient has resulted in a surplus for the year of £4.2m (2013: £2.4m), an increase of 75%.

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.

At the year end the Group had unrestricted reserves of £6.9m (2013: £2.6m). After deducting tangible fixed assets of £0.1m (2013: £0.1m), the unrestricted free reserves stand at £6.8m (2013: £2.5m) of which £3.4m would be required to meet costs if NCS were to cease. Unrestricted reserves are also held to enable the Charity to invest in new programmes and initiatives, in particular our Stepforward and Headstart programmes.

The Board are keen to ensure that the reserves are used in the most effective way in order to extend the Charity's mission and have appointed a new Strategy and Operational Effectiveness Director to consider the opportunities that exist.

The balance of unrestricted reserves is retained to meet our working capital requirements particularly in light of the anticipated rapid growth of TCN.

Principal funding sources

The principal funding source for the charity is contract income relating to delivery of the National Citizen Service. In addition TCN has raised funds from corporate donors to support HeadStart, The Challenge Society and the work of the Social Integration Commission. The funding for Step Forward is received from the Skills Funding Agency.

The Challenge Network

Report of the Trustees for the year ended 31 October 2014 (continued)

Investment policy

The Charity has sought external advice on the prudent investment of its funds. It has been agreed that in view of the option for the NCS Trust to terminate the NCS contract on six months' notice without cause, no investment should be made for a period greater than six months.

Investments should only be made with organisations with a credit rating of BBB+ or above (or equivalent), and no more than 25% of any available funds should be invested with any one organisation, other than TCN's primary bank.

Going concern

On the 17 July 2014 the NCS Trust extended the contracts originally signed in November 2012 for a further term to 30 September 2015.

On 3 October 2014 TCN were advised that they had been successful in securing seven contracts to deliver NCS until Summer 2018, the contracts for which were signed on 3 February 2015.

Risk Management

During the year TCN commissioned Sayer Vincent, Chartered Accountants, to conduct a review of its areas of risk, in the capacity of Internal Auditors. When complete, Sayer Vincent will report their findings to the Audit and Risk Committee. Sayer Vincent's work has largely occupied two categories: strategic (largely delegated to be carried by Directors) and operational risks (largely delegated to be carried by Heads of Department).

The TCN risk register has been reviewed during the year and is considered 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 principle risk is that each of the NCS agreements includes an option for the NCS Trust to terminate the contract on six months' notice without cause. In this event, the NCS Trust 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 minimised the number of material contracts that 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 has continued to diversify its programmes during the year. Step Forward is funded from the Skills Funding Agency, whilst HeadStart is funded principally from grants and donations from corporate supporters.

The Challenge Network

Report of the Trustees for the year ended 31 October 2014 (*continued*)

FUTURE DEVELOPMENTS

Plans for future periods

NCS

In 2015 more than 34,000 young people will complete NCS and our sub-contractors, and we will transition into delivery under new contracts in all seven regions by autumn 2015. Our aim over the coming few years is that TCN maintains its position as the leading provider of National Citizen Service, known for our quality, social impact and value for money. We will need to grow our delivery of NCS by a compound annual growth rate of circa 35% 2014-2018 (aligned with the new contract requirements) such that at least 1 in 4 of all sixteen years olds take part in the programme in the regions we serve by 2018.

Step Forward

In 2014/5, Step Forward will complete its first cohort and will launch its second cohort with 160 young people working in roles across IT, Social Media, Early Years, Business Administration and Accounting.

HeadStart

In 2014/5, HeadStart will expand by 400% to enable 1900 young people to complete the 16 hours of volunteering, accessing workshops and job interviews. We will grow support of the programme to reach 8 corporate supporters – growing from the present 5. We will also run a small pilot for the programme in Birmingham.

Social Integration Commission and Public Affairs

In 2014/5, the Social Integration Commission will launch its last report in the run up to the election which will make a number of recommendations about changes that will lead to a more integrated society. We will seek to build on the work of the Commission by continuing to make the case for the programmes that we run, build further awareness amongst policy-makers of the importance of social integration to the UK and run campaigns to make the Commission's policy recommendations a reality.

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 two trustees resigned their trusteeships. These were: Alistair Wilkinson on 14 August 2014 and Paul Amadi on 12 September 2014. In addition, following the year-end, Stephen Peck announced his resignation from the board with effect from 29 January 2015. Work is ongoing to recruit two new trustees.

Trustees are required to seek re-election after serving for a period of 3 years. On 25 November 2014, Richard Wilson, Dan Guthrie and Colin Smith indicated their willingness to serve for a further 3 years. Richard Wilson was duly re-elected from 31 January 2015 whilst Dan Guthrie and Colin Smith were both re-elected from 27 March 2015.

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

The Challenge Network

Report of the Trustees for the year ended 31 October 2014 (*continued*)

Organisational structure

The Charity has a Board consisting at year-end of 7 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.

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, stepped down and was replaced by Oliver Lee. Craig and Oliver overlapped for ten weeks to ensure an orderly handover.

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.

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 and organisational decision-making. 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 leadership update emails from the Chief Executive. 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 2014 (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 group and charitable company and of the incoming resources and application of resources, including the income and expenditure, of the group and 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 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



C Smith
Trustee

24 March 2015

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 2014 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 2014, 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.

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.

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Independent auditor's report (*continued*)

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

25 March 2015

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 2014

	Note	Unrestricted funds £'000	Restricted funds £'000	Total funds 2014 £'000	Total funds 2013 £'000
Incoming resources					
<i>Incoming resources from generated funds</i>					
Voluntary income	2a	1,794	310	2,104	1,881
Investment income	2c	15	-	15	9
<i>Incoming resources from charitable activities</i>	2b	35,528	-	35,528	25,389
Total incoming resources		37,337	310	37,647	27,279
Resources expended					
<i>Costs of generating voluntary income</i>		101	-	101	-
<i>Charitable activities</i>					
NCS	3	32,655	-	32,655	24,622
The Challenge Society	3	-	102	102	270
Step Forward	3	322	-	322	-
Headstart	3	9	112	121	-
Social Integration Commission	3	-	68	68	-
<i>Governance costs</i>	5	44	-	44	29
Total resources expended		33,131	282	33,413	24,921
Net income for the year before transfers		4,206	28	4,234	2,358
Gross transfers between funds	12	37	(37)	-	-
Net income for the year		4,243	(9)	4,234	2,358
Reconciliation of funds					
Total funds brought forward		2,630	68	2,698	340
Total funds carried forward		6,873	59	6,932	2,698

All amounts relate to continuing activities. There are no recognised gains or losses other than the surplus for the year.

The notes on pages 17 to 26 form part of these financial statements.

The Challenge Network

Consolidated balance sheet at 31 October 2014

<i>Company number 06845451</i>	Note	2014 £'000	2013 £'000
Fixed assets			
Tangible assets	8	66	63
Current assets			
Debtors: amounts falling due within one year	9	3,341	1,578
Cash at bank and in hand		8,988	3,111
Short term deposits		3,003	-
		<u>15,332</u>	<u>4,689</u>
Creditors: amounts falling due within one year	10	(8,466)	(2,054)
		<u>6,866</u>	<u>2,635</u>
Net current assets			
		<u>6,932</u>	<u>2,698</u>
Total assets less current liabilities			
		<u>6,932</u>	<u>2,698</u>
Net assets			
		<u>6,932</u>	<u>2,698</u>
Funds			
Unrestricted funds	12	6,873	2,630
Restricted funds	12	59	68
		<u>6,932</u>	<u>2,698</u>
Total funds			
		<u>6,932</u>	<u>2,698</u>

The financial statements were approved by the Board of Trustees and authorised for issue on 24 March 2015



C Smith
Trustee

The notes on pages 17 to 26 form part of these financial statements.

The Challenge Network

Parent charity balance sheet at 31 October 2014

<i>Company number 06845451</i>	Note	2014 £'000	2013 £'000
Fixed assets			
Tangible assets	8	66	63
Current assets			
Debtors: amounts falling due within one year	9	3,440	1,550
Cash at bank and in hand		8,889	3,111
Cash on deposit		3,003	-
		<hr/>	<hr/>
		15,332	4,661
Creditors: amounts falling due within one year	10	(8,466)	(2,026)
		<hr/>	<hr/>
Net current assets		6,866	2,635
		<hr/>	<hr/>
Total assets less current liabilities		6,932	2,698
		<hr/>	<hr/>
Net assets		6,932	2,698
		<hr/>	<hr/>
Funds			
Unrestricted funds	12	6,873	2,630
Restricted funds	12	59	68
		<hr/>	<hr/>
Total funds		6,932	2,698
		<hr/>	<hr/>

The financial statements were approved by the Board of Trustees and authorised for issue on 24 March 2015



C Smith
Trustee

The notes on pages 17 to 26 form part of these financial statements.

The Challenge Network

Consolidated cash flow statement for the year ended 31 October 2014

	Note	2014 £'000	2013 £'000
Net cash inflow from operating activities	1	8,918	1,476
Returns on investments and servicing of finance	2	15	9
Capital expenditure	2	(53)	(49)
Net cash flow in the year	3	<u>8,880</u>	<u>1,436</u>

The notes on pages 17 to 26 form part of these financial statements.

The Challenge Network

Notes to the consolidated cash flow statement for the year ended 31 October 2014

1 Reconciliation of net incoming resources to net cash inflow from operating activities

	2014 £'000	2013 £'000
Net incoming resources	4,234	2,359
Depreciation charges	50	62
Interest received	(15)	(9)
Increase in debtors	(1,763)	(1,273)
Increase in creditors	6,412	337
Net cash inflow from operating activities	8,918	1,476

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

	2014 £'000	2013 £'000
Returns on investments and servicing of finance		
Interest received	15	9
Net cash inflow for returns on investments and servicing of finance	15	9
Capital expenditure and financial investment		
Purchase of tangible fixed assets	(53)	(49)
Net cash outflow for capital expenditure and financial investment	(53)	(49)

3 Analysis of changes in cash

	At 1 November 2013 £'000	Cash flows £'000	At 31 October 2014 £'000
Cash at bank and in hand	3,111	5,877	8,988
Short term deposits	-	3,003	3,003
	3,111	8,880	11,991

The Challenge Network

Notes forming part of the financial statements for the year ended 31 October 2014

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.

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. Contract income is included on an accruals basis and shown as accrued income until invoiced.

Grant income is recognised on notification when there is certainty, entitlement and the amount can be measured.

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.

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.

The Challenge Network

Notes forming part of the financial statements for the year ended 31 October 2014 (*continued*)

1 Accounting policies (*continued*)

Allocation and apportionment of costs (continued)

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 company is a charity within the meaning of Para 1 Schedule 6 Finance Act 2010. Accordingly the company is potentially exempt from taxation in respect of income or capital gains within categories covered by Chapter 3 of Part 11 of the Corporation Tax Act 2010 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.

No tax charge arose in the period.

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.

Leased assets

The annual rentals in respect of assets held under operating lease are charged to the profit and loss account on a straight-line basis over the term of the lease.

The Challenge Network

Notes forming part of the financial statements
for the year ended 31 October 2014 (*continued*)

2 Income

	2014 £'000	2013 £'000
2(a) Voluntary income		
Donations	1,694	1,218
Grants	310	525
Other income	100	138
	<hr/>	<hr/>
	2,104	1,881
	<hr/>	<hr/>

Donations include £1,502k (2013 - £938k) for in-kind support from a number of different suppliers. The largest of these was £623k from Social Business Trust for Bain strategy projects. This also included Ernst & Young support of £146k for the implementation of the Bain strategy project and legal support from Clifford Chance related to the NCS contract, data protection and employment law advice. In addition £16k of legal support from Hogan Lovells has been received in relation to property advice.

The corresponding expenses are included within charitable activities. Several places for venue hire were obtained at substantial discounts amounting to £482k (2013 - £405k).

Grants received, included in the above, are as follows:

	2014 £'000	2013 £'000
British Gas	50	-
Greater London Authority	55	-
Barrow Cadbury Trust	18	-
National Lottery	49	-
Heathrow Community Fund	137	37
Social Investment Business	-	281
Other Grants	1	207
	<hr/>	<hr/>
	310	525
	<hr/>	<hr/>

The Challenge Network

Notes forming part of the financial statements
for the year ended 31 October 2014 (*continued*)

2(b) Incoming resources from charitable activities

	2014 £'000	2013 £'000
Income from Participants	771	579
Contract income	34,717	24,810
Stepforward	40	-
	<u>35,528</u>	<u>25,389</u>

2(c) Investment income

	2014 £'000	2013 £'000
Deposit account interest	15	9
	<u>15</u>	<u>9</u>

3 Charitable activities costs

	Direct costs £'000	Support costs (Note 4) £'000	Total 2014 £'000
Charitable activities	28,689	4,579	33,268
	<u>28,689</u>	<u>4,579</u>	<u>33,268</u>

4 Support costs

	Staff costs £'000	Other Costs £'000	Total 2014 £'000	Total 2013 £'000
NCS and The Challenge Society	2,379	2,200	4,579	3,712
	<u>2,379</u>	<u>2,200</u>	<u>4,579</u>	<u>3,712</u>

The Challenge Network

Notes forming part of the financial statements for the year ended 31 October 2014 (*continued*)

5 Governance costs

	2014 £'000	2013 £'000
Auditors' remuneration (including VAT) – current year	34	27
– prior year	7	-
Auditors' remuneration for non-audit work	3	2
	<hr/>	<hr/>
	44	29
	<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 £810 (2013 - £1,340) were reimbursed to trustees in the year to 31 October 2014. These were paid to two (2013 – four) trustees.

6 Net incoming resources

	2014 £'000	2013 £'000
Net resources are stated after charging:		
Auditors' remuneration	28	27
Auditors' remuneration for non-audit work	2	2
Depreciation - owned assets	50	62
	<hr/>	<hr/>

The Challenge Network

Notes forming part of the financial statements
for the year ended 31 October 2014 (*continued*)

7 Employees

	2014 £'000	2013 £'000
Staff costs consist of:		
Wages and salaries	12,315	9,245
Social security costs	922	693
Pension costs	151	51
	<u>13,388</u>	<u>9,989</u>

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

	2014 Number	2013 Number
Core permanent staff	348	246
Temporary programme staff	199	152
	<u>547</u>	<u>398</u>

In order to operate NCS in 2014, the charity employed 2,472 (2013 – 1,900) temporary programme staff during the Summer and Autumn programmes.

The calculation of the number of full-time equivalent Temporary programme staff has been revised, resulting in a restatement of the 2013 comparative figure.

The number of higher paid staff with emoluments are as follows:

	2014 Number	2013 Number
£60,000 to £69,999	1	-
£70,000 to £79,999	3	4
£80,000 to £89,999	3	1
	<u>7</u>	<u>5</u>

The Challenge Network

Notes forming part of the financial statements
for the year ended 31 October 2014 (*continued*)

8 Tangible fixed assets

Group and parent	Fixtures and fittings £'000	Motor vehicles £'000	Computer equipment £'000	Total £'000
<i>Cost</i>				
At 1 November 2013	14	38	151	203
Additions	-	8	45	53
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 October 2014	14	46	196	256
	<hr/>	<hr/>	<hr/>	<hr/>
<i>Depreciation</i>				
At 1 November 2013	7	17	116	140
Charge for the year	2	10	38	50
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 October 2014	9	27	154	190
	<hr/>	<hr/>	<hr/>	<hr/>
<i>Net book value</i>				
At 31 October 2014	5	19	42	66
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 October 2013	7	21	35	63
	<hr/>	<hr/>	<hr/>	<hr/>

9 Debtors: amounts falling due within one year

	Group 2014 £'000	Group 2013 £'000	Charity 2014 £'000	Charity 2013 £'000
Trade debtors	24	364	24	197
Other debtors	632	87	632	87
Amounts due from subsidiaries	-	-	99	139
Prepayments and accrued income	2,685	1,127	2,685	1,127
	<hr/>	<hr/>	<hr/>	<hr/>
	3,341	1,578	3,440	1,550
	<hr/>	<hr/>	<hr/>	<hr/>

The Challenge Network

Notes forming part of the financial statements
for the year ended 31 October 2014 (*continued*)

10 Creditors: amounts falling due within one year

	Group 2014 £'000	Group 2013 £'000	Charity 2014 £'000	Charity 2013 £'000
Trade creditors	2,206	977	2,206	977
Social security and other taxes	220	193	220	193
Other creditors	170	165	170	138
Deferred income	4,879	-	4,879	-
Accrued expenses	991	718	991	718
	<u>8,466</u>	<u>2,053</u>	<u>8,466</u>	<u>2,026</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 £'000	Restricted funds £'000	Total funds 2014 £'000	Total funds 2013 £'000
Fixed assets	66	-	66	63
Current assets	15,273	59	15,332	4,689
Current liabilities	(8,466)	-	(8,466)	(2,054)
	<u>6,873</u>	<u>59</u>	<u>6,932</u>	<u>2,698</u>

The Challenge Network

Notes forming part of the financial statements
for the year ended 31 October 2014 (*continued*)

12 Movement in funds

Group and parent	At 1 November 2013 £'000	Income £'000	Expenditure £'000	Transfers movement in funds £'000	At 31 October 2014 £'000
<i>Unrestricted funds</i>					
General funds	2,630	37,337	(33,131)	37	6,873
<i>Restricted funds</i>					
SAF	11			(11)	-
British Airports Authority	36	137	(98)	(26)	49
Dulverton Trust	21		(21)		-
Big Lottery		49	(39)		10
Barrow Cadbury		18	(18)		-
Greater London Authority		55	(55)		-
British Gas		50	(50)		-
Other		1	(1)		-
Total funds	2,698	37,647	33,413	-	6,932

The Heathrow Community Fund (a grant making charity funded by the owners of Heathrow Airport) gave grants totalling £137,000 for HeadStart and The Challenge Society to deliver a range of activities to benefit young people and local charities across the areas of Ealing, Hillingdon, Hounslow, Spelthorne and Slough.

The Big Lottery Fund grant of £49,000 has been spent on delivering The Challenge Society project for the benefit young people in North East London.

The Barrow Cadbury Trust grant of £18,000 contributed towards the cost of the economic segregation element of the Challenge Network's 'Commission for Social Integration'

The Greater London Authority grant of £55,000 contributed to the cost of delivering the HeadStart London pilot.

The British Gas grant of £50,000 contributed to the cost of The Social Integration Commission.

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.

The Challenge Network

Notes forming part of the financial statements for the year ended 31 October 2014 (continued)

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

	2014 £	2013 £
Income	98,430	138,578
Surplus for the year gifted to parent charity	(98,430)	(138,578)
Assets	98,520	166,295
Liabilities	(98,519)	(166,294)
	<hr/>	<hr/>
Net assets	1	1
	<hr/>	<hr/>

15 Commitments under operating leases

As at 31 October 2014, the charity had annual commitments under non-cancellable operating leases as set out below:

	Land and buildings 2014 £'000	Land and buildings 2013 £'000
Operating leases which expire:		
Within one year	97	96
In two to five years	1	79
	<hr/>	<hr/>
	98	175
	<hr/>	<hr/>

16 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.