



National Audit Office

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## **Report**

by the Comptroller  
and Auditor General

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## **Cabinet Office**

# Investigation into the matching of funds from the Grassroots Grants Programme with donations from The W O Street Charitable Foundation

# Summary

**1** In October 2013, David Nuttall MP wrote to the chair of the Committee of Public Accounts to express concern about the matching of £1.3 million in donations from a charity, The W O Street Charitable Foundation (the Foundation), with public funds from the Cabinet Office's Grassroots Grants Programme (the Programme).

**2** The Programme ran from September 2008 to March 2011. It aimed to improve access to funding for local community groups. The Cabinet Office appointed the Community Development Foundation (CDF), a non-departmental public body, to run the Programme on its behalf.<sup>1</sup> CDF in turn appointed 'local funders' to administer the Programme locally. The Programme had two elements: an £80 million Small Grants Scheme, and a £50 million Endowment Match Challenge Fund (the Challenge Fund). The Challenge Fund aimed to use the incentive of match funding to make more funds available for local good causes. Our investigation relates only to the Challenge Fund.

**3** Under the Challenge Fund, local funders' role was to attract donations from individuals and private sector organisations, match them with public funds available under the Programme, and combine these to create new endowment funds for charitable purposes. The interest earned on these endowment funds was then used to make grants to local community groups.

## Scope

**4** We investigated £1.3 million of donations from the Foundation that were matched and managed by three local funders: the Community Foundation for Greater Manchester<sup>2</sup> (CFGM), the Community Foundation for Lancashire (CFL) and the Community Foundation for Merseyside (CFM).

**5** Our investigation sought to establish:

- the value of public funds matched with donations from the Foundation;
- whether the donations were eligible for match funding; and
- how the local funders have since managed the newly created endowment funds.

<sup>1</sup> Up to 31 March 2011, CDF was a non-departmental public body. It became an independent charity in April 2011. While the charity CDF continued to work with the Cabinet Office in relation to the Programme (for example, paying grant claims in June 2011 and publishing an evaluation report), it has advised us that any contractual liabilities of the non-departmental public body were not transferred when CDF became a charity.

<sup>2</sup> The Community Foundation for Greater Manchester is now known as Forever Manchester.

**6** We did not review the Small Grants Scheme element of the Programme nor did we review any subsequent Cabinet Office schemes with similar aims. While this is not a report on the overall operation of the Challenge Fund, we report on some aspects of the Programme design and oversight by the Cabinet Office and CDF that emerged during our investigation. References to CDF refer to the non-departmental public body which existed until 31 March 2011 (rather than the independent charity of the same name) unless otherwise stated.

**7** Part One sets out the background to the Programme, and the Challenge Fund in particular. Part Two sets out our findings on the matching of donations from the Foundation with public money from the Challenge Fund. Part Three sets out our findings on the Cabinet Office and CDF's oversight of the Challenge Fund. Our methods are set out at Appendix One.

## **Key findings**

### Findings of our investigation

**8** **Based on our examination of the available evidence, and discussions with the parties involved, we cannot see a justification for the decision to classify the Foundation as 'ineffective' in a way that complies with the guidance.** When local funders applied for match funding they described the Foundation's donations as eligible on the grounds that the Foundation was 'ineffective'. Local funders may have mistakenly believed that if they could potentially use the Foundation's resources in a more effective way, this equated to the Foundation being 'ineffective', a view CDF did not challenge at the time. However, having considered all the available evidence, we do not believe that the Foundation met the definition of an ineffective trust as set out in the Challenge Fund guidance.

**9** **We estimate the Foundation's donations were matched with around £753,000 of public funds in total across the three local funders.** However, we have not been able to determine the exact amount because of poor record keeping by the Community Foundation for Greater Manchester.

**10** **Our investigation has been hampered by poor record keeping by the Cabinet Office, CDF and the local funders.** These bodies were unable to provide us with a clear audit trail for this case either because they had not documented the rationale for their decisions or because they had not managed their records well enough.

**11 The Cabinet Office reviewed the eligibility of the Foundation's donations in 2012 and 2015.** Its 2012 review concluded that the donations were eligible for matching. However, the review went beyond the matters the investigator was asked to review, and the strength of the evidence presented in the report did not support the wide reaching conclusion it drew. The Cabinet Office has accepted that, at the time, CDF did not appropriately scrutinise local funders' claims for match funding in relation to the Foundation's donations.

Wider observations on the design and operation of the Challenge Fund

**12 In reviewing the Foundation's donations, we identified flaws in the design of the Challenge Fund and gaps in the Cabinet Office and CDF's oversight.** Although we did not set out to assess the Challenge Fund's design, we identified the following wider issues in the course of our work:

- a** The guidance produced by the Cabinet Office and CDF for local funders was unclear in places. It did not clearly define key terms on which the eligibility of donations depended. This created a risk that different local funders would treat donations inconsistently. In a worst case scenario it means public funds may have been matched with donations that did not meet the objectives of the Challenge Fund.
- b** The design of the Challenge Fund included incentives (such as annual targets) to encourage local funders to work to secure donations. However, the Cabinet Office and CDF did not establish adequate safeguards to manage the risk that any local funder might misrepresent donations as eligible due to pressure to secure donations.
- c** The Cabinet Office and CDF's guidance to local funders on how to manage the endowment funds created by the scheme was limited. In November 2011, CDF published an evaluation of the Programme, which included a high-level review of local funders' performance. Since this evaluation, the Cabinet Office has not monitored the use of the endowment funds and could not assure us that local funders were distributing grants in line with the Challenge Fund's intentions.
- d** CDF checked the arithmetical accuracy of local funders' claim forms but had no standard checks to verify that donations were eligible and in line with the Challenge Fund's intentions. The Cabinet Office and CDF's guidance explicitly noted that it relied on local funders to operate within the spirit of the Challenge Fund.
- e** The Cabinet Office's oversight of CDF was extremely limited: it did not require CDF to submit any detailed information about how the Challenge Fund money was being used, nor did it monitor the use of public funds once they had been paid.

**13 Since 2011, the Cabinet Office has introduced measures to strengthen its oversight of subsequent schemes.** The successor scheme to the Programme, which is run in partnership with CDF (the independent charity), incorporates improvements to strengthen the Cabinet Office's oversight. In response to our findings, the Cabinet Office has told us it intends to review and improve its grant-making and record keeping. It is currently developing a framework agreement for its delivery partners who distribute grants, which it intends to use to improve record keeping and further increase programme oversight. It has also offered to work with the local funders involved to ensure that the endowment funds are managed appropriately.