



National Audit Office

Report

by the Comptroller
and Auditor General

Big Lottery Fund and the Cabinet Office

Investigation into grants from the Big Lottery Fund and the Cabinet Office to the Big Society Network and the Society Network Foundation

Our vision is to help the nation spend wisely.

Our public audit perspective helps Parliament hold government to account and improve public services.

The National Audit Office scrutinises public spending for Parliament and is independent of government. The Comptroller and Auditor General (C&AG), Sir Amyas Morse KCB, is an Officer of the House of Commons and leads the NAO, which employs some 820 employees. The C&AG certifies the accounts of all government departments and many other public sector bodies. He has statutory authority to examine and report to Parliament on whether departments and the bodies they fund have used their resources efficiently, effectively, and with economy. Our studies evaluate the value for money of public spending, nationally and locally. Our recommendations and reports on good practice help government improve public services, and our work led to audited savings of £1.1 billion in 2013.



National Audit Office

Big Lottery Fund and the Cabinet Office

Investigation into grants from the Big Lottery Fund and the Cabinet Office to the Big Society Network and the Society Network Foundation

Report by the Comptroller and Auditor General

Ordered by the House of Commons
to be printed on 21 July 2014

This report has been prepared under Section 6 of the
National Audit Act 1983 for presentation to the House of
Commons in accordance with Section 9 of the Act

Sir Amyas Morse KCB
Comptroller and Auditor General
National Audit Office

18 July 2014

This investigation focused on whether the Big Lottery Fund and the Cabinet Office followed their own procedures in soliciting and assessing the bids, monitoring project progress and making payments to the projects.

Investigations

We investigate specific allegations of wrongdoing in the public sector; or in response to intelligence or assertions suggesting that wrongdoing is likely.

© National Audit Office 2014

The material featured in this document is subject to National Audit Office (NAO) copyright. The material may be copied or reproduced for non-commercial purposes only, namely reproduction for research, private study or for limited internal circulation within an organisation for the purpose of review.

Copying for non-commercial purposes is subject to the material being accompanied by a sufficient acknowledgement, reproduced accurately, and not being used in a misleading context. To reproduce NAO copyright material for any other use, you must contact copyright@nao.gsi.gov.uk. Please tell us who you are, the organisation you represent (if any) and how and why you wish to use our material. Please include your full contact details: name, address, telephone number and email.

Please note that the material featured in this document may not be reproduced for commercial gain without the NAO's express and direct permission and that the NAO reserves its right to pursue copyright infringement proceedings against individuals or companies who reproduce material for commercial gain without our permission.

Links to external websites were valid at the time of publication of this report. The National Audit Office is not responsible for the future validity of the links.

Contents

Summary 4

Part One

Background 7

Part Two

Big Lottery Fund grants for the *Your Square Mile* project and the *Britain's Personal Best* project 10

Part Three

Cabinet Office grant for the *Get In* project 16

Appendix One

Our investigative approach 20

Appendix Two

Timelines for the projects we investigated 21

The National Audit Office study team consisted of:
Terry Caulfield and Ann Green,
under the direction of Victoria Keilthy.

This report can be found on the National Audit Office website at www.nao.org.uk

For further information about the National Audit Office please contact:

National Audit Office
Press Office
157–197 Buckingham Palace Road
Victoria
London
SW1W 9SP

Tel: 020 7798 7400

Enquiries: www.nao.org.uk/contact-us

Website: www.nao.org.uk

Twitter: @NAOorguk

Summary

1 In response to questions raised with us by Gareth Thomas MP, the former shadow Minister for Civil Society, we have investigated two grants awarded by the Big Lottery Fund and one awarded by the Cabinet Office to three related organisations. These grants were:

- The Big Lottery Fund's grant of £830,000 in February 2011 to the Big Society Network for the *Your Square Mile* project.
- The Big Lottery Fund's grant of £997,960 in April 2013 to the Society Network Foundation for the *Britain's Personal Best* project.
- The Cabinet Office's grant of £299,800 in April 2012 to the Society Network Foundation for the *Get In* project.

2 Part One of this report sets out background detail on the organisations involved. Part Two sets out our findings on the two Big Lottery Fund grants, and Part Three sets out our findings on the Cabinet Office grant.

Scope of the investigation

3 This investigation focused on whether the Big Lottery Fund and the Cabinet Office followed their own procedures in soliciting and assessing the initial bid applications, monitoring project progress and making payments to the projects. We have not sought to assess the value for money of the grant awards, nor have we drawn conclusions on other grants made by the Big Lottery Fund and the Cabinet Office.

4 Appendix One to this report sets out our investigative approach.

Key findings

The Big Lottery Fund's grants to the Big Society Network and the Society Network Foundation

- 5 Big Lottery Fund's decision to solicit applications for the funding of the *Your Square Mile* project and the *Britain's Personal Best* project was in line with its procedures. It also followed, in both cases, its standard approach to assessing the bids, and concluded that both applications fully met its application criteria.
- 6 However, with regard to the *Your Square Mile* project, the Big Lottery Fund:
- did not challenge the Big Society Network's ambitious target for recruitment of members to the mutual organisation created by the project, which were critical to the project's success, nor did it consider the impact of failure to achieve these targets on the project overall;
 - allowed the responsibility for the *Your Square Mile* project to transfer, along with the payment of the grant, from the Big Society Network to Your Square Mile Limited without assessing whether the new team had the necessary specialist IT skills to deliver the project;
 - limited its own ability to influence the project by funding it for just the first year of its three-year life, and also by making its final payment three months early; and
 - did not enforce a £76,457 VAT refund from Your Square Mile Limited despite clear evidence that the project was not achieving its aims.
- 7 With regard to the *Britain's Personal Best* project the Big Lottery Fund did not:
- take into account the fact that senior staff at the Big Society Network who had scoped the *Your Square Mile* project (a project which was struggling to achieve its objectives) had also scoped the *Britain's Personal Best* project, and the projects shared similar delivery risks; and
 - consult the Cabinet Office to take into account the performance of the Social Network Foundation in managing the *Get In* project.

The Cabinet Office's grant to the Society Network Foundation

8 The Cabinet Office subcontracts the administration of its Social Action Fund (from which the *Get In* project was funded) to the Social Investment Business. The Cabinet Office and the Social Investment Business considered the bid from the Society Network Foundation for its *Get In* project, but the programme's Advisory Panel rejected the bid because the Society Network Foundation did not meet eligibility requirements. However, the Cabinet Office did subsequently fund the *Get In* project and in doing so it:

- expanded the eligibility criteria for organisations that could apply to the Social Action Fund after the closing date for applications, and asked the Social Investment Business to reconsider four bids, including one from the Society Network Foundation, that had been originally assessed as ineligible;
- solicited and approved a joint bid from the British Sports Trust and the Society Network Foundation, but did not establish a lead organisation to receive the funding and it issued separate grants to the two organisations, which was contrary to the Cabinet Office's own guidelines;
- made the second payment to the Society Network Foundation to cover the cost of remedial action to try and bring the project back on track; but
- did not, in making the second payment, consider the latest financial information from the Society Network Foundation which showed the project was in surplus.

9 The Cabinet Office has now withdrawn its funding to the *Get In* project although it has not so far recouped any unspent funds. The Charity Commission is currently making inquiries to determine whether the Society Network Foundation's transfer of restricted funds to unrestricted funds was in accordance with the conditions of the *Get In* grant, and whether this transfer was correctly reported in the charity's accounts. The Society Network Foundation told us it believed the freedom to transfer the remaining funds had been agreed with the Cabinet Office when the remaining grant was withdrawn. The Cabinet Office has highlighted that the Social Investment Business's letter of January 2013 to the Society Network Foundation, which reduced the project's funding, stated that the other terms and conditions of the grant remained unchanged. This included the conditions around treating the grant as restricted funds and using them only for the purposes set out in the grant agreement.

Part One

Background

1.1 This part of the report sets out background details on:

- the funders: the Big Lottery Fund and the Cabinet Office;
- the recipients of the funding: the Big Society Network, Your Square Mile Limited, and the Society Network Foundation; and
- the links between the recipient bodies.

1.2 **Figure 1** overleaf shows the links between the grant recipients and their projects. Appendix Two to this report sets out the timelines for the three projects.

The funding organisations

Big Lottery Fund

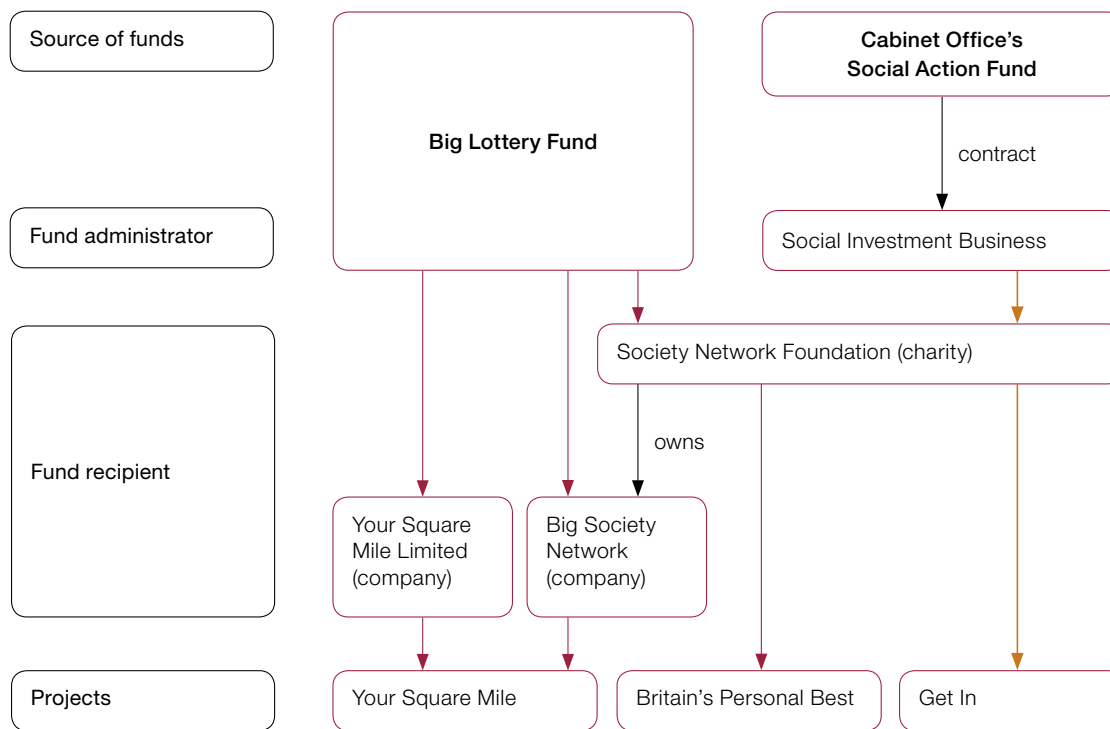
1.3 The Big Lottery Fund awards grants totalling around £700 million – £800 million annually to good causes. It awards almost all of its grants following a competitive process, based on the bids it receives from organisations, such as charities, social enterprises, and companies.

The Cabinet Office's Social Action Fund

1.4 In 2011, the Cabinet Office set up the Social Action Fund, a competitive grant programme of £20 million to support initiatives that aim to embed long-term increases in the giving of time and resources for social action. The Cabinet Office sets the overall policy framework for the Social Action Fund, and has a contract with the Social Investment Business to administer the Social Action Fund on its behalf. Under the contract, the Social Investment Business is responsible, among other things, for the assessment of bids. Ultimately however the Cabinet Office retains the power to approve or reject bids.

Figure 1

Three linked organisations were awarded grants by the Big Lottery Fund and the Cabinet Office



Notes

- 1 The red and orange lines show funding flows; the black lines show relevant ownership and contractual relationships.
- 2 Funding for the *Your Square Mile* project went initially to the Big Society Network until June 2011, when it was switched to Your Square Mile Limited.

Source: National Audit Office summary of the Big Lottery Fund's and the Cabinet Office's documentation

The recipient organisations

Big Society Network and the Society Network Foundation

1.5 The Big Society Network is a business established in March 2010 to support and develop talent, innovation and enterprise to deliver social impact. The Society Network Foundation is a charity. It was established in August 2010 but did not start operating until April 2012. Its original purpose was to promote civic responsibility and volunteering, and to advance the effectiveness and efficiency of the voluntary sector. In April 2011, it changed its purpose to developing the capacity and skills of socially and/or economically disadvantaged communities so they are better able to participate in society as responsible citizens.

Your Square Mile Limited

1.6 In June 2010, two of the Directors of Big Society Network set up a company, Your Square Mile Limited, which was intended to be the administrative, sponsorship and marketing arm of the mutual organisation which would be created by the *Your Square Mile* project.

Links between recipient organisations

1.7 While the organisations described in paragraphs 1.5 to 1.6 are separate legal entities, they are connected in a number of ways:

- The Big Society Network is a trading subsidiary of the Society Network Foundation.
- The founding Chairman and another founding Director of the Big Society Network created Your Square Mile Limited to deliver the *Your Square Mile* project. The founding Chairman of the Big Society Network became the first Chairman of Your Square Mile Limited. He was also the Chairman of the Society Network Foundation.
- The 2010 application from Your Square Mile Limited to the Big Lottery Fund stated that Your Square Mile Limited was being 'incubated' by the Big Society Network and that Your Square Mile Limited would be a beneficiary of the Society Network Foundation.

Part Two

Big Lottery Fund grants for the *Your Square Mile* project and the *Britain's Personal Best* project

2.1 In this part of the report we set out our findings on the Big Lottery Fund's grants to:

- the Big Society Network for the *Your Square Mile* project; and
- the Society Network Foundation for the *Britain's Personal Best* project.

Big Lottery Fund grant for the *Your Square Mile* project

2.2 In November 2010, the Big Lottery Fund solicited an application from the Big Society Network for the *Your Square Mile* project. The project's purpose was to encourage and enable citizens and community groups to work with neighbours, local civil society organisations and others. The key elements of the project were:

- the development of improved online access to information about local groups, volunteering opportunities and support services via mobile phones, some bank ATM machines and public access screens (known as Community Infopoints) which might be installed in Post Offices, libraries, and in BT telephone boxes;
- the creation of a website to support the project's aims, publicise volunteering opportunities and stimulate the setting up of new groups;
- pilots in 16 deprived areas of the UK which were intended to trial a simplified version of the online access, and which ran alongside the main website in order to inform its development; and
- the creation of a mutual organisation to provide ongoing funding to the project.

2.3 The National Lottery Act 1998 gives the Big Lottery Fund the power to solicit applications. The Big Lottery Fund followed its own procedures to solicit the *Your Square Mile* application. While the Big Society Network had operated for eight months at the time the bid was solicited, the Big Lottery Fund's rules for soliciting bids do not consider an organisation's age.

2.4 The Big Lottery Fund followed its standard procedures in assessing the bid. It assessed the project as 'good' against likely Outcomes (three of six assessment categories) but 'weak' against Delivery (the remaining three categories). Overall, it concluded that the project was high risk but should be funded. To mitigate the risks, the Big Lottery Fund scheduled the dates on which it would pay the grant instalments to the Big Society Network. It also set out the progress the Big Lottery Fund expected to see before it paid each instalment. The grant approval assessment identified the need for the Big Lottery Fund to monitor progress closely.

2.5 In February 2011, the Big Lottery Fund approved a grant of £830,000 for the *Your Square Mile* project.

Limited challenge to membership targets

2.6 The *Your Square Mile* project was intended to become self-funding after its first year through the creation of a mutual organisation. The plan was to sell memberships of the mutual to individuals and groups to generate income to fund the project. Additional income was due to come from corporate sponsors and charitable foundations. The project had ambitious aims to secure one million mutual members by the end of its first year of operation, and three million by the end of the third year.

2.7 Attracting new members to the mutual was critical to the project's long-term success but the Big Lottery Fund did not:

- test the realism of the recruitment targets by applying sensitivity analysis to key assumptions underpinning membership targets;
- challenge the Big Society Network to show how it would manage the lead-time between setting up, marketing and attracting the necessary number of members to its mutual;
- consider the potential impact on the project's financial viability and its ability to deliver its other outputs and outcomes if the applicant failed to recruit the necessary number of members; and
- evaluate the interdependencies between different funding streams and whether the project would still be financially viable if the number of new members or the level of corporate sponsorship were lower than forecast.

Grant transferred without reassessing skills to deliver

2.8 In June 2011, at the request of the *Your Square Mile* team, the Big Lottery Fund transferred the grant from the Big Society Network to *Your Square Mile Limited*. Although the Big Lottery Fund's procedures permit such a change, the Big Lottery Fund did not assess whether the new team had the necessary specialist IT skills to deliver the project.

Project progress

2.9 Your Square Mile Limited succeeded in developing its planned website, but it was unable to measure the success of its pilot projects as it had insufficient funds to commission the surveys needed to evaluate their long-term impact. Since the pilots have come to an end, Your Square Mile Limited has attracted corporate support for programmes in three further geographical areas.

2.10 The software for the public access screens has been developed and trialled in the London Borough of Tower Hamlets. The trials have now ended but the technology has not been rolled out because discussions are still ongoing with local authorities, BT, major banks and retailers.

2.11 In October 2011, the Big Lottery Fund judged that successful completion of the project was unlikely. By February 2012, at the end of its first year, the project had attracted just 64 members rather than the one million it had planned. By December 2012, 22 months after the launch of the mutual, the project had attracted 140 members.

Front-loaded funding

2.12 Since the *Your Square Mile* project was intended to become self-sustaining in its second and third years (through mutual membership fees and other sources of non-grant funding), the Big Lottery Fund provided grant funding only for the first 11 months of the *Your Square Mile* project. This approach, while permitted by the Big Lottery Fund's procedures, was not typical and created risks to achieving value for money from the grant, as the project would only be financially viable in its second and third years if it could obtain funding from other bodies, which in the event was not forthcoming.

Early payments

2.13 The Big Lottery Fund initially set out the progress it expected to see the project make before it would release payments. In practice the Big Lottery Fund paid over the later grant instalments ahead of time. The overall effect was that the whole £830,000 grant was paid three months earlier than originally planned. **Figure 2** summarises the timing and amount of grant payments.

2.14 The Big Lottery Fund told us it made payments ahead of time because it judged that the project would be more likely to achieve its outcomes if it received grant funding upfront, with additional funding coming from other sources. The Big Lottery Fund also told us that, in its opinion, withholding the final payment of £40,000 would have placed the project's likely success at further risk, jeopardising the delivery of the digital platform.

2.15 The initial decision to pay the entire grant for the three-year project in the first year, and then the later decision to pay the full grant three months early, left the Big Lottery Fund with very little scope to influence the project when it became clear that the project was struggling to deliver its objectives.

Figure 2

Payments from the Big Lottery Fund to Your Square Mile Limited for the *Your Square Mile* project

Original due date	Revised due date	Payment value (£)	Recipient
After set-up meeting had taken place	Unchanged	250,000 (paid March 2011)	Big Society Network
23 June 2011	By 13 June 2011	250,000	Big Society Network
Not before 27 July 2011	23 July 2011	250,000	Your Square Mile Ltd
Not before 26 October 2011	23 August 2011	40,000	Your Square Mile Ltd
Not before 21 December 2011	23 September 2011	40,000	Your Square Mile Ltd
		830,000	

Source: National Audit Office summary of Big Lottery Fund data

Keeping a VAT refund contrary to guidelines

2.16 As a newly established company, Your Square Mile Limited was eligible to apply to HM Revenue & Customs for a refund of the VAT it had paid on its set-up costs. The Big Lottery Fund's standard grant conditions require grant recipients to calculate the proportion of the VAT refund arising from the Big Lottery Fund's grant funding, and to pay back that share of the refund to the Big Lottery Fund.

2.17 In February 2012, the Big Lottery Fund agreed that Your Square Mile Limited could retain the Big Lottery Fund's share of the VAT refund (£76,457) to help it meet salary and other expenses. The Big Lottery Fund's decision to allow Your Square Mile Limited to retain the refund was contrary to the Big Lottery Fund's standard practice and was made despite clear evidence that the project was not achieving its aims. The Big Lottery Fund told us it allowed the project to keep the VAT refund because Your Square Mile Limited had not attracted the expected level of funding from other sources. The Big Lottery Fund considered this might give the project time to identify an organisation to which the digital platform might be transferred.

Transferring the project to another organisation

2.18 Although the Your Square Mile website is still functioning, the Big Lottery Fund and Your Square Mile Limited have been discussing, since March 2012, the possibility of transferring the project to another organisation. The Big Lottery Fund sees transfer as a way to protect the digital platform if Your Square Mile Limited cannot secure funding to pay the web hosting fees and staff costs. These discussions are ongoing.

2.19 The Big Lottery Fund has carried out a lessons learnt exercise on the *Your Square Mile* project and has disseminated these lessons internally. These include recognising that it is difficult to influence the longer term outcomes of a project if the grant relates only to an early phase or specific task.

Funding from the Big Lottery Fund to the Society Network Foundation for the *Britain's Personal Best* project

2.20 In February 2013, the Society Network Foundation submitted a funding bid to the Big Lottery Fund for its *Britain's Personal Best* project. The project aimed to 'build on the concept of personal best from the Olympics and Paralympics by encouraging everyone to challenge themselves to accomplish a personal best in some aspect of their lives'. The Society Network Foundation proposed to achieve this by providing over 5,000 charities, civil society groups and other organisations with the opportunity to take part in projects to help members of the public complete their own and group 'Personal Best' challenges.

2.21 The Big Lottery Fund assessed the Society Network Foundation's application against its standard application criteria, and carried out additional checks on the body's finances and governance. It also satisfied itself that the Society Network Foundation would not be liable for the debts of the Big Society Network, before concluding that the application should be funded to the full value of the bid.

2.22 In April 2013, the Big Lottery Fund awarded a grant of £997,960 to the Society Network Foundation for the *Britain's Personal Best* project.

Limited consideration of performance on other projects

2.23 The grant application made reference to previous projects run by the Society Network Foundation which had been funded by the Cabinet Office, but the Big Lottery Fund did not consult the Cabinet Office as part of its assessment of the application. The Big Lottery Fund told us it is not its standard practice to seek comments about an applicant from other organisations that have previously funded the applicant. The Cabinet Office had decided to withdraw funding from the *Get In* project run by the Society Network Foundation in December 2012 because the project had not achieved its objectives. If the Big Lottery Fund had consulted the Cabinet Office in February 2013, it could have gained additional evidence to feed into its assessment of the Society Network Foundation's application.

2.24 Furthermore, the Big Lottery Fund did not take into account the fact that senior staff at the Big Society Network who had scoped the *Your Square Mile* project (a project which was struggling to achieve its objectives), had also scoped the *Britain's Personal Best* project, and the projects shared similar delivery risks, including tight timescales, ambitious targets and project timetables, and working through partners.

Terminating the grant

2.25 After receiving a progress update from the Society Network Foundation in October 2013, the Big Lottery Fund suspended payments to the Society Network Foundation and sought further information about progress against the project's objectives. On receipt of further information in December 2013, the Big Lottery Fund began a formal process that would result in the withdrawal of the remaining grant because the project was not making sufficient progress against agreed targets.

2.26 The Big Lottery Fund made an additional payment to the Society Network Foundation in January 2014, however, to cover third party costs incurred between November 2013 to January 2014. The Big Lottery Fund notified the Social Network Fund formally in March 2014 of its decision to withdraw its funding, and in April 2014 the Big Lottery Fund terminated its grant to the Society Network Foundation for the *Britain's Personal Best* project.

2.27 **Figure 3** summarises the Big Lottery Fund's payments to the Society Network Foundation for the *Britain's Personal Best* project.

Figure 3

Payments from the Big Lottery Fund to the Society Network Foundation for the *Britain's Personal Best* project

Payment date	Payment value (£)
June 2013	124,414
July 2013	264,005
August 2013	60,685
September 2013	138,836
January 2014	175,602
Total	763,542

Note

1 The Big Lottery Fund is in discussion with the Social Network Foundation regarding costs of £2,500, which, if paid, would bring the total paid to £766,042.

Source: National Audit Office summary of the Big Lottery Fund's data

Part Three

Cabinet Office grant for the *Get In* project

3.1 In this part of the report we cover the Cabinet Office's award and subsequent oversight of a grant to the Society Network Foundation for the *Get In* project.

3.2 On 3 April 2012, the Social Investment Business, on behalf of the Cabinet Office, awarded the Society Network Foundation a grant of £299,800 for its *Get In* project. The project aimed to encourage volunteers for programmes to reduce childhood obesity.

Amending funding criteria

3.3 The Social Investment Business proposed rejecting the Society Network Foundation's initial bid, made on 2 February 2012, for funding for the *Get In* project because the Society Network Foundation did not meet two eligibility requirements, namely that it was less than two years old and had not submitted accounts with its bid. Prior to April 2012 the Society Network Foundation was dormant.

3.4 The closing date for bids was 3 February 2012. After this date, the Cabinet Office expanded the eligibility requirements so that any organisation without two years of audited accounts but whose senior leaders had two years' relevant operational experience could be considered. The Cabinet Office told us it changed the eligibility requirements 'to ensure a good range of projects was presented...' and because 'a number of those [projects] initially sifted as rejects appeared to be of interest and possibly in line with the programme criteria'. It also told us that the Social Action Fund supported initiatives that were new and often experimental approaches to delivering better public services and that it is a challenge to judge potential projects.

3.5 On the basis of these amended eligibility requirements, the Cabinet Office asked the Social Investment Business to reconsider four bids that the latter had originally proposed be rejected, and this included the bid from the Society Network Foundation.

3.6 On 28 February 2012, the programme's Advisory Panel rejected the Society Network Foundation's bid because it did not meet a number of requirements for the grant (specifically it lacked detail about matched funding; whether the proposed project was a pilot; and whether the funding was for the direct delivery of the project or was in support of a third party).

Failing to identify a lead organisation for joint bid

3.7 The Cabinet Office told us that it considered that the Society Network Foundation's bid had some merit. On 1 March 2012 it asked the Society Network Foundation to submit a joint application with the British Sports Trust, which was responsible for a similar programme addressing childhood obesity. The Cabinet Office guidance does not preclude the Cabinet Office from soliciting bids. The new joint bid was submitted on 20 March 2012, after the original programme deadline, and the Cabinet Office asked the Social Investment Business to consider it.

3.8 The Cabinet Office and Social Investment Business's joint guidance on applications to the Social Action Fund allows for joint bids provided there is a clear lead organisation accountable for the grant. The Cabinet Office's request to the two bidders made it clear that should the joint bid be successful the grant agreement would be with the British Sports Trust (which would be the accountable body for the grant), and part of the grant would be ring-fenced for the Society Network Foundation.

3.9 The Social Investment Business considered the joint bid, which identified the British Sports Trust as the lead partner supported by the Society Network Foundation, and outlined the organisations' respective responsibilities and their shared objectives. The Cabinet Office approved the joint bid on 26 March 2012.

3.10 Although the joint bid was approved, the Cabinet Office did not establish a lead organisation for the administration of the grant, despite this being a requirement of grant rules. Instead, in response to a request from the two bidders, the Cabinet Office allocated on 3 April 2012 separate grants of £299,800 to the Society Network Foundation and £900,000 to the British Sports Trust. The two grant agreements shared some, but not all, project objectives and the two bodies reported separately on their progress. Such an approach is not in line with the Cabinet Office's own guidance. By treating the two bids as joint for the purposes of bid approval but as separate bids once the grants were allocated, the Cabinet Office gave funding to the Society Network Foundation even though the organisation did not meet the Cabinet Office's stated criteria for funding.

Payment made without reference to latest financial information

3.11 Based on monitoring reports it received in June 2012, the Cabinet Office concluded, by August 2012, that the *Get In* project run by the Society Network Foundation was not making sufficient progress. The Cabinet Office worked with the Society Network Foundation to understand the reasons for underperformance and asked it to redefine the project's objectives. The Cabinet Office told us that it is usual for a funder to work with an organisation that receives funds to support its progress.

3.12 The Cabinet Office made a second payment to the project in October 2012 of £98,700. This funding was originally planned to be paid in July 2012 if the project had made satisfactory progress and could demonstrate ‘satisfactory evidence of spend’. The Cabinet Office had concluded that the project’s progress had been unsatisfactory and that its revised objectives lacked substance. However, the Cabinet Office’s legal advice indicated that it needed to pay the Society Network Foundation’s costs for the period when the Society Network Foundation was working with the Cabinet Office to try and improve the project’s performance.

3.13 At the time the second payment was made, management accounts for the project up to July 2012 (the latest financial information available at that time) showed a surplus of £60,800. The Cabinet Office did not take this into account when making the second payment to the project, nor did it request details of the actual expenditure incurred. Instead it paid over the amount that it would have disbursed had the project met its objectives.

3.14 **Figure 4** summarises the Cabinet Office’s payments to the Society Network Foundation for the *Get In* project.

Withdrawal of funding

3.15 In December 2012, the Cabinet Office decided to withdraw its funding from the *Get In* project because of the project’s poor performance and because the Cabinet Office deemed the project’s revised objectives ‘unacceptable’. In January 2013, the Social Investment Business, on behalf of the Cabinet Office, formally withdrew the remaining grant of £99,900.

Figure 4

Cabinet Office payments to the Society Network Foundation for the *Get In* project

Planned payment date	Actual payment date	Payment value (£)
April 2012	April 2012	101,200
July 2012	October 2012	98,700
	Total	199,900

Source: National Audit Office summary of Cabinet Office data

Recouping funding

3.16 The Cabinet Office told us that it can, on receipt of the organisation's annual financial statements, recoup grant that is not 'appropriately and fully accounted for', which includes any unspent grant. To date, the Cabinet Office has not yet recouped any funds from the Society Network Foundation for the *Get In* project.

Ongoing investigation

3.17 The Social Investment Business reviewed the Society Network Foundation's accounts for the year to 31 March 2013 and has identified some areas for further investigation. The Charity Commission is currently making inquiries to determine whether the Society Network Foundation's transfer of restricted funds to unrestricted funds was in accordance with the conditions of the Get In grant, and whether this transfer was correctly reported in the charity's accounts. The Society Network Foundation told us it believed the freedom to transfer the remaining funds had been agreed with the Cabinet Office when the remaining grant was withdrawn. The Cabinet Office has highlighted that the Social Investment Business's letter of January 2013 to the Society Network Foundation, which reduced the project's funding, stated that the other terms and conditions of the grant remained unchanged. This included the conditions around treating the grant as restricted funds and using them only for the purposes set out in the grant agreement.

Appendix One

Our investigative approach

Scope

- 1 We conducted an investigation into three grants:
 - The Big Lottery Fund's grant of £830,000 in February 2011 to the Big Society Network for the *Your Square Mile* project.
 - The Big Lottery Fund's grant of £997,960 in April 2013 to the Society Network Foundation for the *Britain's Personal Best* project.
 - The Cabinet Office's grant of £299,800 in April 2012 from its Social Action Fund to the Society Network Foundation for the *Get In* project.
- 2 Our investigation focused on whether the Big Lottery Fund and the Cabinet Office followed their own procedures in soliciting and assessing the initial bid applications, monitoring project progress and making payments to the projects. We have not sought to assess the value for money of the grant awards, nor have we drawn conclusions on other grants made by the Big Lottery Fund and the Cabinet Office.

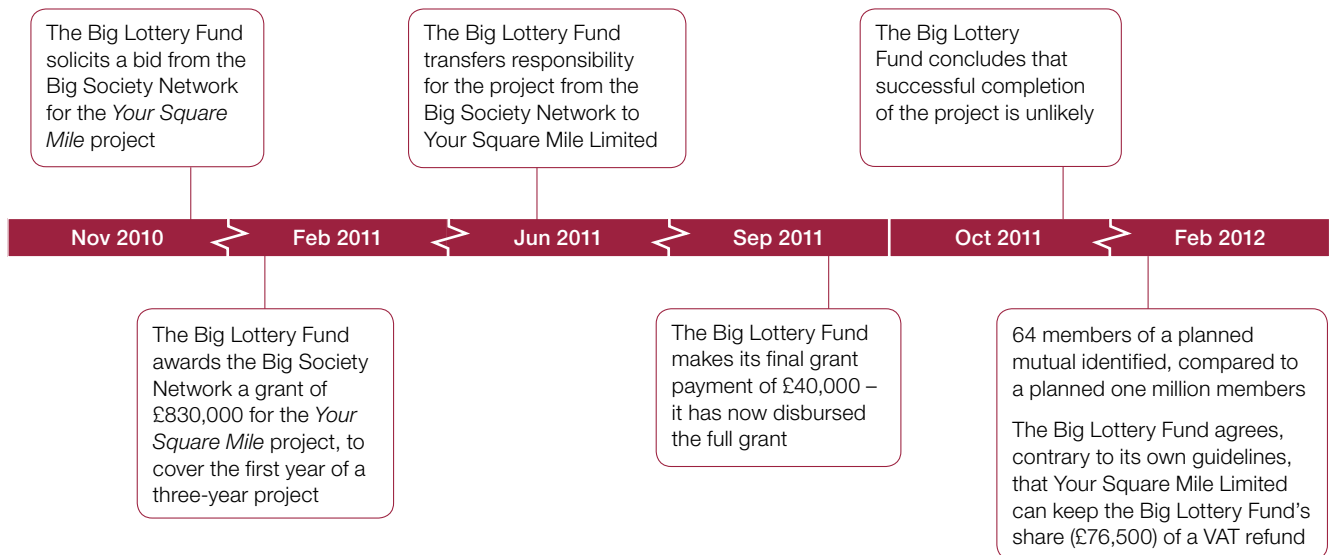
Methods

- 3 To examine the issue set out above we interviewed officials from the Big Lottery Fund and the Cabinet Office and reviewed supporting documents to establish:
 - the general grant-making procedures for the programmes under which the grants were made;
 - the solicitation, subsequent consideration and approval of grant applications;
 - the approach to monitoring each project's progress; and
 - the payments made to projects.

Appendix Two

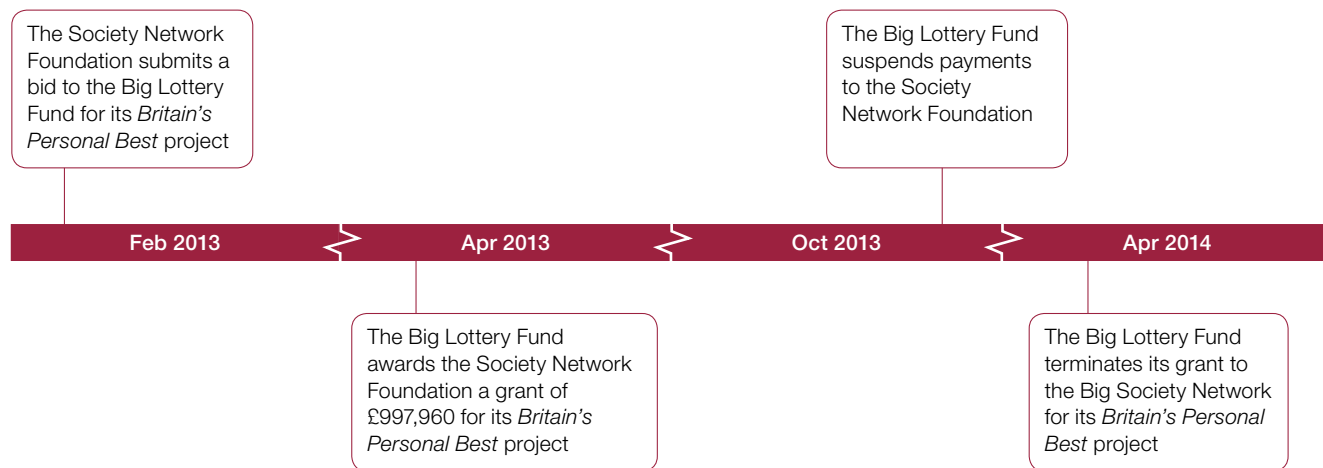
Timelines for the projects we investigated

Figure 5
Big Lottery Fund grant for the *Your Square Mile* project



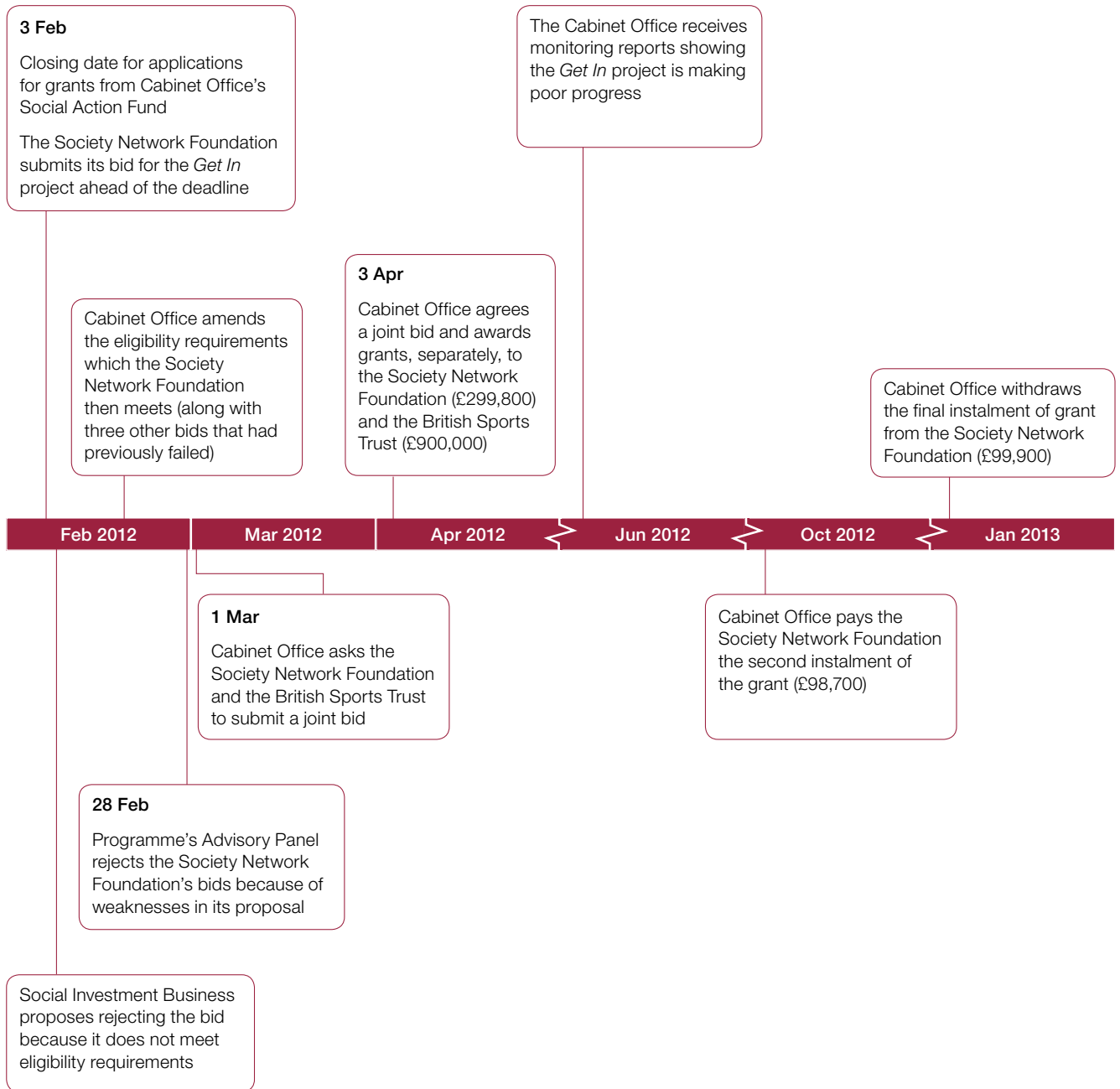
Source: National Audit Office summary of the Big Lottery Fund's documentation

Figure 6
Big Lottery Fund grant for the *Britain's Personal Best* project



Source: National Audit Office summary of the Big Lottery Fund's documentation

Figure 7
Cabinet Office grant for the *Get In* project



Source: National Audit Office summary of Cabinet Office's documentation

This report has been printed on Evolution Digital Satin and contains material sourced from responsibly managed and sustainable forests certified in accordance with the FSC (Forest Stewardship Council).

The wood pulp is totally recyclable and acid-free. Our printers also have full ISO 14001 environmental accreditation, which ensures that they have effective procedures in place to manage waste and practices that may affect the environment.



National Audit Office

Design and Production by NAO Communications
DP Ref: 10488-001

£10.00

SBN 978-1-904219-33-0

