

Nearly 500 services, over
160,000 children, young
people and their families



NCH annual report
and accounts 2005/06



the children's charity



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NCH supports some of
the most vulnerable
and excluded children in
the UK, including those
affected by poverty,
disability and abuse



NCH/Andy Aitchison

Introduction

The Council, as the body of managing trustees, is pleased to present the annual report and accounts for NCH for the year ended 31 March 2006.

The year since 1 April 2005 has been one of great change for NCH, and has seen many new ideas and achievements as NCH continues to help over 160,000 children, young people and their families.

Recruitment to the Executive Management Team (EMT) was completed during the year, ensuring focused strategic leadership for the organisation. The Chief Executive, Clare Tickell, initiated a major strategic review of the organisation, called Building on Success.

The Building on Success report was considered by trustees in July 2006. The project has included a large-scale review of the ways in which services for children are commissioned and how this is likely to change, as well as research into the needs of children and young people across the UK, and an examination of which children and young people are particularly at risk of poor outcomes. This information, along with development strategies for each area of our work, will enable us to determine the future focus of the organisation, ensuring we are fit for purpose for the next decade and beyond.

It has been a year of achievement and change – and a year in which NCH has ensured that our core values underpin our success, and will continue to do so in the future.



NCH helps, over 160,000
children, young people and
their families across the UK

Reference and administrative details

NCH Council, officers and advisers

Patron

Her Majesty The Queen

The Council of trustees

Chair

Gordon Edington

Vice-Chair

Robin Wendt CBE DL

Treasurer

Dr Keith Aldred

Co-ordinating Secretary, Unit for Public Life and Social Justice, Methodist Church

Anthea Cox

The Revd Bill Anderson
(from 1 Sept 2005)

Garron Baines

Shuchi Bhatt
(until 1 Sept 2005)

Chris Cairns

The Revd Graham Carter
(until 1 Sept 2005)

Christopher Daws
(from 1 Sept 2005)

Nigel Gilhespy

Carol Hampson

Judy Jarvis

Adrienne Jones CBE
(until 1 Sept 2005)

Alison Kelly

The Revd Stephen Kingsnorth

Margaret McKay

The Revd Will Morrey
(from 1 Sept 2005)

Paul Morron MBE

Gerald Russell (from 1 Sept 2005)

Professor Anthony Thake

Silvia Thomas (until 1 Sept 2005)

Executive management team

Chief Executive

Clare Tickell

Executive Director of Human Resources

Janice Cook

Executive Director of Children's Services

Margaret Dillon

Executive Director of Finance and IT

Javaid Khan

Executive Director of Fundraising

Liz Monks

Executive Director of Public Affairs and Communications

Polly Neate

The principal committees of NCH

NCH Council

Children's Services Committee

Scotland Committee

Wales Committee

Finance Committee

Audit Committee

Nominations Committee

Remuneration Committee

Principal professional advisers

Bankers

HSBC Bank plc
4-8 Victoria Street
Westminster
London SW1H 0NE

External auditors

Deloitte & Touche LLP
3 Victoria Square
Victoria Street
St Albans AL1 3TF

Internal auditors

KPMG LLP
8 Salisbury Square
London EC4Y 8BB

Investment managers

Central Finance Board of the
Methodist Church
9 Bonhill Street
London EC2A 4PE

NCH Registered Office

85 Highbury Park
London N5 1UD

Structure, governance and management

Introduction

The trustees are pleased to present their report and accounts for NCH and its subsidiaries ('the Group') for the year ended 31 March 2006. NCH is registered with the Charity Commission under registration number 1097940 and operates in England, Northern Ireland, Scotland and Wales.

NCH operates as a company limited by guarantee and not having a share capital under the terms of its Memorandum and Articles of Association dated 6 January 2005. As defined in its Memorandum of Association, the charity works for the public benefit having as its objects the promotion of the upbringing and care of children and young people in need from all backgrounds, cultures, and faiths or none, in particular by:

- promoting their better care and safeguarding them
- providing assistance to them and their families and carers
- promoting their health
- promoting their education and establishment in life

NCH is committed to best practice in all aspects of its corporate governance. This summary describes the manner in which NCH has applied the principles set out in *Good governance: a code for the voluntary and community sector*, issued by the National Council for Voluntary Organisations (NCVO) in June 2005. Its purpose is to help people reading NCH's accounts understand how the principles have been applied.

The Council of trustees and Executive Management Team

The Council of trustees, which meets formally four times a year, is responsible for the charity's long-term objectives, for strategies in relation to the character and mission of the charity, and for providing overall financial and organisational control. The Council is made up of 17 trustees and there is a clear separation of the role of the Chair from that of the Chief Executive.

Trustees bring with them a wealth of expertise from their respective fields of business and professional activity. Trustees are appointed in accordance with the requirements of NCH's constitution. Succession planning for the recruitment of trustees includes the development of existing co-opted trustees and selecting candidates

from the widest possible fields. Potential trustees are scrutinised by the Nominations Committee and are subject to competitive interview, including a young person's panel, prior to being proposed as a trustee. All new trustees undertake an induction programme and undergo a structured introduction to the operation of NCH. The normal term of appointment is three years, after which members may be eligible for reappointment. No trustee may normally serve for more than two consecutive terms of three years, although in exceptional circumstances a retiring trustee (but not the Chair) may be appointed for one further non-renewable term of three years. Ongoing support for and development of trustees is provided by presentations to keep trustees informed about the work of NCH and by a performance review process through which individual trustees discuss and agree personal objectives with the Chair. These objectives are monitored throughout the year at one to one discussions.



The Chair has also undergone a rigorous 360 degree performance appraisal, the results of which have been shared across the organisation.

The Council has delegated the authority for the charity's operations to the Chief Executive who, supported by the Executive Management Team, implements the Council's policies, and develops and manages the charity's business.

Authority for key areas of activity and policy is delegated to the following committees, which report to Council at each meeting. These committees have specific, agreed terms of reference and include specialist co-opted members in addition to trustees.

Finance Committee

The purpose of the Finance Committee is to oversee

on behalf of the Council all the financial aspects of the charity to ensure short- and long-term viability, and to report back to Council accordingly. It is also responsible for advising Council as to the most appropriate future financial strategy for the organisation and reviews the performance and activities of NCH as part of the process of determining the future policy of the charity. It meets at least four times a year and has eight members including three co-opted members.

Audit Committee

The Audit Committee meets at least three times a year and is made up of three trustees, plus two co-opted members. The committee is responsible for ensuring, on Council's behalf, that NCH meets its statutory accounting obligations and maintains an effective system of internal control and risk management.



NCH/Pete Sheppard

'I've made
loads of
friends and
had lots of
laughs'

a young carer at an NCH young carers' outdoor activity programme

Structure, governance and management

Remuneration Committee

The Remuneration Committee, chaired by the Council Chair and including three other trustees, meets as necessary to review the salary policy for all staff, and to determine the remuneration for the Chief Executive and her direct line reports, having taken external advice. The Chief Executive is excluded from matters concerning her own remuneration. The Remuneration Committee meets at least once a year and more frequently if determined by the committee.

Children's Services Committee

The primary purpose of this committee is to ensure, on behalf of the Council, the delivery of high-quality services from NCH Children's Services. It is also responsible for guiding Council on matters relating to Children's Services and the public policy within which they operate. The Children's Services Committee meets at least four times a year and has 13 members.

Scotland and Wales Committees

Council delegates authority to the Scotland and Wales Committees in the expectation that these committees will be able to look in greater detail at how NCH's objectives can be most effectively achieved in Scotland and Wales respectively. In advising Council, the Scotland and Wales Committees take into consideration the diversity of their respective populations and other factors specifically affecting the two nations. The Wales Committee has 13 members and meets four times a year. The Scotland Committee meets at least four times a year and currently has 12 members.

Nominations Committee

The Nominations Committee meets at least once a year and more frequently if determined by the committee. The committee has a core membership of three and the capacity to invite expert non-trustee advisers/assessors to attend meetings to assist with its deliberations. The committee has delegated authority on behalf of Council for identifying, recruiting and proposing new members of Council, and for their induction, support and development.

Executive Management Team

The Executive Management Team (EMT) of NCH comprises the Chief Executive, who has overall managerial responsibility, and five executive directors. The team meets formally on a weekly basis. The EMT role derives from the executive powers of the Chief Executive. It is constituted in order to focus on decision making and also serves as a body that can be used by the Chief Executive for briefing, consultation and communication with senior managers as a group. The objective of the EMT is to ensure that an appropriate level of consideration is given to strategic decisions, that there is accountability for those decisions and that improved communication with the wider senior management group is achieved. Specifically, the EMT determines:

- strategic and operational plans
- the annual budget and financial forecasts for the Chief Executive to propose to the Council of trustees for approval
- the implementation of policies as necessary and monitoring of the charity's performance against plans
- determination and oversight of the processes by which strategic and operational planning are undertaken, resources allocated and targets achieved
- implementation and monitoring of the charity's risk management strategy
- consideration of reports on value for money
- day-to-day matters concerning the management of NCH

Internal control

The key elements of the charity's systems of internal financial control, which are designed to discharge the responsibilities of the Council of trustees, include the following:

- clear definitions of the responsibilities of, and the authority delegated to, heads of departments
- a comprehensive medium- and short-term planning process, supplemented by detailed annual income, expenditure, capital and cash-flow budgets
- regular reviews of performance and monthly reviews of financial results involving variance reporting and updates of forecast outturns
- clearly defined and formalised requirements for approval and control of expenditure, with investment decisions involving capital or revenue expenditure being subject to formal detailed appraisal and review



NCH is the largest children's charity in the UK

- comprehensive financial regulations, detailing financial controls and procedures, approved by the Audit Committee and the Council of trustees
- a professional internal audit team whose annual programme is approved by the Audit Committee

Any system of internal financial control can, however, only provide reasonable, but not absolute, assurance against material mis-statement or loss.

Role of internal audit

The internal auditors, who are appointed by the Council of trustees on the recommendation of the Audit Committee, are independent of the management of NCH. Internal audit assists the management by reviewing, assessing and helping to improve the

system of internal control. This internal audit function includes reviews of individual systems and processes and recommendations about improvements in internal controls emanating from these reviews.

A report from the internal auditors is considered annually by the Audit Committee and Council as part of satisfying themselves on the adequacy of the system of internal control.

Risk management

The trustees have assessed the major risks to which the charity is exposed, in particular those related to the operations and finances of the trust, and are satisfied that systems are in place to mitigate exposure to the major risks.

Structure, governance and management

'You don't feel silly asking for help at NCH - they'll help you before it goes wrong'

a young parent at an NCH family centre



The key elements of the charity's approach during the year, designed to discharge the responsibilities of the Council of trustees in relation to risk management, were:

- the review of the risk register
- the development of risk improvement plans to address the 10 highest categorised risks and the confirmation of the delegation of responsibility to manage the less significant risks
- regular monitoring by the Audit Committee of the risks with the highest category of severity and of the implementation of improvement plans
- regular reports both to Council and the Audit Committee on the development of the process, the most severe risks and progress with improvement plans
- high-level involvement and support, which included the Chief Executive taking an active part in the risk workshops and an EMT meeting that considered the risk register and improvement plans, and other reports on key aspects of the charity's performance
- the internal audit team plan of work based on the charity's risk analysis, modified by their assessment. In addition, the internal audit team reviewed the charity's system of risk management
- an implemented plan of improvement and refinement of its system of risk management for 2006/07 based on the evaluation of the effectiveness of the system in operation for 2005/06

Review of the effectiveness of internal control and risk management

At its meeting in July 2006 the Council of trustees considered the effectiveness of the arrangements for internal control and risk management that had been in place for the financial year to 31 March 2006. The Council concluded, based upon the report from the Chief Executive and the annual report of the Audit Committee, that the arrangements in place were satisfactory to provide effective internal control and risk management throughout the year.

Statement of trustees' responsibilities

The trustees are responsible for preparing the annual report and the financial statements. The trustees have chosen to prepare accounts for the company and the group in accordance with United Kingdom Generally

Accepted Accounting Practice (UK GAAP). Company law requires the trustees to prepare such financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the group and of the surplus or deficit of the company for that period and comply with UK GAAP and the Companies Act 1985. In preparing these financial statements, the trustees are required to:

- select suitable accounting policies and then apply them consistently
- make judgments and estimates that are reasonable and prudent
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

The trustees are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company, for safeguarding the assets, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a directors' report, which complies with the requirements of the Companies Act 1985.

The trustees are responsible for the maintenance and integrity of the company website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements differs from legislation in other jurisdictions.

Disclosure of information to auditors

In the case of each of the persons who are trustees of the company at the date when this report was approved:

- so far as each of the trustees is aware, there is no relevant audit information (as defined in the Companies Act 1985) of which the company's auditors are unaware
- each of the trustees has taken all the steps that he/she ought to have taken as a trustee to make himself/herself aware of any relevant audit information (as defined) and to establish that the company's auditors are aware of that information

Objectives and achievements

In 2004/05 we made eight commitments – our achievements are outlined in the five objectives below.

Objective 1 To pursue our purpose more effectively

What was planned

In 2004/05, we committed to the following:

- i. We will identify and act upon further opportunities for children and young people to participate in the work of the organisation, not just at local project level but in the wider activities of the organisation such as our policy work and contributing to the trustees' governance activities. To ensure that we are doing this effectively we will undertake a review of participation across the breadth of NCH's work and if appropriate will propose and implement changes in these arrangements.
- ii. In working across the UK and the social policy and legislative frameworks of four nations we will seek to identify best practice so that we are able to adopt this into our work and promote such practice across the UK.
- iii. We will further develop our abilities in respect of

demonstrating the difference we make to the lives of children and young people so that we can identify what works, integrating this across our services and into the development of new services.

- iv. We will continue to review our infrastructure to ensure that we are fit for purpose in deploying our resources to provide services efficiently and effectively. In 2005/06 we will put in place new senior management arrangements, further develop our strategic management capacity, and review and revise the finance functions of the organisation.

What was delivered

- i. Children and young people have continued to be involved in the appointment of trustees.¹ They have formed interview panels for these appointments, contributing their views and assessments of candidates to help inform final decision making.

Young people were actively involved in the creation of a video, intended for children, young people and staff, to explain the role of trustees individually and collectively. As part of this, children and young people were involved



NCH/Andy Aitchison

¹ Charitable activities: Youth; Early Years and Family Support

‘Coming to NCH has changed my life. Now I am independent, strong and much more happy’

a young person at an NCH project

in a meeting of NCH Council where they met and spoke with trustees and conducted a question and answer session with them.

As planned we completed a review of the participation of children and young people in NCH, which looked at the work undertaken at local project level, the support that projects want to help develop this work further and the resources that we dedicate to this work. One consequence of this review was the creation of a Participation Development Manager post. The post is intended to provide strategic leadership in the further development of participation across all areas of NCH’s work and to ensure that our participation strategy is effectively pursued.

We also consulted with children and young people with communication impairments about staff recruitment and service design.²

ii

A recent review of our work in respect of assessing families led to the production of a resource pack that provides examples of good practice and supporting information drawn from the direct work undertaken in our services across each of the four nations.³

During the year we undertook an analysis of the findings of the regulatory bodies across the four nations who undertook regulatory visits of our work.

This enabled us to identify and respond to themes and issues that were applicable across the nations and those that were specific to individual countries.

In lobbying and influencing change within the UK, there have been a number of occasions during 2005/06 when we were able to draw on good practice in one or more of the four nations we work in. This was particularly the case when lobbying in support of children and young people with mental health issues in England, Scotland and Northern Ireland, where we drew on our expertise within Wales; similarly with our work with young people in trouble with the law in Wales, Northern Ireland and England, our extensive practice base in Scotland has been a great asset.⁴ Usually when we have done this, we have found that we were providing information to government officials that they did not have. In this way NCH has been able to support the administrations in the four nations to be less insular than might have otherwise been the case.

iii

The NCH outcomes framework provides a means of recording evidence of the impact that NCH services have on the lives of children and young people.⁵ A series of indicators, or measures, has been agreed which can link to each of the four nations’ own outcomes models and will, uniquely, allow NCH to demonstrate the effectiveness of its services in meeting children’s and

² Charitable activity: Disability and Health

³ Charitable activity: Early Years and Family Support

⁴ Charitable activity: Youth

⁵ Charitable activities: Looked-after Children; Disability and Health; Youth; Early Years and Family Support

Objectives and achievements

young people's needs throughout the UK. The indicators themselves have been developed from work undertaken by the service development groups (SDGs) and business management units (BMUs). From this work a clearing house approach was used to identify common themes and arrive at the final set of 43 indicators.

iv

Reviewing our infrastructure

We continue to review our infrastructure to ensure that we are 'fit for purpose' in deploying our resources. Our resources are limited and we strive to provide services as efficiently and effectively as possible, continuously reviewing and improving the work we do and the way we do it.

During 2005/06:

- we reviewed the Senior Management Group arrangements and established the Executive Management Team
- we reorganised the Marketing and Communications function, which now sits with the Public Policy Unit in the Public Affairs and Communications directorate to enable better scrutiny and management
- we reviewed the finance function and are currently implementing the review's recommendations to create an integrated financial structure across the organisation
- we began the Building on Success strategic review to identify and examine the key issues facing NCH, allowing us to then evaluate our options for the future. The project reviewed NCH's external operating environment and developed plans to unite the charity's diverse stakeholder interests around a common vision of the future, building on the successes of the last 10 years and ensuring a sustainable financial future. The project reported its progress to Council at the end of March 2006
- we restructured the management of NCH schools into a single business management unit, meaning expertise can now be shared consistently and more directly across all NCH schools⁶

e-Aspire

e-Aspire is the intranet-based system that supports NCH Aspire, the structured framework we use to deliver our services to children and young people. It allows us to develop an evidence base to support our

practice and ensure we are as effective as possible in promoting and contributing to positive outcomes for the children and young people we work with. Work to complete the e-Aspire software is progressing well. Full implementation of the system into all NCH's projects and services is planned for 2007.

FMS, the new accounting system

During 2005/06, NCH further developed the new accounting and financial management system.

A new 'e-Finance' enquiry and reporting module was rolled out, enabling staff across the UK to access financial information easily using web technology. This has reduced the amount of time spent on queries and in producing reports and other financial information. Over 1,200 staff have been trained to use these facilities.

We also introduced a document imaging system that is fully integrated with the financial system. Staff can now see electronic images of invoices online to help resolve queries and reduce time wasted physically retrieving documents. This facility will help cut significantly the cost of storage and archive facilities. Further savings are expected in audit charges and postage as copy documents can be transmitted electronically.

NCH overseas⁷

NCH has been actively involved in work overseas for 35 years. We operate as a social work agency in 22 countries around the world. Much of the work focuses on legal reform and child protection but it also includes juvenile justice and working with children and families affected by disability and AIDS. Our current resources are limited, but the trustees remain committed to sharing our learning overseas at a strategic level.

In 2005/06:

- we increased our work in the British Overseas Territories and southern Africa
- we increasingly worked in partnership with UK and local governments, UNICEF and the Methodist Church (World Church), which allows us to match NCH's funding with funding from other sources

⁶ Charitable activity: Looked-after Children

⁷ Charitable activity: Overseas work



NCH/Pete Sheppard

Objective 2 To sustain and enhance the high quality of our services and other activities

What was planned

In 2004/05 we committed to the following:

We will implement a new safeguarding framework to further enhance our capacity to safeguard the interests of the children and young people who use our services. The framework will be used across every area of our work including our fundraising and support services.

What was delivered

In October 2005 NCH implemented a new safeguarding framework. 'Safeguarding' is a term that incorporates child protection with the wider need to promote the welfare of children, helping to prevent harm to children.

The new framework takes into account changes in safeguarding and child protection following the Laming and Richard Reports.⁸

NCH has systems and arrangements to ensure our services to children and young people are of the highest quality. We have robust internal processes to ensure that standards are met and that good practice is recognised and shared. During 2005/06 this included a review of our assessment practice, looking at how services contribute to decisions about whether children remain with their parents.⁹ This review led to the creation of an assessment pack containing information and guidance for services involved in this work, which has been distributed to services.

Many of our individual services are monitored by social care regulators in England, Scotland, Wales and Northern Ireland. We collate and analyse their

⁸ Charitable activities: Looked-after Children; Disability and Health; Youth; Early Years and Family Support

⁹ Charitable activity: Early Years and Family Support

Objectives and achievements



NCH has rigorous
arrangements in place
to ensure our services to
children and young people
are of the highest quality

reports, identifying areas of good practice and how this can be disseminated, and identifying areas for development. The results of this analysis are shared with practitioners, senior managers, service developers and our governance committees to ensure we are scrutinised and challenged.

Continuing to strive and promote best practice in all our work

As well as our specific aim of implementing a new safeguarding framework, we continued to strive and promote best practice in all our work. Some examples from 2005/06 include:

- Foster care: through intensive fostering we offered troubled young people a structured network of support so that they can change their behaviour¹⁰
- Adoption: we increased the number of children from black and minority ethnic groups who are placed successfully with appropriate adoptive families¹¹
- Intensive family support: we developed new services in Scotland and the North East for families at risk of eviction as a result of anti-social behaviour¹²

Objective 3 To sustain our marketing, communications and campaigning activities

What was planned

In 2004/05 we committed to the following:

We will put in place new technology across the organisation that supports the effective delivery of services to children and young people. The new systems will provide greater local control for managers in respect of managing money and resources, and will greatly enhance organisational communication and the security of our communications.

What was delivered

During the year, NCH completed the implementation of its new Enhanced Secure Technical Infrastructure (ESTI). This now means that every project is able

to communicate with other services and offices in a manner that ensures confidential information is secure and protected. It is the intention to provide every member of staff with facilities to communicate internally and externally in this manner.

Public Affairs and Communications

In 2006 a new directorate called Public Affairs and Communications was established.

The new directorate refocuses the organisation's marketing, media and campaigning work so that its priorities are more closely aligned with those of NCH's services and – most importantly – the children, young people and families at the heart of our work. It also enables integrated strategies covering all four of its divisions: Marketing, Public Relations, Information and Internal Communications, and Public Policy. The directorate's first marketing priorities are to improve marketing planning across NCH and to provide help with the process for tendering for service contracts.

During 2005/06:

- we campaigned about NCH's intensive support for families at risk of losing tenancies through anti-social behaviour. This saw our key messages conveyed through media, lobbying and conferences, including the major party political conferences¹³
- the PR team won the Institute of Public Relations award for best PR campaign for NCH's groundbreaking work to combat bullying by mobile phone and text message

Objective 4 To achieve a sustainable financial future

What was planned

In 2004/05 we committed to the following:

We will commence a review of each of our projects to identify how NCH's voluntary income enables us to extend services and add value for children and young people, beyond what would be possible without the generosity of our supporters.

¹⁰ Charitable activity: Youth

¹¹ Charitable activity: Looked-after Children

¹² Charitable activity: Early Years and Family Support

¹³ Charitable activity: Early Years and Family Support

Objectives and achievements

What was delivered

Reviewing our services

Nearly all NCH's services are provided in partnership with and on behalf of statutory authorities that have duties and responsibilities to promote the welfare of children and young people. While much of the funding for the services we provide on behalf of local authorities comes from the state, there are inevitably limits to what they will fund in order to achieve full cost recovery. In all our services, NCH provides additional resources to help meet the needs of more children than would otherwise be the case, and/or provides additional services to children and young people in need. Our voluntary income has allowed local services to innovate and has enabled NCH to establish new developments to meet unmet need; during 2005/06, every NCH service established new budgetary arrangements to help us ensure we are able to clearly identify the added value NCH's voluntary income provides.

Fundraising

NCH's voluntary income is derived from a number of activities and this, as in previous years, has enabled us to maintain consistent voluntary income in 2005/06. Twenty-two per cent of our voluntary income comes from community fundraising activities, organised across the UK, close to our services and projects. This includes support from members of the Methodist Church, many of whom volunteer and support us in a variety of ways. Twelve per cent of our voluntary income comes from corporate supporters, who also provide us with volunteers and know-how, to help us to develop and run services and programmes, many within our existing portfolio of projects. Twenty-three per cent of our voluntary income is from individuals and foundations, much of it regular and service-specific giving that supports our work. Twenty-five per cent of our voluntary income is from legacies, gifts that symbolise a lifelong commitment to NCH. Legacy income was 21 per cent down on last year, and this has resulted in changes in our strategies for recruitment and securing pledges. Our retail operation represents 12 per cent of our voluntary income, and is made possible only thanks to committed volunteers and local support. Finally, this year was the 50th anniversary of NCH Scotland, and this contributed to the remaining six per cent of income.

NCH receives support from volunteers from the Methodist Church, the local community, our corporate

supporters and ex-service users. In 2005, we had 400 volunteers in the retail operation, 1,300 in children's services and 6,000 in community fundraising, as well as 2,000 people who volunteered in our projects through their employers. The last two groups offer one-off and regular gifts of time, while volunteers in shops and projects are more often longer term volunteers with agreed parameters of work and time commitment. The use of volunteers at NCH enables us to improve the outcomes for service users and improve our cost-effectiveness, as well as enabling us to engage and involve service users and their families in our projects, and increase the diversity and skill base of the staffing.

Our organisational review involved an evaluation of all of our activities, and this has led to the commissioning of our first comprehensive research of NCH supporters. The results of this will enable us to develop a strategy that will be driven by our desire to meet the needs of today's supporters, to significantly improve our cost-income ratios and to enable NCH to achieve better outcomes for children and young people.

We recognise that NCH has the potential to increase significantly the amount of voluntary income that is raised, and a central feature of Building on Success is to identify and implement a strategy for achieving this.

Objective 5 To organise ourselves in ways to help us achieve our broader objectives

What was planned

In 2004/05 we committed to the following:

We recognise the importance of staff morale and development in ensuring that the services that children and young people receive are of a good standard. We are pleased to have had consistently high and improving levels of staff satisfaction over recent years and have invested significantly in training and development over the same period. We will seek to build on this positively to ensure that our workforce is properly supported in delivering effective, flexible and responsive services.

What was delivered

We recognise our staff are our most valuable resource.

In 2005/06:

- we have continued to invest in learning and development, with new staff and volunteers receiving induction and core training, ensuring the continuing delivery of high-quality services to children, young people and families
- we continued to take our responsibilities for safeguarding children very seriously
- we continued to prioritise our work on equality and diversity, introducing a new strategy, 'Outcomes, not words'. Our Equality and Diversity Champions Network, now in its third year, also continued to make a valuable contribution
- we continued to profile our volunteer workforce, with managers and volunteer co-ordinators ensuring that volunteers are able to contribute to our work
- we developed a Working in Partnership agreement with our jointly recognised trade unions, Unison and Amicus, to ensure good partnership working over key issues affecting staff



NCH strongly believes that to address **anti-social behaviour** effectively it is **vital** that its root causes are tackled – our ground-breaking work **emphasises prevention and rehabilitation**

Financial review



NCH/John Birdsall

Overview

The past year has seen a very satisfactory performance from charitable activities, but a disappointing performance on fundraising. This is summarised in the following table, which highlights the effect of the exceptional and non-operational items described below.

Financial performance overview

	2005/06 £m	2004/5 £m
Income		
Voluntary income	17.9	19.4
Generated funds (shops, trading)	2.6	2.5
Investment income	2.1	2.3
Income from charitable activities, excluding Sure Start capital grants	184.5	174.9
	<u>207.1</u>	<u>199.1</u>
Expenditure		
Generating voluntary income	11.0	12.0
Trading costs	2.6	2.7
Charitable activities, excluding exceptional item for Sure Start capital grants	199.3	189.2
Governance and other costs	0.4	0.5
Less: FRS 17 pension adjustments and finance costs	(3.5)	(2.0)
	<u>209.8</u>	<u>202.4</u>
Underlying net income and expenditure	<u>(2.7)</u>	<u>(3.3)</u>
Underlying deficit as above	(2.7)	(3.3)
Sure Start capital grants income	12.4	8.3
Exceptional item for Sure Start capital grants	(24.8)	-
Net gain on disposal of fixed assets	0.3	0.6
Net gains on investment assets	2.3	2.9
FRS 17 pension adjustments and finance costs	(3.5)	(2.0)
FRS 17 actuarial loss on pension scheme	(1.3)	(10.9)
Net movement in funds, as statement of financial activities	<u>(17.3)</u>	<u>(4.4)</u>

The underlying position remains at close to a £3m deficit and the continuing intention is to move this to a balanced position by 2007/08.

Charitable activities and fundraising

With the new Charity Commission guidance, Statement of Recommended Practice (SORP) 2005, we have identified our service activity across five main strategic areas, together with fundraising. The Statement of Financial Activities (SOFA) shows income and expenditure in these areas, which link with the performance and achievements discussed earlier in the report. Allowing for the costs discussed above, we have continued to increase our spend on services to children and young people. Where we work in partnership with funders, we have achieved their support in moving income closer to the true cost of the service.

Our financial performance in fundraising continues to be held at a consistent level, rather than improving as we had planned. Income from legacies was down by almost £1.0m. Accordingly we reduced our costs in 2005/06, and recognise the need for greater efficiency. We are presently agreeing a new fundraising strategy, which will be closely aligned with Children's Services.

Sure Start property assets and capital grants

NCH has received capital grants from the government under the Sure Start initiative to build property to provide services. Accounting standards require that these grants be treated as income in the SOFA, and in previous years they have been taken into the designated capital fund in the balance sheet. With the Children Act 2004 and the creation of Children's Centres, local authorities now have responsibility for Sure Start funding and commissioning. While we are confident of continuing to provide many of these services, we will transfer the properties to the local authorities. The accounting for this requires the capital grants to be shown as a provision for liabilities and charges rather than in the capital fund on the balance sheet, and, in order to make the transfer, the net cost of all the grants received is charged to the SOFA. The SORP guidance requires the grants received in 2005/06 of £12.4m to be shown as income within Early Years and Family Support. However, this £12.4m, together with £12.4m grants received in previous years, making a total of £24.8m, is shown as a separate and exceptional item of expenditure in the SOFA.

Pension fund

All employers with final salary pension schemes must now include the financial position of the pension fund in their own accounts. At 31 March 2006 the NCH pension fund had a deficit of £56.8m which is shown in the balance sheet as a liability with a matching reduction of unrestricted funds. Year on year, any change in the deficit will be a cost or credit in the employer's accounts. For NCH the deficit has increased for the last two years, and there has been a charge in the SOFA of £4.8m in the current year and £12.9m for 2004/05.

While the current deficit is large, pensions are long-term liabilities that need to be managed over many years. A full review of the pension scheme arrangements is currently underway, with the objective of ensuring that we have a sustainable pension scheme. The NCH five-year Financial Plan includes payments towards meeting the deficit.

Group accounts

In addition to the main charity, the group consolidated accounts include the operation of two other charities that share common trustees and management.

The former unincorporated trust NCH (charity number 215301) continues to hold permanent endowments and receive legacies bequeathed to the old charity.

The Nicholas Galperin Trust (For Charitable Purposes) (charity number 210618) operates for the relief of young persons under the age of 25 who are in need, hardship or distress.

Two wholly owned subsidiary companies, registered in England and Wales, have been set up to support the work of the charity:

- NCH Children's Services Limited (company number 2332388) for our primary purpose trading in the provision of welfare and educational services
- NCH Trading Limited (company number 3776025) for our fundraising trading activities

NCH acts as the custodian trustee for a number of associated trusts which are not included in the statement of financial affairs or balance sheet. These include the Farningham and Renshaw Charity and St Leonard's-on-Sea Convalescent Home. NCH continues to work with the Charity Commission to enable these associated trusts to be merged with NCH.

Financial review

Charity funds

Trust and charity law requires the funds of charities to be presented in a number of categories:

- *Restricted funds* represent legacies, donations and other income that can only be used for particular purposes. Where these funds are held on trust to be retained for the benefit of the charity as a capital fund, they are classified as endowment funds. These funds provide scholarships and income for general purposes. At 31 March 2006 the endowment funds were £4.9m and the specific purpose funds £0.2m.
- *Unrestricted, designated funds* cover the capital fund, pension contingency fund and innovation fund. The capital fund is the amount invested in tangible fixed assets used in the charity's operational work, net of financing. The pension contingency fund was created to meet pressure on employer contributions until the outcome of the next triennial valuation of the pension fund in 2006. The fund is forecast to be fully utilised in 2006/07. The innovation fund has been established to pump prime funding for new ideas and opportunities. Continuing funding is built into the budgets for future years. The amount of these designated funds is £43.9m at 31 March 2006.
- *The general fund* comprises the remainder of the unrestricted funds necessary to manage the operations and risks of the charity and the use of the general fund is determined by the reserves policy. This amounts to £46.6m at 31 March 2006.

Reserves policy

The Finance Committee reviews the reserves policy and level of reserves annually, and this is approved by Council. A risk appraisal approach, applying likelihoods to a range of future costs, potential liabilities and risks is used to assess the amount of free reserves required. This is linked to the latest five-year Forward Financial Plan. Costs and risks include the loss of income from partner agencies and voluntary donations, investment unpredictability and changes to pension costs. Free reserves comprise the general fund, together with the pension contingency fund.

The trustees ensure that sufficient funds are held so that such fluctuations do not threaten the financial stability of NCH, and to allow operations to be sustained while income and expenditure is rebalanced. The trustees

judge that the current level of 'free' reserves of £48.3m falls within the range to meet these requirements. Free reserves reported last year were £43.7m.

The NCH reserves policy, and assessment of liabilities and risks, takes into account the requirements of pension fund costs. The accounting disclosure required for pension funds is included at note 6 to the accounts, and on the prescribed basis of calculation shows a deficit of £56.8m. However, this is a current estimate of long-term liabilities over the remaining life of members and, as five-year pension costs to be incurred by the employer have been allowed for in the Forward Financial Plan and reserves assessment, no further adjustment to the reserves policy for pensions costs is considered appropriate or necessary. While the deficit does not impact on the status of the organisation as a going concern, the trustees are currently reviewing the pension scheme.

Investments

The charity's investments are managed by the Central Finance Board (CFB) of the Methodist Church and NCH adopts the CFB's ethical investment policy, which is consistent with the aims and objectives of the charity. Investments are principally held to provide the reserves NCH needs to manage future developments, risks and uncertainties. A key objective is to maintain an asset allocation model which matches potential liabilities within reserves to classes of investment assets. We continue to review our investment policy in light of this. Investment decisions and performance are discussed and reviewed by the Finance Committee, with help from an independent investment adviser.

The performance of the investment manager was in line compared with its primary benchmark, although investment income for the year was slightly down as investments were sold to meet short-term working capital needs.



NCH/Andy Aitchison



NCH/John Birdsall

Over 80% of
people in the
UK live within

10 miles of an NCH project

Plans for future periods



NCH/Paul Cordwell

Building on Success will ensure we are fit for purpose for the forseeable future

Objectives for 2006/07

In many ways 2006/07 is a year of transition for NCH. As mentioned elsewhere we have embarked on a fundamental review of our strategy, called Building on Success, which is intended to ensure we are fit for purpose for the foreseeable future as a major provider of services to children and young people.

The review will consider how well our enduring values, vision and purpose are being served and the

outcome of this review will properly inform our strategy and business plans commencing in April 2007. In anticipating some of the changes that will be required, and so as to ensure that the needs of the children and young people who we serve are at the core of our planning processes, we have revised our strategic objectives for 2006/07.

These are set out here, along with some of the specific targets that we have set for each objective.

Objective 1: To meet the needs of vulnerable children and young people in ways that support them in realising their full potential

Targets

- To provide vulnerable young people leaving care and in the community with services that support them in achieving, enjoying, becoming economically independent, being safe and healthy, and contributing to the wider society in which they live.
- To provide full-time education to children and young people who would otherwise be excluded from mainstream schools.
- To provide disabled children and their families with services that offer choice and flexibility in how they are supported in achieving positive outcomes.
- To secure alternative permanent families for hard-to-place children and young people who have no prospect of returning to their birth families.
- To provide appropriate foster placements for children and young people, both short- and long-term, that are responsive to their needs.
- To enable children to achieve their potential through providing a range of services and opportunities that support families and communities to care for and promote the interests and achievements of their children.
- To ensure that the children and young people who use our residential services are supported in achieving and enjoying, in being safe and healthy, in developing the skills and abilities to make a positive contribution in their relationships and to their communities and, where appropriate, to help prepare them to become economically independent.
- To influence public policy and public opinion/awareness in order to ensure as far as possible that the policy framework in which NCH operates encourages the development of services that help the most vulnerable children and young people to achieve their full potential.

Objective 2: To ensure that we have an appropriately skilled and supported workforce

Targets

- NCH will be promoted to internal and external audiences as an employer of choice and a rewarding and exciting environment in which to work and volunteer.

- Through the planned involvement of volunteers we will add value to service delivery to children and young people by enhancing and extending our human resource experience and skills.
- Key workforce policy issues will be identified, prioritised and delivered on, particularly in relation to new legislation.

Objective 3: To ensure that our values are actively expressed in all that we do

Targets

- Our participation standards will be positively implemented across the organisation during 2006/07.
- Our influencing work will be informed by children's and young people's perspectives and priorities.
- We will further improve our diversity practice in relation to our service users and workforce.

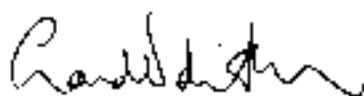
Objective 4: To achieve a sustainable financial future

Targets

- We will develop an improved fundraising strategy.
- We will develop our information technology and systems to improve efficiency and effectiveness across all areas of activity.
- We will undertake a review of NCH's property assets and develop a strategy to ensure that these are used in the most efficient and value-adding ways.

These objectives and targets help to focus our efforts on our key concerns for the coming year. These include keeping children and young people at the centre of all we do, improving our record on equality and diversity, and making effective use of technology to support frontline services.

Without the dedication of our staff and the support of a wide range of partners and volunteers, our ability to serve children and young people would not exist. The trustees are very grateful for this contribution.



Gordon Edington, Chair
11 August 2006

Independent auditors' report

We have audited the financial statements of NCH and its group for the year ended 31 March 2006, which comprise the statement of financial activities, the balance sheet, the cash flow statement, and the related notes 1 to 17. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the charitable company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' 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 company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of trustees and auditors

As described in the statement of trustees' responsibilities, the trustees, who are also the directors of the charity for the purposes of company law, are responsible for the preparation of financial statements, which are required to be prepared in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view in accordance with the relevant financial reporting framework and are properly prepared in accordance with the Companies Act 1985. We also report on the consistency of the trustees' report with the financial statements, if the charity has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding trustees' remuneration and other transactions is not disclosed.

We read the trustees' report and the other information contained in the annual report for the above year as described in the contents section and consider the

implications for our report if we become aware of any apparent mis-statements or material inconsistencies with the financial statements.

Basis of opinion

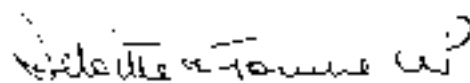
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the trustees in the preparation of the financial statements and of whether the accounting policies are appropriate to the charitable company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations that we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material mis-statement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company and the group as at 31 March 2006 and of the group's incoming resources and application of resources, including its income and expenditure, for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the trustees' report is consistent with the financial statements.



Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
St Albans
22 August 2006

‘NCH has helped me sort out my thoughts and feelings, regarding my abusive childhood. My key worker was the first person to believe and care for me unconditionally’

a young person at an NCH project

Accounts for the year ended 31 March 2006

Consolidated statement of financial activities

		Unrestricted Funds	Restricted Funds Specific Purpose	Endowment	Total 2006	Restated Total 2005
	Notes	£'000	£'000	£'000	£'000	£'000
Incoming resources						
Incoming resources from generated funds						
Voluntary income:						
Donations and gifts		12,338	890	-	13,228	13,738
Legacies		4,606	42	-	4,648	5,659
		16,944	932	-	17,876	19,397
Activities for generating funds:						
Trading income and shop sales of donated goods		2,638	-	-	2,638	2,506
Investment income	2	2,102	-	-	2,102	2,250
		21,684	932	-	22,616	24,153
Incoming resources from charitable activities						
Looked-after children	2	27,486	-	-	27,486	24,600
Disability and health	2	28,729	36	-	28,765	24,861
Early years and family support	2	90,479	15	-	90,494	84,834
Youth	2	49,498	86	-	49,584	48,655
Overseas		556	-	-	556	290
		196,748	137	-	196,885	183,240
Other incoming resources						
Net gain on disposal of fixed assets		263	-	-	263	604
Total incoming resources		218,695	1,069	-	219,764	207,997
Resources expended						
Costs of generating funds						
Costs of generating voluntary income:						
Donations, gifts and legacies		11,036	-	-	11,036	12,050
Costs of fundraising trading:						
Shops and trading subsidiaries operating costs		2,563	-	-	2,563	2,695
Investment management costs		37	-	8	45	64
		13,636	-	8	13,644	14,809
Charitable activities						
Looked-after children		28,042	176	-	28,218	26,664
Disability and health		29,142	224	-	29,366	27,076
Early years and family support		90,240	483	-	90,723	83,306
Youth		49,590	273	-	49,863	51,064
Overseas		1,109	4	-	1,113	1,041
		198,123	1,160	-	199,283	189,151
Early years and family support - exceptional item	5	24,775	-	-	24,775	-
		222,898	1,160	-	224,058	189,151
Governance costs						
		381	-	-	381	420
Total resources expended		236,915	1,160	8	238,083	204,380
Net incoming/(outgoing) resources before transfers		(18,220)	(91)	(8)	(18,319)	3,617
Transfers between funds	14	414	(2,605)	2,191	-	-
Net incoming/(outgoing) resources before other recognised gains and losses		(17,806)	(2,696)	2,183	(18,319)	3,617
Other recognised gains/(losses)						
Net gains on investment assets	8	1,769	-	556	2,325	2,872
Actuarial (losses) on defined benefit pension schemes	6	(1,319)	-	-	(1,319)	(10,869)
Net movement in funds		(17,356)	(2,696)	2,739	(17,313)	(4,380)
Funds brought forward, as previously stated		103,179	2,865	2,212	108,256	99,709
Prior year adjustment	6,14	(52,002)	-	-	(52,002)	(39,075)
Restated funds brought forward		51,177	2,865	2,212	56,254	60,634
Funds carried forward	13,14	33,821	169	4,951	38,941	56,254

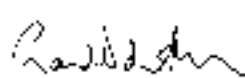
All activities derive from continuing operations. There are no recognised gains or losses in the current or preceding financial year other than as shown in the statement of financial activities.

The deficit for the year for Companies Act purposes was £18,319,000 (2005 restated: surplus of £3,617,000)

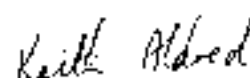
Balance sheet

	Notes	Group Restated		Charity Restated	
		2006 £'000	2005 £'000	2006 £'000	2005 £'000
Fixed assets					
Tangible assets	7	69,346	62,083	69,346	62,083
Investments	8	36,154	41,641	32,393	38,465
		105,500	103,724	101,739	100,548
Current assets					
Debtors	9	27,709	36,837	22,665	29,785
Short-term deposits		27,101	9,478	25,611	7,973
Cash at bank and in hand		1,710	177	1,495	-
		56,520	46,492	49,771	37,758
Creditors: amounts falling due within one year	10	(38,710)	(39,040)	(33,580)	(31,947)
Net current assets		17,810	7,452	16,191	5,811
Total assets less current liabilities		123,310	111,176	117,930	106,359
Creditors: amounts falling due after more than one year	11	(2,832)	(2,920)	(2,832)	(2,920)
Provisions for liabilities and charges	12	(24,775)	-	(24,775)	-
Net assets excluding pension liability		95,703	108,256	90,323	103,439
Pension liability	6	(56,762)	(52,002)	(56,762)	(52,002)
Net assets including pension liability		38,941	56,254	33,561	51,437
Funds					
Restricted funds:					
Endowments		4,951	2,212	-	-
Specific purpose		169	2,865	169	260
Total - restricted funds		5,120	5,077	169	260
Unrestricted funds:					
Designated funds:					
Capital fund		41,890	59,083	41,890	59,083
Pension contingency fund		1,655	2,215	1,655	2,215
Innovations fund		400	400	400	400
Total - designated funds		43,945	61,698	43,945	61,698
General fund		46,638	41,481	46,209	41,481
Pension reserve	6	(56,762)	(52,002)	(56,762)	(52,002)
Total - unrestricted funds		33,821	51,177	33,392	51,177
Total funds	13,14	38,941	56,254	33,561	51,437

These accounts were approved by the Council on 11 August 2006 and signed on its behalf.



Gordon Edington



Dr Keith Aldred

Accounts for the year ended 31 March 2006

Consolidated cash flow statement

	Note	2006 £'000	Restated 2005 £'000
Reconciliation of net incoming resources to net cash (outflow)/inflow from operating activities			
Net incoming/(outgoing) resources		(18,319)	3,617
Investment income	2	(2,102)	(2,250)
Grants for capital purposes		(13,064)	(8,422)
Net gains on disposal of tangible fixed assets		(263)	(604)
Depreciation	7	7,232	4,308
Pensions service costs, less employer contributions		3,597	1,664
Pensions finance charge	6	(156)	394
Decrease/(increase) in debtors		9,128	(8,174)
(Decrease)/increase in creditors		(418)	4,197
Increase in provision for liabilities and charges	12	24,775	-
Net cash inflow/(outflow) from operating activities		10,410	(5,270)

Cash flow statement

Net cash inflow/(outflow) from operating activities		10,410	(5,270)
Returns on investments and servicing of finance			
Interest received		929	680
Dividends received		1,009	1,346
Rental income from investment properties		164	224
	2	2,102	2,250
Capital expenditure and financial investment			
Purchase of tangible fixed assets	7	(15,866)	(17,250)
Purchase of investments	8	(4,618)	(6,873)
Proceeds of sale of fixed assets		1,634	1,290
Proceeds of sale of investments	8	10,917	7,308
Proceeds of sale of investment properties	8	1,513	760
Income from capital grants		13,064	8,422
		6,644	(6,343)
Net cash inflow/(outflow) before use of liquid resources		19,156	(9,363)
Management of liquid resources			
(Increase)/decrease in short-term deposits		(17,623)	6,893
Increase/(decrease) in cash		1,533	(2,470)

Analysis of net funds

	At 1 April 2005 £'000	Cash Flow £'000	At 31 March 2006 £'000
Cash in hand and at bank	177	1,533	1,710
Short-term deposits	9,478	17,623	27,101
Total	9,655	19,156	28,811

Reconciliation of net cash flow to movement in net funds

	£'000
Net funds at 1 April 2005	9,655
Net funds at 31 March 2006	28,811
Movement in net funds in the period	19,156
Cash outflow from increase in short-term deposits	17,623
Increase in cash in the period	1,533

Notes to the accounts

1 Accounting policies

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of investments, in accordance with The Charities (Accounts and Reports) Regulations 2005, the Statement of Recommended Practice (SORP), 'Accounting and Reporting by Charities' (SORP 2005) published in 2005, and applicable United Kingdom accounting standards.

The particular accounting policies adopted by the Council are described below:

Basis of consolidation

The statement of financial activities (SOFA) and balance sheet consolidate the financial statements of the charity, two associated charities (NCH and Nicholas Galperin Trust) and its wholly owned subsidiaries, NCH Children's Services Limited and NCH Trading Limited. The results of the subsidiaries are consolidated on a line by line basis.

Incoming resources

All incoming resources are included in the SOFA when the charity is legally entitled to the income and the amount can be quantified with reasonable accuracy. For legacies, entitlement is the earlier of the charity being notified of an impending distribution and the legacy being received. Donations and gifts received at offices and projects during the year are recorded gross, or at estimated value. The sale proceeds from gifts donated for resale are included as income at the time of sale. Small fundraising events such as fêtes and galas are recorded net of direct expenses. All other incoming resources are reported gross whether raised by the charity or its agents. No amounts are included in the financial statements for services donated by volunteers.

Income from grants, including capital grants, is included in incoming resources when this is receivable. The full amount of capital grants is taken to the SOFA when receivable, which the SORP regards as the most appropriate interpretation of SSAP 4 for charities. Deferred income includes amounts received in respect of contractual work to be undertaken in the next financial year.

Resources expended

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.

The cost of generating funds includes fundraising and publicity costs, within trading subsidiaries, shops' operating costs and investment management fees. Fundraising and publicity includes the salaries of staff and other direct and indirect costs of fundraising and publicity. Indirect costs include appropriate allocations of central support services.

Expenditure on charitable activities includes the operating expenses of social work undertaken in both the United Kingdom and overseas together with the costs of informing and educating the public about the work, and the costs of other supporting services, management and administration essential to the professional and competent execution of the work. Where central services support both direct charitable work and fundraising, allocations of their costs are made on a basis which reflects the use made of those services, for example, staff numbers or floor area occupied.

Pension costs

NCH provides a defined benefits pension scheme, the cost of which is charged to the SOFA. NCH has adopted FRS 17 in full, replacing the use of actuarial values for assets in a pension scheme in favour of a market-based approach. In order to cope with the volatility inherent in this measurement basis, the standard requires that the relatively stable ongoing service cost, interest cost and expected return on assets are shown separately from the movements in market value. This adoption of FRS 17 is a change in accounting policy for this year.

Leases

Rentals under operating leases are charged to the SOFA over the term of the lease.

Value Added Tax

As part of NCH's activities is classified as exempt or non-business activities for the purposes of VAT, NCH is unable to reclaim all the VAT that it suffers on its operating costs. Expenditure in these financial statements is therefore shown inclusive of VAT paid.

Accounts for the year ended 31 March 2006

Fund accounting

General funds are unrestricted funds that are available for use, at the discretion of the Council, in furtherance of the general objectives of the charity and which have not been designated for other purposes.

Designated funds comprise unrestricted funds that have been set aside by the Council for particular purposes. The aim and use of each designated fund is set out in the annual report of the Council and the notes to the financial statements. The Council periodically reviews the levels of designated funds to ensure that they are adequate to support the purposes for which they were set up, and any surplus or deficit is transferred to or from general funds.

Restricted funds are funds which are to be used in accordance with specific restrictions imposed by donors, or which have been raised by the charity for particular purposes. The costs of raising and administering such funds are charged against the specific fund.

Endowment funds represent those assets that must be held permanently by the charity, and are invested to produce income to meet expenditure, either as directed by the endowment or for general purposes.

Tangible fixed assets

Tangible assets are recorded at cost or, in cases where tangible assets have been donated to NCH, at valuation at the time of donation.

Depreciation is charged on the following basis: in the case of freehold buildings the acquisition cost of buildings, together with any adaptation costs that add value to the property, is capitalised and depreciated over the estimated useful life of the property. No depreciation is provided on freehold land.

For the purposes of depreciation, 999-year leasehold buildings have been treated as if they were freehold buildings. Capital expenditure on other leasehold buildings will normally be regarded as a depreciating cost and as such is written off over the estimated useful life (see below).

Other tangible assets are depreciated on a straight line basis (other than as stated below) over their estimated useful lives which are:

Assets in the course of construction	not depreciated
Freehold buildings	20 years
Leasehold land and buildings	10 years
Equipment	4 years
Computer software	4 years
Furniture and fittings	5 years
Motor vehicles	4 years

When the currently expected useful life of individual assets is considered to be less than these periods, shorter periods are used.

Sure Start properties are treated as fixed assets of the charity and depreciated in line with the policy set out above.

Investments

NCH holds investments both in order to generate income for the support of charitable activities over a long-term period and also to provide assets to meet the needs of reserves, identified in the reserves policy. Investments are stated at current market value on the balance sheet date unless there is evidence of a different fair value. Gains or losses arising during the year are disclosed in the SOFA, and in more detail in Note 8, which also identifies realised and unrealised gains.

Unlisted investments are valued at cost or, in cases where unlisted investments have been donated to NCH, at valuation at the time of donation.

Investment properties are revalued at the end of each year on the basis of open market value. The valuations have been prepared by external firms of chartered surveyors. The aggregate surplus or deficit is transferred to the appropriate fund holding the investment.

2 Incoming resources

	2006 £'000	Restated 2005 £'000
Investment income		
Listed equities and unit trusts	50	140
CFB funds - UK	887	1,162
CFB funds - Overseas	72	44
Interest income	929	680
Income from securities	1,938	2,026
Rental income from investment properties	164	224
	<u>2,102</u>	<u>2,250</u>

Management fees and deed of covenant

NCH Children's Services Limited and NCH Trading Limited are wholly owned trading subsidiaries of NCH, the charity. They are engaged in delivering welfare and educational services on behalf of the charity and fundraising respectively. All profits are covenanted to the charity so there is no material difference between the charity's and consolidated statements of financial activities. Nicholas Galperin Trust and NCH, the unincorporated charity, are the non-trading subsidiaries. A summary of the results for the year ended 31 March 2006 is given below:

	Trading subsidiaries		Other subsidiaries		Total	Total
	Children's	Trading	Nicholas	NCH	2006	2005
	Services		Galperin	Charity	2006	2005
	£'000	£'000	£'000	£'000	£'000	£'000
Turnover	49,876	279	-	-	50,155	49,306
Cost of sales	(45,888)	(69)	-	-	(45,957)	(45,279)
Gross profit	3,988	210	-	-	4,198	4,027
Trading expenses	-	(1)	-	-	(1)	(1)
Charitable activities	-	-	(47)	(87)	(134)	(232)
Administration costs	(6)	-	(11)	-	(17)	(18)
Surplus on ordinary activities before interest	3,982	209	(58)	(87)	4,046	3,776
Investment income	71	3	101	87	262	308
Net gains on investment assets	-	-	354	202	556	244
Surplus on ordinary activities before deed of covenant	<u>4,053</u>	<u>212</u>	<u>397</u>	<u>202</u>	<u>4,864</u>	<u>4,328</u>

In the charity's statement of financial activities, activities in furtherance of the charity's objectives includes a management fee of £45,952,000 (2005 £45,179,000) from NCH Children's Services Limited in respect of social work undertaken on behalf of the company.

Total incoming resources of the charity are £219,719,000 (2005 £207,697,000) and the movement in funds is a deficit of £17,879,000 (2005 £4,724,000).

Capital grant income

Included within incoming resources from charitable activities are amounts for capital grant income as shown below. The amounts stated for Early Years and Family Support relate to capital grants for Sure Start projects. The total value of capital grant income for all Sure Start projects, including that received in years prior to 2005/06, is £24,775,000 (see also Notes 5, 7 and 12 to the accounts).

	2006 £'000	Restated 2005 £'000
Looked-after Children	700	27
Disability and Health	2	81
Early Years and Family Support	12,362	8,269
Youth	-	45
	<u>13,064</u>	<u>8,422</u>

Accounts for the year ended 31 March 2006

3 Resources expended

Remuneration of trustees

There were 15 trustees who received travel expenses of £3,000 (2005 18 recipients of £5,000).

Trustees are not entitled to and did not receive any remuneration.

Insurance was purchased to indemnify NCH, its trustees, officers and employees for losses in the areas of fidelity, professional indemnity and directors' and officers' liability, for a premium of £19,180 (2005 £27,357).

NCH employed one member of staff related to a Council member during the year, paying remuneration of £4,167 (2005 £20,450). This member of staff was an employee of NCH before the appointment of the Council member.

	Direct costs £'000	Support costs £'000	2006	Restated 2005
			Total £'000	Total £'000
Costs of generating funds				
<i>Costs of generating voluntary income:</i>				
Donations, gifts and legacies	10,025	1,011	11,036	12,050
<i>Costs of fundraising trading:</i>				
Shops operating costs	2,208	355	2,563	2,695
<i>Investment management costs</i>	45	-	45	64
	12,278	1,366	13,644	14,809
Charitable activities				
Looked-after children	25,290	2,928	28,218	26,664
Disability and health	25,287	4,079	29,366	27,076
Early years and family support	80,134	10,589	90,723	83,306
Youth	44,443	5,420	49,863	51,064
Overseas	917	196	1,113	1,041
	176,071	23,212	199,283	189,151
Early years and family support - exceptional item (see Note 5)	24,775	-	24,775	-
	200,846	23,212	224,058	189,151
Governance costs	369	12	381	420
Total resources expended	213,493	24,590	238,083	204,380

Support costs allocation

	Strategy, HR, training and policy costs £'000	premises, finance and IT costs £'000	2006	Restated 2005
			Total £'000	Total £'000
Costs of generating funds				
<i>Costs of generating voluntary income:</i>				
Donations, gifts and legacies	138	873	1,011	1,449
<i>Costs of fundraising trading:</i>				
Shops and trading subsidiaries operating costs	50	305	355	346
<i>Investment management costs</i>	-	-	-	-
	188	1,178	1,366	1,795
Charitable activities				
Looked-after children	327	2,601	2,928	3,476
Disability and health	661	3,418	4,079	3,841
Early years and family support	1,661	8,928	10,589	11,009
Youth	858	4,562	5,420	4,898
Overseas	68	128	196	239
	3,575	19,637	23,212	23,463
Governance costs	3	9	12	10
Total support costs	3,766	20,824	24,590	25,268

HR, training and policy costs are allocated on the basis of head count of employees across the different activities. Strategy, premises, finance and IT costs are allocated on the basis of the number of projects, departments or business units across the different activities.

3 Resources expended (continued)

	2006 £'000	2005 £'000
Audit fee (exclusive of VAT)		
In respect of the charity	61	55
In respect of subsidiaries and associated trusts	7	7
In respect of group audit	68	62
In respect of other services (certificates for project partners)	-	238
	68	300
Value Added Tax		
As stated in the accounting policy, NCH is unable to reclaim all the value added tax that it suffers on its purchases of goods and services. During the year the cost of irrecoverable value added tax amounted to:	4,754	3,903
Rentals under operating leases		
Other - Land and buildings	3,014	3,137
Depreciation	7,232	4,308

4 Employees' emoluments

Staff costs comprise:	2006 £'000	2005 £'000
Wages and salaries	101,438	94,276
Temporary staff costs	14,162	10,092
Social security costs	7,792	7,252
Pension costs	14,591	12,711
	137,983	124,331

Pension costs comprise the FRS 17 current service costs for the NCH pension fund and employers' contributions paid to pension schemes not operated by NCH.

Average staff numbers:	Employees		Full-time equivalent	
	2006 No.	2005 No.	2006 No.	2005 No.
Full-time	3,172	3,112	3,122	3,068
Part-time and sessional	3,615	3,414	1,028	958
	6,787	6,526	4,150	4,026

The number of staff whose emoluments fell within each of the following bands was:

£60,001 to £70,000	8	8
£70,001 to £80,000	6	6
£80,001 to £90,000	3	2
£90,001 to £100,000	3	4
£100,001 to £110,000	1	-
£120,001 to £130,000	1	-

All of the staff listed above were members of the NCH pension scheme, which is a defined benefit scheme.

Accounts for the year ended 31 March 2006

5 Exceptional item

Early years and family support expenditure includes £24,775,000, as an exceptional item, in respect of capital grants for Sure Start projects. Following SORP requirements, capital grants received since 31 March 2002 have been treated as income and taken to the designated capital fund. In line with the establishment of Children's Centres, following the Children Act 2004, the properties funded by the grants will be passed to local authorities and the capital grants released. The charge above is necessary to now recognise the liability to repay the capital grants. The liability is shown within provisions in the balance sheet. Consequences are also picked up in Notes 7 and 12 to the accounts. The amount of £24,775,000 is therefore shown separately in the statement of financial activities.

6 Pension scheme

NCH operates a defined benefit pension scheme. The scheme is funded in advance by contributions at rates assessed by the scheme actuary in regular funding reviews. The assets of the scheme are held in a separate trustee administered fund. The scheme is subject to triennial valuations by an independent actuary, and the fund is being valued at 31 March 2006. The last full valuation at 31 March 2003 gave a deficit of £30m, equivalent to 18% of the past service liability, comparing the market value of the assets of the scheme to the value of benefits accrued to members. The long-term funding rate following that valuation is currently 21.1% of members' salaries, of which members contribute 6% and action to address the past service deficit was agreed with the pension fund trustee. Recognising the changes in pensions for all organisations, a fundamental review of the NCH pension scheme arrangements is currently taking place.

The total employer contribution for the year was £10,871,000 (2005 £10,525,000). At the end of the year there were 3,098 active members of the scheme (2005 3,031), 2,557 deferred members (2005 2,431) and 1,117 pensions in payment (2005 1,047).

For this year the requirements of FRS 17 on Retirement Benefits have been fully implemented and included in these accounts. The principal FRS 17 actuarial assumptions determined by financial markets and demographic conditions are shown below:

	2006	2005	2004
Inflation	3.0% pa	2.90% pa	3.00% pa
Rate of increase in salaries	4.5% pa	3.90% pa	4.00% pa
Rate of increase for pensions in payment and deferred pension increases	3.0% pa	2.90% pa	3.00% pa
Discount rate	5.1% pa	5.40% pa	5.75% pa
Mortality assumptions	PA92 short cohort	PA92	PA92

For the FRS 17 valuation, the fair value of the assets in the scheme, the present value of the liabilities in the scheme and the expected rates of return at the balance sheet date were:

	2006 £'000	% pa	2005 £'000	% pa	2004 £'000	% pa
Equities	192,796	7.20%	147,696	7.65%	123,619	7.75%
Bonds	65,514	4.49%	54,063	4.88%	48,508	4.75%
Cash	7,628	4.50%	7,939	4.75%	8,005	4.00%
Total fair value of assets	265,938		209,698		180,132	
Present value of scheme liabilities	(322,700)		261,700)		(219,207)	
Liabilities in the scheme	(56,762)		(52,002)		(39,075)	
Amount (charged) to operating costs in the SOFA						
Current service cost	(14,468)		(12,189)		(9,575)	
Past service cost	-		-		-	
Total operating (charge)	(14,468)		(12,189)		(9,575)	
Amount credited/(charged) to other finance income						
Expected return on pension scheme assets	14,647		12,559		9,379	
Interest on pension scheme liabilities	(14,491)		(12,953)		(10,555)	
Net return/(charge)	156		(394)		(1,176)	

6 Pension scheme (continued)

	2006 £'000	2005 £'000	2004 £'000
Actuarial loss recognised in total funds			
Actual return less expected return on pension scheme assets	31,874	6,542	20,768
Experience gain/(loss) arising on the scheme liabilities	6,907	(1,711)	946
Changes in assumptions underlying the present value of the scheme liabilities	(40,100)	(15,700)	(26,826)
Actuarial loss recognised	(1,319)	(10,869)	(5,112)
Movement in deficit during the year			
(Deficit) in scheme at the start of the year	(52,002)	(39,075)	(31,378)
Current service cost	(14,468)	(12,189)	(9,575)
Past service cost	-	-	-
Employer contributions	10,871	10,525	8,166
Other finance income	156	(394)	(1,176)
Actuarial loss	(1,319)	(10,869)	(5,112)
(Deficit) in scheme at the end of the year	(56,762)	(52,002)	(39,075)

History of experience gains and losses	2006 £'000	2005 £'000	2004 £'000	2003 £'000	2002 £'000
Difference between the expected and actual return on scheme assets	31,874	6,542	20,768	(49,187)	n/a
<i>Percentage of scheme assets</i>	11.99%	3.12%	11.53%	-35.42%	
Experience gains and losses on scheme liabilities	6,907	(1,711)	946	(6,617)	n/a
<i>Percentage of scheme liabilities</i>	2.14%	-0.65%	0.43%	-3.89%	
Total actuarial loss recognised in the SOFA	(1,319)	(10,869)	(5,112)	(50,296)	n/a
<i>Percentage of scheme liabilities</i>	-0.41%	-4.15%	-2.33%	-29.54%	

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7 Tangible fixed assets

Group and Charity	Work in progress £'000	Freehold land and buildings £'000	Leasehold land and buildings £'000	Computers and equipment £'000	Fittings and furniture £'000	Motor vehicles £'000	Total £'000
Cost or valuation							
At 1 April 2005	20,762	48,502	9,488	6,654	3,008	5,026	93,440
Additions	13,761	413	8	231	86	1,367	15,866
Transfers	(26,927)	4,273	21,712	453	480	9	-
Disposals	-	(1,339)	(637)	-	(4)	(1,518)	(3,498)
At 31 March 2006	7,596	51,849	30,571	7,338	3,570	4,884	105,808
Depreciation							
At 1 April 2005	-	15,057	6,111	4,691	2,540	2,958	31,357
Charges for year	-	2,545	2,484	803	376	1,024	7,232
Transfers	-	(108)	108	-	-	-	-
Disposals	-	(431)	(440)	-	-	(1,256)	(2,127)
At 31 March 2006	-	17,063	8,263	5,494	2,916	2,726	36,462
Net book value:							
At 31 March 2006	7,596	34,786	22,308	1,844	654	2,158	69,346
At 31 March 2005	20,762	33,445	3,377	1,963	468	2,068	62,083

Work in progress comprises incomplete building and major refurbishment work and is not depreciated.

The cost of land, which is not depreciated, was £8,438,000 at 31 March 2006 (2005 £8,300,000).

Work in progress and freehold and leasehold land and buildings include properties funded by the Sure Start Unit with a net book value of £24,775,000. As also described in Notes 5 and 12 to the accounts, to match changes introduced through the Children Act 2004, NCH will transfer these properties to local authorities. That process is in hand and commencing in 2006/07 the assets will transfer out of NCH's ownership and balance sheet, matched by a release of the provision balance.

Of the total cost or valuation of leasehold land and buildings at 31 March 2006, £28,706,000 (2005 £6,114,000) relates to leases due to expire in a period of 50 years or less.

It is not considered that any assets have suffered permanent impairment to their value.

Capital commitments for contracts placed in respect of capital expenditure less amounts incurred to 31 March 2006 amounted to £5,983,000 (2005 £10,098,000).

NCH also holds certain fixed assets for various trusts, which are disclosed in Note 17. These assets are not included in the balance sheet of NCH.

At the year end, the charity was committed to make the following payments during the next year in respect of operating leases:

Land and building leases that expire:

	2006 £'000	2005 £'000
Within one year	270	13
Within two to five years	554	166
After five years	670	755
	1,494	934

8 Investments

Value at 31 March

Securities

	<i>NCH share of Funds</i>	Group		Charity	
		2006 £'000	2005 £'000	2006 £'000	2005 £'000
Listed fixed interest securities		333	329	3	1
Listed equities and unit trusts		2,512	3,007	861	1,733
Unlisted equities		30	52	30	52
Units in funds managed by the Central Finance Board of the Methodist Church:					
CFB UK equity fund	4.0%	14,230	15,768	13,190	14,902
CFB Overseas fund	3.2%	4,471	4,983	4,471	4,983
CFB Gilt fund	4.7%	2,599	2,959	2,599	2,959
CFB Corporate bond fund	1.7%	777	744	777	744
CFB Short fixed interest fund	14.8%	4,668	6,401	4,668	6,401
CFB Managed fund	0.0%	740	708	-	-
		30,360	34,951	26,599	31,775
Investment properties		5,794	6,690	5,794	6,690
Total investments		36,154	41,641	32,393	38,465

All investments are held in the UK.

The historical cost or earliest known valuations of investments held at 31 March 2006 were: securities £20,810,000 (2005 £20,621,000); investment properties £232,000 (2005 £241,000). Investments are valued at current market value, but where listed shares have a limited market their fair value is reviewed. The listed investments include shares in two companies listed on the Channel Islands Stock Exchange, which NCH accepted as donations. At 31 March 2006 the total quoted value of these shares was £1,662,000 (2005 £nil) but, recognising the lack of any effective market for the quantity of the shares held, the trustees have decided that the investments will be included in the accounts at cost. Since these shares were obtained at nil cost, no amount has been included in the accounts in respect of these shares.

Unlisted investments are valued at cost or, if donated to NCH, at valuation at the time of donation.

Investment properties are valued at the end of each year on the basis of open market value by external firms of chartered surveyors.

NCH also holds certain investments for various associated trusts, which are disclosed in Note 17.

These investments are not included in the balance sheet of NCH.

Investment gains and losses

Securities:

	Group		Charity	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
Market value at 1 April	34,951	33,114	31,775	29,836
Acquisitions/transfers during the year	4,618	6,873	4,221	5,214
Sale proceeds of disposals during the year	(10,917)	(7,308)	(10,549)	(5,303)
Net investment gains per SOFA: realised	(191)	802	(222)	744
unrealised	1,899	1,470	1,374	1,284
Market value at 31 March	30,360	34,951	26,599	31,775
Investment properties:				
Market value at 1 April	6,690	6,800	6,690	6,800
Sale proceeds of disposals during the year	(1,513)	(760)	(1,513)	(760)
Net investment gains per SOFA: realised	343	92	343	92
unrealised	274	558	274	558
Market value at 31 March	5,794	6,690	5,794	6,690

Related company investments

(i) NCH Children's Services Limited is a wholly owned company registered in England and Wales handling the primary purpose trading activities of NCH. The investment comprises shares at a cost of £100 (2005 £100).

(ii) NCH Trading Limited is a wholly owned company registered in England and Wales handling fundraising trading activities of NCH. The investment comprises shares at a cost of £100 (2005 £100).

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9 Debtors: amounts falling due within one year

	Group		Charity	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
Capital advances and other debtors	113	320	113	320
Local authority and other government contracts	15,274	22,005	10,624	13,956
Prepayments and accrued income	11,333	12,561	10,665	11,978
Amounts owed by subsidiary undertakings	-	-	233	1,622
Other	989	1,951	1,030	1,909
	27,709	36,837	22,665	29,785

10 Creditors: amounts falling due within one year

	Group		Charity	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
Bank overdraft	-	-	-	299
Trade creditors	7,910	7,849	7,887	7,830
Taxation and Social Security	2,482	2,317	2,482	2,317
Provision for VAT	1,654	1,666	110	587
Amounts owed to subsidiary undertakings	-	-	4,152	952
Other creditors	2,274	2,369	2,333	2,419
Accruals	4,493	4,642	4,490	4,441
Deferred income	19,897	20,197	12,126	13,102
	38,710	39,040	33,580	31,947

11 Creditors: amounts falling due after more than one year

	Group and Charity	
	2006 £'000	2005 £'000
Bank loan	2,832	2,920

A £3 million bank loan facility was arranged and used to purchase the freehold of a property used by an NCH project. The loan is for 20 years with provisions for earlier repayment if NCH wish. The bank has a legal charge over the property land and buildings. The loan is in line with the market value of the property. The interest rate is 0.75% over LIBOR. Under the terms of the repayment schedule £85,000 is due in one year (2005 £80,000), £394,000 in two to five years (2005 £367,000) and £2,438,000 is due in over five years (2005 £2,553,000).

12 Provisions for liabilities and charges

Sure Start property capital grants

At 1 April

Movement in the year

At 31 March

Group and Charity	
2006	2005
£'000	£'000
-	-
24,775	-
24,775	-

Fixed asset capital grants of £24,775,000 represent the net book value of Sure Start properties that have been funded by capital grants up until 31 March 2006. As also described in Notes 5 and 7 to the accounts, to match changes introduced through the Children Act 2004, NCH will shortly begin to transfer these properties to local authorities. These changes have resulted in the capital grant now being shown as a liability. The balance will be released against the transfer of the fixed asset properties, which will not incur any cash flow.

13 Analysis of group net assets between funds

Fund balances at 31 March 2006 are represented by:

Tangible fixed assets

Investments

Cash and short-term deposits

Other assets

Pension scheme liability

Other liabilities

Total funds

	Unrestricted			Restricted		Total Funds £'000
	General Fund £'000	Designated Funds £'000	Pension Reserve £'000	Specific Purpose Funds £'000	Endowment Funds £'000	
Tangible fixed assets	-	69,346	-	-	-	69,346
Investments	32,392	-	-	-	3,762	36,154
Cash and short-term deposits	25,767	2,291	-	169	584	28,811
Other assets	27,082	-	-	-	627	27,709
Pension scheme liability	-	-	(56,762)	-	-	(56,762)
Other liabilities	(38,603)	(27,692)	-	-	(22)	(66,317)
Total funds	46,638	43,945	(56,762)	169	4,951	38,941

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14 Group statement of fund movements

Note	Brought Forward £'000	Incoming Resources £'000	Outgoing Resources £'000	Transfers £'000	Gains and Losses £'000	Carried Forward £'000
Annual income fund	1,574	-	-	-	201	1,775
Scholarship fund	278	-	-	-	2	280
Sidney Charles Salter	236	-	-	-	-	236
Lincoln City & County Home	58	-	-	-	-	58
Sheila Mildred Gage	10	-	-	-	-	10
Nicholas Galperin Trust	-	-	(8)	2,247	353	2,592
To transfer	56	-	-	(56)	-	-
Endowment funds	2,212	-	(8)	2,191	556	4,951
Bayswater Families' Care Team	33	43	(65)	-	-	11
Children's Rights Service, Newcastle	158	2	(110)	-	-	50
Cope	19	21	(40)	-	-	-
Nicholas Galperin Trust	2,605	-	-	(2,605)	-	-
Big Lottery Fund (see below)	7	137	(86)	-	-	58
Other projects under £10,000	43	866	(859)	-	-	50
Specific restricted funds	2,865	1,069	(1,160)	(2,605)	-	169
Capital fund	58,865	13,064	(24,775)	(5,500)	-	41,654
Matthew Rusike fund	78	23	(23)	-	-	78
Penhurst capital fund	107	-	-	-	-	107
South Africa fund	33	20	(21)	-	-	32
Place of Safety Dominica fund	-	19	-	-	-	19
	59,083	13,126	(24,819)	(5,500)	-	41,890
Pension contingency fund	2,215	-	-	(560)	-	1,655
Innovations Fund	400	-	-	-	-	400
Unrestricted - Designated	61,698	13,126	(24,819)	(6,060)	-	43,945
Unrestricted - General						
General	41,481	205,569	(208,655)	6,474	1,769	46,638
Pension reserve	6 (52,002)	-	(3,441)	-	(1,319)	(56,762)
Total - Unrestricted	51,177	218,695	(236,915)	414	450	33,821
Total funds	56,254	219,764	(238,083)	-	1,006	38,941

Endowment funds are monies received that are held on trust, which must be retained for the benefit of the charity as a capital fund. The Annual Income Fund provides income for general purposes. Specific funds represent legacies, donations and other income that can only be used for particular purposes.

The Nicholas Galperin Trust operates for the relief of young persons under the age of 25 who are in need, hardship or distress. In previous years the Nicholas Galperin Trust was included as a specific fund. Transfers have been made this year to reflect the nature of the Trust as a combination of endowment and unrestricted general funds.

Designated funds cover capital funds, the pension contingency fund and innovations fund as well as funds to help with overseas work. The capital fund is the amount invested in fixed assets used in the charity's operational work, net of capital grants and financing. The transfers out of designated funds reflect current year spending taken to the general fund.

Included in the general fund is an amount of £16,774,000 (2005 £20,779,000), which is the difference between the historic costs of fixed assets (including investments) and the revalued amount included in the balance sheet.

14 Group statement of fund movements (continued)

Funds received from the Big Lottery Fund have been granted towards expenditure on the following projects:

	Brought Forward £'000	Incoming Resources £'000	Outgoing Resources £'000	Carried Forward £'000
Caring Together Lincoln Listen to Learn	7	36	(20)	23
Clydesdale Youth	-	25	-	25
Corwen Health Living Centre	-	4	(4)	-
Hampshire Mentoring	-	61	(51)	10
Moray Family Resource	-	11	(11)	-
	7	137	(86)	58

In addition, £2,000 was received during the year in respect of Big Lottery Fund grants for capital purposes for Caerphilly Family Centre and is included within £13,064,000 capital grant income in these financial statements. This brings the total amount received in respect of this capital grant to £186,000.

The adoption of FRS 17 has resulted in a prior year adjustment that has affected the results for 2004/05 and 2005/06 as shown below:

	Unrestricted £'000	Restricted £'000	2006 £'000	2005 £'000
Funds brought forward, as previously stated	103,179	5,077	108,256	99,709
Prior year adjustment - FRS 17	(52,002)	-	(52,002)	(39,075)
Fund balance restated	51,177	5,077	56,254	60,634
Net movement in funds	(17,356)	43	(17,313)	(4,380)
Total funds carried forward	33,821	5,120	38,941	56,254

15 Taxation

NCH, as a charity, is exempt from taxation of income and gains falling within Section 505 of the Taxes Act 1988 or Section 256 of the Taxation of Chargeable Gains Act 1992 to the extent they are applied to its charitable objects. No tax charge arises in any of the subsidiary entities included in the group accounts due to their policy of gifting all taxable profits to NCH each year.

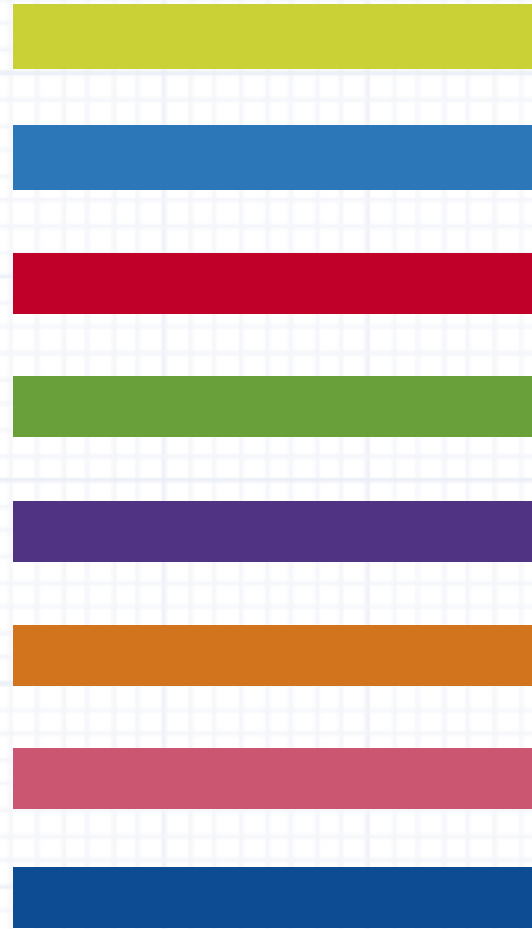
16 Contingent liabilities

Certain grants received in respect of property alterations and improvements and equipment attach conditions whereby amounts could be repayable in the event of the relevant property or equipment being sold or ceasing to be used for the stated purpose. At 31 March 2006 these grants amounted to £551,000 (2005: £603,000). This relates to property and equipment where the conditions of the grant continue to be fulfilled.

17 Associated trusts

A number of associated trusts exist with links to NCH, but where assets are not included in the balance sheet. In some cases, the original purpose for which the trust was set up is no longer valid. NCH has been reviewing these trusts with the Charity Commissioners to establish a programme to merge them with NCH. Agreement has been obtained in a number of cases, and discussion is continuing so that the remaining trusts noted below may be merged.

Assets at cost	£'000
The major trusts are:	
Farningham and Renshaw Charity	779
St Leonard's-on-Sea Convalescent Home	1,579
Other small trusts – approximate asset value	11
Total assets	2,369





NCH helps children achieve their full potential.
Through our services we support some of
the most vulnerable and excluded children
and young people in the UK.

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