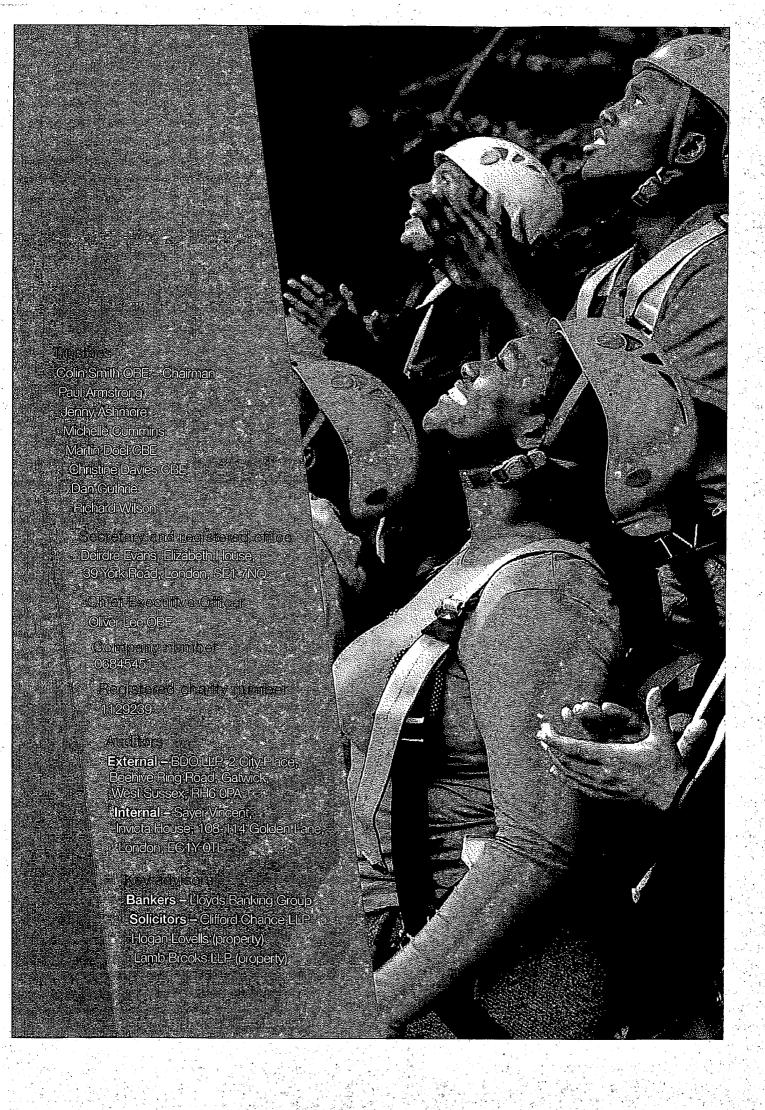


The challenge network

## Annual Report

Organisational report and financial statements for the year ended 31 October 2017



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## Introduction from the Chief Executive Officer

The last year has been hallmarked by unprecedented levels of delivery, challenge and change. As always, we have been guided by a determination to increase our impact in line with the organisation's mission; as a result, we have achieved an enormous amount and we end the year in a more robust position than ever before. However, more demanding work lies ahead as we strive to realise and capitalise on the changes we have made.

Every year, the imperative to generate a more integrated society that is freer from division is resonating more powerfully on all landscapes. In this context, the All Party Parliamentary Group (APPG) on Social Integration, for which we provide the secretariat, gathered commendable momentum this year. The group's inquiry into the integration of immigrants in the UK highlighted some of the schisms our country faces and underlined the pressing importance of our work. We were also delighted to see the National Citizen Service (NCS) Bill become formal legislation with social integration and inclusion at its heart. None of this can be done alone so we continue to work closely with many other organisations to bring about positive change. One of the year's highlights was forming a partnership with the Jo Cox Foundation, an organisation whose endeavours are closely linked to our core purpose.

Our programmes have had an excellent and impactful year with almost 48,000 young people completing NCS, HeadStart or Step Forward. In line with our mission, we also invested significantly in experts to recruit young people who are hard to reach and to ensure we can fully support young people with additional needs through our programmes. The scale of this delivery is awesome given the organisation has only been operating for eight years and it takes significant organisational energy and attention to detail to deliver our programmes well and safely. Our restless, entrepreneurial spirit continues to burn brightly as we look for new ways to carry out our mission. As such, we were particularly excited to win contracts this year to work with the Department for Education to design and launch a new pilot called Work Placements, which will help shape some of the Government's education reforms.



Looking to the future, and brilliantly supported by consultants from Bain & Company courtesy of the Social Business Trust, we carried out a review looking at how we can best pursue our mission with optimal efficiency and effectiveness, spend taxpayers' money wisely and maintain our competitiveness to win upcoming contracts. This work led to some strategic and structural changes across our NCS business units and central services so that we can safeguard the organisation's future. While this has not been easy, it has been absolutely necessary and we are already seeing improvements following these changes.

Separately, we have made the decision to cease delivery of our Step Forward apprenticeship programme once the current cohort completes its course in January 2019. This has been a very difficult conclusion to reach but, ultimately, our analysis inescapably demonstrated that running an apprenticeship programme that delivers social integration is not viable in the current apprenticeship landscape.

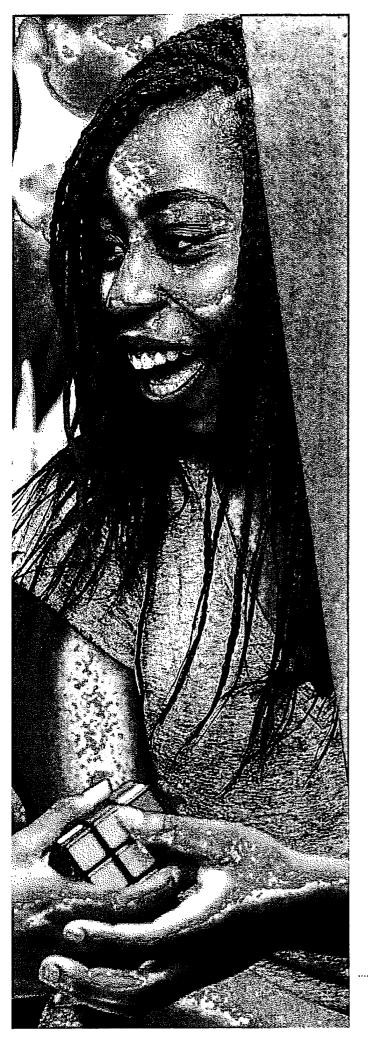
The organisation has responded to these changes with admirable understanding and commitment. I have no doubt that all of this affords us the best possible chance of success into the future as we tender for future NCS contracts in 2018. I am exceptionally grateful to the superb staff at The Challenge for bringing all of this about.

Thank you for your interest in this report and your ongoing support to our organisation.

Oliver Lee OBE







## 1.1 Overview of objectives and activities

Our mission is to design and deliver programmes that bring different people together to develop their confidence and skills in understanding and connecting with others.

Over the last 50 years, the UK has become much more varied by age, ethnicity and income. However, despite our growing diversity, many of us spend little time with people from different walks of life. This lack of connectedness affects people from all backgrounds and reaches into every corner of our society.

The Challenge believes these divisions make it harder to understand how others tick, harder to stop prejudice from sneaking in and harder to remain connected to the community around us.

We also know that when we do meet people who are different from us we tend to enjoy it. That's why, since 2009, we've brought together hundreds of thousands of people from different backgrounds on our programmes, increasing understanding and connection across our communities. We encourage people to get to know and trust each other, and build new friendships and networks. It is through these experiences they often discover their similarities are far greater than their differences.

We believe that stronger, more trusting communities are at the heart of successful and thriving societies, and that we all have a part to play in building them.

Pictured: getting to know each other on NCS

# 1.2 Achievements and performance in year ended 31 October 2017

## Organisational overview and review of strategy

As outlined in this report's introduction, this year has been challenging but ultimately successful, both in terms of our scale and impact.

We are proud to have made significant progress against the strategic objectives we set for 2016/2017, as summarised here:



#### 2016/2017 Strategic objective

- Ensure our mission stays at the heart of all that we do in order to ensure we stay true to our purpose in the face of growth and new opportunities.
- 2 Ensure we can measure the missional and broader impact of our programmes in order to communicate our impact and gain insights to improve performance.
- 3 Continue to focus on driving the growth of our programmes in order to extend our reach and impact to as many people as possible.
- 4 Invest in 'future proofing' the organisation in order to ensure we continue to operate effectively in the face of growth and are well set up to achieve our long-term strategic objectives.
- Jdentify and achieve synergies and economies of scale in order to ensure we retain or increase quality whilst reducing the unit cost of our programmes.
- 6 Increase significantly our use of, and expertise in, social and digital tools to better recruit and retain programme participants, programme staff and core staff.
- 7 Raise the profile of the organisation and the importance of social integration, and become the 'go to' expert in the field, in order to ensure we remain a trusted partner and adviser to the NCS Trust, politicians, media and other relevant organisations.
- Ensure we appropriately manage and keep secure the data and information that we hold, in order to maintain our reputation and the trust of our stakeholders, and to adhere to all relevant legal and contractual obligations.
- Orive continued professionalism of the organisation as we grow, to ensure it operates on firm foundations, both now and in the future.

Pictured: sharing that musical talent on NCS

#### **Achievements**

- Launched a comprehensive impact survey in partnership with Oxford University across all our programmes
- Continued to invest significantly in our inclusion activities (e.g. more than 400 NCS summer 2017
  participants attend special educational needs (SEN) and pupil referral units (PRU) schools and we
  provided 1:1 support to more than 350 NCS summer 2017 participants, through a support worker
  or personal coach).
- Made the difficult but strategic decision to close our apprenticeship programme, Step Forward, as it was
  not possible to deliver both an excellent apprenticeship programme and our mission of social integration in
  the current apprenticeship landscape.
- Growth has been modest but all three programmes grew (as outlined in the following section) and almost 48,000 young people participated in one of our programmes during the year.
- Following the strategic and structural changes made during 2016/2017, we forecast continued growth in 2017/2018.
- Extensively re-structured and streamlined the senior leadership team at head of department and director level.
- Re-structured other elements of the organisation, such as the NCS sales function and central services to increase effectiveness and efficiency.
- Reduced the number of management layers and increased the number of direct reports per manager, to follow best practice.
- Refreshed the organisational website and intranet, and centralised the marketing functions, to create the basis for a more effective and coherent digital offering.
- Worked extensively across the government and civil service (over 40 MPs visited NCS programmes delivered by The Challenge, the NCS Bill became formal legislation with social integration at its core and the APPG completed one inquiry and laid out plans to launch a new one).
- Increased collaboration with a number of partners including the Jo Cox Foundation.
- We have made significant improvements with respect to data and information security and had no significant data breaches during 2016/2017. However, we must continue to focus in this area, especially in light of GDPR obligations.
- Embedded a 'transformation programme' across the organisation to ensure the mission, vision and organisational behaviours are understood and adopted by staff (e.g. a survey from September 2017 showed that 93% of employees recognised our vision and 43% had positively changed their behaviour as a result of the behaviour sets).
- Established a new personal development review process to further professionalise the organisation and ensure our staff are more regularly supported to develop and progress.
- Hired in external expertise at the senior level including a CFO and an operations and performance director.

### Our programmes

#### NCS

#### Programme overview

NCS involves teams of diverse 15-17-year-olds from a local community taking on an intensive programme that Includes physical, creative and social action challenges. As their final task, participants carry out fundraising, campaigning and a community project of their own design.

A typical programme of 60 young people is drawn from around 10-15 schools in a local area (mainstream, independent, pupil referral units and special education needs schools) plus referrals from other youth organisations.

A full-time, three-week programme (primarily residential) is followed by a social action project in the local community. A graduate programme then signposts and supports young people to suitable opportunities that build on their experience, including our HeadStart offering.

## Who used our programmes and how they delivered public benefit

In the 2016/2017 financial year, The Challenge was contracted to fill more than 45,000 NCS places, an increase of two per cent on the previous year.

In 2016/2017 the NCS team aimed to:

- Engage with a breadth of local community and business partners
- Gain a better understanding of how effective we are at carrying out our mission of creating social integration through NCS.

We either met or very nearly met these aims:

- We filled (directly or through partners) more than 44,000 places
- We worked alongside more than 5,000 community groups and business partners
- We asked NCS participants to take part in a new impact survey which returned very positive results.



#### **HeadStart**

#### Programme overview

HeadStart gets young people volunteering in their local community so that they meet and mix with people from all walks of life. It inspires young people to volunteer by guaranteeing everyone who does 16 hours or more an interview for a part-time job.

HeadStart is a win for all those involved: it's a win for young people, who gain critical skills for work and life through volunteering. It's a win for partnering employers, who can recruit fantastic new staff — HeadStart candidates are up to four times more successful at job interviews than standard candidates and have a higher retention rate within their jobs. And finally, it is also a win for the community, which becomes more integrated as young people volunteer locally and get involved with the great work of local charities.

HeadStart is currently offered in London, Birmingham, the Black Country, Manchester and Preston. The programme is delivered with the support of leading employers including Starbucks, New Look, Bloomberg, Zendesk, Lloyds Banking Group, Nando's, Berkeley Homes, Mitchells & Butlers, Goldman Sachs and Deloitte. In London it is delivered in partnership with the Mayor of London and Greater London Authority (GLA).

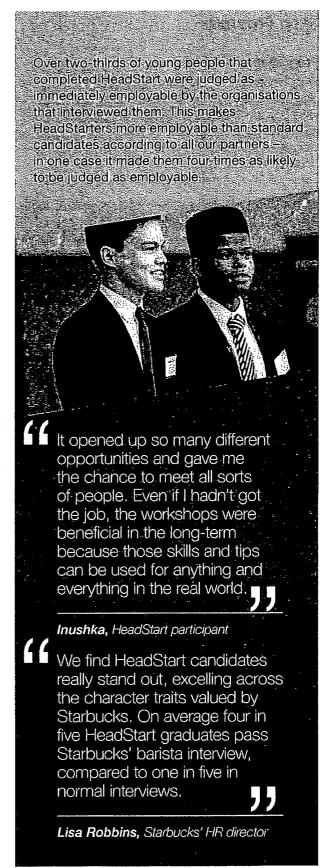
## Who used our programmes and how they deliver public benefit

In 2016/2017 HeadStart aimed to:

- Provide 45,000 hours of volunteering in local communities
- Inspire 2,600 young people to complete 16 hours of volunteering
- Raise £1.1m to cover all operational costs.

HeadStart met or very nearly met these aims:

- We provided 49,054 hours of volunteering in local communities, exceeding our target by 9%
- We inspired 2,456 young people to complete 16 hours of volunteering (94% of target)
- We secured £761,964 in funds, which, due to in-year cost savings, equated to 77% of costs.



#### Step Forward

#### Programme overview

Step Forward is a socially-mixed apprenticeship programme aiming to create the most employable recent school leavers in the country. Step Forward apprentices get a paid job for the duration of the programme along with one day's professional development training a week, support from a fully trained mentor, and friends and connections for life.

Step Forward has been running as a programme within The Challenge since 2014 and, in that time, several hundred young people have successfully completed an apprenticeship and achieved a qualification. We are very proud of our programme and the outcomes it has supported our learners to achieve. We recently carried out a review of the Step Forward programme and concluded that continuing to deliver the programme at the same time as delivering our mission of social integration is not feasible in the current apprenticeship landscape. Therefore, the Step Forward programme will close in January 2019 once the current cohort has completed the scheme.

## Who used our programmes and how they deliver public benefit

#### Cohort three

Our third cohort of apprentices started in September 2016 and 133 of them completed their apprenticeships in September 2017.

We received a grant from Salesforce.org to pilot new IT and software development apprenticeships. Key successes of the pilot include:

- 87% of IT apprentices successfully completed the programme and gained a recognised qualification
- Three months after graduating, 93% of Step Forward IT apprentices had already progressed positively with 50% remaining in employment in a technologybased role, while 35% went on to higher education or to study through an advanced apprenticeship qualification.

Our aim for cohort three was to achieve a completion rate of 85% across all pathways and 90% across IT and software development. We achieved 75% across all pathways and 87% across the IT and software development pilot.

#### Cohort four

Our fourth, and last, cohort of apprentices started in autumn 2017 and will complete their apprenticeships between September 2018 and January 2019.

We initially aimed to recruit 260 apprentices for our forth cohort but, due to changes in the apprenticeship funding landscape, challenges with employer recruitment and following the proposal to close Step Forward, this was revised to a total of 186 apprentices.

We recently had a quality assessment visit from our prime provider (The JGA Group) for our non-lew provision. After spending a day with the delivery team, the inspector commented on how impressed she was with our level of commitment to our learners and the supreme effort and investment we have put into the quality of our provision. The positive feedback and report from JGA is lestament to the work the Step Forward team has undertaken to improve policies, procedures, curriculum and the quality of teaching, learning and assessment. STEPFORW STEPFORWARD Lachieved things I didn't think I was capable of and a lot of that is due to the support Freceived. Jordanna, Step Forward graduate

#### **Work Placements**

#### Programme overview

Around half of all young people study a vocational course and many of them graduate without being fully ready for the world of work.

The Challenge is working with the Department for Education (DfE) to launch the Work Placements pilot. The programme gives 16-19-year-old students on Level 2 or 3 technical education courses a valuable opportunity to put their learning into practice and to be work ready, meeting employer needs for new recruits. Work placements will be a component of the new T-Level technical qualifications being developed by the DfE.

Based on our proven ability to develop programmes on a large scale and our success with HeadStart in preparing young people for the work place, The Challenge was commissioned by the DfE to complete two pieces of work this year:

- A three-month design project to explore how to deliver Work Placements at scale
- A year-long pilot to test various aspects of the programme and provide day work placements lasting between 40 and 60 days for up to 2,000 learners.

The pilot we are delivering tests a new approach that we hope will make a real difference to both our learners and the organisations providing work experience. From 2020, the DfE plans to roll this out across England, so that Work Placements will be available to all young people studying T-Level courses.

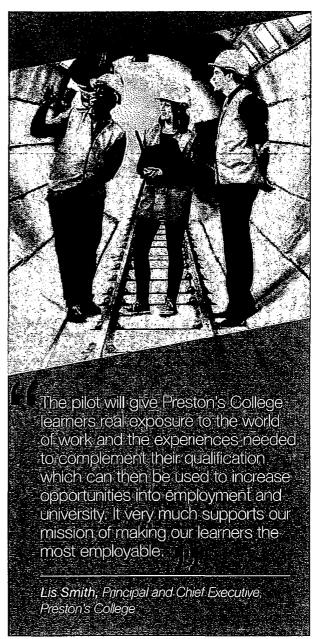
## Who used our programmes and how they deliver public benefit

In 2016/2017 the Work Placements team aimed to:

- Complete a three-month design project to inform the development of a year-long pilot programme
- Identify and sign up 21 colleges for the pilot
- Identify 2,000 learners to complete Work Placements
- Begin pilot delivery and work placement sourcing for our vocational learners.

The Work Placements team either met or very nearly met these aims:

- The design project was completed and recommendations made to the DfE ahead of the national roll-out
- We identified and signed up 21 colleges to take part in the pilot
- We identified 1,940 learners that will complete a work placement in academic year 2017/2018
- Pilot delivery has begun with over 300 work placements confirmed to date, with employers across 11 different vocational routes.



#### Financial review

The 2016/2017 financial year has proved to be a challenging one. There are a number of reasons for this including the need to re-structure the organisation in advance of the forthcoming NCS contract retendering and our review of the Step Forward programme in light of the changing and challenging apprenticeship landscape.

Income rose by 6% to £69.8m (2015/2016 - £65.8m) due principally to the increase in young people who undertook the NCS programme with us and our partners.

The main costs during the year related to the delivery of the NCS programme. As a result of the cost conscious approach taken by the organisation, costs relating to the delivery of the NCS programme only increased by 3% to £66.5m (2015/2016 - £64.7m).

The other significant expenditure during the year related to the investment in HeadStart, Step Forward and the Work Placements pilot. The combined cost of these activities was £3.9m.

Overall, total costs for the organisation in 2017 rose 3% to £70.5m (2015/2016 - £68.3m).

The result for the financial year 2016/17 is a deficit of £0.7m (2015/2016 deficit £2.5m). This has primarily been driven by the investment in Step Forward to ensure completion of our current cohort and subsequent exit from the apprenticeship market.



#### Reserves policy

The board has reviewed its reserves policy and continues to adopt a risk-based approach to reserves.

The Challenge's policy is to hold a level of unrestricted free reserves so that we can:

- Manage risk should income levels fall
- Manage working capital
- Invest in new activities and develop new services
- Respond to any unplanned events.

The Challenge's target for unrestricted free reserves is £4m-£10m. The higher end of the range includes costs for the unlikely event that the organisation was required to close. The actual level as of 31 October 2017 is £5.9m. In addition to this, the board has designated £0.5m for future relocation costs to move our head office from the current space in Elizabeth House and £0.7m to underwrite the restructure of NCS and the closure of Step Forward.

As of 31 October 2017, after taking into account the risks and the designated funds, the unrestricted free reserves are in line with the minimum requirements.

#### Principal funding sources

The principal funding source for The Challenge is contract income relating to the delivery of NCS. In addition, The Challenge raised funds from corporate donors to support HeadStart and funding for Step Forward is received from the Skills Funding Agency and employer contributions.

#### Investment policy

The Challenge 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, on an on-going operational basis, no more than 25% of any available funds should be invested with any one organisation other than The Challenge's primary bank, Lloyds Bank. It is acknowledged that this may be temporarily exceeded during peak times. However, over the course of the year, cash holdings are expected to remain within the 25% threshold.

Pictured: brainstorming on NCS

#### Risk

The directors consider risks to the business regularly and the board reviews the risk register at least annually. Consistent with our scale and obligations, our aim is to mitigate risk whilst remaining an agile, entrepreneurial, mission and values based organisation. In 2016/2017 there were three main areas of work carried out to manage risks to the organisation:

#### Embedding the mission, vision and behaviour sets

At the start of the financial year, we launched a 'transformation programme' across the whole organisation to embed our mission, vision and behaviour sets to help drive mission alignment and high performance. We carried out an organisation-wide staff survey in September 2017 and the results were incredibly positive. For example, 93% of employees recognised The Challenge's vision and 43% had positively changed their behaviour as a result of the behaviour sets.

## 2. Returning the organisation to financial sustainability

Following two years (2015/2016 and 2016/2017) where The Challenge faced financially challenging times, resulting in the organisation running at a deficit, we decided to carry out a thorough review of our organisation's structure and cost base. We undertook a project with the support of a pro bono team of consultants from Bain & Company to restructure the organisation. This restructure will help The Challenge run more effectively and efficiently with a significantly lower cost base, and we are now forecasting a surplus for the next financial year (2017/18).

#### 3. Enhancing safeguarding

Given that our beneficiaries are mostly young people under the age of 18, safeguarding is of paramount importance to The Challenge. During the financial year we carried out a review and implemented a number of tactics to improve safeguarding, including appointing a head of safeguarding.



#### Subcommittees of the Board of Trustees

There are three subcommittees of the board that have a critical role to play with respect to risk and financial performance.

The key responsibilities of each committee are as follows:

- The Audit and Risk Committee: recommends to the board the budget for the forthcoming financial year, has oversight of the internal risk management audit and approves the organisation's risk register
- The Remuneration Committee: recommends to the board the organisation's reward strategy and the remuneration of the Director Team, including the chief executive officer (CEO)
- The Nominations Committee: recommends to the board policies for the appointment and rotation of trustees, the appointment of the CEO and the chairman, and membership of subcommittees.

The chairman of each committee reports its recommendations to the board after each committee meeting.



# 1.3 Strategy andpriorities for year ending31 October 2018

#### Organisational and strategic goals

The 2018 plan outlines The Challenge's priorities for the year and how we'll go about achieving them. It is a guide for our organisation – by focusing closely on this plan, we will have a successful year where our programmes have even more impact against our vital mission.









#### Adapt and perform:

continue The Challenge's journey to be our very best: an operationally effective, mission-driven and financially sustainable organisation that supports our people.

- Ensure the changes agreed during the restructure in 2017 are implemented fully
- Define and embed new NCS processes and tools to ensure the restructure is successful
- Maximise potential savings and revenues during the financial year and beyond
- Support staff to deliver high performance work aligned with our mission and new structure
- Ensure a smooth transition to the NCS Trust's Salesforce system In the appropriate time frame
- Improve our analytics and technology capabilities
- Roll-out new HR and payroll systems
- Ensure we are compliant with the EU General Data Protection Regulation (GDPR) and information security management standard ISO27001.

#### Deliver 2018:

meet all of our 2018 programme sales and delivery targets. We will do this safely, to a high standard and within budget.

- Deliver against cost and revenue targets agreed in the annual budget
- Deliver against our NCS, HeadStart, Step Forward and Work Placements performance targets
- Set safeguarding plan and exceed our contractual standards for safety and compliance
- Continue to deliver quality programmes.

#### Secure the future:

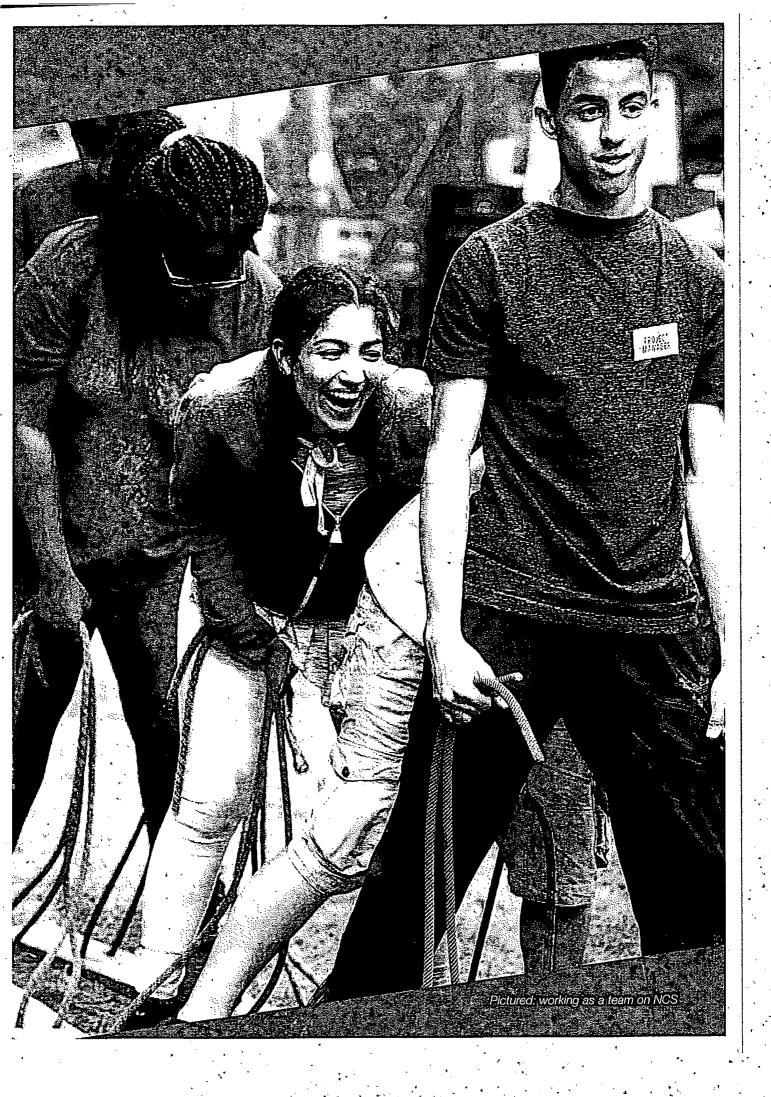
develop a three-year plan to deliver our long-term strategic objectives and seize opportunities to deepen and broaden our impact in 2019 and beyond.

- Develop a three-year plan to deliver the long-term strategic objectives including:
  - Securing long-term NCS contracts
  - Increasing funding for HeadStart while reducing costs per person, so that more people can take part
  - Determining our future role with respect to Work Placements
  - Driving new business development
- Maximise the potential of our office space in London, explore new ways of working and potential for new offices
- Manage the closure of Step.
   Forward in an effective, respectful and professional manner.

## Our long-term strategic objectives

Our 2018 plan is the first step towards achieving the long-term strategic objectives for The Challenge, as laid out below.

Mission	Our mission will be at the heart of all that we do and will be the driving force in all decision making.
Growth	We will operate at scale as an organisation and continue to extend our reach nationally.
Impact	We will deliver tangible impact that we can measure, and that is relevant for and recognised by our key stakeholders, including participants and funders.
Delivery	We will continue to be a delivery-focused organisation (both direct and indirect delivery); our delivery work will be supported by being a thought leader and an expert adviser on social integration.
Effectiveness	We will continue to drive operational effectiveness and ensure that we maintain high standards (including quality of our programmes and safeguarding) as we grow.
Financial sustainability	We will continue to ensure that the organisation operates in a financially sustainable manner.
Values	As the organisation grows and professionalises, we will retain and strengthen our organisational values, behaviours and culture, and work seamlessly across functions, business units and regions.



#### Our programmes in 2018

### NCS



The Challenge has been contracted by the NCS Trust to deliver over 47,000 NCS places in 2018 with the support of our network of local delivery partners. Growth in participant numbers is expected to be achieved through an increased conversion rate and supported by a restructure of the sales operations team. Working alongside our partners and the NCS Trust we will continue to be the 'go to' expert on social integration and to support and test a wide range of innovations through the NCST Innovation Fund.

During 2018 the NCS Trust is expected to publish an invitation to tender for the delivery of NCS programmes beyond The Challenge's current contractual period, which ends in 2018. Assuming this happens we will seek to secure a significant role in the long-term delivery and strategic growth of NCS.



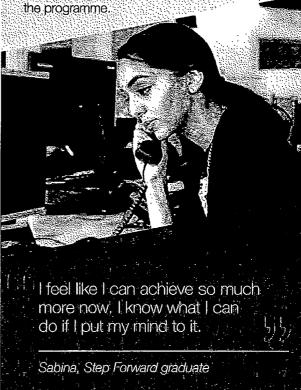
### Step Forward

#### STEPFORWARD'

We have taken the difficult decision to close the Step Forward programme after the current cohort completes the apprenticeship scheme in January 2019. As of December 2017, we closed our recruitment and central functions teams, and the closure of our training and compliance functions will happen in January 2019.

We have put a plan in place to make sure our final participants continue to receive high quality training and support with the key areas of staffing, policies and procedures, safeguarding and teaching quality being covered for the scheme's remaining time,

We are proud of everything Step Forward has achieved and look forward to supporting our last cohort of apprentices through



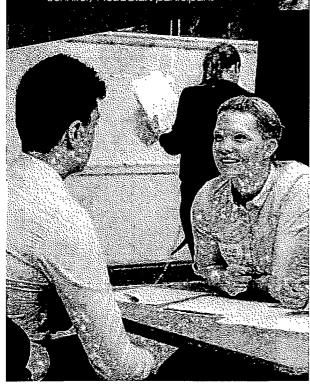
### HeadStart



In 2018 HeadStart aims to consolidate delivery across all London, the West Midlands and Greater Manchester: HeadStart will inspire 2,500 young people to volunteer, resulting in 45,000 hours of volunteering in local communities. In 2018 all operational costs will be covered through fundraising activities.

It is important to be able to mix with people who are different to you – in university and the world of work, it is inevitable that you will need that skill.

Jennifer, HeadStart participant



### Work Placements





The Work Placements pilot will end in July 2018, at which point we aim to have delivered 2,500 Work Placements to learners studying at 21 further education providers across the country.

During the year, we will continue to work with the Department for Education to explore a possible role for The Challenge beyond the completion of the pilot. This could involve offering the DfE continued support as they plan-for the second phase of Work——Placements development, through continued provider support, national employer account management or work to prepare learners ahead of their placements.



## 1.4 Structure, governance and management

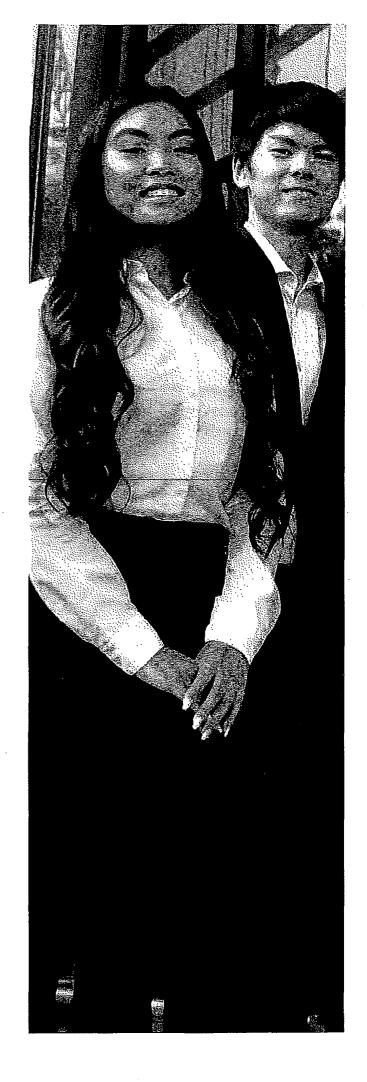
#### Governing documents

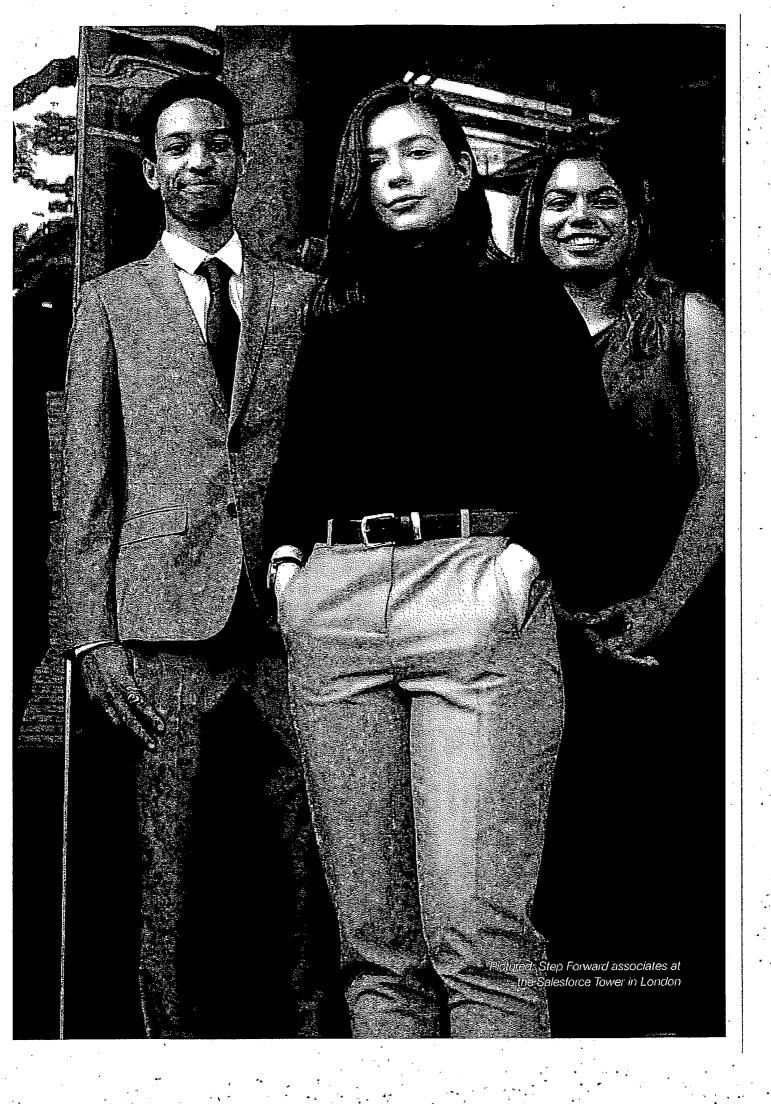
The Challenge is a charitable company limited by guarantee, incorporated on 12 March 2009 and registered as a charity on 21 April 2009. The company was established under a Memorandum of Association that established the objects and powers of the charitable company and is governed under its Articles of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

The Challenge operates with a clear hierarchy of forums and related activities to enable good. governance, leadership, management, planning, decision making, operational delivery and risk management.

In descending order, this hierarchical structure involves the following groupings:

- The Board of Trustees (board) meets every other month with additional meetings by exception
- Subcommittees of the Board of Trustees:
  - The Audit and Risk Committee meets at least three times a year
  - The Remuneration Committee meets at least twice a year
  - The Nominations Committee meets as required, at least once a year
- The Director Team (DT) meets fortnightly
- The Challenge Leadership Team (CLT) meets monthly
- The National Citizen Service Leadership Team (NLT) meets weekly
- The Step Forward Leadership Team (SLT) meets weekly
- The HeadStart Leadership Team (HLT) meets weekly
- The Wider Leadership Team (WLT) meets quarterly
- The Local Leadership Teams (LLT) meet weekly.





#### **Board of Trustees and Director Team**

The charity has a board consisting of eight 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 subcommittees 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 Oliver Lee OBE (CEO) along with five other members of the DT:

Rebecca Carter	Organisational Strategy, Planning and Communications Director:
Karen Forde	Human Resources and Organisational Development Director
Patrick Cooper	IT Director (Appointed 9 January 2017)
Dominic May MBE	Operations and Performance Director (Appointed 27 February 2017)
Delrdre Evans	Chief Financial Officer (CFO) (Appointed 16 March 2017)
Jon Yates	External Affairs and Operations Director (Resigned – employment ended 31 May 2017)
Benny Goodman	NGS Director (Resigned = employment ended 22 September 2017)

The DT is responsible for ensuring that the charity delivers the services specified and that key performance indicators are met.

The governance architecture of The Challenge is outlined in a governance document, which is published on the organisation's intranet.

#### Recruitment and appointment of new trustees

Trustees are required to seek re-election after serving for a period of three years and can serve for a maximum of three terms. There was no need for any trustees to seek re-election in the 2016/2017 financial year.

#### Induction and training of new trustees

Induction and training for trustees is provided through both one-to-one and group sessions with management, briefings at board meetings and mentoring, as required. Trustees are invited to attend the general staff induction training programme and are usually paired with one of The Challenge's regional teams. This allows trustees to gain a greater operational perspective while increasing their visibility within the wider staff team.

Two trustees, Richard Wilson (a partner at EY) and Paul Armstrong (a principal at Permira) are employed by member organisations of the Social Business Trust, which provided £753k in-kind support to The Challenge during the year.

#### Diversity and disability

The Challenge 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 our operations, irrespective of sex, marital status, sexuality, gender identity, age, colour, race, ethnicity or nationality, origin, religion, disability, working pattern, or educational or social background.

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

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

#### Communications with employees

We have established arrangements for consulting and involving employees in The Challenge's work.

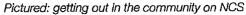
We hold regular meetings between directors, heads of department and members of staff, providing opportunities to communicate information and discuss events as they develop.

The WLT, comprising of the directors, heads of department, local leaders from all offices and other nominated key personnel, is a discussion and information sharing forum, which meets quarterly for half a day. The WLT ensures connectivity and enfranchisement across the organisation and gives members the opportunity to offer their input into decision making processes. The meeting follows a formal agenda with documents circulated to WLT

members in advance of the meeting so that they can discuss any relevant information with their teams. After the meeting, members receive a document outlining what was discussed, along with any actions and outcomes, so they can update their teams.

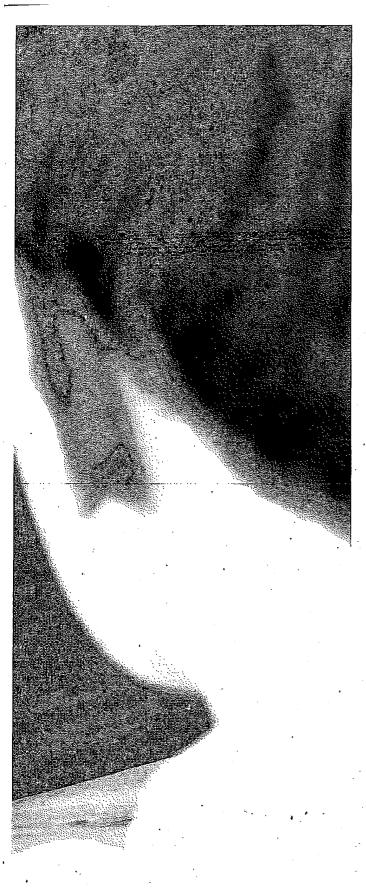
The organisation's intranet, The Hub, provides easy access to important information including HR and finance forms and policies, inclusion factsheets, safeguarding procedures and brand guidelines. Regular updates from the CEO and the DT are also published on The Hub, as well as updates from each of our programmes and a media digest.

Every month all employees are sent a staff satisfaction survey to capture their feelings and motivation levels. The results are analysed, discussed and acted upon across the country.









## 1.5 Statement of trustees' responsibilities

The trustees (comprising the directors of The Challenge Network for the purposes of company law) are responsible for proparing this report and 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. This includes 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 Charities Statement of Recommended Practice (SORP);
- Make judgements and estimates that are reasonable and prudent;
- Prepare the financial statements on the going concern basis unless it is not appropriate to presume that the charitable company will continue in business.

Pictured: Step Forward associate in deep conversation at the Salesforce offices

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 ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the charitable company and 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 reappoint them will be proposed at the annual general meeting.

## Statement as to disclosure of information to auditors

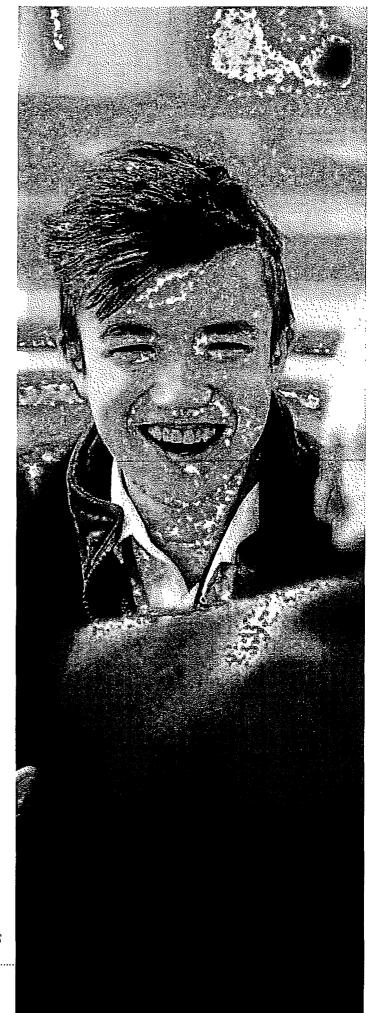
So far as the trustees are aware, there is no relevant information (as defined by Section 418 of the Companies Act 2006) of which the charitable company's auditors are unaware. Each trustee has taken all the necessary steps to be aware of any audit information and to establish that the charitable company's auditors are aware of that information.

The report of the trustees incorporating the strategic report was approved by the trustees on 17th April 2018 and signed on their behalf by Richard Wilson.

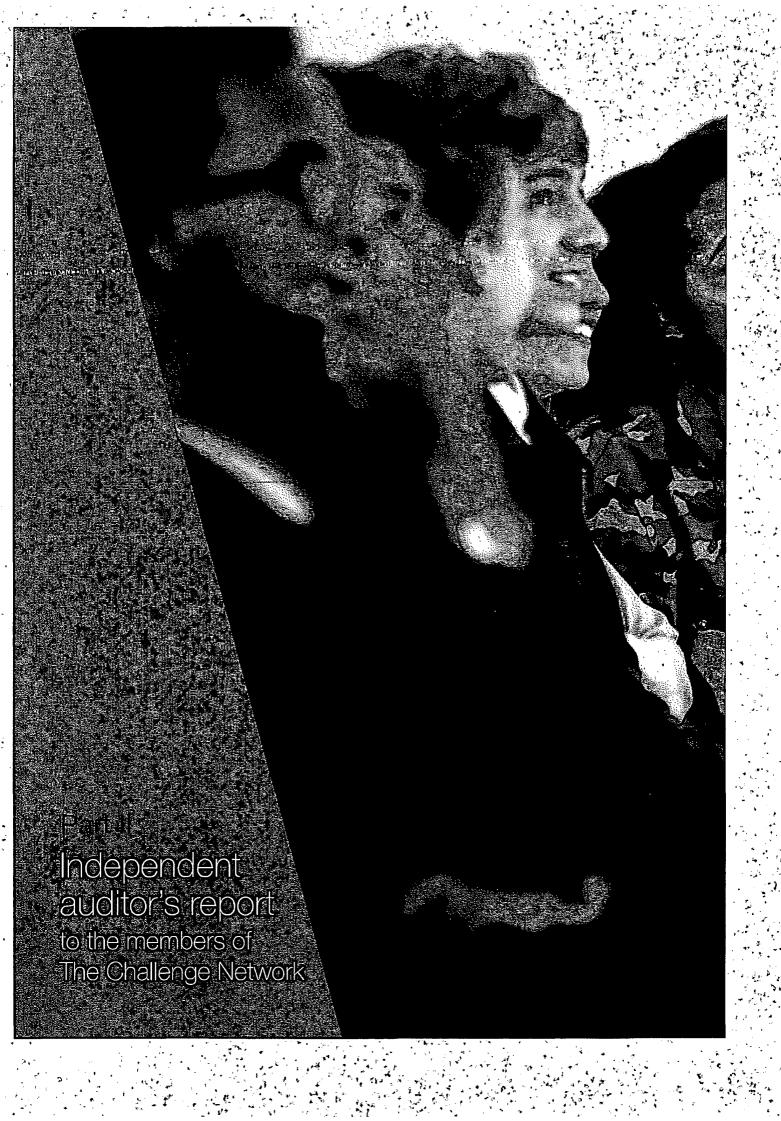
Richard Wilson,

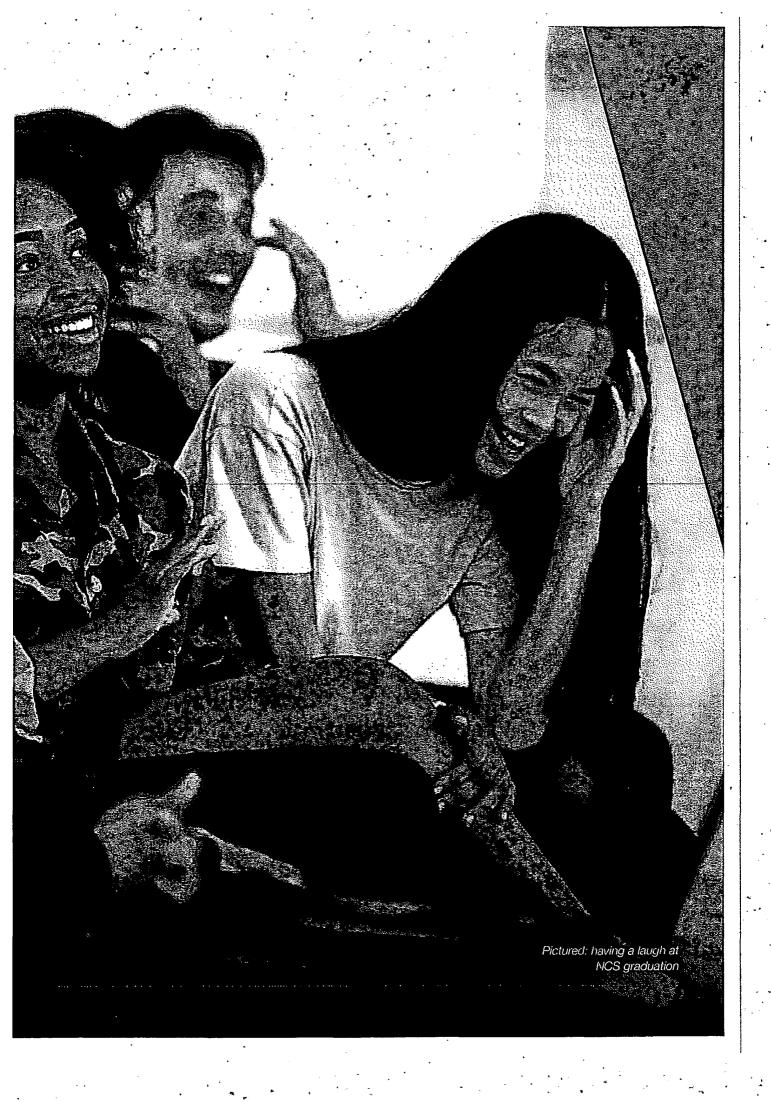
Trustee and chairman of the audit and risk committee

WWilson









#### **Opinion**

We have audited the financial statements of The Challenge Network ("the parent charitable company") and its subsidiaries ("the group") for the year ended 31 October 2017. These comprise the consolidated statement of financial activities, the group and charity balance sheet, the consolidated statement of cash flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom accounting standards, including Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the group's and of the parent charitable company's affairs as at 31 October 2017 and of the group's incoming resources and application of resources and the parent charitable company's incoming resources and application of resources 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.

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law, Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group and the parent charitable company in accordance with the ethical requirements relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (FRC's) Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Conclusions related to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the trustees' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the trustees have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group or the parent charitable company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

#### Other information

The other information comprises the information included in the annual report and accounts, other than the financial statements and our auditor's report thereon. The other information comprises the trustees' annual report and strategic report. The trustees are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements, our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.



## Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work during the course of the audit:

- the information given in the trustees' report, which includes the directors' report and the strategic report prepared for the purposes of company law, for the financial year for which the financial statements are prepared, is consistent with the financial statements; and
- the strategic report and the trustees' report have been prepared in accordance with applicable legal requirements.

## Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and the parent charitable company and its environment obtained in the course of the audit, we have not identified material misstatement in the strategic report or the trustees' report.

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

- adequate accounting records have not been kept by the parent charitable company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent charitable company's financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit,

#### Responsibilities of trustees

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, and for such internal control as the trustees determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the trustees are responsible for assessing the group's and the parent charitable company's ability to continue as a going concern disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the trustees either intend to liquidate the group or the parent charitable company, to cease operations or have no realistic alternative but to do so.

## Auditor's responsibilities for the audit of the financial statements

We have been appointed as auditor under section 144 of the Charities Act 2011 and report in accordance with the act and relevant regulations made or having effect thereunder.

This report is made solely to the charitable company's members, as a body, in accordance with chapter 3 of part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the charitable company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the charitable company and the charitable company's members as a body for our audit work, for this report, or for the opinions we have formed.

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the at the FRC's website:

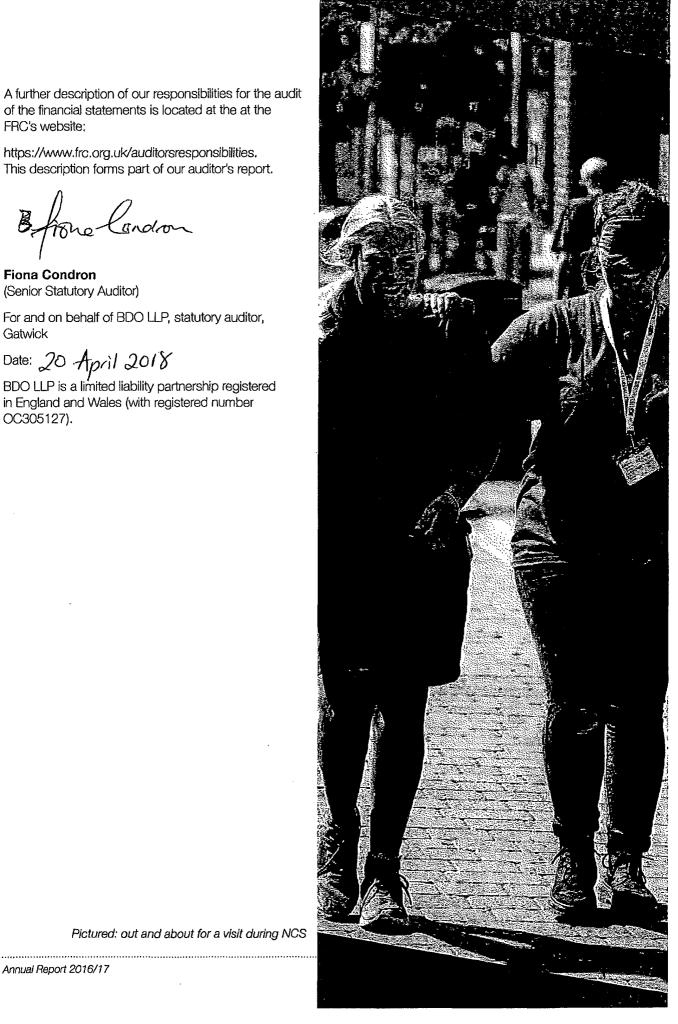
https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

**Fiona Condron** 

(Senior Statutory Auditor)

For and on behalf of BDO LLP, statutory auditor, Gatwick

Date: 20 April 2018
BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).



Pictured: out and about for a visit during NCS





# Consolidated Statement of Financial Activities (SoFA) for the year ended 31 October 2017 (incorporating the income and expenditure account)

	Note	Unrestricted funds	Restricted funds	Total funds 2017	Total funds 2016
		£;000	£'000	£'000	£'000
Income from:	•	•		•	•
Grants and donations	2a	1,111	566	1,677	1,528
Investments	2c	70	-	70	132
Charitable activities	2b	67,388	-	67,388	64,132
Trading income	15	675	-	675	-
Total income		69,244	566	69,810	65,792
Expenditure on:					
Raising funds		·97	-	97	112
Charitable activities		31			112
NCS	3	66,516	_	66,516	64,722
Step Forward	3	2,450	-	2,450	2,036
HeadStart	3	350	553	903	1,092
Other	3	532	-	532	348
Total charitable activities		69,848	553	70,401	68,198
Total expenditure		69,945	553	70,498	68,310
Net (expenditure)/income		(701)	Y 13	(688)	(2,518)
Reconciliation of funds  Total funds brought forward		7,850	126	7,976	10,494
Table 6 and a said of 6 and 3		7440	100	7.000	1000 N 2 1 20 1
Total funds carried forward	er en en de la filippe.	7,149	139	7,288	7,976

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

The notes on pages 41-55 form part of these financial statements.

## Consolidated balance sheet at 31 October 2017

Company number 06845451	Note	_ 2017	2016
		€'000	€'000
Fixed assets			
Tangible assets	. 7	117	154
Current assets			*
Debtors: amounts falling due within one year	. 8	5,245	13,937
Cash at bank and in hand	19	13,890	3,032
Short-term deposits	19	61	6,153
		19,196	23,122
Creditors: amounts falling due within one year	9	(12,025)	(15,300)
Net current assets		7,171	7,822
Total assets less current liabilities		7,288	7,976
Net assets		7,288	7,976
Funds			
Unrestricted funds	13	5,900	6,415
Designated funds	13	1,249	1,435
Restricted funds	13	139	126
Total funds		7,288	7,976

The financial statements were approved by the board of trustees and authorised for issue on April 17, 2018.

The notes on pages 41-55 form part of these financial statements.

LWWilson

Richard Wilson Trustee and chairman of the Audit and Risk Committee

## Parent charity balance sheet at 31 October 2017

			2016
		£'000	£'000
Fixed assets			•
Tangible assets	7	117	154
Current assets			
Debtors: amounts falling due within one year	8	5,781	14,087
Cash at bank and in-hand	19	13,235	2,882
Cash equivalents on deposit	19	61	6,153
4			-,
		19,077	23,122
Creditors: amounts falling due within one year	9	(11,896)	(15,300)
Net current assets	HARRIS PARA	N. W.	7.000
Het Child it gogers	is father and the second	societies (PiliO Linner	
Total assets less current liabilities		7,298	7,976
Net assets		7,298	7,976
•			
Funds			
Unrestricted funds	13	5,910	6,415
Designated funds	. 13	1,249	1,435
Restricted funds	13	139	126
Total funds		7.000	7,976

The financial statements were approved by the board of trustees and authorised for issue on April 17, 2018.

No separate SoFA has been prepared for the parent charity as permitted by section 408 of the Companies Act 2006. The net movement in funds of the parent company are disclosed in Note 13 to the accounts.

The notes on pages 41-55 form part of these financial statements.

KwWilson

Richard Wilson Trustee and chairman of the Audit and Risk Committee

# Consolidated statement of cash flows for the year ended 31 October 2017

		Note	2017	2016
			£;000	£'000
Cash flows from operating activities:				
Net cash generated from/(used in) operating activities	\ . ·	18	4,733	(334)
Net cash provided by (used in) investing activities	જરાત કૃષ્ણ છે.	18	33	51
Change in cash and cash equivalents in the reporting period	d Constant of the	19	4,766	(283)
Cash and cash equivalents at 1 November	to the established of the established of	19	9,185	9,468
Cash and cash equivalents at 31 October			13,951	9,185

The notes on pages 41-55 form part of these financial statements.

# Notes forming part of the financial statements for the year ended 31 October 2017

## 1. Accounting policies

#### **Basis of preparation**

The financial statements of the group have been prepared under the historical cost convention. They have been prepared on a going concern basis in accordance with the Financial Reporting Standard Applicable in the UK and Republic of Ireland (FRS102), the Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Financial Reporting Standard Applicable in the UK and Republic of Ireland (FRS102)(Charities SORP(FRS102)), the Charities Act 2011 and the Companies Act 2006.

The Challenge Network meets the definition of a public benefit entity under FRS 102. As described further within the governance section of the trustees' report on page 14, it is a charity registered with the Charity Commission in England and Wales, and a company limited by guarantee.

The Challenge Network's activities, together with factors likely to affect its future development, performance and financial position, and commentary on its financial activities and its cash flows, are set out in the trustees' report (including the strategic report) on pages 3 to 17 and elsewhere in the financial statements.

#### **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 15 of the financial statements.

Pictured: team building at a HeadStart event



The subsidiary is an entity controlled by The Challenge Network. Control exists when the company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of the subsidiary are included in the consolidated financial statements from the date that control commences until the date that control ceases. The turnover and expenditure of the subsidiary are included within the consolidated SoFA. The assets and liabilities are included on a line-by-line basis in the consolidated balance sheet in accordance with FRS 102, section 9.13, Consolidated and Separate Financial Statements. The financial statements of all group companies are prepared using consistent accounting policies.

#### Significant estimates and judgments

The only significant judgement included within these financial statements relates to the allocation of support costs between each of the charitable activities.

#### Income

All income is included on the SoFA when the charity is legally entitled to the income; the amount can be quantified with reasonable accuracy and when it is probable that the income will be received. 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 entitlement, the amount can be measured and it is probable that the income will be received.

Donated services and facilities are included in income, with an equivalent amount in expenditure, where the benefit to the charity is reasonably quantifiable, measurable and in excess of 50% of its fair value. 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 income where they clearly represent a donation.

#### Expenditure

Expenditure is accounted for on an accruals basis and has been classified under headings that aggregate all costs 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

Expenditure on raising funds includes 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.

Support costs include those costs connected with the management of the charity's assets, organisational management and administration. These include all expenditure not directly related to the charitable activity or fundraising ventures. Support costs are allocated on the basis of respective headcount.

#### 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 cost Computer equipment – 33% on cost

The charity does not capitalise any fixed assets costing less than £1,000.

#### **Taxation**

The company is a charity within the meaning of Paragraph 1, Schedule 6 of the 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 during 2016/2017.

#### **Debtors**

Trade and other debtors are recognised at the settlement amount due, less any provision for bad or doubtful amounts.

Such provisions are specific and applied in a consistent manner based on aged debts and other factors affecting potential recoverability.

#### Cash and cash equivalents

Cash, for the purpose of the cash flow statement, represents balances in hand and those on deposit, where notice period for withdrawal is three months or less from inception. Such balances are subject to insignificant risk of changes in value and are readily convertible.

#### **Creditors**

Trade and other creditors are recognised at transaction price due, after allowing for any trade discounts.

Deferred income represents invoices raised and cash receipts, for which income recognition criteria is not yet met, and will be satisfied in future accounting periods. Such amounts are not discounted.

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.

#### Pension

The charity has 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 SoFA 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. Designated funds have been earmarked at the discretion of the trustees for particular activities.

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.

#### **Financial instruments**

The group and parent financial instruments comprise financial assets of cash, group debtors and other debtors and financial liabilities which comprise trade creditors and other creditors. These are measured at amortised cost.

#### **Agency transactions**

Where the charity acts as an agent for another organisation, no amounts are recognised in the profit and loss account. Income received is recorded as a creditor and this is released once paid over to the agent.

## 2. Comparative Consolidated Statement of Financial Activities

	Note	-Unrestricted -funds		Total funds 2016
		£'000	€′000	000.3
Income from:	0-	603	925	1 500
Grants and donations	2a		920	1,528
Investments	2c	132	-	132
Charitable activities	2b	64,132		64,132
Total income	in party	64,867	925	65,792
Expenditure on:				
Raising funds		112	-	112
Charitable activities				
NCS	3	64,722	-	64,722
The Challenge Society	3	-	11	11
Step Forward	3	2,036	-	2,036
HeadStart	3	246	835	1,081
Public affairs	3	348	-	348
Total charitable activities		67,352	846	68,198
Total resources expended		67,464	846	68,310
Total resources expended Visconius Control Con			. :	**************************************
Net (outgoing)/incoming resources for the year	na súspesé T	(2,597)	79	(2,518)
Reconciliation of funds Total funds brought forward		10,447	47	10,494
Total funds carried forward		7,850	126	7,976

#### Income

		그 글은 사람이
2(a) Voluntary income	€'000	£'000
Donations	1,111	453
Grants	566	925
Other .	-	150

Donations include £1,113k (2016: £443k) for in-kind support from a number of different suppliers. The largest of these was £753k from the Social Business Trust which related to work carried out by Consultants Bain and Co. and £177k received as a benefit in kind from Box.

Restricted grants received, included in the above, are as follows:           Greater London Authority         140         110           Big Lottery         - 31         146           Heathrow Community Fund         - 61         164           Department for Education         - 164         119         180           Other grants         8         11         119         180           Starbucks Foundation         119         180         180         20         25           Careers & Enterprise         50         25         25         22         193         22         243         24         50         25         26		2017	2016
Greater London Authority         140         110           Big Lottery         -         31           Heathrow Community Fund         -         61           Department for Education         -         164           Other grants         8         11           Starbucks Foundation         119         180           Bloomberg         50         25           Careers & Enterprise         102         193           Zendesk         49         50           Berkeley         -         100           Prevista         57         -           Big Change         41         -           2(b) Incoming resources from charitable activities         £'000         £'000           Contract income         66,265         62,891           Step Forward         1,123         1,241           2(c) Investment income         £'000         £'000		£'000	£'000
Greater London Authority         140         110           Big Lottery         -         31           Heathrow Community Fund         -         61           Department for Education         -         164           Other grants         8         11           Starbucks Foundation         119         180           Bloomberg         50         25           Careers & Enterprise         102         193           Zendesk         49         50           Berkeley         -         100           Prevista         57         -           Big Change         41         -           2(b) Incoming resources from charitable activities         £'000         £'000           Contract income         66,265         62,891           Step Forward         1,123         1,241           2(c) Investment income         £'000         £'000			
Big Lottery       -       31         Heathrow Community Fund       -       61         Department for Education       -       164         Other grants       8       11         Starbucks Foundation       1119       180         Bloomberg       50       25         Careers & Enterprise       102       193         Zendesk       49       50         Berkeley       -       100         Prevista       57       -         Big Change       41       -         2017       2016         2(b) Incoming resources from charitable activities       £'000       £'000         Contract income       66,265       62,891         Step Forward       1,123       1,241         2(c) Investment income       £'000       £'000			•
Heathrow Community Fund       -       61         Department for Education       -       164         Other grants       8       11         Starbucks Foundation       119       180         Bloomberg       50       25         Careers & Enterprise       102       193         Zendesk       49       50         Berkeley       -       100         Prevista       57       -         Big Change       41       -         2(b) Incoming resources from charitable activities       £'000       £'000         Contract income       66,265       62,891         Step Forward       1,123       1,241         2(c) Investment income       £'000       £'000         2(c) Investment income       £'000       £'000	· · · · · · · · · · · · · · · · · · ·	140	
Department for Education         -         164           Other grants         8         11           Starbucks Foundation         119         180           Bloomberg         50         26           Careers & Enterprise         102         193           Zendesk         49         50           Berkeley         -         100           Prevista         57         -           Big Change         41         -           2(b) Incoming resources from charitable activities         £'000         £'000           Contract income         66,265         62,891           Step Forward         1,123         1,241           2(c) Investment income         £'000         £'000           £'(0) Investment income         £'000         £'000		-	
Other grants       8       11         Starbucks Foundation       119       180         Bloomberg       50       25         Careers & Enterprise       102       193         Zendesk       49       50         Berkeley       -       100         Prevista       57       -         Big Change       41       -         Zerobange       566       925         Zerobange       2017       2016         Zerobange       2017       2016         Zerobange       566       925         Contract income       66,265       62,891         Step Forward       1,123       1,241         Zerobange       2017       2016         2(6) Investment income       £'000       £'000			
Starbucks Foundation         119         180           Bloomberg         50         25           Careers & Enterprise         102         193           Zendesk         49         50           Berkeley         -         100           Prevista         57         -           Big Change         41         -           2(b) Incoming resources from charitable activities         £'000         £'000           Contract income         66,265         62,891           Step Forward         1,123         1,241           2(c) Investment income         £'000         £'000           2(d) Investment income         £'000         £'000		-	
Bloomberg   50   25     Careers & Enterprise   102   193     Zendesk   49   50     Berkeley   - 100     Prevista   57   -     Big Change   41   -     Sendesk   57   -     Big Change   50   566     Sendesk   57   -     Sendesk   57   57     Sendesk   57		<del>-</del>	
Careers & Enterprise         102         193           Zendesk         49         50           Berkeley         -         100           Prevista         57         -           Big Change         41         -           2(b) Incoming resources from charitable activities         £'000         £'000           Contract income         66,265         62,891           Step Forward         1,123         1,241           2(c) Investment income         £'000         £'000           2(c) Investment income         £'000         £'000			
Zendesk         49         50           Berkeley         -         100           Prevista         57         -           Big Change         41         -           26         925           2(b) Incoming resources from charitable activities         £'000         £'000           Contract income         66,265         62,891           Step Forward         1,123         1,241           2(c) Investment income         £'000         £'000		50	25
Berkeley         -         100           Prevista         57         -           Big Change         41         -           266         925           2(b) Incoming resources from charitable activities         £'000         £'000           Contract income         66,265         62,891           Step Forward         1,123         1,241           47,388         64,132           2(c) Investment income         £'000         E'000		. 102	193
Prevista         57         -           Big Change         41         -           566         925           2(b) Incoming resources from charitable activities         £'000         £'000           Contract income         66,265         62,891           Step Forward         1,123         1,241           67,388         64,132           2(c) Investment income         £'000         £'000		49	50
Big Change       41       -         566       925         2(b) Incoming resources from charitable activities       £'000       £'000         Contract income       66,265       62,891       62,891       1,123       1,241         Step Forward       1,123       1,241       2017       2016         2(c) Investment income       £'000       £'000	Berkeley	-	100
2(b) Incoming resources from charitable activities       £'000       £'000         Contract income       66,265       62,891         Step Forward       1,123       1,241         67,388       64,132         2(c) Investment income       £'000       £'000	Prevista	57	-
2017   2016     2(b)   Incoming resources from charitable activities   £'000   £'000     Contract income   66,265   62,891     Step Forward   1,123   1,241     67,388   64,132     2017   2016     2(c)   Investment income   £'000   £'000     E'000   £'000     Contract income   2017   2016     2(c)   Investment income   £'000   £'000     Contract income   £'000   £'000   £'000     Contr	Big Change	41	-
2017   2016     2(b)   Incoming resources from charitable activities   £'000   £'000     Contract income   66,265   62,891     Step Forward   1,123   1,241     67,388   64,132     2017   2016     2(c)   Investment income   £'000   £'000     E'000   £'000     Contract income   2017   2016     2(c)   Investment income   £'000   £'000     Contract income   £'000   £'000   £'000     Contr			
2(b) Incoming resources from charitable activities       £'000       £'000         Contract income       66,265       62,891         Step Forward       1,123       1,241         67,388       64,132         2(c) Investment income       £'000       £'000	A REPORT OF THE CONTROL OF THE CONTR	566	925
2(b) Incoming resources from charitable activities       £'000       £'000         Contract income       66,265       62,891         Step Forward       1,123       1,241         67,388       64,132         2(c) Investment income       £'000       £'000			
Contract income 66,265 62,891 Step Forward 1,123 1,241  67,388 64,132  2017 2016  2(c) Investment income £'000		2017	2016
Contract income 66,265 62,891 Step Forward 1,123 1,241  67,388 64,132  2017 2016  2(c) Investment income £'000			
Step Forward       1,123       1,241         67,388       64,132         2017       2016         2(c) Investment income       £'000       £'000	2(b) Incoming resources from charitable activities	£'000	£'000
2017 2016 2(c) Investment income £'000	Contract income	66,265	62,891
2017 2016 2(c) Investment income £'000 £'000	Step Forward	1,123	1,241
2017 2016 2(c) Investment income £'000 £'000		67.388	64 132
2(c) Investment income £'000		0,,000	0.1102
		2017	2016
	2(c) Investment income	6,000	6,000
Deposit account interest 70 132	erfal attractions are a second and a second		2000
	Deposit account interest	70	132

## 3. Charitable activities costs

The Challenge Society

Step Forward

HeadStart

Public affairs

	Direct	Support costs -(Note 4)	Total 2017
	£'000	16 Alt 1	£'000
NCS	57,026	9,490	66,516
Step Forward	2,054	396	2,450
HeadStart	680	223	903
Other	510	22	532
Total	60,270	10,131	70,401
	Direct costs	Support costs (Note 4)	Total 2016
	£'000	£'000	£,000
NCS	58,207	6,515	64,722

11

421

264

12

7,212

1,615

817

336

60,986

11

2,036

1,081

68,198

348

## 4. Support costs

	Staff costs	Property costs	Other Governa	nce Total osts 2017
	£1000	£'000	£ 0000.5	000 £'000
Charitable activities (Note 3)	4,705	1,942	3,445	39 10,131
	Staff costs	Property costs	Other Governa	nce Total
	£'000	A STATE OF THE PERSON NAMED IN COLUMN 1		000 £,000
Charitable activities (Note 3)	3,701	1,919	1,545	47 7,212

## 5. Net income

the state of the s	2017	2016
	£'000	£'000
Net income is stated after charging:		
Auditors' remuneration (including VAT)	39	38
Auditors' remuneration for non-audit work (including VAT)		4
Depreciation - owned assets	74	66
Operating lease charge in the year	1,942	1,919
Profit on disposal of fixed assets	-	2

## 6. Employees

	2017	2010
	£'000	£'000
Staff costs consist of:	ì	
Wages and salaries	27,892	26,130
Social security costs	1,861	1,93
Pension costs	568	49:
Redundancy costs	173 30,494	28,56
Redundancy costs	30,494	
Redundancy costs		201
Redundancy costs  The number of employees during the year was:	30,494 <b>2017</b>	28,56 2010 numbe
	30,494 <b>2017</b>	2010

In order to operate NCS in 2017, of the 4,382 temporary programme staff during the summer and autumn programmes, the average number of full-time equivalent employees was 365 (2016: 384).

	2017 number* nu	2016 umber
The number of higher paid staff with emoluments are as £60,000 to £69,999	follows:	3
£70,000 to £79,999	4	2
£80,000 to £89,999	2	-
£90,000 to £99,999	3	2
£100,000 to £109,999	1	1
£140,000 to £149,999	-	· 1
£160,000 to £169,999	2	-

<sup>\*</sup>Owing to a comprehensive restructuring this year of the organisation's senior management, these costs are significantly higher than the previous year; these figures are therefore inflated and not recurring. Total pension costs in respect of higher pald staff were £70,090 (2016: £42,000).

#### Key management personnel

The key management personnel are the trustees and The Challenge Leadership Team. The total employee benefits (including salary, pension and National Insurance contributions) paid to key management personnel was £1,055k (2016: £568k).

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

#### **Trustee expenses**

Trustee expenses relating to travel and subsistence totalling £705 (2016 - £1,073) were reimbursed to trustees in the year to 31 October 2017. These were paid to three trustees (2016: three trustees).

## 7. Tangible fixed assets

Group and parent		Caracita de Ca Caracita de Caracita de Car	Fixtures and fittings	Computer equipment	Total
		i de la composition della comp	£'000		£'000
Cost					
At 1 November 2016			. 28	389	417
Additions			-	37	37
At 31 October 2017	4 4 4 1 2 1 4 4 4 4 4 4 4 4 4 4 4 4 4 4			426	454
Depreciation					
At 1 November 2016			· 17	246	263
Charge for the year			4	70	74
At 31 October 2017			21	316	337
Net book value					
At 31 October 2017			7	110	117
At 31 October 2016			11	143	154

## 8. Debtors: amounts falling due within one year

	Group 2017	Group 2016	Charity 2017	Charity 2016
	£!000	£'000	£'000	£'000
Trade debtors	2,283	7,642	2,129	7,632
Other debtors	436	124	436	124
Amounts due from subsidiaries	2	-	690	160
Prepayments and accrued income	2,526	6,171	2,526	6,171
, repayment of the described in terms	5.045	12 027	E 701	ر. (۱۷

## 9. Creditors: amounts falling due within one year

	Group 2017	Group 2016	Charity 2017	Charity 2016
	€,000	£'000	£'000	£,000
Trade creditors	1,575	3,808	1,575	3,808
Social security and other taxes	420	425	420	425
Other creditors	488	1,102	379	1,102
Deferred income	5,200	6,373	5,180	6,373
Accrued expenses	4,342	3,592	4,342	3,592
	Administrative A COS (Section 1)	31.54 F 000 55 VS	Altered d 1000 Services	WAWNER COO
	2,025 (A)	6,300	# 1445 <b>1 1,896</b> ####	

## 10. Deferred income

Balance as at 31 October 2016	£,000	£,000
Ralance as at 31 October 2016		
	6,373	6,373
Released in the year	(6,373)	(6,373)
Deferred in the year	5,200	5,180

## 11. Agency transactions

As part of the delivery of the NCS programme, The Challenge acts as an agent for a large number of organisations. Included within creditors is £344k (2016: £1,073k).

## 12. Analysis of net assets between funds

Group	Unrestricted	Restricted	Total funds U	nrestricted	Restricted	Total fund
	funds	funds	2017	funds	funds	201
	£,000	£'000	£,000	£'000	£,000	£,000
				•		
Fixed assets	117	-	117	154	-	154
Current assets	19,057	139	19,196	22,996	126	23,122
Current liabilities	(12,025)	-	(12,025)	(15,300)	-	(15,300)
en Altre al tres, faller de l'Arcte Litte	and a second production of the group of	.344 - 1.144 - 144 - 144 - 144	* * * * * * * * * * * * *	durants or turn tries to ans	and American Comment	. 5 - 5
	7,149	139	7,288	7,850	126	7,976
Charity		Restricted	Total funds U	nrestricted	Restricted	Total fund
Charity						Total fund 201
	Unrestricted funds	Restricted funds	Total funds U 2017	nrestricted funds	Restricted funds	Total fund 2011 £'000
Charity  Fixed assets  Current assets	Unrestricted funds	Restricted funds	Total funds U 2017 £'000	nrestricted funds £'000	Restricted funds	7,976  Total fund 2016 £'000  154 23,122

## 13. Movement in funds

Group and parent 1	November 2016	Income <b>E</b>	Expenditure	Transfers movement ( in funds	1 Octobe 201
	€,000	£'000	£'000	£'000	£;00
Jnrestricted funds					
General funds	6,415	69,244	(69,945)	186	5,90
Designated funds		·			
leadStart	435	· -	, _	(435)	
Step Forward	500	-	-	(251)	24
lizabeth House	500		-		50
Reorganisation	· -	-	· -	500	50
Restricted funds				•	
epartment for Education	(54)	-	54	_	
Bloomberg	25	50	(50)		2
tarbucks Foundation	130	119	(159)		9
Careers & Enterprise	 -	102	(102)	, -	
Greater London Authority	-	140	(140)	-	
erkeley	25	49	(50)	-	2
Prevista	_	57	(57)		
Big Change	-	41	(41)	-	
ondon City Airport	-	8	(8)	-	
vojn and naveni	7,976 At November	69,810	(70,498)	Transfers movement	
vous and sevent	At 1 November 2015	Elncome	Expenditure	Transfers movement in funds	31 Octob 20
aroup and parent	S S S S S S S S S S S S S S S S S S S			movement in funds	7,28 31 Octob 20 £'0
iroup and parent	At 1 November 2015 £'000	£'000	Expenditure s	movement in funds £'000	31 Octob 20 £'0
Iroup and parent	At 1 November 2015	Elncome	Expenditure	movement in funds	31 Octob 20 £'0
Investricted funds General funds Jesignated funds	At 1 November 2015 £'000	£'000	Expenditure s	### (303)	3 <b>1 Octob</b> 20 £'0
Inrestricted funds deneral funds designated funds deadStart	A\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\	£'000	Expenditure s	(303)	20 20 £'0 6,4
Investricted funds Investricted	At 1 November 2015 £'000	£'000	Expenditure s	(303) (316)	31 Octob 2 20 £'0 6,4
Inrestricted funds General funds Designated funds	A\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\	£'000	Expenditure s	(303)	31 Octob 2 20 £'0 6,4
Investricted funds Beneral funds Beneral funds Besignated funds	9,315 316 816	£'000 64,867	Expenditure £:000 (67,464)	(303) (316)	£10 <b>£</b> 10 <b>£</b>
Investricted funds General funds General funds Gesignated funds Gesignated funds Gestricted funds Gestricted funds Gestricted funds Gestricted funds Gestricted funds	9,315 316 816 -	£'000 64,867	Expenditure £'000 (67,464)	(303) (316)	£10 <b>£</b> 10 <b>£</b>
Inrestricted funds General funds General funds Gesignated funds Gesignated funds Gestricted funds	9,315 316 816 - (27) 34	£'000 £'000 64,867 - - - 164 25	Expenditure £'000 (67,464)	(303) (316)	6,4 50 6,4 6,4
Inrestricted funds General funds General funds Gesignated funds Gesignated funds Gesignated funds Gesignated funds Gesignated funds Gestricted funds Gestricted funds Gepartment for Education Goomberg Gestricks Foundation	9,315 316 816 -	£'000 £'000 64,867 	£'000 (67,464) - - (191) (34) (90)	(303) (316)	6,4 50 6,4 6,4
Inrestricted funds General funds General funds Gesignated funds Gesignated funds Gesignated funds Gestricted funds Gestricted funds Gestricted funds Gepartment for Education Geomberg Getarbucks Foundation Geathrow Community Fund	9,315 316 816 - (27) 34	£'000 64,867 - - 164 25 180 61	Expenditure £'000 (67,464) - - (191) (34) (90) (61)	(303) (316)	6,4 43 56 6,4
Inrestricted funds General funds General funds General funds Gesignated funds Gesignated funds Gestricted funds Gestricted funds Gepartment for Education Geomberg Getarbucks Foundation Geathrow Community Fund Gereers & Enterprise	9,315 316 816 - (27) 34	£'000 64,867 180 61 193	Expenditure £'000 (67,464) - - (191) (34) (90) (61) (193)	(303) (316)	6,4 43 56 6,4
Inrestricted funds General funds General funds General funds Gesignated funds Gesignated funds Gestricted funds Gepartment for Education Geomberg Getarbucks Foundation Geathrow Community Fund Gareers & Enterprise Greater London Authority	9,315 316 816 - (27) 34	£'000 64,867 	(67,464)  (67,464)  (191) (34) (90) (61) (193) (110)	(303) (316)	31 Octob 20
Unrestricted funds General funds Designated funds Designa	9,315 316 816 - (27) 34	164 25 180 61 193 110 42	(67,464) (67,464) (191) (34) (90) (61) (193) (110) (42)	(303) (316)	6,4 50 6,4 6,4
Inrestricted funds General funds General funds General funds Gesignated funds Gesignated funds Gestricted funds Gepartment for Education Geomberg Getarbucks Foundation Geathrow Community Fund Gareers & Enterprise Greater London Authority	9,315 316 816 - (27) 34	£'000 64,867 	(67,464)  (67,464)  (191) (34) (90) (61) (193) (110)	(303) (316)	6,4 43 50 6,4

## 14. Members' liability

The liability of the members (trustees) 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.

## 15. Subsidiary undertaking

The Challenge Trading Company Limited (company number: 08341886) is a wholly owned subsidiary company limited by shares, and was 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 (		2017	2016
	in the state of the	and property of the Control of the C	
Income		674,949	157,762
Surplus for the year gifted to	o parent charity	(665,128)	47,319
Assets		813,647	161,857
Liabilities		(813,646)	(35,908)

## 16. Commitments under operating leases

As at 31 October 2017, the total of future minimum rentals payable under non-cancellable operating leases is as follows:

	buildings 2017	201
	5,000	£,000
Operating leases which expire:		
Operating leases which expire: Within one year	956	906

# 17. Reconciliation of net expenditure/income to net cash from operating activities

£'000	£'000
(688)	(2,518)
74	66
(70)	(132)
8,692	(7,382)
(3,275)	9,632
75.	74 (70) 8,692

## 18. Analysis of cash flow for headings netted in the cash flow statement

	2017	2016
	£'000	£'000
Net cash flow from investing activities		
Interest received	70	132
Purchase of tangible fixed assets	(37)	(122)
Proceeds from the sale of tangible fixed assets	-	41
Net cash flow from investing activities	33	51

## 19. Analysis of changes in cash

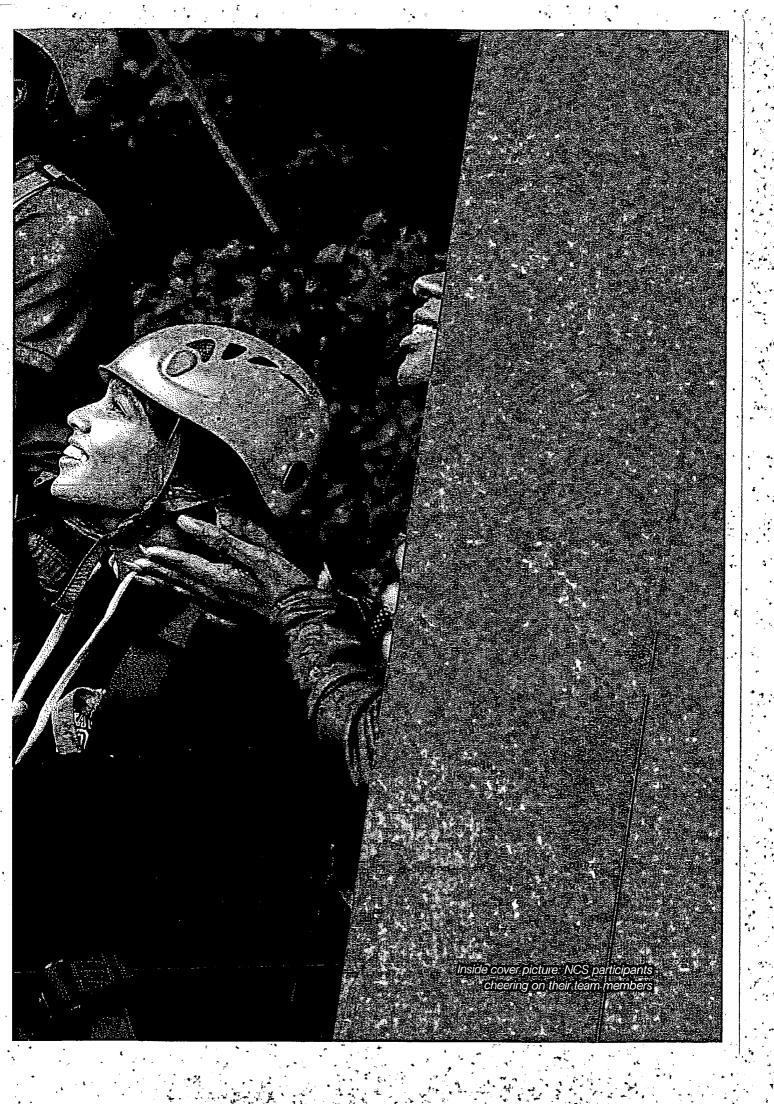
Group and parent	At 1 November 2016	Cash flows	31 October 2017
	£,000	£'000	£'000
Cash at bank and in hand	3,032	10,858	13,890
Short-term deposits	6,153	(6,092)	61

### 20. Related party transactions

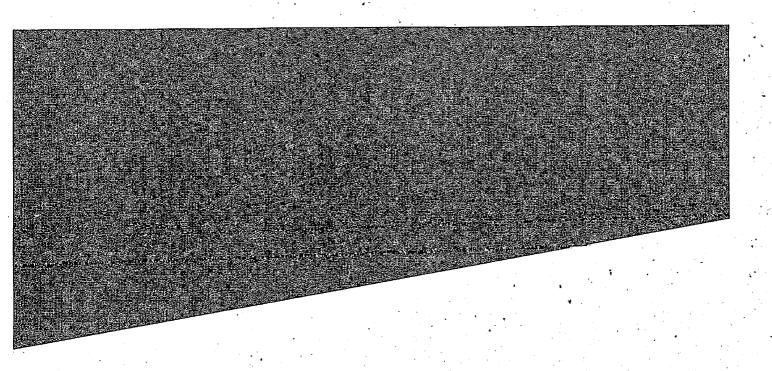
This note lists the material transactions between other entities in which trustees or senior employees of The Challenge, or their close family members, hold positions of authority. Related parties are as follows:

- The only related party for The Challenge Network is the trading subsidiary The Challenge Trading Company. During the year there was one transaction relating to the Gift Aid received from the trading company of £158k. (2016: £98k). At 31 October 2017 there is a debtor due from the trading company relating to Gift Aid for the year of £680k (2016: £160k).
- Paul Armstrong, one of the Challenge's trustees, is also a trustee of the Social Business Trust. As
  detalled in Note 2, The Challenge received £753k of in-kind support from the Social Business Trust
  during the year (2016: £134k). No amounts were owing at the year end 31 October 2017(2016: nil).

## Notes







The Challenge Network

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www.the-challenge.org