



National Audit Office

Report

by the Comptroller
and Auditor General

Home Office and the Charity Commission

Report on the funding and governance of Broken Rainbow

Key facts

£1.4m

of Home Office funding for Broken Rainbow between 2004 and 2016

243

days after 1 April 2015 on which Broken Rainbow had less than £500 in its bank account

463

average number of helpline calls Broken Rainbow answered each month between July 2015 and March 2016

£ 13.8 million	of general grant funding the Home Office awarded to non-profit organisations in 2014-15, the latest year for which figures are available
£970 million	of general grant funding awarded by the whole of government to non-profit organisations in 2014-15, the latest year for which figures are available
144	grants overseen by the Home Office in 2015-16
165,334	charities overseen by the Charity Commission as at March 2016
1 March 2016	date on which Companies House issued the first public notice threatening to close Broken Rainbow by 1 June 2016
7 April 2016	date on which the Home Office provided funding to Broken Rainbow for 2016-17
£34,403	amount Broken Rainbow owes to HM Revenue & Customs in unpaid PAYE, National Insurance contributions and other charges

Summary

1 In July 2016, Bernard Jenkin MP, chair of the House of Commons Public Administration and Constitutional Affairs Committee wrote to the National Audit Office asking us to investigate the collapse of Broken Rainbow, a charity funded by the Home Office.¹ Press articles had alleged excessive spending at the charity and weaknesses in its governance arrangements. The former CEO of the charity refutes these allegations. Mr Jenkin was also interested in whether lessons from *Principles Paper: Managing provider failure* and *The Government's funding of Kids Company* had been learned.^{2,3}

2 The Broken Rainbow LGBT Domestic Violence Service UK, known more widely as Broken Rainbow, was a charity founded in 2004. It provided support to lesbian, gay, bisexual and transgender (LGBT) victims and perpetrators of domestic violence, primarily through a national helpline and email support. The charity received most of its funding through grants, principally from the Home Office which provided most of its income in most years, including an annual grant of £120,000 since 2010. The Home Office signed a new grant agreement in April 2016, but in June 2016 Broken Rainbow closed and went into liquidation.

3 After conducting some preliminary inquiries, we decided to conduct a full inquiry into the facts surrounding the collapse of Broken Rainbow, and the actions of the various public bodies that had contact with the charity. While the amount of grant funding from the Home Office to Broken Rainbow was small, grant funding to the charitable sector from the whole of government totalled £970 million in 2014-15. Accordingly, there may be wider lessons from this example.

4 This report sets out:

- the funding, financial management and collapse of Broken Rainbow (Part One);
- the oversight of Broken Rainbow and its interactions with government (Part Two); and
- comparisons with Kids Company, and observations on the risks of grant payments to small charities (Part Three).

¹ Letter from Bernard Jenkin MP to Sir Amyas Morse, regarding the charity Broken Rainbow, 12 July 2016. Available at: www.parliament.uk/documents/commons-committees/PACAC/Correspondence/Sir-Amyas-Morse-Broken-Rainbow-12-07-16.pdf

² Comptroller and Auditor General, *Principles Paper: Managing provider failure*, Session 2015-16, HC 89, National Audit Office, July 2015.

³ HC Committee of Public Accounts, *The Government's funding of Kids Company*, Eighth Report of Session 2015-16, HC 504, November 2015.

5 A number of other organisations are currently investigating the closure of Broken Rainbow, including the Charity Commission and the insolvency practitioner charged with liquidating the charity. While we have spoken to these authorities for our own inquiries, this report does not discuss the findings of their investigations, which are ongoing. The Insolvency Service is not currently investigating the closure of Broken Rainbow, but may choose to do so after reviewing the insolvency practitioner's findings and any new information. We have worked closely with these authorities to ensure that our report findings do not impede their work or any action they may wish to take. We have not assessed the value for money of Broken Rainbow itself.

6 We found that Broken Rainbow had been struggling financially for a number of years, and that its overall management processes were ineffective. Some of this was evident from public documents, but none of the government bodies with which it had contact were fully aware of the difficulties, or had a clear remit to intervene. There are some straightforward steps departments could take to improve their monitoring of similar organisations.

Key findings

Management of Broken Rainbow

7 Broken Rainbow had been spending much more than its income for a number of years before its closure. Its reserves policy required it to keep three months' worth of expenditure, in case of unforeseen problems. However, its reserves shrank by 97% in two years, from £80,083 in 2012-13 to £2,307 in 2014-15, despite income increasing by 52% over the same period. The biggest increases in spending over that period were not on core helpline activities, but on consultancy (which increased by £16,000), research (£27,000), campaigns (£25,000) and total staff costs (£17,000). Several trustees have told us that the charity was also subject to employment tribunals at this time (paragraph 1.9 and Figure 2).

8 Broken Rainbow was operating 'hand to mouth', for at least a year before it closed. Between April 2015 and its closure in May 2016, Broken Rainbow had less than £500 in its bank account on most days. More than half of each grant payment from the Home Office, intended to cover costs for the following three months, was spent within 24 hours of receiving it. Most of the payments were spent completely within three days of receipt. When Broken Rainbow went into liquidation, it owed money to its suppliers and staff, and to government (paragraphs 1.11, 1.26, 1.27 and Figure 3).

9 The management of Broken Rainbow was chaotic and did not comply with regulatory requirements over a number of years. The charity had few organisational policies in place, and those that were in place were not followed. For example, staff were asked to put office expenses on personal credit cards because suppliers had not been paid; and conflicts of interest and grievance procedures were not managed effectively. We found that Broken Rainbow missed filing deadlines, and that the Charity Commission's website contained errors about the charity. Similarly, Companies House did not notice that the list of directors in Broken Rainbow's annual report included people not registered as directors. Companies House did, however, actively pursue Broken Rainbow for outstanding information, and this probably led to the charity's difficulties coming to light (paragraphs 1.16, 1.19 to 1.22 and 2.28 to 2.38).

10 There was a high turnover of trustees, and some trustees told us they did not feel able to get the help they considered they needed. Of the five Broken Rainbow trustees in post when it closed, three had become involved with the charity only at the beginning of 2016. Some trustees told us that they had contacted the Charity Commission seeking advice on how to manage the problems they found at Broken Rainbow, but had received no response (paragraph 2.5).

Oversight by government

11 Many different parts of government had some information about Broken Rainbow's difficulties, but none had the complete picture. For example, Companies House, which is responsible for publishing information about registered companies, had published in March 2016 notice of its intention to close Broken Rainbow, but the Home Office was unaware of this when it signed a grant agreement in April 2016 (paragraphs 1.23, 2.28 to 2.41 and Figure 5).

12 The Home Office did not meet its own requirements for monitoring the grant. The grant agreement signed by the Home Office and Broken Rainbow required Broken Rainbow to submit an annual report and quarterly information on the performance of the helpline. No annual report was ever received and many of the quarterly returns contained no performance data and the data reported did not contain quality measures (paragraphs 2.15 to 2.20 and Figure 8).

13 The helpline transferred from Broken Rainbow to a new provider, Galop, without a break in service, but only because Galop provided the service for free for a month. The Broken Rainbow helpline transferred to a new provider overnight. There was no break in service to the vulnerable individuals supported by the service. The Home Office had paid Broken Rainbow for the helpline until the end of June, but Broken Rainbow collapsed at the beginning of June. The Home Office did not lose any money because Galop inherited and paid the wages owing to helpline staff who transferred across, and provided the service for free for the first month. In March 2017, the Home Office confirmed it was processing payment to Galop to reimburse the charity for some of these costs (paragraphs 1.24 and 3.7).

Lessons for grant-giving to small charities

14 Government has very limited resources for monitoring grant payments, but there are steps it can take to provide better scrutiny. Departments do not have the resources to manually monitor other government websites that may contain information about grant recipients. They could, however, consider making better use of automated monitoring of publicly available information and use this to trigger alerts, which would help to target scrutiny. For example, if the Home Office had automated monitoring of the Companies House website it would have known that Companies House was proposing to close Broken Rainbow before it agreed to extend the grant (paragraphs 1.23 and 3.15).

15 Government could be more ambitious in the information it asks for from recipients of its grants. We have only examined the monitoring information provided by Broken Rainbow to the Home Office, but this was much more limited than the information Broken Rainbow provided to its other funders. Government could routinely ask to see the format of monitoring information provided to other funders to allow it to reach an informed judgement about how to balance the need for proper scrutiny of grants without imposing significant additional costs on recipients (paragraphs 2.25 to 2.27 and 3.14).

Concluding remarks

16 There are rules about how to run small company charities, but in the case of Broken Rainbow they were not enforced. In some instances this was because an organisation or individual did not fulfil their clear responsibilities. However, in other instances it is not clear how existing processes would have detected that Broken Rainbow was failing to comply with the rules. Nor is it clear if any organisation is responsible for addressing non-compliance, either through support or enforcement. These gaps in the governance arrangements potentially affect all small charities.

17 Light-touch regulation reduces the administrative burden on charities, but increases the risk that public money may be misspent. We note that government has recently announced plans to give an additional £102 million from fines from criminal activity in the banking sector (the LIBOR fines) to charities and good causes over the next four years. The government has made a number of changes to the supervision of grants since the collapse of Broken Rainbow, but more could be done to ensure that it makes the best use of the information it holds.