

AM22

Notice of move from administration to creditors' voluntary liquidation



Companies House

TUESDAY



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05/05/2020

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COMPANIES HOUSE

1 Company details

Company number 0 6 8 4 5 4 5 1

Company name in full The Challenge Network

→ Filling in this form
Please complete in typescript or in
bold black capitals.

2 Court details

Court name The High Court of Justice London

Court case number 7 9 8 7 2 0 1 9

3 Administrator's name

Full forename(s) Phillip

Surname Sykes

4 Administrator's address

Building name/number 25 Farringdon Street

Street

Post town London

County/Region

Postcode E C 4 A 4 A B

Country

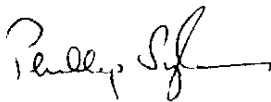
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| | | |
|--------------------------------|---|--|
| 5 | Administrator's name ① | |
| Full forename(s) | Matthew | ① Other administrator Use this section to tell us about another administrator. |
| Surname | Haw | |
| 6 | Administrator's address ② | |
| Building name/number | 25 Farringdon Street | ② Other administrator Use this section to tell us about another administrator. |
| Street | | |
| Post town | London | |
| County/Region | | |
| Postcode | E C 4 A 4 A B | |
| Country | | |
| 7 | Appointor/applicant's name | |
| | Give the name of the person who made the appointment or the administration application. | |
| Full forename(s) | Directors of the | |
| Surname | Company | |
| 8 | Proposed liquidator's name | |
| Full forename(s) | Phillip | |
| Surname | Sykes | |
| Insolvency practitioner number | 6 1 1 9 | |
| 9 | Proposed liquidator's address | |
| Building name/number | 25 Farringdon Street | |
| Street | | |
| Post town | London | |
| County/Region | | |
| Postcode | E C 4 A 4 A B | |
| Country | | |

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| | | |
|--|---|--|
| 10 | Proposed liquidator's name^① | |
| Full forename(s) | Matthew | |
| Surname | Haw | |
| Insolvency practitioner number | 9 6 2 7 | |
| | | ① Other liquidator Use this section to tell us about another liquidator. |
| 11 | Proposed liquidator's address^② | |
| Building name/number | 25 Farringdon Street | |
| Street | | |
| Post town | London | |
| County/Region | | |
| Postcode | E C 4 A 4 A B | |
| Country | | |
| | | ② Other liquidator Use this section to tell us about another liquidator. |
| 12 | Period of progress report | |
| From date | d 2 7 m 1 1 y 2 0 y 1 9 | |
| To date | d 3 0 m 0 4 y 2 0 y 2 0 | |
| 13 | Final progress report | |
| <input checked="" type="checkbox"/> I have attached a copy of the final progress report. | | |
| 14 | Sign and date | |
| Administrator's signature | Signatur X  X | |
| Signature date | d 0 5 m 0 5 y 2 0 y 2 0 | |

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**Presenter information**

You do not have to give any contact information, but if you do it will help Companies House if there is a query on the form. The contact information you give will be visible to searchers of the public record.

| | |
|---------------|--------------------------------|
| Contact name | Phillip Sykes |
| Company name | RSM Restructuring Advisory LLP |
| Address | 25 Farringdon Street |
| Post town | London |
| County/Region | |
| Postcode | E C 4 A 4 A B |
| Country | |
| DX | |
| Telephone | 0203 201 8000 |

**Checklist**

We may return forms completed incorrectly or with information missing.

Please make sure you have remembered the following:

- ☐ The company name and number match the information held on the public Register.
- ☐ You have attached the required documents.
- ☐ You have signed and dated the form.

**Important information**

All information on this form will appear on the public record.

**Where to send**

You may return this form to any Companies House address, however for expediency we advise you to return it to the address below:

The Registrar of Companies, Companies House,
Crown Way, Cardiff, Wales, CF14 3UZ.
DX 33050 Cardiff.

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This form is available in an alternative format. Please visit the forms page on the website at www.gov.uk/companieshouse

In the matter of

**The Challenge Network In Administration
(‘the Company’)**

In the The High Court of Justice London no 7987 of 2019

Joint Administrators' final progress report

30 April 2020

**Phillip Sykes and Matthew Haw
Joint Administrators
(‘the Administrators’)**

**RSM Restructuring Advisory LLP
25 Farringdon Street
London
EC4A 4AB
Tel: 0203 201 8000
Email: restructuring.london.core@rsmuk.com**

Sections

1. Conduct of the administration
2. Assets remaining to be realised
3. Creditors' claims and dividend prospects
4. Receipts and payments summary
5. Administrators' remuneration, expenses and disbursements
6. Creditors' right to information and ability to challenge expenses
7. Closure of the administration

Appendices

- A. Statutory and other information
- B. Dividend information
- C. Summary of receipts and payments
- D. RSM Restructuring Advisory LLP charging, expenses and disbursements policy
- E. RSM Restructuring Advisory LLP London current charge out and disbursement rates
- F. *Statement of expenses incurred in the period from 27 November 2019 to 30 April 2020*
- G. Administrators' time cost analysis for the period from 27 November 2019 to 30 April 2020

This report has been prepared in accordance with insolvency legislation to provide creditors, members and the Registrar of Companies with information relating to the progress of the administration in the period from 27 November 2019 to 30 April 2020. This report should be read in conjunction with any previous reports that have been issued, copies of which are available on request.

This report has been prepared solely to comply with the statutory requirements of the relevant legislation. It has not been prepared for use in respect of any other purpose, or to inform any investment decision in relation to any debt or financial interest in the company. Any estimated outcomes for creditors are illustrative and may be subject to significant change.

Neither the Administrators nor RSM Restructuring Advisory LLP accept any liability whatsoever arising as a result of any decision or action taken or refrained from as a result of information contained in this proposal.

1 Conduct of the administration

1.1 The Administrators' proposals

Paragraph 3 of Schedule B1 to the Insolvency Act 1986 sets out the purposes of an administration. The Administrators must perform their functions with the objective of either:

- (a) *rescuing the Company as a going concern; or*
- (b) *achieving a better result for the Company's creditors as a whole than would be likely if the Company were wound up (without first being in Administration); or*
- (c) *realising property in order to make a distribution to one or more secured or preferential creditors.*

It was not possible to achieve statutory purpose (a) because there was no prospect of obtaining sufficient investment or funding to settle the creditors' liabilities and return the Company to a position as a going concern following the loss of the key contract with the National Citizen Service Trust ("NCS Trust") in 2019.

The controlled wind down of the Company in administration and retention of key staff and systems helped achieve significantly greater asset realisations for the benefit of the creditors than would have been achieved in a 'shut down' liquidation scenario.

The retention of both staff and systems assisted the Administrators not only with the sale of the remaining assets such as the computer equipment, fixtures and fittings and other equipment etc, but also allowed the Administrators to negotiate the settlement agreement with the NCS Trust, which resulted in an additional £2.8m being available for the benefit of the general creditor body.

As a result of the above, the realisations and potential level of an unsecured dividend is anticipated to be significantly higher than would have been paid in a shut-down/winding-up scenario. Therefore, the Administrators consider that statutory purpose (b) has been achieved.

The Administrators' proposals in relation to the Company are that:

- The Administrators should consider and pursue the most appropriate method of realising the remaining assets for the benefit of the creditors.
- The Administrators should arrange to distribute available funds from the realised assets to those creditors entitled to them in such manner as they consider will lead to an early distribution of the available assets in an economic manner.
- The Administrators be authorised to make such application to court for directions as they consider appropriate with a view to achieving the purposes of the administration or their proposals.
- The Company will exit the administration by way of Creditors' Voluntary Liquidation or Dissolution.
- If the Company exits administration by moving into a Creditors' Voluntary Liquidation, it is proposed that Phillip Sykes and Matthew Haw of RSM Restructuring Advisory LLP, 25 Farringdon Street, London, EC4A 4AB be appointed Joint Liquidators of the Company. The Liquidators will have the power to act jointly and severally and may act required or authorised to be done by the Liquidators may be done by all or anyone more of the persons holding the office in question.

Upon delivery of the Administrators' proposals, we received three requests from creditors volunteering to sit on the creditors committee. They were:

| Name | Representing |
|----------------|------------------------------|
| Andrew Scholey | First Travel Solutions Ltd |
| Hiten Savla | Barnet and Southgate College |
| Jamie Skelding | Newhall Charlotte Limited |

The committee was duly formed, and the first committee meeting was held on 5 March 2020. On behalf of the general creditor body, the committee also approved the following resolutions:

- That the Administrators be discharged from liability in respect of any action of theirs as Administrators immediately following their cessation to act as Administrators.
- The Administrators shall be authorised to draw their remuneration based upon time costs limited to the sum of £487,334 (plus VAT).
- The Administrators shall be authorised to draw 'category 2' disbursements as an expense of the administration at the rates prevailing at the time the cost is incurred. In the event that the administration exits by way of liquidation and the Administrators are appointed liquidators, any approval shall be treated as being passed in the liquidation.
- The Administrators shall be authorised to draw their outstanding pre-appointment remuneration as set out in Appendix H, in the sum of £8,867 (plus VAT).
- The Administrators shall be authorised to discharge the outstanding pre-appointment expenses as set out in Appendix H, in the sum of £14,506.

Please note that the Administrators' proposals have not been revised or amended and there have been no deviations from these proposals.

1.2 Realisation of assets

Legal claim against NCS Trust

The Company originally filed the claim against the NCS Trust in the High Court in September 2019 under claim number HT-2019-000309. The total claimed by the Company was some £26m, as noted in the Statement of Affairs provided to creditors in the Administrators' proposals.

Following the appointment of the Administrators it was agreed with the NCS Trust that the proceedings be stayed to allow the Administrators time to review the claimant's position and to consider legal advice as to the next steps.

Following negotiations between NCS Trust, the Administrators and both sides' legal representatives, a settlement was agreed on 31 March 2020.

Without any admission of liability, the NCS Trust agreed to pay a sum of £2.8 million in respect of costs incurred by the Company for unfilled places during 2019 which can be claimed under the contract. NCS Trust accepted no liability in respect of the other two parts of the £26 million claim brought by the Company. *The total sum of £2.8m has now been received into the administration account.*

As a specific term of the agreement, £139,710 of the £2.8m sum was required to be specifically allocated to ensure the payment of the Real Challenge Action creditors ("RCA") in full (see section 2.1.6 for further information on this class of creditor).

Cash at bank

On appointment, the Company held cash at bank of £3,328,595 in a Lloyds bank current account.

Following the set-off of an outstanding debit balance due for a card facility operated by Lloyds and deduction of certain staff salaries approved for payment prior to the Administrators' appointment, the total amount transferred to the administration account was £3,307,285.

Further funds, totalling £47,507 which were held on appointment in a Paypal account operated by the Company have also been transferred into the administration account. Other refunds totalling £2,384 have also been received into the account during the period.

Cash held in the Company's safe totalling £3,202 has now been banked into the administration account.

£25,847 has been realised from funds held on pre-paid credit cards by the Company prior to our appointment.

Together with the assistance of the retained staff, the Administrators facilitated the realisation of various Oyster cards and Amazon Vouchers held by the Company upon appointment for amounts of £1,709 and £480 respectively.

Sale of equipment

The Company owns large volumes of IT equipment, including computers, tablets, mobile phones and cameras.

On appointment the Administrators appointed Hilco Global ('Hilco') to advise on the sale strategy for these items. The Administrators have subsequently appointed Harrison James, who were contracted by the Company prior to our appointment, to sell the IT assets. Harrison James estimated there were 7,000 items to be sold.

To date, the sale of equipment has generated £25,700 for the administration estate. Harrison James will continue to facilitate the sale of equipment in the subsequent liquidation.

1.3 Investigations

In accordance with the Administrators' statutory obligations, the appropriate documentation has been submitted to the Department for Business, Energy and Industrial Strategy in relation to the conduct of the directors.

1.4 Case specific matters

1.4.1 Site closures

The Company originally operated from eight sites around the country in 2019 prior to the Company entering administration. However, the downscaling in operations process which was put in place prior to our appointment had resulted in a number of these sites being exited. Since appointment, the Administrators have worked with the retained Company employees to:

- manage the remaining site closures;
- arrange for the collection of any leased third-party assets;
- arrange for equipment which was deemed to have resale value to be removed and passed to the agents;
- correspond with landlords;
- ensure Company assets were recovered and transported to the London office for subsequent sale/disposal; and
- ensure that the exit from each premises was agreed to ensure costs were mitigated and potential claims against the Company managed.

2.1.1 Employees

As mentioned above, the Company had started downscaling the Company's operations by reducing staff numbers prior to the Administration. On appointment there were 209 employees of the Company, 85 of which were already due to leave the business on 30 November 2019. Of the remaining employees the Administrators retained a team of 50, which included the senior leadership team and other key staff *critical to assisting the Administration such as employees in finance, HR, payroll and IT.*

The employees associated with the HeadStart and T-Level programmes were also retained on the basis that the Administrators would be able to transfer these to other charities to secure the ongoing services. The remaining staff were made redundant as at 30 November 2019.

Following the settlement agreement with the NCS Trust, the small number of employees retained for the reasons listed above were made redundant on 31 March 2020. However, three former employees have continued to assist the Administrators with ad-hoc tasks including managing the wind-down of the remaining IT systems, managing reference requests and fielding P60 and payslip requests. These former members of staff are being retained as contractors on a day rate equivalent to their former employment contract with the Company.

Prior to the date of appointment, the Company had processed the November payroll. These sums would largely form preferential creditor claims in the Administration and as it was anticipated that these will be paid in full, the Administrators did not attempt to block payment.

The ex-gratia elements of the pre-agreed redundancy packages had not been paid and these will rank as unsecured claims in the Administration/Liquidation.

2.1.2 Headstart Core

Headstart Core was developed by the Company in partnership with the Mayor of London and leading businesses to prepare school leavers for the world of work whilst aiming to build stronger and better-connected communities.

Upon appointment, we were notified that there may be potential interest in the acquisition of this part of the business. Once approval from existing corporate partners had been received, retained Company staff ran a process whereby various interested parties were contacted and offered the opportunity to acquire Headstart Core.

Following the initial discussions, senior members of the Company met with those parties who had expressed a serious interest to acquire the business to answer any questions and discuss the future of the programme.

Following these discussions, the programme was eventually acquired by Family Action on 31 January 2020. This acquisition included the transfer of *all the Company's employees who were involved in the programme.* As consideration for the transfer Family Action assumed responsibility for any relevant employee related liabilities.

2.1.3 Headstart Action

This programme was created in addition to Headstart Core in partnership with the Mayor of London, *supporting 14-18 year olds who were at risk of not being in education, employment or training to engage with their education and community to build skills, experience and networks.*

Initially, the Headstart programme (both Core and Action) was offered to potentially interested parties as a package, but it was decided by senior management that the programme should be split and disposed of separately as the strongest proposals for each of Headstart Action and Headstart Core came from separate organisations.

London Youth eventually acquired the Headstart Core programme and, similarly to Headstart Action, all the employees involved in the programme transferred across to London Youth. As consideration for the transfer London Youth assumed responsibility for any relevant employee related liabilities.

2.1.4 T-Levels

T-Levels was a programme designed by the Company to allow young people to have a high-quality technical alternative to A Levels through the use of industry placements.

At the point of entering administration, the Company was delivering a contract for the Department for Education as a subcontractor to the Association of Colleges ("AOC"). This contract provided assistance to the government and technical education colleges in building support for young people to start T-Level qualifications, and to help them reach the required standard to start such a course.

The Company reached an agreement with the AOC and the Department for Education that the employees working on this project would transfer to the AOC, who would deliver the remainder of the contract in full. A letter of transfer was agreed and signed to this effect in December 2019.

The full team of seven employees who worked for the Company on the T-Levels project completed a TUPE process and transferred to the AOC on 22 December 2019.

Prior to transfer, the AOC paid the Company on a pro-rata basis for all work done up to 22 December 2019 as per the contract.

No consideration was directly received for the transfer, however the acquirer adopted the liabilities of the staff, reducing claims in the Administration.

2.1.5 IP transfer of smaller research projects

The Company was considered a leading organisation in practical research and policy work on social integration, and through this developed intellectual property ("IP") of social value. As part of the administration process, together with senior management, we have sought to transfer this IP swiftly to other organisations who have the intention to carry this work forward. The IP transferred to companies includes:

- All Party Parliamentary Group for Social Integration. The Company provided the secretariat for this group from 2016-19, publishing a number of reports on its behalf. An agreement was reached in December 2019 for British Future, a charity focused on identity and inclusion, to take over the secretariat role. Separately, the All Party Parliamentary Group was dissolved as part of the December 2019 general election process and is in the process of re-forming. British Future will publish the final report on intergenerational integration, that had been led by the Company in early 2020.
- British Integration Survey. The Company had run a biannual survey of the level of social integration between different ethnic and socioeconomic groups in different parts of the UK for 6 years. The transfer included the handing over of survey methodology and all relevant documentation to 'Belong' who will carry out future versions of the survey and take on the fundraising task to deliver this.
- Design Thinking approach to Social Integration consultancy toolkit. The Company carried out a number of pro bono workshops in 2018-19 to test and develop this methodology to help local authorities, housing associations and others to build more socially integrated services. We have shared and handed over methodology, toolkits and scorecards to 'Belong' to carry this work forward.

- Legacy Policy and Research Publications. 'Belong' have set up a legacy page for the Company which contains previous policy and research output from 2013 - 2019. 'More in Common' are also planning to build a similar hosting page within their forthcoming Learning Hub. We have given permission to both organisations to host the Company's legacy publication content.

2.1.6 Real Challenge Action ("RCA") partners

Since appointment, the Administrators have been contacted by a significant number of charities who were identified by the Company as RCA partners. RCA was the final phase of the Company's National Citizen Service programme, whereby the young people would raise funds for their selected social action project, in association with the RCA partner. Surplus funds raised by the individuals, above the costs of completing the project, would be donated to the RCA partner.

These surplus funds were paid into the Company's bank account and then the Company would contact the RCA partner to ask them to issue an invoice for the value of the donation. Once the invoice was received, the surplus funds would then be paid across the RCA partner.

On appointment the total sum of £139,710 was recorded on the Company's accounting system as being owed to the individual RCA partners.

The Company paid these sums into their usual trading bank account, and not into a separate, ring-fenced bank account. As such, these funds were co-mingled with the Company's funds.

As part of the NCS Trust settlement referred to in section 1.2, the agreement specified that of the £2.8m sum to be paid to the Company, £139,710 of this amount was required to be used to settle RCA creditors liabilities in full.

A distribution will be made to this class of creditor in the subsequent liquidation.

2.1.7 HR ongoing

During the period since appointment, we have continued to receive daily correspondence from former employees which has included:

- Requests for P45's and P60s;
- Queries regarding submitting claims via the Redundancy Payment Office;
- Payroll queries;
- Reference requests; and
- Ad-hoc queries relating to their employment period at the Challenge.

Together with the former members of staff, we continue to manage this correspondence to ensure all queries are resolved promptly, to the extent that we have access to the information required.

1.5 Administration and planning

Certain aspects of the work that the Administrators undertake are derived from the underlying legal and regulatory framework for cases of this nature. This work, which does not usually result in any direct financial benefit to creditors, is a necessary part of complying with both the legislative and best practice responsibilities arising in such cases, and ensuring that the case is managed efficiently and effectively. It includes matters such as:

- Periodic case reviews, ongoing case planning and strategy;
- Maintaining and updating computerised case management records;
- Dealing with routine correspondence not attributable to other categories of work;
- Ongoing consideration of ethical and anti-money laundering regulations;
- *General taxation matters, including seeking tax clearance from HMRC;*
- Preparation of receipts and payments accounts, maintenance of cashiering records;
- Preparing, reviewing and issuing final report to creditors and other parties;
- Filing of final documentation at Companies House, Court and other relevant parties;
- General administrative matters in relation to closing the case;
- Pension schemes, liaising with PPF/Pensions Regulator/Trustees;
- Consideration of Health and Safety and environmental regulations;
- Obtaining funds from the Company's former accounts; and
- Fielding requests for references and other former employee documents.

2 Assets remaining to be realised

Debtors

According to the Statement of Affairs provided by the Directors of the Company, there were debtors due totalling £141,516 as at the date of our appointment. The Administrators are pursuing these debtors where the sums are correctly owed to the Company. The estimated to realise value is significantly less than the total sum owed due to the age and nature of the debts.

We have received one debtor payment of £65,729, however this was paid into the Company's trading subsidiary's account (see below). This will be included in the Company's receipts and payments account when the funds have been received from the subsidiary in due course.

Distribution from trading subsidiary

The Company has a subsidiary called The Challenge Trading Company Limited ('the Trading Company'). The purpose of the Trading Company was to raise funds for the Company by way of corporate funding for the Headstart programme. All profits would then be donated to the Company.

The Trading Company is solvent and not in administration and continues to be managed by the sole remaining director. Once the final VAT and CT returns have been submitted, a final distribution will be made to the Company.

We currently understand that c.£180,000 may be donated to the Company. We are working with the director to finalise this matter and receive the funds due to the Company.

Sale of equipment

As referred to in section 1.2, the sale of equipment will continue in the subsequent liquidation. We expect realisations to be significantly lower than the £100,000 estimate included in the Statement of Affairs, due to the low prices achievable for basic second-hand electronics.

Rent deposits

We have been in contact with the London office landlord regarding the return of a rent deposit, listed on the Statement of Affairs as being £18,000. No sum has yet been received and we will continue to pursue the repayment.

3 Creditors' claims and dividend prospects

Details of the dividends to be paid to creditors are shown in Appendix B. RCA and preferential creditors will be paid in full. At the current time we are aiming to pay an initial distribution to unsecured creditors in the subsequent liquidation of 50p in the £ within the next two to three months.

The Administrators are obliged to deal with a number of matters in relation to creditors to comply with both the legislative and best practice requirements in relation to the case and to ensure creditors are kept informed. Creditors will only derive an indirect financial benefit from this work on cases where a dividend is due to be paid in the subsequent liquidation. It includes such matters as:

- Preparation and issue of progress reports and associated documentation;
- Maintenance of schedules of preferential and unsecured creditors' claims;
- Dealing with correspondence and telephone calls;
- Where necessary, consideration of creditors' claims; acceptance or rejection of claims and complying with legislative obligations in relation to adjudication of creditors' claims generally for voting and, if applicable, dividend purposes;
- Review of creditor claim supporting documentation; and
- Calculation and payment of dividends to one or more classes of creditors.

3.1 Preferential creditors

Preferential creditors have been mitigated by the fact that most payments for arrears of wages and holiday pay to be made to employees made redundant had been processed prior to appointment.

The Company had outstanding employee pension contributions for October and November 2019 at the date of administration which will also be a preferential claim. We have submitted the required information to the Redundancy Payments Office and are liaising with the pension provider accordingly.

3.2 Unsecured creditors

From the Statement of Affairs provided by the Company, the estimated amount currently owed to unsecured creditors is £7.9m. This includes the RCA partners of whose claim details are given at 2.1.6.

We continue to receive claims, emails and calls from creditors on a daily basis, but to date we have received creditor claims totalling £6.5m.

4 Receipts and payments summary

The Administrators' receipts and payments for the period are attached. Receipts and payments are shown net of VAT. The Company was not VAT registered and consequently VAT is not recoverable from HMRC. The irrecoverable VAT is shown in the receipts and payments account as a 'cost of realisation'.

The Company is stated as being exempt from VAT and HMRC have confirmed this, on the grounds that it is exempt under VATA Schedule 9, Group 6, Item 1(a) as an eligible body as defined in Note 1 (e).

5 Administrators' remuneration, expenses and disbursements

5.1 Authority for remuneration, disbursements and expenses

The Administrators' remuneration was approved on 5 March 2020 by the creditors' committee on the following basis:

On the basis of time costs limited to the sum of £487,334 (plus VAT) in accordance with the fee estimate attached to the Administrators' proposals.

The Administrators cannot draw more than this amount without obtaining the further approval of the creditors' committee.

The creditors' committee also approved the drawing of category 2 disbursements on 5 March 2020.

5.2 Remuneration incurred and drawn in the period from 27 November 2019 to 30 April 2020 and since appointment

Sums drawn, both in respect of the current period of the report, and since appointment, in accordance with the relevant approval set out above, are detailed in the attached receipts and payments account.

The Administrators are required to report remuneration 'charged' in the period. This reflects the time charged to the case for any category of work where remuneration has been approved on a time cost basis. The Administrators can only draw remuneration based on time costs, that has been approved in accordance the fee estimate, as set out above.

The Administrators have incurred time costs of £340,586 in the current period. An analysis of time incurred in the period is attached.

Of this, a total of £340,586 (plus VAT) has been paid and nothing remains outstanding.

Fees drawn are within the estimated amount approved by the creditors' committee and no further increase will be sought in the administration.

Once the case has moved from Administration to Liquidation, the subsequent Liquidators will seek approval to draw fees in the Liquidation from the liquidation committee.

5.3 Expenses and disbursements

Details of all the Administrators' expenses (which include category 1 and category 2 disbursements) incurred during the period of the report are shown in the attached Statement of Expenses. Expenses paid in the period, along with cumulative figures, are shown in the attached receipts and payments account. Details of the current rates are attached.

Whilst professional costs are not subject to approval by the creditors' committee, all professional costs are subject to review before being paid.

Expenses to date

The Administrators have incurred and subsequently paid expenses totalling £681,048 in the period as set out at Appendix F and a receipts and payments account is provided at Appendix C. A summary of the largest expenses incurred and paid to date is provided below:

£288,996 has been paid in respect of wages and salaries due. This consists of:

- £277,827 was paid in respect of wages due in December, January, February and March to the employees of the Company whom the Administrators retained for post-appointment purposes; and
- £11,169 was paid for the seasonal employees' payroll, who were employed in the final period prior to the Company entering administration.

The PAYE and NIC contribution due to HM Revenue and Customs following the payment of these wages and salaries was £118,868 which has since been paid, as well as employer pension contributions due which totalled £25,959.

Staff expenses of £16,430 has been paid to retained members of staff for expenses paid by the individuals for approved costs, including travel and van hire in connection with the closure of the remaining offices and retrieval of equipment.

Temporary staff expenses of £13,905 have been paid to date. This is made up of both temporary members of staff who were enlisted to assist the retained employees initially after appointment to collate information for the Administrators, as well as payments made to former members staff who have been made redundant but have since been asked for assistance and are currently being paid a day rate.

Farrer & Co LLP have been retained as legal advisors in view of their previous involvement with the pre-appointment claim against the NCS Trust as well as their general experience and expertise in these matters. They have provided advice on various matters throughout the administration, but the majority of the time incurred by Farrer & Co was spent assisting the Administrators with the settlement agreement with the NCS Trust. I have agreed their remuneration on the basis of their standard hourly charge-out rates, plus VAT and disbursements, and their agreed fees of £129,519 and disbursements (mainly counsel's fees) of £13,223.45 plus VAT have been paid.

Harrison James have been retained as agents to dispose of the Company's high value computer equipment. The Administrators have agreed that they be remunerated on the basis of their standard commission rates, plus disbursements and VAT. They have submitted invoices totalling £9,508 plus VAT to date which have been paid.

The total of the expenses incurred to date is higher than the estimate provided to creditors on 21 January 2020. A comparison is included at Appendix F. The most sizable deviations from the estimate are:

- Legal fees and disbursements – The estimate originally stated that these fees were still 'To be Decided'. This was because at the time of drafting, it was uncertain as to how the settlement discussions were expected to progress. Had the matter progressed to trial, the legal fees would have been very substantially higher as a result. No further legal fees are now anticipated on this matter.
- Staff costs – Expenses incurred in relation to the Company's staff were higher as a whole than initially estimated. These include, wages and salaries, PAYE & NIC, pension contributions and temporary staff expenses. The Administrators believe the costs are justified as the assistance of the Company's employees has been critical to achieving the successful asset realisations to date.

The Administrators expect further payments to be made for the use of various IT systems that assisted in the information gathering exercise prior to the claim settlement.

5.4 Pre-appointment costs

The Administrators' proposals dated 21 January 2020 detailed un-paid pre-administration costs totalling £23,373. The sums below have been approved by the creditors' committee.

| Pre - administration costs charged / incurred | | | |
|---|-------------------|---------------|---------------|
| To whom paid | Amount approved £ | Date approved | Date paid |
| RSM Restructuring Advisory LLP | £8,867.00 | 5 March 2020 | 20 March 2020 |
| Farrer & Co LLP | £14,506.20 | 5 March 2020 | 5 March 2020 |

5.5 Costs to closure

It is proposed that the Company will exit the administration by Creditors' Voluntary Liquidation. I anticipate that we will incur additional costs to closure of c £2,500.

5.6 Liquidation costs

For the avoidance of doubt, the above information relates only to the period of the Administration. Further fee approval for the Liquidation will be sought from the liquidation committee in due course, once the company is in Liquidation. The membership of the liquidation committee is the same as for the creditors' committee in the administration.

6 Creditors' right to information and ability to challenge expenses

In accordance with the provisions of the relevant legislation creditors have a right to request further information about remuneration or expenses (other than pre-administration costs) and to challenge such remuneration or expenses.

A request for further information must be made in writing within 21 days of receipt of this report.

Any secured creditor, or any unsecured creditor with either the concurrence of at least 10% in value of the unsecured creditors (including that creditor) or the permission of the court, may apply to court that the remuneration charged, the basis fixed or expenses incurred by the administrator are in all the circumstances excessive.

Any such challenge must be made no later than eight weeks after receipt of the report which first discloses the charging of remuneration or incurring of the expenses in question.

A Guide to Administrators Fees, which provides information for creditors in relation to the remuneration of an Administrator, can be accessed at <https://rsmuk.ips-docs.com/case/1095446/MVpaegEJ> under 'general information for creditors'. A hard copy can be requested from my office by telephone, email or in writing.

7 Closure of the administration

The Administrators will now bring the administration to a close and exit by way of a Creditors' Voluntary Liquidation, in accordance with our proposals.

Should you require any further information please do not hesitate to contact me.



Phillip Sykes
RSM Restructuring Advisory LLP
Joint Administrator

Phillip Sykes and Matthew Haw are licensed to act as Insolvency Practitioners in the UK by the Institute of Chartered Accountants in England and Wales

Insolvency Practitioners are bound by the Insolvency Code of Ethics when carrying out all professional work relating to an insolvency appointment

The affairs, business and property of the Company are being managed by the Joint Administrator who act as agents of the Company and without personal liability

Appendix A

Statutory and other information

| Company Information | |
|--|--|
| Company registered name: | The Challenge Network |
| Date of incorporation: | 12 March 2009 |
| Previous company names: | N/A |
| Company Number: | 06845451 |
| Trading name: | The Challenge |
| Trading address: | Elizabeth House, 39 York Road, London, SE1 7NQ |
| Principal activity: | Charity / Other social work activities without accommodation |
| Registered office: | 9 th Floor, 25 Farringdon Street, London, EC4A 4AB |
| Share capital: | Company limited by guarantee |
| Nominal & issued share capital | |
| Shareholders: | N/A |
| Directors as at the date of the appointment, noting subsequent resignations: | Michelle Cummins Christine Ann Davies Martin Terry Doel (resigned 6 April 2020) Bill Ronald (resigned 6 April 2020) Richard William Wilson (resigned 6 April 2020) Jennifer Ann Zaremba (resigned 6 April 2020) |
| Secretary: | N/A |
| Mortgages & charges: | N/A |
| Appointor: | Directors of the Company |

| Administration information | | |
|--|---|--|
| Joint Administrator: | Phillip Sykes and Matthew Haw | |
| Date of appointment: | 27 November 2019 | |
| Appointor: | The Directors | |
| Exit route: | Creditors' Voluntary Liquidation | |
| Correspondence address & contact details of case manager | William Eyre 0203 201 8000 RSM Restructuring Advisory LLP, 25 Farringdon Street, London, EC4A 4AB | |
| Name, address & contact details of Joint Administrators | Primary Office Holder Phillip Sykes RSM Restructuring Advisory LLP 25 Farringdon Street, London, EC4A 4AB 0203 201 8000 IP Number: 6119 | Joint Office Holder: Matthew Haw RSM Restructuring Advisory LLP 25 Farringdon Street, London, EC4A 4AB 0203 201 8000 IP Number: 9627 |

Appendix B

Dividend information

| Dividend prospects | Owed | Paid to date | Estimated future prospects |
|---|--------|--------------|----------------------------|
| Secured creditor | N/A | N/A | N/A |
| Preferential creditors | c.£60k | NIL | 100p in the £ |
| RCA creditors | £139k | NIL | 100p in the £ |
| Unsecured creditors | £7.9m* | NIL | 50-60p in the £ |
| Estimated net property | N/A | | |
| Estimated prescribed part available for unsecured creditors | N/A | | |

*Figure provided by the Directors of the Company as per the SOA as at 27 November 2019. The actual figure will be dependent on the level of creditor claims actually received.

Appendix C

Summary of receipts and payments

| Statement of Affairs | From 27/11/2019 To 30/04/2020 | From 27/11/2019 To 30/04/2020 |
|---|----------------------------------|----------------------------------|
| £ | £ | £ |
| ASSET REALISATIONS | | |
| 0.00 Amazon Voucher proceeds | 480.00 | 480.00 |
| 0.00 Bank Interest Gross | 2,787.26 | 2,787.26 |
| 3,381,296.00 Cash at Bank | 3,307,294.48 | 3,307,294.48 |
| 0.00 Cash held by Paypal upon appointment | 47,506.63 | 47,506.63 |
| 28,303.00 Debtors | 0.00 | 0.00 |
| 18,000.00 Deposits | 0.00 | 0.00 |
| 0.00 Equals refund | 25,847.52 | 25,847.52 |
| 122,173.00 Intercompany Assets | 0.00 | 0.00 |
| 0.00 Funds held on account by Farrer | 5,524.20 | 5,524.20 |
| TBC NCST Settlement | 2,660,289.71 | 2,660,289.71 |
| 0.00 NCST Settlement for RCA creditors | 139,710.29 | 139,710.29 |
| 0.00 Other Refunds | 2,384.34 | 2,384.34 |
| 0.00 Oyster Card returns | 1,709.48 | 1,709.48 |
| 0.00 Petty cash | 3,202.36 | 3,202.36 |
| 100,000.00 Sale of Equipment | 25,700.88 | 25,700.88 |
| | <u>6,222,437.15</u> | <u>6,222,437.15</u> |
| COST OF REALISATIONS | | |
| Administrators post-appointment fees | (340,586.00) | (340,586.00) |
| Administrators disbursements | (978.33) | (978.33) |
| Administrators Pre-appointment fees | (8,867.00) | (8,867.00) |
| Agents/Valuers Fees | (11,033.28) | (11,033.28) |
| Bank Charges | (388.44) | (388.44) |
| Committee Expenses | (195.75) | (195.75) |
| Headstart Action Fees | (3,666.67) | (3,666.67) |
| ICO Costs | (40.00) | (40.00) |
| Insurance | (10,252.02) | (10,252.02) |
| IT Costs | (19,514.63) | (19,514.63) |
| Legal Disbursements | (13,223.45) | (13,223.45) |
| Legal Fees | (129,519.02) | (129,519.02) |
| Line Rental | (1,129.00) | (1,129.00) |
| Other Property Expenses | (3,355.00) | (3,355.00) |
| PAYE & NIC | (118,868.75) | (118,868.75) |
| Payroll Services | (13,321.12) | (13,321.12) |
| Pension Contribution | (25,959.16) | (25,959.16) |
| Pension report | (350.00) | (350.00) |
| Professional Fees | (791.43) | (791.43) |
| Staff Expenses | (16,430.69) | (16,430.69) |
| Temporary Staff expense | (16,776.15) | (16,776.15) |
| VAT - Irrecoverable | (109,766.87) | (109,766.87) |
| Wages & Salaries | (288,996.31) | (288,996.31) |
| Waste removal | (5,970.00) | (5,970.00) |
| | <u>(1,139,979.07)</u> | <u>(1,139,979.07)</u> |
| | 5,082,458.08 | 5,082,458.08 |
| REPRESENTED BY | | |
| C/Acc (RBS) No. 1 Acc - Gen Adm | | 4,942,747.79 |
| C/Acc (RBS) No. 2 Acc - RCA Dist | | 139,710.29 |
| | | <u>5,082,458.08</u> |

Appendix D

RSM Restructuring Advisory LLP charging, expenses and disbursements policy

Charging policy

- Partners, directors, managers, administrators, cashiers, secretarial and support staff are allocated an hourly charge out rate which is reviewed from time to time.
- Work undertaken by cashiers, secretarial and support staff will be or has been charged for separately and such work will not or has not also been charged for as part of the hourly rates charged by partners, directors, managers and administrators.
- Time spent by partners and all staff in relation to the insolvency estate is charged to the estate.
- Time is recorded in 6-minute units at the rates prevailing at the time the work is done.
- The current charge rates for RSM Restructuring Advisory LLP London are attached.
- Time billed is subject to Value Added Tax at the applicable rate, where appropriate.
- It is the office holder's policy to ensure that work undertaken is carried out by the appropriate grade of staff required for each task, having regard to its complexity and the skill and experience actually required to perform it.
- RSM Restructuring Advisory LLP's charge out rates are reviewed periodically.

Expenses and disbursements policy

- Only expenses and disbursements properly incurred in relation to an insolvency estate are re-charged to the insolvency estate.
- Expenses and disbursements which comprise external supplies of incidental services specifically identifiable to the insolvency estate require disclosure to the relevant approving party, but do not require approval of the relevant approving party prior to being drawn from the insolvency estate. These are known as 'category 1' disbursements.
- Expenses and disbursements which are not capable of precise identification and calculation (for example any which include an element of shared or allocated costs) or payments to outside parties that the firm or any associate has an interest, require the approval of the relevant approving party prior to being drawn from the insolvency estate. These are known as 'category 2' disbursements.
- A decision regarding the approval of category 2 disbursements at the rates prevailing at the time the cost is incurred to RSM Restructuring Advisory LLP London will be sought from the relevant approving party in accordance with the legislative requirements.
- General office overheads are not re-charged to the insolvency estate as a disbursement.
- Any payments to outside parties in which the office holder or his firm or any associate has an interest will only be made with the approval of the relevant approving party.
- Expenses and disbursements re-charged to or incurred directly by an insolvency estate are subject to VAT at the applicable rate, where appropriate.

Appendix E

RSM Restructuring Advisory LLP London current charge out and disbursement rates

| Hourly charge out rates | Rates at commencement | | Current rates | |
|---------------------------------|-----------------------|--|---------------|--|
| | £ | | £ | |
| Partner | 625 | | 625 | |
| Directors / Associate Directors | 450 to 575 | | 450 to 575 | |
| Manager | 345 | | 345 | |
| Assistant Managers | 280 | | 280 | |
| Administrators | 105 to 210 | | 105 to 210 | |
| Support staff | 90 to 190 | | 90 to 190 | |

| Category 2 disbursement rates | |
|-------------------------------|---|
| Internal room hire | Location Dependant |
| Subsistence | £25 per night (from 3 rd September 2013) |
| Travel (car) | 42.5p per mile (from 1 April 2011) |
| 'Tracker' searches | £10 per case |

Appendix F - Statement of expenses incurred in the period from 27 November 2019 to 30 April 2020

| Expenses (excluding category 2 disbursements) | Originally estimated | Incurred in period | |
|---|----------------------|--------------------|---------------|
| | | Paid | Unpaid |
| Type and purpose | | £ | £ |
| Agents/Valuers Fees | 10,000.00 | 11,033.28 | 0.00 |
| Bank Charges | 2,249.00 | 388.44 | 0.00 |
| Committee Expenses | 0.00 | 195.75 | 0.00 |
| Headstart Action fees | 1,666.67 | 3,666.67 | 0.00 |
| ICO Costs | 0.00 | 40.00 | 0.00 |
| Insurance | 15,630.30 | 10,252.02 | 0.00 |
| IT Costs | 28,743.19 | 19,514.63 | 0.00 |
| Legal Disbursements | 0.00 | 13,223.45 | 0.00 |
| Legal Fees | TBD | 129,519.02 | 0.00 |
| Line Rental | 0.00 | 1,129.00 | 0.00 |
| Other Property Expenses | 50,000.00 | 3,355.00 | 0.00 |
| PAYE & NIC | 0.00 | 118,868.75 | 0.00 |
| Payroll Services | 20,113.32 | 13,321.12 | 0.00 |
| Pension Contribution | 0.00 | 25,959.16 | 0.00 |
| Pension Report | 0.00 | 350.00 | 0.00 |
| Professional Fees | 0.00 | 791.43 | 0.00 |
| Staff Expenses | 8,933.80 | 16,430.69 | 0.00 |
| Temporary Staff expense | 0.00 | 16,776.15 | 0.00 |
| Wages and Salaries | 315,777.71 | 288,996.31 | 0.00 |
| Waste removal | 0.00 | 5,970.00 | 0.00 |
| Sub Total | 453,113.99 | 679,780.87 | 0.00 |
| Category 1 disbursements | | | |
| Recipient, type and purpose | | | |
| Bond | | 85.00 | 0.00 |
| Committee Meals | | 28.03 | 0.00 |
| IT Costs | | 769.06 | 280.24 |
| Travel | | 313.86 | 0.00 |
| Statutory Advertising | | 71.00 | 0.00 |
| Sub total | | 1,266.95 | 280.24 |
| Total | | 681,047.82 | 280.24 |

NOTE: The amounts paid in the period are shown in the attached receipts and payments account. Invoices may have been paid in a period after that in which they were incurred.

Appendix G

Joint Administrators' time cost analysis for the period from 27 November 2019 to 30 April 2020

| Period | Hours Spent | Partners | Directors / Associate Directors | Managers | Assistant Managers | Administrators | Assistants & Support Staff | Total Hours | Total Time Costs | Average Rates |
|---|-------------|----------|---------------------------------|--------------|--------------------|----------------|----------------------------|--------------|------------------|---------------|
| Administration and Planning | | | | | | | | | | |
| Appointment | 0.0 | 0.0 | 0.0 | 0.0 | 0.2 | 2.0 | 0.0 | 2.2 | £ 616.00 | 280.00 |
| Background Information | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 3.9 | 0.4 | 4.3 | £ 895.00 | 208.14 |
| Case Management | 24.1 | 0.0 | 0.0 | 49.2 | 0.0 | 32.0 | 8.0 | 113.3 | £ 41,678.00 | 367.86 |
| Director(s)/debtor/bankrupt | 0.0 | 0.1 | 0.0 | 1.6 | 0.0 | 6.9 | 1.1 | 9.7 | £ 2,740.50 | 282.53 |
| Pension Scheme | 0.0 | 0.0 | 0.0 | 3.1 | 0.0 | 3.0 | 0.0 | 6.1 | £ 1,699.50 | 278.61 |
| Post-appointment - general | 0.0 | 0.0 | 0.0 | 0.7 | 0.0 | 4.8 | 0.0 | 5.5 | £ 1,249.50 | 227.18 |
| Pre-appointment matters | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.3 | 0.1 | 0.4 | £ 83.00 | 207.50 |
| Receipts and Payments | 0.4 | 0.0 | 0.0 | 8.2 | 0.0 | 102.8 | 0.0 | 111.4 | £ 23,871.50 | 214.29 |
| Statement of Affairs | 0.0 | 0.0 | 0.0 | 1.7 | 0.0 | 4.9 | 0.0 | 6.6 | £ 1,511.00 | 228.94 |
| Tax Matters | 3.7 | 0.0 | 0.0 | 2.9 | 0.0 | 6.6 | 0.0 | 6.6 | £ 3,535.50 | 535.68 |
| Total | 28.2 | 0.1 | 0.1 | 67.4 | 0.2 | 160.6 | 9.6 | 266.1 | £ 77,879.60 | 292.67 |
| Investigations | | | | | | | | | | |
| Investigations/CDDA | 0.0 | 0.0 | 0.0 | 42.7 | 0.0 | 5.7 | 52.0 | 100.4 | £ 40,206.00 | 400.46 |
| Total | 0.0 | 0.0 | 0.0 | 42.7 | 0.0 | 5.7 | 52.0 | 100.4 | £ 40,206.00 | 400.46 |
| Realisation of Assets | | | | | | | | | | |
| Assets - general/other | 0.4 | 0.0 | 0.0 | 13.6 | 0.0 | 11.9 | 1.7 | 27.6 | £ 8,503.50 | 308.10 |
| Charities | 0.5 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.5 | £ 312.50 | 625.00 |
| Debtors & sales finance | 0.0 | 0.0 | 0.0 | 0.7 | 0.0 | 1.1 | 0.0 | 1.8 | £ 472.50 | 262.50 |
| HP/Leasing creditors | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 1.5 | 0.0 | 1.5 | £ 315.00 | 210.00 |
| Land and Property | 0.0 | 0.0 | 0.0 | 12.1 | 0.0 | 3.3 | 0.0 | 15.4 | £ 4,867.50 | 316.07 |
| Sale of business | 3.2 | 0.0 | 0.0 | 0.0 | 0.0 | 3.0 | 0.0 | 6.2 | £ 2,630.00 | 424.19 |
| Total | 4.1 | 0.0 | 0.0 | 26.4 | 0.0 | 20.8 | 1.7 | 53.0 | £ 17,101.00 | 322.86 |
| Trading | | | | | | | | | | |
| Trading | 38.4 | 0.0 | 0.0 | 0.0 | 0.0 | 1.5 | 0.0 | 39.9 | £ 24,315.00 | 609.40 |
| Total | 38.4 | 0.0 | 0.0 | 0.0 | 0.0 | 1.5 | 0.0 | 39.9 | £ 24,315.00 | 609.40 |
| Creditors | | | | | | | | | | |
| 1st creditors/shareholders meetings and reports | 3.2 | 0.0 | 0.0 | 27.2 | 0.0 | 23.7 | 0.0 | 54.1 | £ 16,361.00 | 302.42 |
| Committee | 6.1 | 0.0 | 0.0 | 12.1 | 0.0 | 23.1 | 4.3 | 45.6 | £ 15,523.50 | 340.43 |
| Deferred/Postponed Creditors | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 1.0 | 0.0 | 1.0 | £ 210.00 | 210.00 |
| Employees | 4.7 | 0.0 | 0.0 | 46.3 | 0.0 | 27.8 | 8.9 | 87.7 | £ 23,948.00 | 273.07 |
| Other Creditor Meetings and Reports | 0.0 | 0.0 | 0.0 | 3.8 | 0.0 | 5.8 | 0.0 | 9.6 | £ 2,529.00 | 263.44 |
| Unsecured Creditors | 11.5 | 0.0 | 0.0 | 45.8 | 0.0 | 89.1 | 83.3 | 229.7 | £ 62,226.00 | 270.90 |
| Total | 25.5 | 0.0 | 0.0 | 135.2 | 0.0 | 170.5 | 96.5 | 427.7 | £ 120,787.50 | 282.44 |
| Case Specific Matters - Legal Matters | | | | | | | | | | |
| Legal Matters | 61.8 | 0.0 | 0.0 | 51.3 | 0.0 | 2.9 | 5.4 | 121.4 | £ 60,287.50 | 496.63 |
| Total | 61.8 | 0.0 | 0.0 | 51.3 | 0.0 | 2.9 | 5.4 | 121.4 | £ 60,287.50 | 496.60 |
| Total Hours | | | | | | | | | | |
| Total Time Cost | £ 98,750.00 | £ 158.0 | £ 67.60 | £ 113,146.00 | £ 56.00 | £ 75,105.90 | £ 63,488.00 | £ 340,588.60 | £ 340,588.60 | 337.72 |
| Total Hours | | | | | | | | | | |
| Total Time Cost | £ 98,750.00 | £ 158.0 | £ 67.60 | £ 113,146.00 | £ 56.00 | £ 75,105.90 | £ 63,488.00 | £ 340,588.60 | £ 340,588.60 | 337.72 |
| Average Rates | 625.00 | 575.00 | 575.00 | 350.30 | 280.00 | 207.48 | 323.66 | 337.72 | | |