



National Audit Office

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## **Report**

by the Comptroller  
and Auditor General

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**Department for Education and the Cabinet Office**

# Investigation: the government's funding of Kids Company

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National Audit Office

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Department for Education and the Cabinet Office

# Investigation: the government's funding of Kids Company

Report by the Comptroller and Auditor General

Ordered by the House of Commons  
to be printed on 28 October 2015

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

26 October 2015

Our investigation focuses on the closure of the charity Kids Company, which was funded by the government for at least 15 years. The investigation reviews the funding that Kids Company received from the government; the government's reasons for providing funding to Kids Company; and how the government monitored the grants it made.

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## **Investigations**

We conduct investigations to establish the underlying facts in circumstances where concerns have been raised with us, or in response to intelligence that we have gathered through our wider work.

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## 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.<sup>1</sup> 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.

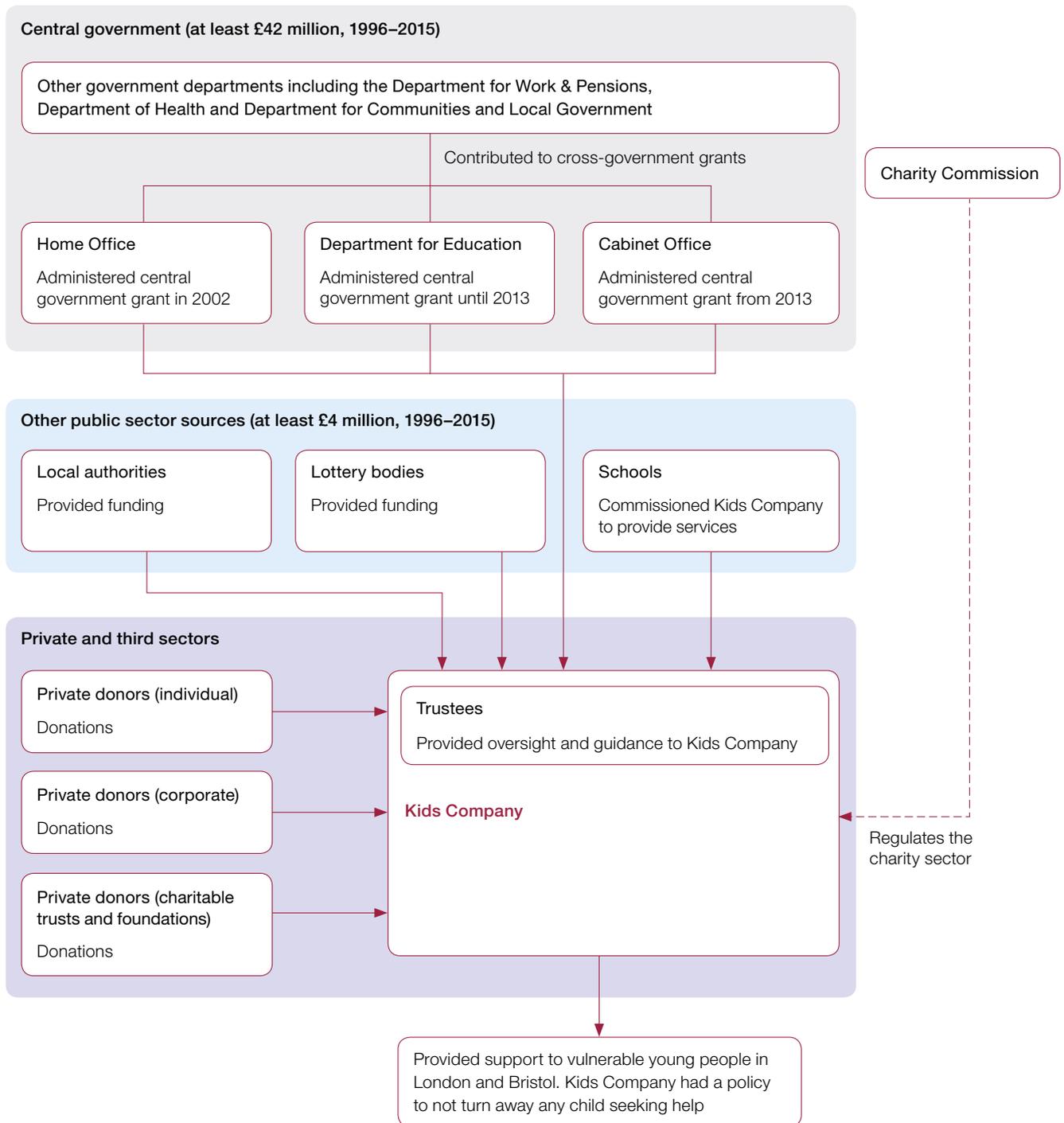
**4** We are aware that a number of other organisations are currently investigating the circumstances surrounding the closure of Kids Company. We did not examine the work of these investigating authorities, such as the Charity Commission and the Insolvency Service, as it is still in progress.

**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.

<sup>1</sup> 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



# 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.<sup>2</sup> 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.

<sup>2</sup> 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.<sup>3</sup> 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.

<sup>3</sup> 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.<sup>4</sup>

<sup>4</sup> The Cabinet Office published this correspondence with ministers in July 2015. Available at: [www.gov.uk/government/publications/kids-company-funding-ministerial-direction](http://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.**<sup>5</sup> 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.

<sup>5</sup> See footnote 1.

# Part One

## About Kids Company

**1.1** The charity, Keeping Kids Company (known as 'Kids Company') was founded by Camila Batmanghelidjh in 1996 and has been registered as a charity since 1998. It was established to:

- enhance the emotional health of young people through counselling, support and art therapy; and
- support educational institutions (such as schools) to address the emotional needs of young people.

**1.2** The charity supported vulnerable young people and their families in London (particularly Southwark, Lambeth and Camden) and, more recently, Bristol. It provided young people with a range of support on health, housing, emotional well-being, mental health, youth justice and education and employment.

**1.3** Most children and young people using its services referred themselves directly to Kids Company, which had a policy of not turning away any child seeking help. For this reason, it has been difficult to clearly define the charity's intended beneficiary group or the extent to which its beneficiaries were also receiving support from statutory services, but in general Kids Company's clients were children and young people up to the age of 26.<sup>6</sup> The charity reported that it was working with up to 36,000 people a year by 2012, including 9,700 young people at its street centres, 'therapeutic surgeries' and legal centres, 7,200 family members, and 19,000 through its schools programmes.<sup>7</sup>

**1.4** In communications with the government, Kids Company described its client group as those who had been 'lost' by statutory services:

"Large numbers of the most vulnerable and challenging young people are currently falling through the gaps in the statutory system. These young people have generally suffered abuse, been out of education for many years, have complex emotional and social difficulties, exhibit extremely challenging anti-social and offending behaviour. These young people are very difficult to reach and support effectively because they are often 'lost' by statutory agencies, they do not have a competent and responsible carer to seek help on their behalf, their behaviour cannot be managed by most institutions and they require coordinated multi-agency support at great cost to society and the state."

*(Kids Company, Invest to Save Budget Formal Bid, 2005)*

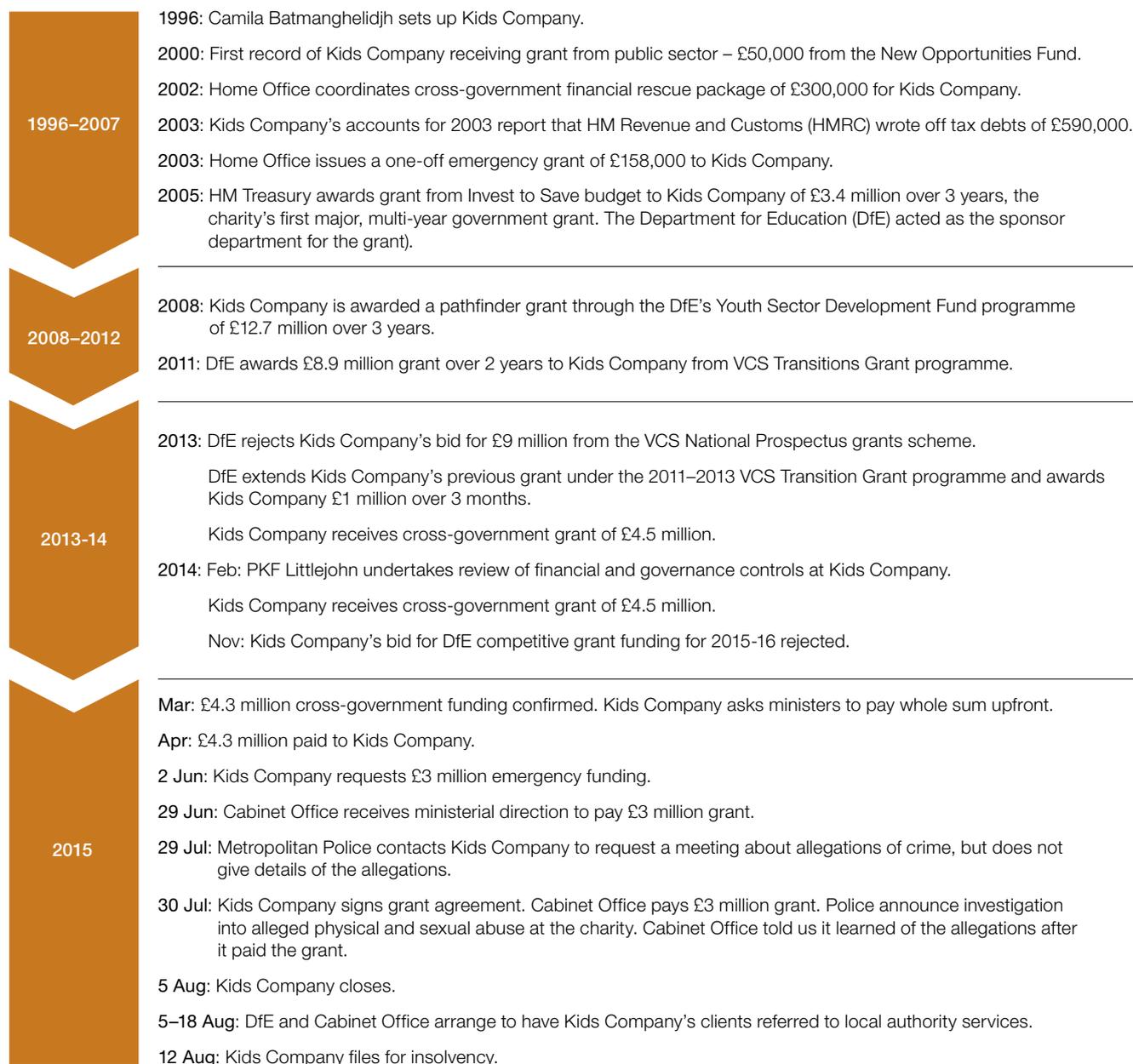
<sup>6</sup> Jovchelovitch S and Concha N, *Kids Company: A diagnosis of the organisation and its interventions, Final Report*, London School of Economics and Political Science, September 2013, p. 15.

<sup>7</sup> Centre for Social Justice, *Enough is Enough: A report on child protection and mental health services for children and young people*, June 2014, p. 25.

**1.5** In August 2015 the charity closed and filed for insolvency. The key events leading up to this are set out in **Figure 2**.

## Figure 2

### History of government's funding relationship with Kids Company



Source: National Audit Office

## Part Two

### The government's funding of Kids Company

#### Introduction

**2.1** The government uses grant funding to help pay for statutory services provided by local government bodies.<sup>8</sup> These services include ensuring the safety and the educational, social and emotional needs of children and young people. The funding and provision of these services is based on the duties and powers of local authorities set out in legislation.

**2.2** The government also uses grants to fund external organisations and activities that it wants to support, such as voluntary and community sector (VCS) organisations. Many VCS organisations work alongside the public sector, supporting similar groups of children and young people. For example, in March 2015 the Department for Education (DfE) awarded £25 million of grants to VCS organisations. These grants were intended to supplement existing government funding for sectors such as adoption, children in care, early education and childcare, family advice and support, safeguarding, and special educational needs and disabilities. The Cabinet Office and other public sector bodies, such as the Big Lottery Fund, also make grants to similar organisations that support young people and children locally and nationally.<sup>9</sup>

**2.3** The government generally awards grant funding to charities through a competitive process. However, under the terms of the Charities Act 2006, any government minister can award grants to charities to provide financial assistance without a competitive process.<sup>10</sup>

8 In our July 2014 report on government grant services, we defined a grant as a permanent transfer of funding for a specific purpose, which is used in accordance with a set of terms and conditions. This is consistent with the definition used by government for the *Whole of Government Accounts*.

9 Lottery bodies, such as the Big Lottery Fund and its predecessors, are responsible for distributing funds raised for good causes through the National Lottery.

10 Section 70 of the Charities Act 2006 gives ministers broad powers to provide financial assistance to any charitable, benevolent or philanthropic institution in respect of activities which directly or indirectly benefit England.

**2.4** Our investigation found that Kids Company received at least £46 million of public sector funding between 2000 and August 2015, when it closed. This took the form of:

- grants from the multi-year funding programmes of central government departments (£41.4 million);
- ad hoc grants from central government departments and lottery bodies (£2.6 million); and
- funding from local bodies, such as local government (£2 million) and schools.

In this part we set out our findings on the amount of public sector funding each of these provided to Kids Company.

### **Multi-year grants from central government**

**2.5** Most of Kids Company funding came through multi-year grants from central government departments. We found that central government awarded at least £41.4 million of grants to Kids Company, mostly between 2005 and 2015. Most funding was provided by DfE and its predecessors.<sup>11</sup> 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 to grants, mostly from 2013 onwards (**Figure 3** overleaf).

### **Ad hoc grants**

**2.6** Kids Company received most of its public sector funding through major grants from 2005 onwards, although it began to apply for funding soon after it was founded in 1996. We found the Community Fund (now part of the Big Lottery Fund) rejected a grant application from Kids Company in 1996. The earliest record we found of a grant award from the public sector was in September 2000, when Kids Company secured £50,000 from the New Opportunities Fund (another predecessor of the Big Lottery Fund) to support the provision of after-school childcare places.

<sup>11</sup> 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.

**Figure 3**

## Main central government funding to Kids Company, 2005 to 2015

Nature of funding	Sponsor department	Year	Departments' financial contribution (£000)					Total funding (£000)
			DfE	Cabinet Office	DWP	DCLG	DH	
Invest to Save	DfE <sup>1</sup>	2005-06	1,369	–	–	–	–	1,369
	DfE	2006-07	1,142	–	–	–	–	1,142
	DfE	2007-08	916	–	–	–	–	916
Youth Sector Development Grant	DfE	2008-09	4,701	–	–	–	–	4,701
	DfE	2009-10	4,240	–	–	–	–	4,240
	DfE	2010-11	3,782	–	–	–	–	3,782
Voluntary and Community Sector Transitions Grant	DfE	2011-12	4,485	–	–	–	–	4,485
	DfE	2012-13	4,485	–	–	–	–	4,485
Cross-government funding (no competitive programme) <sup>2</sup>	DfE/ Cabinet Office <sup>3</sup>	2013-14	1,000	250	2,250	1,400	1,000	5,900
	Cabinet Office	2014-15	1,250	500	–	475	875	3,100
	Cabinet Office	2015-16 (April)	1,000	500	1,000	1,000	765	4,265
Additional grant to support restructuring	Cabinet Office	2015-16 (July)	–	3,000	–	–	–	3,000
<b>Total funding</b>			<b>28,370</b>	<b>4,250</b>	<b>3,250</b>	<b>2,875</b>	<b>2,640</b>	<b>41,385<sup>4</sup></b>

} From which government paid a £4.5m grant each year to Kids Company

**Notes**

- 1 Grant award decisions for Invest to Save were made by HM Treasury but DfE acted as sponsor department for the grant.
- 2 DfE and then the Cabinet Office administered these grants on behalf of government. Other departments transferred funding to them as contributions to the grant.
- 3 Responsibility for youth policy, including the government's existing grant to Kids Company, transferred to Cabinet Office as part of a machinery of government change in 2013.
- 4 A further £458,000 was paid to Kids Company by the Home Office in 2002 and 2003, bringing total central government funding to £41.843 million.
- 5 DfE = Department for Education, DWP = Department for Work & Pensions, DCLG = Department for Communities and Local Government, DH = Department of Health.

Source: National Audit Office

**2.7** The Home Office was the first central government department to provide funding to Kids Company. Following a request from the then Home Secretary, Home Office officials worked with DfE to coordinate a financial rescue package for Kids Company in 2002 to prevent it becoming insolvent. The Home Office told us that it paid £300,000 to Kids Company in 2002 (which included £75,000 contribution from DfE). It issued a further 'one-off emergency grant' to the charity, with ministerial approval, of £158,000 in 2003.

**2.8** Kids Company continued to apply regularly for grants from central government bodies up until it closed, with mixed success. Although records are incomplete due to the passage of time, several government organisations told us they had made ad hoc grants with a total value of some £2.6 million (**Figure 4**).

**Figure 4**  
Ad hoc grants to Kids Company

Year	Organisation	£
2000	New Opportunities Fund <sup>1</sup>	50,000
2002-03	Department for Education	75,000
	Home Office	225,000 <sup>2</sup>
2003-04	Home Office	158,000
2004-05	Arts Council	30,000
2009-10	Big Lottery Fund	10,000
	Department for International Development	1,000
2012-13	Arts Council	10,000
	Big Lottery Fund	2,000,000
2013-14	Sport England	7,500
2014-15	Big Lottery Fund	7,000
<b>Total</b>		<b>2,573,500</b>

**Notes**

- 1 Now known as the Big Lottery Fund.
- 2 Records held by DfE show that the Home Office proposed a grant for Kids Company of £300,000 in 2002-03. DfE contributed £75,000 to this grant and the Home Office paid the remaining £225,000.

Source: National Audit Office

## Other support

**2.9** Grants were not the only form of central government support Kids Company received. The charity also received financial assistance and support in kind from the public sector, for example:

- In 2011 DWP and DfE seconded staff to the charity to help improve its fundraising and corporate capacity. DfE met the costs of its secondment in full, whereas 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.
- In 2010-11 DfE procured consultancy advice for Kids Company from KPMG to assist the charity to secure future government funding; in particular to help Kids Company demonstrate the impact of its interventions against funding agencies' objectives.
- In 2014-15 the Cabinet Office agreed with Methods Consulting Ltd that it would support Kids Company to develop an evaluation framework to measure the impact of Kids Company's work. This was a refinement to the existing contract between Methods Consulting and DfE, at no additional cost to the government.
- In 2015 Cabinet Office officials supported Kids Company to prepare a bid to open a free school, by sharing feedback from DfE in relation to a previous, unsuccessful bid. Kids Company ultimately decided not to resubmit an application.
- Local authorities provided free or reduced cost accommodation for Kids Company's activities.

In addition, Kids Company's accounts for 2003 report that HM Revenue & Customs (HMRC) wrote off tax debts of £590,000. 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 historical debts, but the amount of debt is unknown.

## Funding from local public sector bodies

**2.10** Our investigation focused on funding from central government; however, we also identified other public sector sources of funding to Kids Company reported in the charity's accounts:

- **Local government**

Our analysis of Kids Company's annual accounts suggests local government provided some £2 million of funding to the charity in the period between 1996 and 2013. We understand that authorities funded Kids Company to provide specific services, for example a £437,000 annual contract with Bristol City Council for alternative education provision for 45 students between 2012 and 2015.<sup>12</sup>

<sup>12</sup> Bristol City Council told us it terminated this contract in 2015 as Kids Company had failed to achieve registered provider status.

- **Schools**

We found examples in Kids Company's accounts of individual schools providing up to £25,000 a year to Kids Company. In its bids for central government funding, Kids Company reported that it provided pupils with, for example, psychological support, in more than 40 schools. There was no separate accounting for income from schools so we cannot quantify this from available records.

## Kids Company's finances

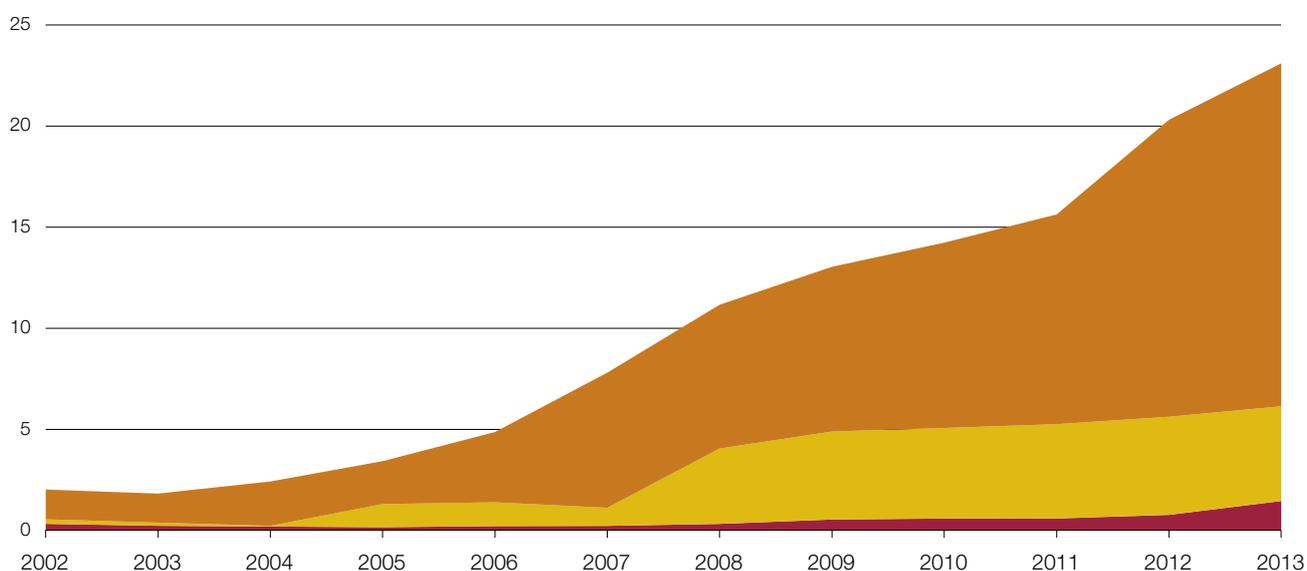
**2.11** Overall, public sector funding accounted for around 30% of the total income reported in Kids Company's accounts between 2002 and 2013. The remainder of its income came from private sector donations (**Figure 5**). Kids Company closed before it was due to file its 2014 accounts.

**Figure 5**

Kids Company income, 2002 to 2013

Public sector funding made up 30% of Kids Company's total income between 2002 and 2013

Total income (£m)



	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Income from all other sources (£m)	1.47	1.44	2.19	2.12	3.48	6.68	7.11	8.15	9.17	10.37	14.69	16.96
Central governmental income (£m)	0.23	0.16	0.04	1.15	1.18	0.90	3.73	4.35	4.48	4.67	4.85	4.69
Other governmental income (£m)	0.32	0.23	0.19	0.16	0.21	0.22	0.32	0.54	0.59	0.59	0.77	1.45

Source: National Audit Office analysis of Kids Company annual accounts

# Part Three

## Government's reasons for funding Kids Company

### Introduction

**3.1** As described in paragraphs 2.4 to 2.8, Kids Company has received grants from the public sector for at least 15 years. While government records are incomplete in some places because the grants were made so long ago, we identified the following reasons that central government awarded grants to Kids Company:

- to support its work with vulnerable young people, including funding to:
  - deliver its ongoing programme of interventions;
  - develop a replicable model that could be shared nationwide;
  - secure long-term funding for its services, reducing its dependence on central government funding; and
- to support it through periods of financial hardship.

**3.2** Most of Kids Company's central government funding was awarded as part of central government grant programmes. This Part looks at awards through those programmes. Part Four considers additional grants from central government. Both parts reflect a consistent pattern of behaviour that we observed in 2002, 2005, 2007, 2010, 2012 and 2015, each time Kids Company approached the end of a grant term:

- 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.

### **Invest to Save (2005 to 2008)**

**3.3** In March 2005 HM Treasury awarded grants from the Invest to Save budget. Kids Company was part of the seventh round of the programme, which saw 37 organisations (including Kids Company) awarded grants with a total value of £37 million. Kids Company received a grant of £3.4 million over 3 years, its first major, multi-year government grant.

**3.4** HM Treasury provided the funding and awarded the grants for this programme through a competitive process. Invest to Save aimed to provide support for projects that:

- increased joint working between different parts of government;
- identified innovative ways of delivering public services; and
- reduced the cost of delivering public services or improved the quality and effectiveness of services delivered to the public, or both.

**3.5** The Minister for Children requested that the Department for Education (DfE) acted as the sponsor department for the Kids Company grant. The charity set the following objectives for its use of the grant:

- secure statutory funding to improve and sustain The Arches drop-in centre for the long term;
- replicate the model of service delivery used at The Arches; and
- contribute to a national policy and institutional framework that enables organisations to support the most vulnerable and challenging young people.

**3.6** DfE was responsible for overseeing Kids Company's performance against these objectives. To monitor performance, DfE asked Kids Company to provide twice-yearly self-assessment reports during this period. As it is a historical programme, DfE holds limited records but we found two such reports. Kids Company reported its progress against the three objectives. The documents have been annotated, suggesting that DfE officials reviewed their content. Although DfE told us that it challenged Kids Company on any issues arising, it could not provide evidence to support this. Kids Company reported difficulties in obtaining contracts from local authorities due to changes in local government and a shortage of local authority funds.

**3.7** In 2005 our review of papers suggests that as a condition of being awarded a grant from the Invest to Save budget, DfE officials required Kids Company to develop an implementation plan. This included a requirement for Kids Company to recruit a project manager for the grant funding, and to develop a management information plan to enable recording of outcomes. However, although Kids Company did recruit a senior experienced public sector manager as the Senior Responsible Owner (SRO) for implementing the Invest to Save project, he left after 4 months in post. On leaving, he highlighted concerns to DfE and to Kids Company's trustees about Kids Company's senior management structure and governance and about some of the individuals receiving cash payments from the charity. DfE's files do not contain any evidence of its response to these concerns.

**3.8** In its bid for this funding, Kids Company set out its intention to develop strategic partnerships and secure statutory funding to ensure that The Arches centre was financially sustainable in the long term. Despite this, as the grant period came to an end Kids Company advised the government that it had been unable to achieve sustainability so without new funding would need to close services and issue redundancy notices. It requested a commitment from the government for statutory funding in the future, rather than having to compete for grants. In the summer of 2007 the media reported Kids Company's statements that it would close if government funding did not continue when its grant ended.

**3.9** In the autumn of 2007 ministers asked DfE officials to develop plans to prevent Kids Company from closing down when the grant finished in March 2008. DfE led cross-government discussions about future support for third-sector organisations working predominantly with self-referring young people with acute problems. This included discussing future funding for Kids Company. We do not have any evidence of how these discussions concluded but DfE identified the Youth Sector Development Fund as a potential source of funding.

### **Youth Sector Development Fund (2008 to 2011)**

**3.10** In March 2008 Kids Company was awarded a pathfinder grant through DfE's Youth Sector Development Fund programme. This was a £62 million grant programme that ran from 2008-09 to 2010-11. It aimed to raise the capacity of voluntary and community sector (VCS) organisations to deliver services for vulnerable or disadvantaged teenagers. From 2008 to 2011 an agent managed the Youth Sector Development Fund programme for DfE.

**3.11** DfE awarded Kids Company a grant of £12.7 million over 3 years (equivalent to around £4.2 million per year). Kids Company was one of 5 pathfinders that were identified and funded ahead of others so that they could disseminate learning to future grant recipients. Specifically, DfE intended this funding to help Kids Company become a centre of excellence. The charity was to continue to deliver care to young people and develop and share informed educational packages for young people with other providers.

**3.12** Through the Youth Sector Development Fund DfE awarded grants to 43 organisations. Kid Company's grant value was 20% of the total funding available. This was the largest grant for any individual organisation in the programme. Even among the 5 pathfinders, Kids Company's grant was around three times the value of any other organisation's grant. DfE holds limited papers in relation to this programme so we have not been able to find evidence of why Kids Company received such a significant proportion of the funding.

**3.13** Towards the end of the grant period, in autumn 2010, Kids Company again asked the government for commitments for future funding on a statutory basis. In response, a DfE minister asked officials to consider offering Kids Company a single tender grant. This request was declined as officials concluded it would be difficult to justify favouring Kids Company above other voluntary organisations.

### **VCS Transition Grants programme (2011 to 2013)**

**3.14** In November 2010, DfE invited funding bids from organisations for the VCS Transition Grants programme. This was a 2-year grant programme worth around £60 million each year. It aimed to support VCS organisations working with children, young people and their families. The programme focused on sustainability beyond the grant period, aiming to help create a sector that was less dependent on grant funding and better equipped to secure private investment and contracts to deliver services.

**3.15** DfE awarded grants to 106 organisations, including Kids Company. Kids Company received a grant of £8.97 million over 2 years (equivalent to around £4.5 million per year). The grant was to improve outcomes for 750 disadvantaged young people by providing health, social care and educational support. As with the previous DfE grant, Kids Company received significantly more than any other charity, including those operating nationally (**Figure 6** overleaf).

**3.16** In July 2012 Kids Company wrote to the Prime Minister to ask for a further funding commitment of £10 million from the government for the charity when its VCS Transitions Grant ended in March 2013. Kids Company again stated that it would need to issue redundancies if it did not have a clear commitment for funding beyond the end of its current grant. The Prime Minister told Kids Company that he would ask senior officials to consider possible funding sources for the charity.

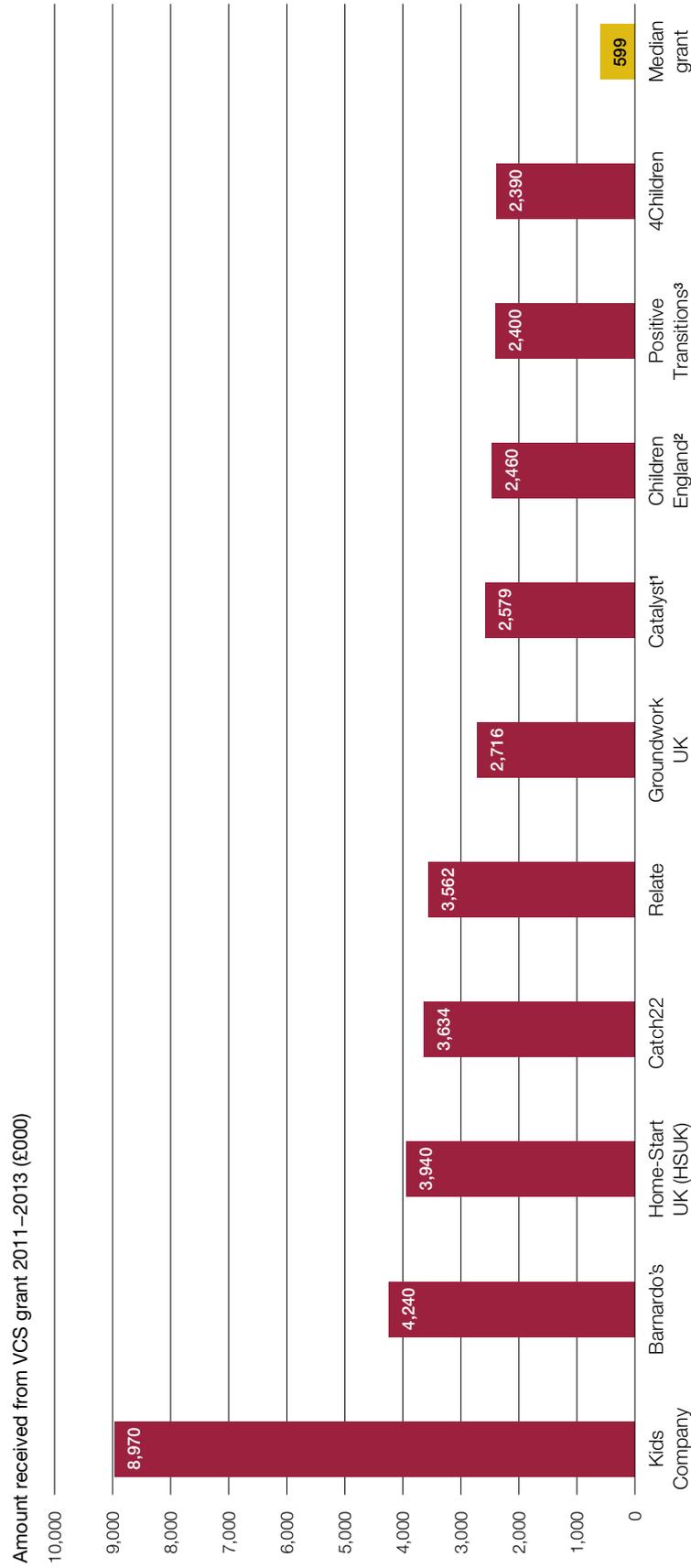
### **National Prospectus Grants programme (2013 to 2015)**

**3.17** In October 2012 DfE invited bids for a successor grant programme, the National Prospectus Grants programme 2013-15. This invited applications for grants of between £100,000 and £750,000 for each year of the programme, although applicants were allowed to submit bids for different projects. Kids Company submitted 2 bids for funding from the programme:

- for safeguarding: £3.75 million in 2013-14 and £3.825 million in 2014-15 to support 840 children and young people in order to improve their outcomes; and
- for youth support: £713,000 in 2013-14 and £750,000 in 2014-15 to develop a keyworker programme to support schools' outreach to vulnerable young people.

**Figure 6**  
Top 10 grant awards for Department for Education's VCS Transition Grants programme

Kids Company received significantly more funding than other, national charities



**Notes**

- 1 National Council for Voluntary Youth Services, known as Catalyst.
- 2 Kindle Plus Consortium, known as Children England.
- 3 Careers South West Ltd, known as Positive Transitions.

Source: National Audit Office analysis of Department for Education data

**3.18** Neither bid was successful. DfE told us that Kids Company's bids failed to reach the required standard for quality and did not fit with national priorities or offer value for money. Successful bids included:

- Barnardo's, which received around £2 million for 2 projects to embed effective practice on safeguarding children and young people, and to improve the availability and flexibility of high-quality childcare provision;
- The Diana Award, which received £811,000 for an anti-bullying ambassadors programme, which aims to empower young people at risk of harm through bullying to take responsibility for changing attitudes and behaviour in their school; and
- Youth Access, which received £785,000 to build on existing practice and increase awareness of the voluntary sector contribution to local child protection and safeguarding strategies, particularly for 13- to 19-year-olds.

**3.19** Despite officials' assessment of Kids Company's bids under the 2013-15 National Prospectus Grants programme, we found that DfE (having considered a Public Interest Case for providing ongoing funding, see Part Four) issued a grant offer letter to the charity. This offer was to extend Kids Company's previous grant under the 2011-13 VCS Transitions Grant programme. The offer was for £1 million over 3 months. DfE intended this grant to provide continuity of funding for Kids Company while DfE officials led cross-government discussions to secure future funding.

**3.20** As noted in Part Two, Kids Company continued to bid for government grant programmes until it closed. For example, it submitted a bid for £650,000 to provide support for schools in character-building activities but was not successful. However, since March 2013 central government has paid a direct annual grant to Kids Company. This is discussed further in Part Four.

## Part Four

### Monitoring Kids Company's performance

**4.1** In February 2013 at the request of its Accounting Officer, the Department for Education (DfE) prepared a Public Interest Case to support the continued funding of Kids Company by the government despite its failure to win grants through the competitive process. Officials set out the reasons why continuing to fund Kids Company was in the wider public interest, despite its failure to meet the criteria of the National Prospectus Grants programme.

**4.2** The Public Interest Case recommended that the government continued to support Kids Company's work with young people on the basis of:

- Precedent (DfE had funded the charity since 2005);
- the quality of the work Kids Company did (particularly with young people who were not in employment, education or training (NEET)); and
- the reputational damage to the government's wider agenda (which would have an impact on delivery) if it withdrew funding.

**4.3** Kids Company's National Prospectus bids were unsuccessful as they were judged not to offer value for money. In the Public Interest Case, officials described Kids Company's operating model as staff-intensive and high cost. However, the Public Interest Case did not include an assessment of the value for money or opportunity cost for the public purse of continuing to fund Kids Company, only whether to provide continued funding for Kids Company's work.

**4.4** The Public Interest Case proposed a grant funded by contributions from other government departments as well as from DfE itself. It also noted that direct award of a grant to charity outside of a competitive programme would not be unique to Kids Company. The DfE Accounting Officer was content that the Public Interest Case could be made to fund Kids Company but on the condition it was outside the VCS Transitions Grant programme; at a lower level than the current £4.5 million; and subject to specific ministerial approval. The funding subsequently received ministerial approval.

## Grant for 2013-14 and 2014-15

**4.5** Following this, the Prime Minister's Office convened a meeting between DfE, the Department for Work & Pensions (DWP), the Department of Health (DH) and the Department for Communities and Local Government (DCLG) to discuss future funding. It was agreed that each department should make a financial contribution to a cross-government, 2-year grant to Kids Company. These contributions are set out in **Figure 7**.

**4.6** Kids Company had originally asked for funding equivalent to that it had received under previous grant schemes (around £4.5 million each year). The cross-government grant was originally set at a lower level, but was later topped up with a further £1 million, funded by DWP (£250,000) and the Cabinet Office (£750,000). These amounts were attached to additional delivery expectations of Kids Company, such as a residential programme in summer 2014. The government paid grants of £4.5 million in both 2013-14 and 2014-15. The Cabinet Office also set a requirement for an external review of Kids Company's financial management and governance controls. This review led to a number of recommendations for Kids Company and the Cabinet Office satisfied itself that Kids Company had addressed the issues raised in the review before paying the grant.

### Grant terms and conditions

**4.7** DfE set the terms for the cross-government grant and initially managed the payments on behalf of the government. It paid the grant on a quarterly basis (£1 million per quarter) and Kids Company's key objectives over the grant period, as set out in the July 2013 grant offer, were to provide tailored interventions to improve outcomes for children, young people and families. These included improvements in housing and living conditions, physical and mental health, and educational attainment.

## Figure 7

### Contributions to cross-government funding pot

Department	2013-14 (£)	2014-15 (£)	Total (£)
Department for Education (DfE)	1,000,000	1,250,000	<b>2,250,000</b>
Department for Work & Pensions (DWP)	2,000,000	0	<b>2,000,000</b>
Department for Communities and Local Government (DCLG)	1,400,000	475,000	<b>1,875,000</b>
Department of Health (DH)	1,000,000	875,000	<b>1,875,000</b>
<b>Total</b>	<b>5,400,000</b>	<b>2,600,000</b>	<b>8,000,000</b>

#### Notes

- 1 DfE and then the Cabinet Office administered these grants on behalf of government. Other departments transferred funding to them as contributions to the grant.
- 2 The total grant value included the £1 million paid as continuity funding for the period April 2013 to June 2013.
- 3 These figures were later supplemented by £750,000 from the Cabinet Office and further £250,000 from DWP.

Source: National Audit Office analysis of departmental papers

**4.8** The grant offer letter set out quarterly expectations for Kids Company's grant. The overall intention was to improve outcomes, but these expectations were defined in terms of the number of interventions rather than level of improvement. Examples of delivery expectations for the first quarter of the grant were:

- 15 interventions to improve young people's living conditions;
- 15 mentoring interventions, such as coaching or advice on personal finances;
- 75 interventions through homework clubs;
- 50 community involvement interventions, such as sports or art sessions; and
- 200 instances of help with material goods, such as clothes, shoes and bedding, as well as with birthdays and Christmas.

**4.9** To monitor delivery against the grant objectives, DfE required Kids Company to submit quarterly self-assessment reports on its performance. DfE awarded a £200,000 contract to Methods Consulting Ltd (Methods) to monitor and evaluate the grant funding to Kids Company. Methods reviewed the charity's performance reports and provided external validation of reported performance. The contract operated from July 2013 until March 2015. DfE introduced this new requirement just for the Kids Company grant. Previously, DfE had relied on the charity's own assessment of its performance, coupled with reports by the independent agent managing its grant programme for the voluntary sector from 2008 to 2011, as was the case for all grant recipients under those programmes.

**4.10** Methods' approach is set out in its reports as follows:

- verification, via a sample of records (10 forms in relation to individuals, 6 data sets about schools), that data are correctly transposed;
- inspection of the structure and formulae of Kids Company's spreadsheets to check that totals and averages are correctly calculated;
- comparison of reported totals against targets in the grant offer letter; and
- comparison and verification that the figures stated in the report correspond to the totals calculated in the spreadsheets.

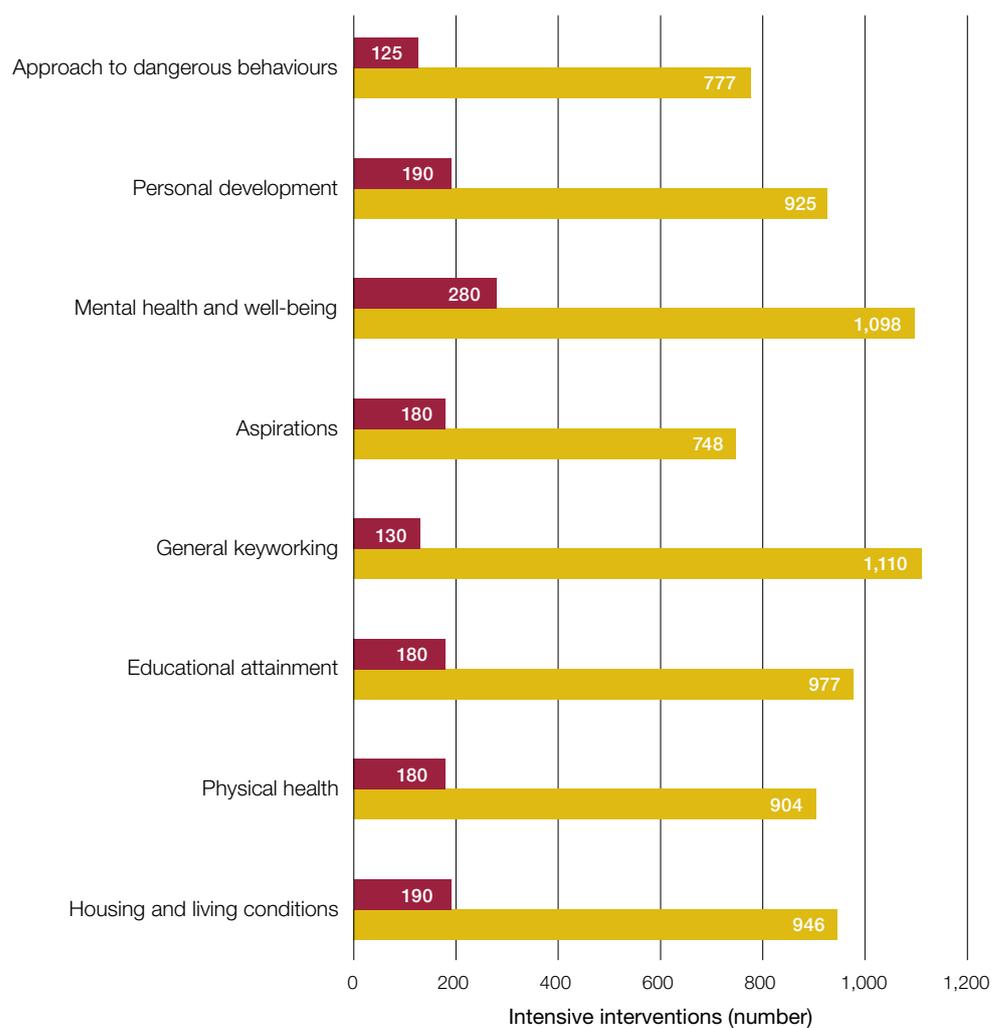
The scope of its work did not include looking at the quality of the charity's services.

**4.11** DfE and the Cabinet Office (following the transfer of responsibility) reviewed these quarterly reports and the validation reports before paying the next grant instalment. The reports show that Kids Company regularly reported surpassing its delivery targets for the quarter, sometimes by substantial amounts (**Figure 8**). For example, Kids Company reported that against a target of 1,347 interventions in 2013-14, they delivered 30,217 interventions.

**Figure 8**

## Kids Company's performance reporting

Kids Company regularly reported surpassing its government targets



■ Government target for interventions over the whole grant period

■ Number of interventions delivered in the quarter ending 30 September 2014

**Note**

1 This chart was included in Kids Company's quarterly report, submitted in October 2014. It reports interventions delivered in a range of areas during the quarter July–September 2014, compared with targets set out in the grant agreement.

Source: Kids Company quarterly report to government

**4.12** We did not find evidence that there were significant concerns from either Methods or the sponsor departments about the quality of Kids Company's data at the time. The grant offer letter refers to Kids Company delivering interventions that have improved outcomes for young people. In the quarterly reports, Kids Company reports the number of interventions. The reports do not include measures of the impact on outcomes, as Kids Company did not have agreed measures for this at the start of the grant period. The Cabinet Office agreed with Methods that, in parallel to ongoing validation work, Methods would work with Kids Company to develop a framework to measure the overall impact of Kids Company's work. Kids Company also provided the government with reports it had commissioned from institutions such as the London School of Economics, University College London and the Centre for Social Justice to support its assertions on its impact.

**4.13** Responsibility for youth policy transferred from DfE to the Cabinet Office in July 2013. The Kids Company grant transferred as part of this change. DfE novated its contracts and the Cabinet Office took responsibility for making payments to Kids Company from January 2014.<sup>13</sup> The Cabinet Office continued to pay and monitor the grant in line with the terms set out by DfE at the start of the grant period and the additional conditions attached to the £1 million top-up grant.

**4.14** In November 2014 the Government Internal Audit Agency reviewed the Cabinet Office's oversight of the Kids Company grant. It focused on the ongoing oversight of payments and delivery, not the original award decision. The review concluded that the Cabinet Office had satisfactory reporting and assurance arrangements in place for administering the Kids Company grant. The review included looking at a sample of quarterly performance reports and Methods' validation reports. It concluded that there were no issues to indicate the grant was being misused.

## **Grant for 2015-16**

**4.15** In October 2014 Kids Company wrote to the Prime Minister and the Chancellor of the Exchequer about Kids Company's funding. Again, the charity asked for a commitment from the government for multi-year grants on a statutory basis. The government has no record of receiving or responding to this letter, but received a copy as an attachment to a further letter from the charity in March 2015. In November 2014 Cabinet Office ministers led cross-departmental discussions on options for funding Kids Company in 2015-16. Departments again agreed to a single, non-competitive grant, to be administered by the Cabinet Office. The grant was made up of contributions from DfE, DWP and DCLG (£1 million each), DH (£765,000) and the Cabinet Office (£500,000). Ministers confirmed this to Kids Company in December 2014 and committed to working with the charity to establish a more sustainable approach for 2016-17 and beyond.

<sup>13</sup> Novation is where contract terms and conditions are legally transferred to a new party.

**4.16** The Cabinet Office sent a formal grant offer letter to Kids Company in March 2015. The grant was paid to improve outcomes for children, young people and families, including providing:

- intensive support for at least 500 clients;
- clinical support for at least 400 clients;
- a schools-based support programme supporting 10,000 clients;
- a health and nutrition programme providing 3,000 meals a week; and
- an education, employment and readiness programme for at least 150 clients.

**4.17** The Cabinet Office also provided a template for Kids Company to report its performance against these objectives on a quarterly basis. Kids Company sent an interim report to the Cabinet Office in May 2015, setting out its intentions for developing a reporting framework but had not submitted a formal performance monitoring report before it closed in August 2015.

**4.18** Grants awarded by DfE had been paid under the terms of existing voluntary and community sector grant schemes. The Cabinet Office paid the 2015-16 grant through powers from the Charities Act 2006.<sup>14</sup> This allows for ministers to provide financial assistance to charities without a competitive process, for example as in this case to secure the continued viability of a charity. The Cabinet Office also recognised the charity's financial difficulties in its decision to pay the entire grant for 2015-16 in April 2015, rather than quarterly as in previous years.

**4.19** We found the financial difficulties of Kids Company have been raised by government officials over many years (see paragraphs 3.7, 4.28 and 4.29). Government departments, including DfE, set general financial conditions for making grants to organisations, including Kids Company. These include organisations providing a copy of recently audited accounts; statements of turnover, profit and loss accounts, and cash flow; and a bank letter outlining the current cash and credit position. DfE told us that it had no concerns about Kids Company's audited report and accounts. The Cabinet Office's grant offer letter to Kids Company in March 2015 is the first evidence we found of a funding department not only setting, but also monitoring, additional conditions related to Kids Company's financial management and governance. These conditions were:

- that Kids Company would move to a more sustainable financial footing during the first six months of the year, including completing an end-to-end business review of services; and
- that Kids Company develop, roll out and implement the measurement of value for money and impact.

<sup>14</sup> Section 70 of the Charities Act 2006 gives ministers broad powers to provide financial assistance to any charitable, benevolent or philanthropic institution in respect of activities which directly or indirectly benefit England.

## **Kids Company's financial issues in 2015**

**4.20** As set out in paragraph 4.18, ministers have powers under the Charities Act 2006 to award financial assistance to charities without a competitive process.<sup>15</sup> The Cabinet Office exercised these powers in awarding grants to Kids Company in March and July 2015.

**4.21** Officials undertook due diligence work with the charity in early 2015 and concluded that Kids Company was struggling to manage its cash flow and that paying the entirety of its grant for the year in a single payment, rather than in quarterly instalments, would help it to remain solvent. The Cabinet Office therefore paid Kids Company's entire 2015-16 grant in April 2015.

**4.22** In May 2015, ahead of a meeting of Cabinet Office and DWP ministers, Kids Company wrote to DWP requesting further funding; however, this request was rejected. In June 2015 Kids Company submitted a restructuring proposal to Cabinet Office ministers. The proposal included a number of organisational and managerial changes (including redundancies) and a request for £3 million from the government, which would be matched with £3 million from philanthropists. The aim of the proposal was to put Kids Company on a sustainable financial footing and reduce future dependency on government grants.

**4.23** Cabinet Office officials reviewed these plans but ultimately concluded that paying such a grant would not represent value for money for the government. The grant was paid on 30 July 2015 following a ministerial direction (**Figure 9**).

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### **Figure 9** Ministerial directions

#### ***Managing Public Money* includes guidance to accounting officers on when to seek a direction**

Each departmental accounting officer should take care to bring to the attention of the minister(s) to whom he or she is responsible any conflict between the minister's instructions and his or her duties. The accounting officer cannot simply accept the minister's aims or policy without examination.

If the minister decides to continue with a course the accounting officer has advised against, the accounting officer should ask for a formal written direction to proceed. An oral direction should be confirmed in writing quickly. Examples of where this procedure is appropriate are:

- regularity: if a proposal is outside the legal powers, Parliamentary authority, or Treasury delegations; or incompatible with the agreed spending budgets;
- propriety: if a proposal would breach Parliamentary control procedures or expectations;
- value for money: if an alternative proposal, or doing nothing, would deliver better value, eg a cheaper, higher-quality or more effective outcome for the Exchequer as a whole; and
- feasibility: where there is a significant doubt about whether the proposal can be implemented accurately, sustainably, or to the intended timetable.

Source: HM Treasury, *Managing Public Money*, August 2015, section 3.4

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15 See footnote 14.

**4.24** Officials gave three reasons why they did not believe a further payment to the charity would represent value for money. These were:

- Kids Company had failed to meet the conditions agreed for the £4.3 million grant it had received in April 2015;
- a lack of confidence in the financial forecasts of future income provided by Kids Company; and
- concerns about the capacity and willingness of the charity's management to implement its restructuring plans.

**4.25** While ministers had regularly been involved in discussions and decision-making regarding Kids Company, this was the first time officials had asked for a ministerial direction in relation to grant-funding the charity. However, our investigation found that the concerns raised by the Cabinet Office in 2015 were not new concerns.

### **Historic concerns about Kids Company's finances**

**4.26** As shown in Figure 5 on page 17, Kids Company received funding from a broad range of sources. Despite this, the government's records show that Kids Company used central government funding to cover gaps in its cash flow. For example, in December 2013 and December 2014 the charity asked for early payments from its central government grants to meet its expenses. In addition, DfE also extended its grant agreement to Kids Company, which was due to end in March 2013. It paid the charity £1 million for the 3 months from April 2013 to June 2013 until a further cross-government grant funding package was in place (paragraph 3.19). The government's records show that Kids Company's financial difficulties were a recurring theme in the government's discussions about the charity from 2002 onwards.

**4.27** In 2002 the Home Secretary asked Home Office officials to coordinate a cross-government rescue package for Kids Company to prevent bankruptcy within the week. DfE and Home Office's records show that the Home Secretary approached DfE ministers to ask for their help in providing £300,000 for Kids Company. Officials described the charity as a model of good practice that could be replicated elsewhere but which was facing a cash flow crisis.

**4.28** At the time, DfE officials expressed concerns that:

- Kids Company was not well regarded at a local level;
- government funds would be put at risk if the charity failed;
- funding on the proposed basis might set an unhelpful precedent; and
- there were other local organisations that could offer better value for money.

**4.29** The Home Office's records show that its officials had similar concerns and recommended that conditions be attached to the grant award, including a monitoring regime. Our review of Home Office's records show that Kids Company did not comply with many of the monitoring conditions for the grant. Similar concerns about Kids Company's financial management and sustainability have been repeated in the years since then (**Figure 10**).

**4.30** All the grant offer letters we have seen include a requirement for Kids Company to develop an exit plan, setting out how it planned to operate on a sustainable basis in the future without a continued requirement for government funding. The objective of such a plan was to ensure:

- the continuation of grant-funded activities;
- there would be no undue favour to Kids Company in any future grant competition; and
- that the responsibilities of both the charity and government are clearly defined in the event of grant termination.

**4.31** The government repeatedly required Kids Company to provide exit plans and we have seen evidence that this requirement was met. However, repeated requests from Kids Company for government funding and decisions from the government to award funding suggest the charity never reached a position where it was sustainable and able to operate without government assistance.

**Figure 10**

Officials' concerns about Kids Company, 2002 to 2015

Department	Home Office	Home Office	Department for Education	Department for Education	Cabinet Office	Cabinet Office
<b>(year)</b>	<b>(2002)</b>	<b>(2003)</b>	<b>(2008)</b>	<b>(2013)</b>	<b>(March 2015)</b>	<b>(June 2015)</b>
What happened?	Kids Company requests £300,000 in emergency funding.	Kids Company requests £500,000 in emergency funding.	Kids Company requests £4.5 million annual funding.	Kids Company requests £10 million annual funding.	Kids Company requests £20 million annual funding.	Kids Company requests £3 million emergency funding for restructuring.
Kids Company's stated reasons for requesting funding	Other sources of funding drying up. Charity needs emergency funding to avoid insolvency.	To prevent closure and lever in additional charitable funds.	Funding required to avoid closing services and issuing redundancies.	Funding required to avoid closing services and issuing redundancies.	Funding required to ensure the sustainability of Kids Company.	Funding required to support restructuring of the charity to secure its future viability.
What concerns were raised by officials?	<p>Conditions of 2002 emergency grant not complied with.</p> <p>Payment may simply defer crisis: debts increased despite the 2002 grant.</p> <p>Need for evaluation of the long-term financial viability of Kids Company.</p> <p>Funding should be a one-off and not repeated.</p> <p>Absence of a chief operating officer to run Kids Company effectively.</p>	<p>One-off direct funding may prolong Kids Company's dependency on government funding.</p> <p>The government might be seen to be favouring Kids Company over other charities.</p>	<p>Suggested amount significantly higher than other grants to similar organisations.</p> <p>Financial management: limited reserves and consistent cash flow difficulties.</p> <p>Continued dependency on government funding.</p>	<p>Continued issues with cash flow and dependence on government funding to avoid insolvency.</p> <p>Concern that Kids Company would continue to request financial support from the government rather than achieving long-term sustainability.</p>	<p>Limited confidence in the charity's ability or willingness to restructure.</p> <p>Funding sets a precedent.</p> <p>Lack of confidence in the financial figures being produced by Kids Company.</p> <p>Other initiatives would have greater benefit to the government's objectives, rather than supporting restructuring and payment of debt for Kids Company.</p>	<p>Officials advised ministers not to pay the grant. Ministers formally directed officials to pay £3 million to support restructuring.</p>
Outcome	Cross-departmental grant: £300,000.	Home Office one-off emergency grant: £158,000.	Department for Education grant: £12.7 million over 3 years.	Cross-government grant: £8 million over 2 years (later topped up with an additional £1 million).	Cross-government grant: £4.3 million for 1 year, paid upfront with conditions relating to Kids Company's financial management.	Officials advised ministers not to pay the grant. Ministers formally directed officials to pay £3 million to support restructuring.

Source: National Audit Office

# Appendix One

## Our investigative approach

### Scope

- 1 We conducted an investigation into three specific concerns. These were:
  - the funding that Kids Company received from government;
  - the government's reasons for providing funding to Kids Company; and
  - how government monitored the grants made to Kids Company.

### Methods

- 2 In examining these issues, we drew on a variety of evidence sources.
- 3 We liaised closely with the Department for Education and the Cabinet Office as the two main departments responsible for government's relationship with Kids Company. We interviewed key individuals and reviewed financial information and documents. This included grant applications, internal briefings, correspondence with Kids Company and financial data evidencing funding.
- 4 We worked with our financial audit teams to identify details of funding that other government bodies may have provided for, or to, Kids Company during its existence.
- 5 We contacted 6 local authorities to obtain evidence of local authority funding to Kids Company.<sup>16</sup> Between them, these authorities covered the main areas in which Kids Company operated.
- 6 We reviewed Kids Company's annual report and accounts to obtain financial data and governance information over the charity's lifetime. This included sources of funding.
- 7 We also reviewed other documents relating to the management and financial position of Kids Company over its lifetime. These publicly available documents were obtained via the Companies House and Charity Commission websites.

<sup>16</sup> Bristol City Council, the London Borough of Camden, the London Borough of Lambeth, Liverpool City Council, the London Borough of Southwark and the London Borough of Wandsworth.

8 We interviewed Camila Batmanghelidjh, who provided an account of Kids Company's relationship with government.

9 We consulted the following stakeholders to understand their work in relation to Kids Company:

- the Charity Commission;
- the Institute of Chartered Accountants in England and Wales;
- the Official Receiver as appointed by the court, a member of the Insolvency Service; and
- the Metropolitan Police.

They provided contextual information, which helped further direct our inquiries.

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National Audit Office

Design and Production by NAO Communications  
DP Ref: 10831-001

£10.00

ISBN 978-1-78604-010-7



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