



National Audit Office

Report

by the Comptroller
and Auditor General

Department for Education and the Cabinet Office

Investigation: the government's funding of Kids Company

What this investigation is about

1 The charity Keeping Kids Company (commonly known as 'Kids Company') was founded in 1996. It provided support to young people, mainly through its projects in London and Bristol. Most children and young people using its services referred themselves directly to Kids Company, which had a policy not to turn away any child seeking help. The charity was funded through private donations and, for much of its history, received grants from central government (**Figure 1**).

2 In June 2015 the Cabinet Office's Permanent Secretary received a ministerial direction to award a grant of £3 million to Kids Company, despite his advice that the grant was not likely to be value for money.¹ The charity had already received a grant payment of £4.3 million for 2015-16. In August 2015 Kids Company closed and filed for insolvency.

3 This investigation sets out the facts relating to the government's funding of Kids Company. It covers:

- the funding that Kids Company received from government;
- the government's reasons for funding Kids Company; and
- how the government monitored the grants made to Kids Company.

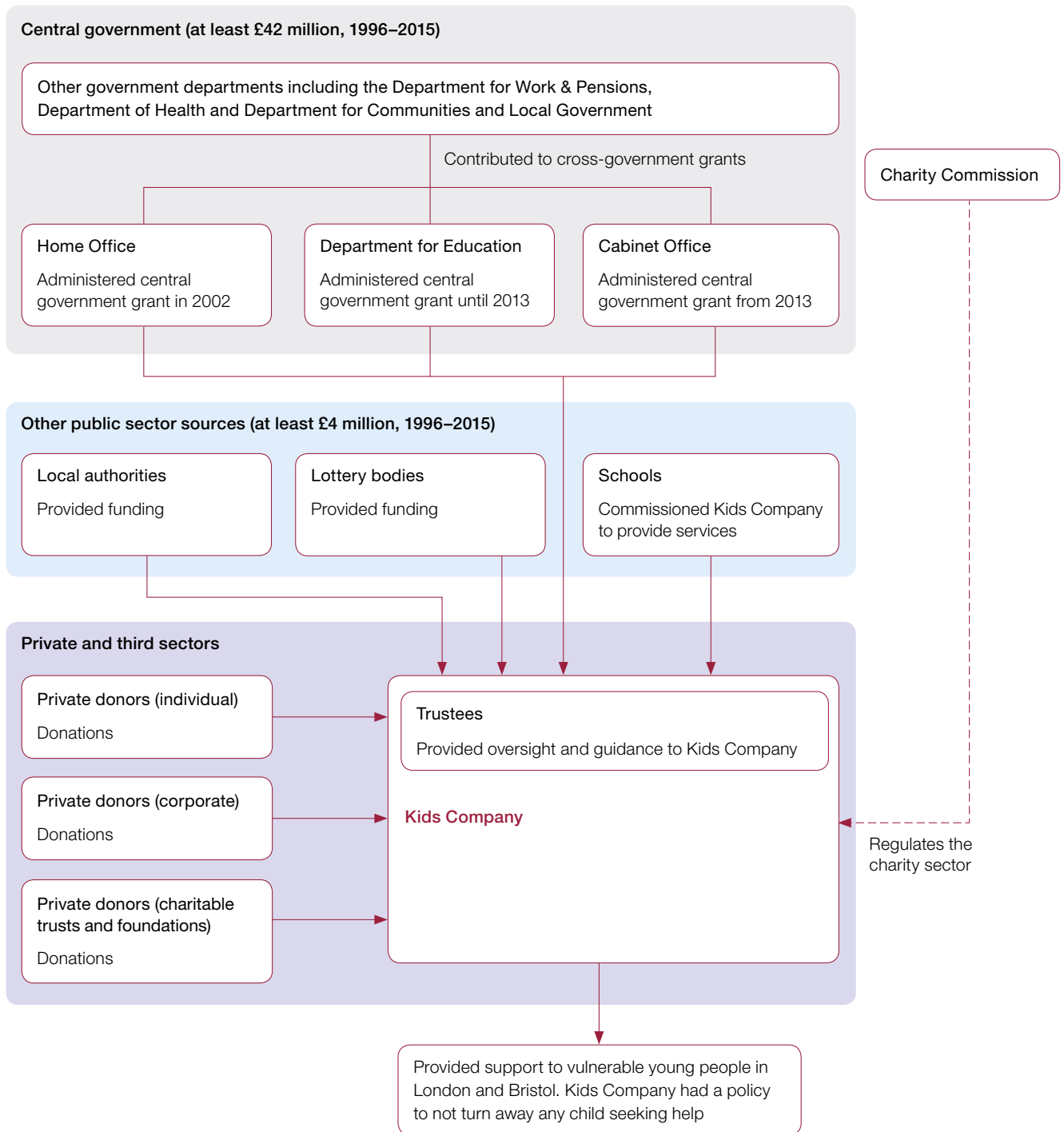
4 We are aware that a number of other organisations are currently investigating the circumstances surrounding the closure of Kids Company. We did not examine the work of these investigating authorities, such as the Charity Commission and the Insolvency Service, as it is still in progress.

5 Our work does not assess the value for money of Kids Company itself, and does not assess the effectiveness of trustees' oversight. Kids Company filed for insolvency in August 2015 and its records are now held by the Official Receiver. We have not had access to these records during our investigation so this report is based on the government's records of its funding of Kids Company.

6 The period covered by this report goes beyond the standards set by government departments for retaining some records. We have based our work on the available documentation, including Kids Company's annual reports and accounts. Appendix One sets out our methodology.

¹ According to *Managing Public Money*, a departmental Accounting Officer should request a letter of direction if a minister decides to continue with a course of action the Accounting Officer has advised against. For more details see Figure 9 on page 30.

Figure 1
Overview of Kids Company's funding sources



Source: National Audit Office

Summary

Key findings

The funding Kids Company received

1 The public sector has provided funding to Kids Company for at least 15 years. Kids Company has recorded government grant income in its accounts for every year since 2001, but government records suggest the charity started applying for funding as early as 1996. The earliest record we found of a grant award from the public sector was in September 2000, when the New Opportunities Fund (a predecessor of the Big Lottery Fund) awarded Kids Company £50,000 to fund afterschool childcare. The first central government department to provide funding to Kids Company was the Home Office, which coordinated a cross-government financial rescue package (£300,000) for the charity in 2002.

2 Kids Company has received at least £42 million in central government grants. At least 7 central government departments have contributed to grants for Kids Company between 2000 and 2015. Most of the funding (£28 million) came from the Department for Education (DfE) and its predecessors.² The Cabinet Office, the Department for Work & Pensions (DWP), the Department for Communities and Local Government (DCLG) and the Department of Health (DH) also made significant contributions between 2013 and 2015. The Home Office and HM Treasury were involved in funding decisions between 2002 and 2005.

3 We observed a consistent pattern of behaviour each time Kids Company approached the end of a grant term. We are not able to comment on causality, but in 2002, 2005, 2007, 2010, 2012 and 2014:

- Kids Company lobby the government for a new funding commitment. If officials resisted, the charity would write to ministers expressing fears of redundancies and the impact of service closures. Around the same time, Kids Company would express the same concerns in the media.
- Ministers ask officials to review options for funding Kids Company.
- Officials would award grants to Kids Company, whether through a wider grant programme or – from 2013-14 onward – as a direct grant award.

² Throughout this report we refer to government departments by their name as at October 2015. The Department for Education was known as the Department for Education and Skills between 2001 and 2007, and the Department for Children, Schools and Families between 2007 and 2010. The Department for Communities and Local Government was the Office of the Deputy Prime Minister until 2006. HM Revenue & Customs was created from a merger of the Inland Revenue and HM Customs and Excise in 2005.

4 Kids Company also received other support from the public sector, both financial assistance and support in kind:

- In 2011 the DWP and DfE seconded staff to the charity to help improve its fundraising and corporate capacity. The DfE met the costs of its secondment in full, whereas the DWP told us it recovered half the costs of its secondment from Kids Company. In total, these secondments had an estimated value to the charity of at least £53,000.
- Analysis of Kids Company's accounts show it reported around £2 million of funding from local government between 2002 and 2013.
- Kids Company also received £2 million in grants from a number of Lottery bodies, particularly the Big Lottery Fund and its predecessors.

In addition, Kids Company's accounts for 2003 report that HM Revenue & Customs (HMRC) wrote off tax debts of £590,000.³ A review of Kids Company in 2014 by PKF Littlejohn, 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 historic debts but the amount of debt is unknown.

5 In 2008 and 2011 Kids Company received larger grants than any other charity from DfE grant programmes. Kids Company successfully bid for funding under DfE grant programmes for voluntary and community sector organisations. The DfE awarded the charity a total of £21.7 million over 5 years (equivalent to more than £4 million annually). Kids Company's grants were the largest amounts that any charity received under either programme. In 2008 Kids Company received 20% of the available funding for the grant programme; the remainder was shared between 42 other charities. In 2011 Kids Company received more than twice the amount received by any other grant recipient.

The government's reasons for funding Kids Company

6 The government funded Kids Company so that the charity could deliver services to vulnerable young people. It awarded grants to Kids Company to support the delivery of services to vulnerable young people, replicate its model of service delivery nationally and ensure continuity of support to young people. Government records show that grant offer letters included a similar set of required outcomes for each grant between 2005 and 2014. In 2015-16 the Cabinet Office included additional requirements in relation to Kids Company's financial management.

³ See footnote 2.

7 The government was aware that Kids Company relied on government grants to manage its cash flow. In 2013, the last year for which accounts are available, Kids Company's annual income was £23 million. Central government grants accounted for 20% of that and local government income for 3% whereas private donations made up 77%. Despite this, Kids Company asked for early payment of grants in December 2013 and December 2014 to help it manage its cash flow. The government agreed to these requests. The Cabinet Office also agreed to pay the whole grant for 2015-16 (£4.3 million) in April 2015 rather than quarterly as in previous years to help Kids Company manage its cash flow.

8 In each funding round, the government planned to work with Kids Company to secure longer-term financial sustainability and reduce its dependence on central government grants. Central government funded Kids Company in part to keep it afloat financially. Kids Company was clear in repeating it would need to close services and make redundancies without continued grants from government. Kids Company consistently asserted it was providing statutory services and should be funded on a statutory basis. The government never accepted this assertion but did continue to fund Kids Company.

The government's monitoring of Kids Company

9 Until 2013, the government relied heavily on Kids Company's self-assessments to monitor its performance. The DfE oversaw the grant funding of Kids Company until summer 2013 but has limited records of monitoring activities before 2011. From 2008 to 2011 an agent managed the Youth Sector Development Fund programme for the DfE. Between 2011 and 2013 it requested quarterly progress reports from Kids Company, but these were not independently validated and did not focus on the outcomes specified in grant agreements. For example, the charity agreed key performance indicators with the DfE but did not refer to these in its quarterly monitoring reports.

10 The Cabinet Office took responsibility for youth policy from July 2013 and adopted a more systematic approach to overseeing Kids Company. The Cabinet Office commissioned an external review of Kids Company's financial management and governance controls, to inform decisions about funding. The review found that the governance system in place at the charity appeared to be appropriate for its size and complexity. However, it concluded the main risk to the organisation was cash flow and made a number of recommendations to improve trustees' oversight of cash management. The Cabinet Office undertook further work to understand the issues before awarding the 2015-16 grant. It included terms relating to the financial health of the charity in its grant agreement offer and worked with the charity to try and implement these.

11 In June 2015 Cabinet Office officials advised ministers that a further grant to Kids Company did not represent value for money. Officials reported that Kids Company had not yet met earlier grant conditions. They cited uncertain future cash flows and poor financial management as reasons for not funding the charity further. Ministers directed officials to pay Kids Company £3 million to support restructuring of the charity in order to secure its long-term sustainability.⁴

⁴ The Cabinet Office published this correspondence with ministers in July 2015. Available at: www.gov.uk/government/publications/kids-company-funding-ministerial-direction

12 The concerns raised by the Cabinet Office in 2015 were not new. Officials repeatedly expressed concerns about Kids Company, but the government continued to respond to the charity's requests for funding. As far back as 2002, government records show officials were concerned about the charity's cash flow and financial sustainability. Officials also noted at that time that other organisations appeared to offer better value for money. Briefings to ministers in 2002, 2005, 2007, 2010, 2012 and 2015 show that officials accepted Kids Company's assertions that it would become insolvent without government grant funding.

13 Ministerial directions in relation to Kids Company were not sought before June 2015.⁵ Our review of government documents shows that the government agreed that Kids Company was providing a valuable local service for some of the most disadvantaged and hard to reach young people particularly those with multiple problems, mental health issues and at risk of involvement in gun and gang crime. It also noted that other organisations could learn lessons from the services Kids Company offered and its approach to these problems. Up until June 2015, the government continued to fund Kids Company on the basis that it would be a major blow to the young people who benefited from its services if it were to close down.

Recent events

14 Kids Company filed for insolvency on 12 August 2015. The Cabinet Office paid £3 million to Kids Company on 30 July 2015, under the terms of the ministerial direction. On the same day, the Metropolitan Police announced that they were investigating allegations of physical and sexual abuse involving a children's charity. The Cabinet Office told us that it learned of the allegations from Kids Company late in the day on 30 July, after the grant had been paid. The police told us they first contacted the charity on the previous day, but did not discuss the detail of the allegations at that time. Following the announcement of the investigation, the trustees decided to close the charity as they were no longer confident that they would be able to secure future income. The Cabinet Office wrote to the charity on 3 August terminating its grant agreement and requesting repayment of £2.1 million.

15 To date, the details of around 1,900 cases have been passed by Kids Company to local authorities. Kids Company reported that it worked with up to 36,000 children, young people and their family members. When it closed, the details of around 1,900 cases were passed to local authorities in London (1,699 cases) and Bristol (210 cases). Local authorities are reviewing these cases to determine what support is needed. In addition, the Cabinet Office told us that individuals previously supported through Kids Company's schools programme will be supported by appropriate school staff. The Cabinet Office has provided funding of £200,000 to local authorities to support the transition of young people to other services.

5 See footnote 1.