House of Commons

Committee of Public Accounts

The Government's funding of Kids Company

Eighth Report of Session 2015–16

HC 504

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It is staggering that the government has given over £40 million to Kids Company over the past 13 years and still has no idea what it was getting for taxpayers' money. It was not part of this inquiry to assess the outcomes of Kids Company's work. We object to the obvious unfairness of central government directly funding a charity which operated in only two London boroughs for most of its existence, with around £4 million a year, at the expense of other charities and young people across the country. Despite repeated warnings and concerns about Kids Company's financial situation and the impact it was achieving, funding to the charity continued and was never seriously questioned, let alone stopped. Instead responsibilities were passed between departments like a hot potato. All the warning signs of a failed and expensive experiment had long been there but it was not until June 2015 that officials finally stood up to ministers, said enough was enough, and sought ministerial direction before providing more money. By then it was too late. Kids Company was a favourite of successive ministers but Accounting Officers have to make decisions, sometimes under pressure, to safeguard taxpayers' money: in funding Kids Company for so long they have not served taxpayers or children across the country well.

Introduction

Kids Company was set up in 1996 to enhance the emotional health of young people through counselling, support and art therapy; and to help schools, and other educational institutions address the emotional needs of young people. Kids Company has received significant funding from the public purse - at least £42 million since 1996 from central government departments; and at least £4 million from local authorities and lottery bodies. The Department for Education oversaw grant funding for Kids Company until 2013, when the Cabinet Office took on the responsibility. After March 2013 government funding was through non-competitive, direct grant awards as Kids Company no longer met the criteria and quality standards for competitive grant funding schemes. In June 2015, the Cabinet Office advised ministers that a further grant to Kids Company would not be value for money. Despite this, ministers directed officials to pay £3 million, to support the restructuring of the charity and secure its long term sustainability. The final £3 million was on top of an earlier grant of £4.3 million for 2015-16, which the Cabinet Office had already paid, in full, in April 2015. Payment was made just a week before Kids Company closed on 5 August. Kids Company was given £7.3 million within a period of 16 weeks. Kids Company has so far passed 1,900 case files to local authorities and the Cabinet Office has given £200,000 to the authorities to support the transition of young people to other services.

Conclusions

1. **By treating Kids Company as a special case the government missed opportunities to help other children.** The C&AG's report shows that Kids Company regularly received significant sums of money from central government, far in excess of grants paid to other charities. Charities and young people across the country are likely to have lost out because of the special attention Kids Company received from successive governments. Kids Company only worked with children in two London boroughs and Bristol yet received around £4 million a year from central government. In 2011 Kids Company received a grant of £9 million over 2 years from the Department for Education, while national charities received far less from the same funding round (for example, Barnardo's received £4.2 million for the same period). From 2013, Kids Company no longer had to compete for government funding. Although Kids Company was not the only organisation the Department funds in this way, the others – such as ChildLine, which receives £2 million a year – are national organisations. Government repeatedly made grants to Kids Company to secure its longer term sustainability and to reduce its dependence on government grants, but this never happened and instead the government gave more and more to the charity at the expense of others. Kids Company also received support from other parts of government. The Department for Education and the Department for Work & Pensions seconded staff to Kids Company and HM Revenue & Customs even wrote off its tax bills.

2. **There was insufficient scrutiny of what Kids Company was delivering for taxpayers' money.** Until 2013 the government relied heavily on Kids Company's own assessments of its performance. The Department for Education considered that very few people doubted the quality of Kids Company's achievements and that the charity's highly innovative work with extremely vulnerable people did provide value for money. But we are very sceptical on the charity's inflated claims about what it achieved. The metrics government used to assess Kids Company's performance were severely ill-judged and the Department seems to have taken Kids Company's claims at face value. When the Cabinet Office took over responsibility for the grant to Kids Company in 2013, one of its key concerns was that the charity was not good at, or interested in, measuring its outcomes and the real world impact on children. The Cabinet Office for the first time made efforts to introduce a greater focus on assessing outcomes from the charity. Yet by the time the charity closed, 13 years after the first funding from central government, it still had no proper means for measuring its impact.

3. **Government ignored Kids Company's serious cashflow problems and failure to make itself financially sustainable and continued to fund the charity to keep it afloat.** The government's external reviews of Kids Company found that it had an appropriate governance system, but also that it had a serious cash flow problem. In 2014, for example, a review found that the charity had no reserves and could go bust at any time. The Department for Education conceded that it should have examined the charity's financial position more closely before 2013 given on-going concerns. As long ago as 2005, a senior manager at the charity had raised concerns to Department but these were not dealt with in the way they should have been. In April 2015, in an ill-judged and gullible move, the Cabinet Office paid its whole £4.3 million grant

to Kids Company in one go, rather than quarterly as had previously been the case, because the charity showed a "willingness to make plans", including looking at how it could reduce costs. The then Cabinet Office Accounting Officer acknowledged that this "now looks like a naive thing for me to have done", especially when it emerged that the numbers the Cabinet Office had based the £4.3 million grant on were not accurate at the time the grant was made. Kids Company returned to seek more emergency funding from the Cabinet Office just 2 months later. As the charity had not met some of its grant conditions, the Cabinet Office refused this request. When the charity developed more specific plans for restructuring, the Cabinet Office still believed it should not receive more money as they were not convinced, from previous experience, that the restructure would happen. However, ministers considered the charity was worth one last chance: in the words of the Accounting Officer, ministers "took the view that it was a punt that was worth funding"[1] and directed the Accounting Officer to make the £3 million grant payment in July 2015. Six days after receiving the money Kids Company closed down.

4. **Accounting Officers across government failed to stand up to ministers.** Although in some circumstances ministers can decide which charities they wish to support and how to fund them, it is always the job of Accounting Officers to determine whether the support provided represents value for money for the taxpayer. Yet for many years Accounting Officers did not challenge whether decisions to fund Kids Company represented good value for money, and therefore did not seek a direction from ministers. The Department for Education told us that up to 2013, as Kids Company had won competitive bids for schemes and delivered the outputs required, the question of seeking a ministerial direction had not arisen. When the charity failed to win funding through a competitive process in 2013, the Department for Education presented a "public interest case" for ministers on whether to fund Kids Company via a direct government grant rather than through competition. This case did not include an assessment of value for money. It was not until June 2015, that the Cabinet Office finally advised ministers that a £3 million grant to Kids Company was not value for money and sought a ministerial direction. The Cabinet Office had also considered a ministerial direction when making the payment of £4.3 million in April 2015, but decided it was not necessary. We look forward to examining the relationship between Accounting Officers and Ministers when we take evidence on a forthcoming National Audit Office report on accountability for taxpayers' money.

5. **Funding decisions were not based on evidence nor did they follow due process. Kids Company lobbied government for funding over many years.** Ministers of successive governments had made clear their support for Kids Company and it is a matter of public record that there were a number of letters to successive Prime Ministers. Although ministers asked officials to consider options for funding Kids Company, Accounting Officers claimed that they were under no pressure from ministers to make direct grants to the charity without a competitive process. We find this barely plausible. With hindsight Accounting Officers considered that more caution should have been exercised in using powers to make uncompeted grants or in making commitments to fund charities, and that "evidence first, decision second" would have been the better way round. Indeed it would. In the case of Kids Company

1 Q55

decisions were made to fund the charity and then departments had to develop ways of making the funding available including whip-rounds across government.

6. **It is particularly alarming that the Department carried on handing over money for years despite there never being a model that could be replicated across the country.** Developing innovative practice to help vulnerable groups is important but needs to be tightly monitored, fair and transparent. We support government funding of innovative and new practices to help vulnerable young people. However, Kids Company was a 13 year experiment which cost the government £42 million and we saw no evidence that children outside London and, at the end, Bristol had benefited from the government's investment. We were concerned that Kids Company did not develop techniques that could be picked up by other organisations, when replication of its services was a condition of its funding. We do not believe that would have happened in a non-London-based charity. Children in other parts of the country had just as difficult needs as those supported by Kids Company, but no attempt was made to fund them in the same way.

7. **The government failed to learn lessons from Kids Company until the end.** Many government departments had a relationship with Kids Company but there appears to have been no knowledge-sharing about the charity across government, for example when the Department for Education transferred responsibility for the charity to the Cabinet Office. The government also failed to act on intelligence from local authorities; we were disappointed to find that departments had not formally spoken to local authorities to find out how Kids Company was operating on the ground or why local authorities had generally opted not to fund the charity. While government gave £42 million to Kids Company, local authorities gave just £2 million over the same period. In Bristol, Kids Company had failed to achieve registered provider status, and so the Council had terminated its contract. The Cabinet Office took responsibility for Kids Company's funding in July 2013 and adopted a more systematic approach to overseeing the charity. But the concerns identified and raised by the Cabinet Office in 2015 were not new and, in any case, this was too little too late. For the Cabinet Office a lesson learned was that the government would not fund a charity like Kids Company now unless it was solvent, at arm's length from Government, and sustainable without hand-to-mouth Government funding.

Recommendations

8. As the government recognises, there are lessons to be learned from its funding of Kids Company. This situation must never occur again. To address these lessons we make the following recommendations:

i) The government should undertake a fundamental review of how it makes direct and non-competitive grants to the voluntary sector. The review should consider how:

- it ensures grant making processes are fair and equitable, for example, to properly assess geography and relative funding, so that no organisations are disadvantaged;
- it assesses the financial sustainability of a charity once the grant period finishes (and not just on the financial data included in the grant application); and
- when funding a charity that provides innovative services which have the potential to be replicated, it sets clear conditions for how and when this needs to happen;
- When a national charity is providing services with predominantly local characteristics, advice should be sought from local bodies working in that area to validate value for money.

ii) The government should develop a register of grants to the voluntary sector so that it can:

- easily identify charities receiving large amounts of government funding from single or multiple sources; and
- share intelligence on charities' past performance.

iii) The government should improve the way it monitors and evaluates the performance of grant-funded organisations including looking at the balance between self-reporting and external evaluation. It should ensure that organisations have robust and transparent mechanisms in place for measuring their own performance.

iv) The government should not provide or appear to provide funding commitments without referring the funding request to the appropriate funding department so that the requirements of HM Treasury's manual Managing Public Money[2] are met.

v) If the government decides to use special powers to grant funding, it should provide a transparent case for its decision and report regularly on the use of these powers.

2 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/454191/Managing_Public_Money_AA_v2_-jan15.pdf

1 Government's funding of Kids Company

1. On the basis of a report by the Comptroller and Auditor General, we took evidence from Chris Wormald, Permanent Secretary at the Department for Education, and from Richard Heaton, Permanent Secretary at the Cabinet Office until July 2015, on the government's funding of Kids Company.[3]

2. Kids Company was set up in 1996 and became a registered charity in 1998. It was set up to enhance the emotional health of young people through counselling, support and art therapy; and to help schools, and other educational institutions, address the emotional needs of young people.[4]

3. Kids Company has received significant funding from the public purse - at least £42 million since 1996 from central government departments; and at least £4 million from local authorities and lottery bodies. In 2013, Kids Company's annual income was £23 million, of which 20% came from central government grants, 3% from local government and the remainder from private donations. The Department for Education oversaw grant funding for Kids Company until 2013, when the Cabinet Office took on the responsibility. After March 2013 government funding was through non-competitive, direct grant awards as Kids Company no longer met the criteria for competitive grant funding schemes.[5]

4. In June 2015, the Cabinet Office advised ministers that a further grant to Kids Company would not be value for money. Despite this, ministers directed officials to pay £3 million, to support the restructuring of the charity and secure its long term sustainability. The payment was made just 6 days before Kids Company closed down and was on top of an earlier grant of £4.3 million, which the Cabinet Office had paid in April 2015. Since closing Kids Company has passed 1,900 case files to local authorities and the Cabinet Office has given £200,000 to the authorities to support the transition of young people from Kids Company to other services.[6]

5. At the start of our evidence session we asked whether Kids Company had received special treatment from government departments. The Accounting Officer for the Department for Education replied "No, I don't think it did". The Cabinet Office's then Accounting Officer commented that "It is entirely proper for Ministers to decide which charities in which sectors they wish to support". Concerning the job of officials to then ensure that any such support was within the requirements of *Managing Public Money*, and implemented in a way that delivered value for the taxpayer, he told us "there was no special treatment at all".[7] He also described Kids Company as "a controversial charity" with "an unusual funding situation" and told us that it was no secret that Kids Company was a favourite charity of ministers and prime ministers.[8] When pressed on the 'special treatment' question at the end of our evidence session, the Accounting Officer at the Department for Education commented that Ministers of successive governments had made clear their support for Kids Company. In terms of whether officials broke any rules

3 C&AG's Report, Investigation: the government's funding of Kids Company, Session 2015-16, HC 556, 29 October 2015
4 C&AG's Report, paras 1.1, Figure 2
5 C&AG's Report, Figure 1. Paras 7, 9, 10, 4.1-4.4, 4.15
6 C&AG's Report, paras 11, 15, Figure 2
7 Q 1
8 Qq 30, 98

or whether there had been anything improper, he stood by his initial answer that there was no special treatment. He added that "If you want to define special treatment as "Were people taking a special interest?" then clearly they were".[9]

6. The charity received national funding despite only effectively operating, for most of its life, within two London boroughs.[10] We were concerned whether it was fair to fund a local charity, for such a long period, with such significant amounts that could otherwise have been offered to charities or organisations elsewhere in the country.[11] The Cabinet Office's then Accounting Officer told us that if the charity had been able to demonstrate that what it was doing was achieving outcomes in society, other charities would have been able to copy it. He added that for this reason the charity sector in general needed to get better at measuring outcomes, so that models of delivery could be scaled up.[12]

7. We were also concerned that not only did the government repeatedly give money to Kids Company, but the amount of money kept going up, even though there were warning signs about the charity.[13] Kids Company received around £4 million a year from government, significantly more than other charities which operate across the whole country. In 2011 Kids Company received a grant of £9 million over 2 years from the Department for Education, while national charities received far less; the second largest grant recipient from that round of funding was Barnardo's, which received £4.2 million to cover the same period.[14] The Department told us that it gives some £200 million a year to the voluntary sector and that Kids Company was receiving about 2% of this wider pot of money.[15]

8. From 2013, Kids Company no longer had to compete for government funding.[16] It had also received emergency one-off direct funding from the government in 2002 and 2003.[17] The Department for Education told us that it was not unusual for the Department to fund a charity directly on a non-competitive basis.[18] It added that it funded a number of organisations in this way, including The Family Fund Trust which receives about £27 million a year, and ChildLine which receives £2 million a year.[19]

9. In 2011 the Department for Work & Pensions and the Department for Education seconded staff into Kids Company to oversee and help with not only their fundraising, but their corporate capacity. We asked what the Department for Education had learnt from these secondments. The Department told us that in its case a junior civil servant was sent there to help the charity develop alternative sources of income from the public sector, such as from local government. But that was completely unsuccessful.[20]

10. In addition, Kids Company's accounts for 2003 report that HM Revenue & Customs wrote off its tax debts of £590,000. A review of Kids Company in 2014 by PKF Littlejohn,

9 Qq 125-127
10 Q 72
11 Q 73
12 Qq 31-32
13 Qq 2, 4
14 C&AG's Report, para 3.15, Figure 6
15 Q 5
16 Q 19, C&AG's Report, Figure 3
17 C&AG's Report, para 2.7
18 Q 14
19 Q 16: Evidence letter from DfE 5 November 2015
20 Qq 81-82

commissioned by the Cabinet Office and using information disclosed by Kids Company, highlighted that Kids Company had an arrangement in place with HMRC to pay off historical debts, but the amount of debt is unknown.[21]

11. In April 2015, the Cabinet Office paid £4.3 million to Kids Company in one lump sum, rather than £1 million a quarter as had previously been the case. It did this following what it describes as due diligence by its Finance Director, which concluded that the charity was unlikely to survive without such an advance payment.[22] Although the charity did not produce plans to reduce costs at that time the Cabinet Office paid the grant in full because it considered the charity showed a "willingness to make plans" to reduce costs, including potentially withdrawing from Bristol.[23] Of the £4.3 million, £1.5 million was intended to support the restructuring and downsizing the charity and the remainder was intended to go towards funding its charitable work.[24]

12. We questioned the wisdom of agreeing to give Kids Company £4.3 million in one go, with its known cash flow problems, and expecting it not to just come back in a couple of months saying it needed more funding for the next quarter. The then Accounting Officer for the Cabinet Office replied "… indeed two months later that is what happened, so it now looks a naïve thing for me to have done". [25] By way of context for his decision, the then Accounting Officer stressed the work done by the Cabinet Office at the time to reassure itself that, if it paid the entire sum up front it "could get out of this a sustainable organisation that would be free of government funding".[26] He had considered seeking a ministerial direction on whether to pay the £4.3 million as one lump sum but "considered on balance that the degree of heavyweight support and expertise we were talking to led us to believe that there was a reasonable prospect that we could turn this charity around … and that the charity that would emerge would be fitter".[27] However, the then Accounting Officer also told us that "In one respect, the numbers that we had about the current financial position of the charity when we made the decision were worse, it turned out, than we had thought … I do not think we were deliberately misled, but nevertheless we were disappointed to find that the numbers on which we had based the £4.2(sic) million grant were not quite as they appeared at the time they made the grant".[28]

13. He then described how he was "startled, shocked, and surprised" when, just six weeks after being paid the £4.3 million, Kids Company came back to seek more emergency funding. "It was astonishing that the charity had apparently spent our money and was already requiring more emergency funding from government". As the charity had not met some of the conditions of the £4.3 million grant, the Cabinet Office's initial reaction to the request for a further £3 million was "No, out of the question". But then Kids Company returned again with a more specific and radical restructuring plan. The Cabinet Office still believed that too much was required for this plan to succeed and that the probability of successful restructuring was not high enough to justify public funding. The then Accounting Officer told us that he could therefore not sign up to the proposed restructuring, nor could he advise ministers to do so. However, he said that ministers

21 C&AG's Report, para 2.9
22 Evidence letter from Cabinet Office 5 November 2015
23 Qq 41-42
24 Q 97
25 Q 39
26 Q 38
27 Q 97
28 Q 110

"quite reasonably took the view that it was a punt that was worth funding. It was a prospect, even if it was a narrow prospect, that was worth giving one last chance to the charity". [29] On 29 June 2015 the Cabinet Office received ministerial direction to pay £3 million grant to Kids Company. On 30 July Kids Company signed the grant agreement and the Cabinet Office paid the grant. On 5 August Kids Company closed and on 12 August it filed for insolvency.[30]

29 Q 55
30 C&AG's Report, Figure 2

2 Government's monitoring of Kids Company

14. The government relied heavily on Kids Company's self-assessment of its performance.[31] These assessments reported Kids Company far exceeding performance targets set out in grant conditions. For example, Kids Company reported that against a target of 1,347 interventions in 2013–14, they had delivered 30,217.[32] The Department later claimed that the target of 1,347 was for intensive interventions only and that the grant agreement it had signed with Kids Company for the 2013–14 to 2014–15 cross-government grant had set out 35,245 specific funded interventions in total.[33]

15. To us this suggested that the metrics that Kids Company were reporting were so over-exceeded by the charity that there was clearly something wrong with the reporting and measurement framework. The Department for Education said that "I would say it shows a charity achieving more than we had set out"; it still did not seem to consider such dubious performance management information to be a matter that should have begged questions.[34]

16. The Department for Education assured us that, until recently, very few people had doubted the quality of Kids Company's achievements.[35] The Department had taken the view that the outcomes it was getting for some highly innovative work with extremely vulnerable people did provide value for money.[36] It gave an example of how it had monitored the Kids Company grant under the Youth Sector Development Fund. The Department's overall evaluation of the Fund had concluded that the grant was helping Kids Company to become a centre of excellence, and enabling them to disseminate informed educational packages for service users and providers.[37] However, we questioned whether this was in fact the case given that Kids Company never operated outside London and Bristol.[38]

17. Before 2013–14 Kids Company had been monitored in the same way as other organisations funded through the Department for Education's grant programmes. The government took a different approach to monitoring Kids Company for its 2013-14 and 2014-15 grants as these were direct awards to the charity.[39] As a start the Department for Education awarded a £200,000 contract to Methods Consulting, operating from July 2013 until March 2015, to monitor and evaluate the grant funding to Kids Company.[40] When the Cabinet Office took over responsibility for the grant to Kids Company in July 2013, it also took over responsibility for monitoring the charity's performance. It told us that one of its key concerns when taking over responsibility had been that the charity was not good at, or interested in, measuring its outcomes and the impact it was having in society.[41] So the first thing it did was to work with Methods Consulting, because it wanted to improve

31 C&AG's Report, Summary para 9
32 C&AG's Report, para 4.11, Figure 8 (The Cabinet Office subsequently revised the figures previously agreed with the National Audit Office Evidence letter from Cabinet Office 5 November 2015 (Cabinet Office)
33 Evidence letter from Cabinet Office 5 November 2015
34 Qq 7, 30
35 Q 26
36 Q 22
37 Q 27
38 Qq 28, 75
39 Qq 45, 46
40 C&AG's Report, para 4.9
41 Qq 2, 32

the measurement of Kids Company's outcomes.[42] The then Accounting Officer of the Cabinet Office told us that he considered they had got some way towards that.[43]

18. The Department for Education told us that in 2009 an external review found that Kids Company was basically a well governed organisation. The Department conceded that it may have relied too heavily on that advice, and that advice may have been wrong, but the evidence it had at that time suggested Kids Company was a 'financially reasonable' organisation. Equally, when the Cabinet Office sent in accountants PKF Littlejohn in 2014 to do a full study of Kids Company, its then Accounting Officer told us that what they found matched what the Department had found before: it was not an organisation that was badly governed or lacked financial control. However, PKF Littlejohn did highlight Kids Company's "precarious cash flow situation". Throughout Cabinet Office's relationship with Kids Company the main worry had been its lack of reserves and the risk of it going bust at any time, which had led to its constant demand for Government back-up funding – "Looking back, one observation you could make is that we became obsessed about that point".[44]

19. The Department for Education admitted the charity's financial position should have been examined more closely before 2013, as there had been warnings about the charity's financial management.[45] As long ago as 2005, a senior manager at the charity had highlighted concerns to the Department, and to the charity's trustees, about Kids Company's senior management structure and governance and about some individuals receiving cash payments from the charity. The Department hoped that such a warning would be better dealt with now.[46]

42 Q 30
43 Q 101
44 Qq 49, 100
45 Q 49
46 Q 3; C&AG's Report, para 3.7

3 Government's relationship with Kids Company

20. The 2006 Charities Act provides Ministers with broad powers to fund charities, and the 2002 Education Act provides extensive grant-making powers similar to those in the Charities Act. The Accounting Officers stressed to us that it was entirely proper for Ministers to decide which charities in which sectors they wished to support, and that the decisions taken by Ministers had been ones that they were allowed to take.[47] The Accounting Officers made it clear that the job of officials was to ensure that any support ministers wished to give any charity, including to Kids Company, was in line with the requirements of HM Treasury's manual *Managing Public Money* and, once the decision to fund a charity had been made, that it was properly implemented in a way that delivered value for the taxpayer.[48]

21. The Department for Education told us that up to 2013, as Kids Company had won funding on a competitive basis and delivered the outputs required, the question of seeking a ministerial direction had not arisen. When the charity failed to win funding through a competitive process in 2013, the Department prepared a "public interest case" for ministers to decide whether to fund Kids Company via a direct government grant rather than through competition, but this case did not include an assessment of value for money.[49]

22. For the years 2013-14 and 2014-15, Kids Company received an annual non-competed grant which was funded by a number of Departments – the Departments for Education; Work & Pensions; Communities and Local Government; and Health. The Department for Education told us that the direct grant was made using powers under the 2002 Education Act and that the nature of this grant was different from the later one made by the Cabinet Office in 2015 under the 2006 Charities Act. The Department's Accounting Officer also told us that he had not considered a direction in 2013, because he had assured himself that there was a public interest in the proposal that was being taken forward and ministers had agreed.[50]

23. Kids Company lobbied government for funding over many years, and we were told that it was a matter of public record that there were a number of letters to successive Prime Ministers.[51] The NAO found a consistent pattern of behaviour since 2002, each time Kids Company approached the end of a grant term: lobbying of ministers and the media about the impact of service closures and redundancies when officials resisted funding applications; ministerial interventions to seek reviews of funding options, and eventually grants being awarded.[52]

24. Accounting Officers told us that they were under no pressure from ministers to make grants to Kids Company. In relation to giving the £4.3 million grant in one lumps sum in April 2015, on which he had considered but decided against seeking ministerial direction, the then Cabinet Office Accounting Officer told us "I certainly came under no political pressure to either give or not give a direction". He said he was aware that Kids Company

47 Qq 1, 30, 91, 96
48 Q 1
49 Qq 8, 1, 90; C&AG's Report, para 4.3
50 Qq 11, 90, 96; C&AG's Report, Figure 7
51 Q 105
52 C&AG's Report, paras 3, 3.3

was a prime ministerial favoured charity and that many ministers across government favoured it too, but still would have sought a direction if he had decided it was the right thing to do.[53] When asked whether at any point Ministers had put pressure on them to agree funding to Kids Company the then Cabinet Office Accounting Officer said "None of my Ministers at the time put personal pressure on me … I was under no personal pressure to do one thing or another". The Department for Education Accounting Officer said "No, I was not put under any pressure".[54]

25. As the replication of its services was a condition of Kids Company's funding between 2005 and 2014, we could not understand why it got no further than operating outside Bristol and London and why, after 13 years and £42 million, the government continued experimenting with the charity.[55] The Department for Education explained that replication included the spreading-out of the charity itself and the development of techniques that could be picked up by other people. It added that most people had seen Kids Company as something that was developing innovative practice that was not being developed elsewhere and that the Department had been involved in sharing this practice.[56]

26. We were also concerned that children elsewhere in the country had just as important or difficult needs as in London. The Cabinet Office's then Accounting Officer responded that if there had been a charity in, for example, Sunderland with the same compelling methodology and the same appeal to politicians, then perhaps it would have succeeded. [57] He also told us that if Kids Company had been able to demonstrate that what it was doing was achieving outcomes in society, other charities would have been able to copy it.[58]

27. Many government departments had a relationship with Kids Company. The charity first received central government funding from the Home Office in 2002.[59] The Department for Education was responsible for the charity's funding for many years and this responsibility was transferred to the Cabinet Office in July 2013.[60] We were also told that the charity made approaches to different departments for funding. For example, when seeking its final funding of £3 million in June 2015 it had initially approached the Department for Work & Pensions for the money.[61] But we were concerned about how well much information on Kids Company had been shared across Whitehall. For example, we would have expected the Department for Education to have told colleagues at the Cabinet Office that Kids Company had no reserves, when it passed over responsibility for the charity. The Cabinet Office would not then have had to rely on a report from accountants.[62]

28. While government gave £42 million to Kids Company, local authorities spent just £2 million with the charity over the period.[63] We were concerned that Kids Company, beyond a couple of boroughs in south London, had not extended its reach into other local authority areas over the years.[64] We were also disappointed to hear that departments had

53 Qq 97, 98
54 Qq 116, 117
55 Qq 75, 79
56 Qq 75, 76
57 Q 74
58 Q 31
59 Q 102; C&AG's Report, Summary para 2, Figure 2
60 Q 1, 2; C&AG's Report, para 4.13
61 Q 55
62 Q 51
63 C&AG's Report, paras 2.5, 2.10, Figure 3
64 Q 79

not formally spoken to local authorities to find out how Kids Company was operating on the ground and why local authorities had found it difficult to fund the charity. The Cabinet Office had only had informal conversations with local authorities in Lambeth and Southwark about why local authorities found it difficult to fund Kids Company.[65] But Bristol Council, for example, had terminated a contract with Kids Company as it had failed to achieve registered provider status.[66] The Cabinet Office's then Accounting Officer accepted that departments would have benefited from seeking out more information from local authorities.[67]

65 Q 61
66 C&AG's Report, para 2, 10 (footnote 12)
67 Q 62

4 What the Government has learned

29. We asked the Accounting Officers what they had learned from the Kids Company experience. The Department for Education told us it had four key learning points: there had been too much one-off decision-making as opposed to looking at the entire story; the need to look at getting the balance right between self-reporting and external evaluation; on impact, to be able to answer questions about both outputs and outcomes - most of the Department's monitoring had been of outputs, it is more difficult to measure outcomes but the Department needed to improve in future; and to improve record-keeping. The Department also said it would be addressing the wider question of how it works with the voluntary sector and how grants work.[68] The then Accounting Officer for the Cabinet Office agreed with the Department's learning points and also said that "evidence first, decision second is better than the other way round".[69]

30. The Cabinet Office's then Accounting Officer commented that use of the Charities Act to step in and provide front-line services is unusual and should be treated with caution and "I think we should be less willing to use our general powers under the Charities Act to make uncompleted grants".[70] He also commented, on learning points, that he would be cautious about making funding commitments that involve more than one department, which can lead to people letting their guard down, and about charities that make multiple approaches to government, which can be hard to control. He also advised care over grants to charities which are funded by whip-rounds across departments, as people pay less attention when contributing small amounts to a larger overall figure.[71] The Department said that, when dealing with grant applications, it tended to look at the grant in question, rather than wider questions about the organisation, and this was also a learning point.[72]

31. We asked the then Accounting Officer whether, if Kids Company had not gone insolvent just after receiving its last £3 million, he thought the Cabinet Office would still be funding them. He commented that the model for funding would be a charity that was solvent, at arm's length from government, and sustainable without hand-to-mouth government funding. "I think the model we are hoping for is that it would not be funded by government today, unless through a competitive process".[73]

68 Qq 28, 120, 121
69 Q 121
70 Qq 62, 68
71 Qq 68, 121
72 Q 51
73 Q 83

Formal Minutes

Monday 9 November 2015

Members present:

Meg Hillier, in the Chair

Mr Richard Bacon
Caroline Flint
Nigel Mills
David Mowat
Stephen Phillips
Bridget Phillipson
Mrs Anne-Marie Trevelyan

Draft Report (*The Government's funding of Kids Company*), proposed by the Chair, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 31 read and agreed to.

Conclusions and recommendations agreed to.

Summary agreed to.

Resolved, That the Report be the Eighth Report of the Committee to the House.

Ordered, That the Chair make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

[Adjourned till Monday 16 November at 3.30 pm

Witnesses

The following witnesses gave evidence. Transcripts can be viewed on the Committee's inquiry web page.

Monday 2 November 2015	***Question number***
Richard Heaton, former Permanent Secretary, Cabinet Office (now Ministry of Justice), and **Chris Wormald**, Permanent Secretary, Department for Education	Q1-127

Published written evidence

The following written evidence was received and can be viewed on the Committee's inquiry web page at www.parliament.uk/pac. KCP numbers are generated by the evidence processing system and so may not be complete.

1 Department for Education (KCP0002)

2 Mr Richard Heaton (KCP0003)

List of Reports from the Committee during the current Parliament

All publications from the Committee are available on the Committee's website at www.parliament.uk/pac.

The reference number of the Government's response to each Report is printed in brackets after the HC printing number.

Session 2015-16

First Report	Financial sustainability of police forces in England and Wales	HC 288
Second Report	Disposal of public land for new homes	HC 289
Third Report	Funding for disadvantaged pupils	HC 327
Fourth Report	Fraud and Error Stocktake	HC 394
Fifth Report	Care leavers' transition to adulthood	HC 411
Sixth Report	HM Revenue & Customs performance in 2014–15	HC 393
Seventh Report	Devolving responsibilities to cities in England: Wave 1 City Deals	HC 395
First Special Report	Unauthorised disclosure of draft Report in the previous Parliament	HC 539