

Public Accounts Committee

Oral evidence: Kids Company, HC 504

Monday 2nd November 2015

Ordered by the House of Commons to be published on 2nd November 2015

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Members present: Meg Hillier (Chair); Deidre Brock; Chris Evans; Caroline Flint; Kevin Foster; Nigel Mills; David Mowat; Bridget Phillipson; Karin Smyth; Mrs Anne-Marie Trevelyan.

Sir Amyas Morse, Comptroller and Auditor General, Adrian Jenner, Director of Parliamentary Relations, Paul Oliffe, Director, and Ashley McDougall, Director, National Audit Office, and Richard Brown, Treasury Officer of Accounts, were in attendance.

Witnesses: Richard Heaton, former Permanent Secretary, Cabinet Office (now Ministry of Justice), and Chris Wormald, Permanent Secretary, Department for Education, gave evidence.

Q1 Chair: Welcome. Today we will consider the National Audit Office investigation of Kids Company. We have two witnesses, whom I will introduce in a moment. The hashtag for today is #KidsCompany.

Unusually for this Committee, I will start by quoting Janet Street-Porter, who said that “the National Audit Office report tells us more about the failings of Whitehall than any wrongdoing on the part of Batmanghelidjh.” It should be made clear today that we are discussing not whether Kids Company did its job but, I say to our two witnesses, whether you did your job.

The two Permanent Secretaries before us are Chris Wormald, from the Department for Education, and Richard Heaton who, at the time earlier this year when these issues were pertinent, was Permanent Secretary at the Cabinet Office. They represent the top people of the civil service; they are accounting officers and are supposed to stand up to ministerial pressure and, if necessary, to require a letter of direction to locate responsibility on Ministers when they override advice. In the case of Kids Company, as this Report clearly shows, officials have been aware of the problems for 13 years. Kids Company has been passed around Whitehall like a hot potato, with the tough decisions being avoided, until finally in the

Cabinet Office a line was drawn earlier this year, and the Permanent Secretary, Richard Heaton, requested a letter of direction.

Quite apart from the evidence reported up through their own organisations, there was the fact that local authorities up and down the country showed considerably less appetite for involvement with Kids Company, with one relatively short experience only—a Member will ask questions about that later. That included Lambeth, where the charity was based. I wonder what the Whitehall officials thought they knew that local government didn't. Were you able to square the huge preference for Kids Company over other charities with a sense of fairness? Was Kids Company a special case? Of course, there is an elephant in the room, which we will hopefully get to. Our witnesses may not want to mention this, but I hope I can persuade you to be frank about the involvement of No. 10 over the years on this issue.

It is hardly an edifying story. I thank the National Audit Office for its thorough investigation. We seek an explanation, and we want to probe what it tells us—this Committee and Parliament—about the system of checks and balances in Government. My first question—I will start with Chris Wormald, and perhaps Richard Heaton can answer the same question—is, did Kids Company receive special treatment?

Chris Wormald: No, I don't think it did, and you won't be surprised to hear that I don't agree with the way you described the story in your introduction. I think that some big learning points for my Department and the Government as a whole come out of this story, and I will go through them during the course of this hearing, but when I reviewed the individual decisions taken between 2002 and 2013—when it was the responsibility of the Department for Education and its predecessor Departments—I don't see a point in the story when a direction should have been considered in the way you described. As I say, I do think there are learning points. Would you like me to say what they are now?

Chair: No, I will ask Mr Heaton to answer that question first.

Richard Heaton: The question is, did Kids Company receive special treatment? I would answer it like this. Kids Company was a charity that Ministers and the Government collectively supported over many years. The Prime Minister said as much last week. Section 70 of the Charities Act—the power Ministers have to fund charities—is fairly broad. It is entirely proper for Ministers to decide which charities in which sectors they wish to support. Our job as officials was to ensure that any support Ministers wished to give any charity, including Kids Company, was within *Managing public money*, and, once the decision was made, that it was properly implemented in a way that delivered value for the taxpayer. On the latter two parts of what I have just said, there was no special treatment at all. The fact that Ministers chose this charity is on the public record.

Q2 Chair: Okay, but they received £42 million of taxpayers' money from central Government over 13 years and, as you can see from the Report, there were repeated warnings and concerns. Warnings were given, and the money was given anyway before there was any action on those warnings. Figure 6 on page 22 shows some of the issues. Every two years, the Government went through the same process. Paragraph 3.2 on page 18 is a very good summary. No answers were given, yet the money was granted. Richard Heaton, is that routine in Government on your watch?

Richard Heaton: No, not at all. Again, I don't quite agree with the characterisation when you say that no action was taken. Throughout, from when this charity came under our watch in 2013, we were concerned about the charity in two principal respects. First, we were concerned about its financial sustainability. It seemed to exist hand to mouth, and I am sure we will talk about that during the hearing. Secondly, it lacked decent measures of what it was delivering for its money. We took action over the 18 months during which I was responsible for it in the Cabinet Office on both those counts, to try to put it on a sustainable footing and to try to improve its measurement of its outcomes. We were absolutely concerned, and we were taking action. The first action was not the direction letter; we were doing things, building on the work Chris's Department had done, to make this charity a better case financially.

Q3 Chair: Chris Wormald, you were Permanent Secretary at the Department for Education from 2012, but the Kids Company funding had come through the Department for some years before that. Do you think there were real issues about how that money was repeatedly given and the pattern that was followed?

Chris Wormald: There are two sets of things on the table. What I would like to agree with in your opening statement is that I think the National Audit Office has done an excellent job in a very short period of time in pulling together this story, which is very informative.

The warnings that were given were one piece of evidence on the table. As I suspect we will go through throughout this hearing, there was also a lot of other evidence and a lot of evidence of Kids Company doing important and highly valued work. Now, I am not going to say that every single one of those warnings was dealt with as well as it could have been. In particular, there was one that the National Audit Office picked up in 2005, which was not dealt with in the way that I would hope it would be dealt with now. However—I discussed this with my two predecessors as accounting officer over that period—when you looked at the weight of evidence that there was about Kids Company acting successfully, which you set against some of the warnings that were made, I think that the decisions that were made across that period were reasonable in their own right.

Q4 Chair: But can I just be clear, Mr Wormald, that it was not just that money was repeatedly given to this organisation, but that the money went up? You kept giving money when there were warning signs, yet the issues were not tackled in depth.

Chris Wormald: It is of course true that the money went up, mainly because Kids Company was extremely successful in a series of bidding rounds, where its bids were measured against the criteria of those schemes. The story shows that the Department was continually engaged with Kids Company and was trying to address some of these issues. I think it is right to challenge whether our various interventions across this period with Kids Company were as effective as they might have been, but it was not a case of us ignoring things.

Q5 Chair: Can I just be clear, though, that—if I am right—in 2011 Kids Company bid against a number of other charities, including Barnardo's, and received far more than the other charities? It received 20% of the total funding pot. You say it bid competitively, but it still seemed to get volumes of money that were enviable in the rest of the sector.

Chris Wormald: This is an important point: it did receive large proportions of those bidding rounds, just as the NAO reports, but that is not the same as saying that it received that kind of proportion of the amount of money that my Department has given to the voluntary sector. Over the period 2010 to 2015—

Chair: Sorry, we are talking about the bidding rounds; that is what we are talking about here.

Chris Wormald: Yes, but if you look at the total volume of what we give to the voluntary sector, you see that it comes to a bit over £200 million a year, and Kids Company was receiving about 2% of what we gave to the voluntary sector over that period.

Q6 Chair: But there was a lack of data about the outputs. If you look at figure 8 in the Report, which I know David Mowat will come on to later, you will see that it is just one example of many that show that there was a difference between the Government's opinion of what was happening or should be happening, and what actually happened, and the vast disparity in figures did not seem to ring any warning bells. There are other examples of that, with Methods Consulting. When you got these issues raised through the bits of auditing that did take place, why did you not do more about them?

Chris Wormald: I'm sorry, but I am not sure that that is what that diagram shows. It shows that Kids Company was reporting that it was exceeding the targets we had set.

Q7 Chair: I might bring David Mowat in on this in a moment, but it was exceeding the targets by a very high volume. That suggests that the metrics that the Government were using to measure the value for money of their investment in Kids Company, and for the children and young people affected, were so over-exceeded by the charity that there was clearly something wrong with the Government's measurement model, surely.

Chris Wormald: Well, I wouldn't say that is what that shows; I would say it shows a charity achieving more than we had set out.

Chair: We will bring in David Mowat on this.

Chris Wormald: I am sure we will go into this in a lot of detail.

Q8 David Mowat: I want to come back, Mr Wormald, to the decisions that you made in about October 2012, after Kids Company had lost the bidding and you went for the public interest case. As for figure 8, however, you have just said that, it demonstrated that Kids Company was exceeding the expectations. Broadly speaking, you gave them a task of something like 1,347 interventions over two years. If that was all it was delivering, it was at a

cost of around about £6,000 per intervention. That was the criterion that you set. They exceeded that, as the Report says, by a factor of 25, which, as you just said, might indeed be indicative of the fact that it was doing fantastic work, but it might also be indicative of the fact that the actual criteria that you set were just nonsense. On the facts of that figure, that is the interpretation that I would give.

I want to come back to what you said earlier. You were very clear with the Committee: you said that the charity had not received special treatment on your watch. That is a slightly different answer from the one your colleague gave about his watch, but we will stay with what happened on your watch. In October 2012, you kicked off, in your Department, the national prospectus. It was a large process, and many people were asked to bid. Barnardo's bid, and a number of youth charities bid. It was a national prospectus, not a London prospectus. Of course, Kids Company bids as well, and I think I am right in saying that they failed. The reasons, which are given in paragraph 3.18 of the Report, were poor quality, poor value for money and the fact they were not national. Principally, Barnardo's won, and a number of other youth charities also won awards. Fair enough—you went through a process, and that was the answer. That was in October 2012.

In February 2013, you put together a public interest case, which said that, notwithstanding the fact that Kids Company had failed to win any of those awards, you were going to make them an award larger than that given to any of the organisations that did win, because that was in the public interest. The reasons you gave in your public interest case were, first, precedent—well, okay, you had been funding them before. That was reason 1. Reason 2 was the PR damage if you stopped funding them—

Chris Wormald: No, that's not what—

David Mowat: Well, that's in the Report—paragraph 4.2. “Reputational damage” is what you said. *[Interruption.]* Well, read 4.2 out to me, then—“reputational damage” is what it says.

Chris Wormald: Paragraph 4.2—“the reputational damage to the government's wider agenda (which would have an impact on delivery)”—

David Mowat: Yes, that is what I just said. Reputational damage—a PR issue. The third issue you raised was that the quality of the work they did for NEETs was good, and that is fine, except that it contradicts the reason why, apparently, from paragraph 3.18, you did not give them a grant in your competitive process. How can you square that set of facts with your saying that they got the same treatment as other charities?

Chris Wormald: No, I didn't say they had the same treatment as other charities. I took the question just as it was, and I agreed with what Mr Heaton said about the approach to Kids Company.

On the public interest case—it is probably worth re-explaining this in some detail—as you say, Kids Company had bid for the national prospectus, and, against the criteria we had published, their bids had not been successful. There was a wish to explore whether there was another route to fund Kids Company via a direct grant, which is something the Department does quite a lot; we do it with quite a lot of other charities—we do it with ChildLine, for

example, and in a number of other cases. There was a wish to explore that route and a cross-Government fund to support Kids Company. It was not a case of funding the bids that had failed.

Q9 David Mowat: But that was your wish, to explore those things.

Chris Wormald: No, this was a ministerial wish. It was a perfectly valid thing to do. As I say, we do it in a number of other cases—

Q10 David Mowat: So you told a Minister, “You’ve done your process. You’ve got to the end of it. The results are these.”

Chris Wormald: Would it be helpful if I actually tell the story, and then you come back in?

Q11 Chair: When you are answering, can you tell us also which Ministers?

Chris Wormald: They were the Ministers responsible at the time. So it was DfE Ministers.

My officials rightly came to raise this question with me, because it was a different way of doing this. What I wanted to assure myself of was that this was a question that could reasonably be put to Ministers. I did not take the investment decision; it is not my job to take the investment decision in this case. I asked for a public interest case to be drawn up to answer the question, “Is it a reasonable proposition to put to Ministers to decide that this should be funded via a direct cross-Government grant, as opposed to how, previously, it had been through success in a bidding round?” I agreed that public interest case on exactly the terms that the National Audit Office has set out. I think it is a perfectly reasonable case, taken in all three parts, and I therefore agreed that it could go for a ministerial decision, as it says in the National Audit Office Report. So what I agreed was that there was a reasonable decision to be made there. That decision was rightly made by Ministers.

Q12 David Mowat: Right. So your view is that the process you have just described did not amount—these were your words when you answered the Chairman at the start of the questioning—to special treatment.

Chris Wormald: Well, as I say, there are a whole range of charities that the Department funds on a similar basis—via direct grant. As I say, ChildLine is one, and there are a number of other examples, so it was not special in that sense. Were we doing something different? Yes. That is why I asked for the public interest case—to assure myself that this was a decision that it was reasonable to put to Ministers.

Q13 David Mowat: So presumably you had run a process. Your Department had set up and run a process with criteria, evaluation techniques and all the rest of it. You got to the answer, and some people won and some people lost, as we have discussed. One of the losers in this case was Kids Company, and you then went through this other route with Kids Company, albeit under ministerial encouragement—let's put it that way. Did you go through that same process with any of the other losers?

Chris Wormald: No, because the question wasn't asked in this case. What you have in this case is a thing that the Department and Ministers are perfectly legally entitled to do in terms of funding charities directly, and do in a number of other circumstances. The question had been asked, so I asked for a public interest case on that very specific question—i.e., was this an option that could be reasonably pursued? The question didn't arise for others.

Q14 David Mowat: Right. The charities that won the process that your Department had led, which presumably was intended to be a fair process, ended up getting quite a lot less money than Kids Company. Did they come back to you and ask what had happened here—why was that reasonable; why was that fair? Was there no dialogue of that nature from other charities?

Chris Wormald: Not as far as I am aware, and as I say, it is not that unusual for the Department to fund a charity directly on a non-competitive basis.

Q15 David Mowat: It's not that unusual, but you said at the start—these were your words in answer to the Chairman's question—that it was not special treatment, and the story you have just given sounds to me to be totally about special treatment.

Chris Wormald: Well, what you choose to call special treatment or not is a matter for the Committee to decide. As I say, when I was doing that public interest case, we had on the table a proposition to fund a charity in the way that we funded a number of other charities, with a clear will to do so, with the legal powers to do so and with a public interest case—

Q16 David Mowat: You clearly had the legal powers, although this was the only charity that had been through your evaluation process and lost and then got funding with this process. You did say, though, in your PI analysis that you were comfortable with it if you got ministerial cover, which you did, and also that you were able to cut the funding from what had been the steady state of about £4.5 million a year. Were you able to cut the funding?

Chris Wormald: The original agreement was for £4 million a year. That was subsequently increased, after Kids Company had left the Department to go to the Cabinet Office, and I won't comment further on that bit.

You wanted some examples of other charities. The Family Fund Trust we fund to the value of about £27 million a year. Teach First we fund in this way. Frontline, the Holocaust Educational Trust, Project ENTHUSE and, as I said, ChildLine—there are actually quite a number of charities that we fund via a direct grant, not via a competitive process.

Q17 Chair: Can I just be clear? These are direct grants to those other charities, not a contract to deliver a service.

Chris Wormald: I will go away and check exactly which ones are contracts—

Chair: Yes, could you please send us a note? If you could give us a list of all the charities you fund in that way—both grants and contracts—

Chris Wormald: Yes. But as I say, those are examples of where we do things on a non-competitive basis because you have a charity that does things that nobody else does.

Q18 David Mowat: But it was on a competitive basis. They went through a competitive process and lost. Anyway, just coming back to—

Chris Wormald: Sorry, but this is a very, very important point. We did not fund the failed bids. The cross-Government fund that we set up was for a different set of activities, as set out in the grant agreement between us and Kids Company.

Q19 David Mowat: Okay. Prior to 2013, which was the time of the failed bid, or 2012-13, when was the most recent successful bid that Kids Company had made that was actually competitive?

Chris Wormald: That would have been the previous version of the VCS national prospectus in 2011.

Q20 David Mowat: So that was a successful bid—

Chris Wormald: Yes, and before that, they were successful in the youth sector development fund from 2008 to 2011.

Q21 David Mowat: So the incident in 2013 was a one-off in a way that we—

Chris Wormald: Yes, and as I say, it was genuinely different. We were setting something up on a cross-Government basis to reflect the cross-Government—

Q22 David Mowat: We then get to the criteria that you also set up, which the Chair talked about. Figure 8 shows the 1,347 interventions you required Kids Company to demonstrate. You hired Methods Consulting, or maybe by this time the Cabinet Office hired them, to validate those—1,347 interventions over a two-year period when the grant was £9 million comes to quite a lot of money per intervention. Do you think, in hindsight—I realise we are talking about this in hindsight—that your criteria were not as tough as they might have been?

Chris Wormald: That is a question that—as you say—with hindsight, we might look at. At the time, there was a very thorough process of negotiating the arrangement with Kids Company, and certainly the view we took at the time was that the outcomes we were getting—I do not think there is any disagreement about this—for some highly innovative work with some extremely vulnerable people was value for money. I can only tell you what we thought at the time, which was that that did represent value for money.

Q23 David Mowat: So the figure of £6,000 per intervention, which is what it comes to—I understand that some of them are complex and all the rest of it—perhaps now, in hindsight, you might have had tougher criteria.

Chris Wormald: No, sorry; I am not saying that. I have not done the same calculation you have done on interventions.

Q24 David Mowat: I just took your numbers of 1,347 interventions and £9 million.

Chair: It is not very difficult maths.

Chris Wormald: Of course, a number of these interventions will be more expensive and less expensive than others. As I say, our assessment at the time was that that was value for money, given that we are dealing with some quite—

Q25 Chair: How did you know that? How did you know it was value for money?

Chris Wormald: The negotiation that led to that set of arrangements was based on our previous experience of working with Kids Company over quite a long period. We negotiated that amount with Kids Company as being a reasonable set of outputs for that sum of money.

Q26 Chair: But Mr Wormald, you had repeatedly raised concerns, or officials had, about the performance outcomes of Kids Company.

Chris Wormald: No, sorry, just to be clear on what the warnings were—certainly until very recently, very few people have been doubting the quality of what Kids Company has been achieving. It has been well attested that it is a series of very expensive—

Q27 David Mowat: But most people were not paid to do it, and you were. In all fairness, given the point you just made, it was your job to evaluate this.

Chris Wormald: Sorry, I am answering the specific question I was asked. The warnings were mainly about the financial management of Kids Company, not the quality of the interventions, and we did have a set of evidence on the table that those interventions were being successful. Let me give you the example of the Youth Sector Development Fund, which Kids Company were successful at. That was evaluated as part of our overall evaluation of the Youth Sector Development Fund by an organisation called GHK, which we employed to do that. It concluded: “The YSDF funding is helping Kids Company to become a centre of excellence, enabling them to disseminate informed educational packages for service users and providers”. We got a number of pieces of—

Q28 Chair: But Mr Wormald, it didn’t. The whole point of the funding, from the beginning, was that it was going to replicate its model and make it national. It never moved beyond two borough areas—well, south London and Bristol. So it did not develop that model—not successfully, anyway; not apparently.

Chris Wormald: I am making a slightly different point. You were saying there was no evaluation evidence. That is not correct. It is right, and it is one of the learning points we have to take away from this, that most of our monitoring was about outputs, not outcomes. It is a very, very difficult area to measure outcomes in, and that is something we will have to improve upon in future, but it is not the case that we did not have quite a lot of—

Q29 David Mowat: You have made that point. You asked them to make 1,300-odd interventions over a two-year period. They reported back on their progress, and as you said earlier in this session, they demonstrated in figure 8—which actually understates it because it is only for one quarter—which shows that in one quarter, they beat your target by a factor of four, which presumably means that over the period they beat it by a factor of 20 or 30. You described your target as good value a few moments ago. The fact that they’ve beaten your target on the numbers that they reported back to you by a factor of 30 must mean that it was extraordinary value.

Chris Wormald: No, it wouldn’t be factor of 30. Those are the quarterly targets.

David Mowat: It is, actually, a factor of 30.

Chair: In figure 8, the yellow figure is interventions in a quarter.

Q30 David Mowat: You can find it in paragraph 4.11, which states that your target was 1,347 and they delivered 30,217, which obviously either means that they were exceeding your expectations by a factor of 25 perhaps, rather than 30, or that there was something wrong with your target. Let’s just leave it at that, because, from what I have heard, I am not sure that there is an answer to that.

I want to move on to the Cabinet Office for a bit and the process that you, Mr Heaton, went through in 2015 when this cross-departmental grant had run out. It became an issue and it had to be refunded. Roughly speaking, there was some steady-state requirement of £4.5 million a year, and they had been getting it every quarter—about £1 million a quarter that kept them going. That is the model we were in. Then, you decided that you would give them a further £4.5 million at that point. But in that instance, it was not a PI case; you just went to the Charities Act 2006 and said that the ministerial discretion was such that the Minister could give that amount and that was fine. Why didn't you feel as though you needed a public interest case for that decision?

Richard Heaton: The terminology may have been slightly different. Can I just tell the story from the moment that we took the charity on? It might help to illuminate some of the issues that we are discussing.

Chair: If you're brief, that's fine.

Richard Heaton: Okay. We took the charity on and were aware that it was an unusual funding situation. Kids Company was an unusual charity in that it was well networked to all sorts of people. It was well liked politically, which is no secret. There were question marks about the measurability of its outcomes, which didn't make it unique in the sector. We were also aware that it was unorthodox and had controversial methods. I am not saying that that is a negative, but it was a controversial charity. When we took it on, the first thing we did was to work with Methods Consulting, the firm which Chris's Department put in, because we realised that the measurement work was good but could be better. We wanted to improve it and to build on it. So that is the first thing we did. We were then nervous about the charity's financial controls and governance, so we commissioned an external firm of auditors to have a look at that.

It was not until we had done those things that we felt able to approve a top-up to the DfE loan of half a million for two consecutive years, not the £4 million. We did that very specifically, tying it to an increase in the outcomes that we sought. We tied the second tranche to a summer intervention course that Kids Company was using and said, "You have to test your outcomes model on that summer programme." We were really keen to make progress on two things: financial sustainability and governance.

Now, when we get to the £4 million grant, which was signed off in early 2015, it was a collective decision in Government that this money should be paid to Kids Company to continue a funding relationship. We were really keen that if that was to happen, we needed to go a considerable distance to get that within *Managing public money*. We absolutely had to nail the charity down to embedding a proper outcomes framework, building on the Methods Consulting work. That was the first condition that we imposed. The second condition was that, within six months, they had to demonstrate to us that they had become a financially sustainable charity.

Those are two really heavyweight conditions. We were also determined to send in a civil servant, who is sitting behind me and who did an excellent job in finding out what was actually happening on the ground and whether the organisation was living up to the commitments that it had given us. We were really keen to grapple this one and to make sure that the charity did not become an endless receiver of Government funds.

Q31 David Mowat: I will come back to that. I am interested that one of your criteria was not one of the previous ones, which was that you would try to make this charity national. Nobody in this room doubts that this charity did good work. Some of us are concerned that the good work was directed entirely at children in London, when presumably there are children in Newcastle, Liverpool and Manchester who are equally—in Mr Wormald's defence, his Department was trying to make it become national, albeit a failed attempt.

Richard Heaton: Not directly. If the charity had demonstrable outcomes and could demonstrate that what it was doing was achieving outcomes in society, it would have been copyable by other charities. That is one reason why the sector needs to become better at measuring its outcomes, so that the model can be scaled.

Q32 David Mowat: Okay, but it had been going for 20 years. Were you seeing other charities copying them in other places?

Richard Heaton: No. If I can say this completely honestly—I want to be completely honest to the Committee, because this is not a comfortable position for any of us to be in—Kids Company was not good at measuring its outcomes and the impact it was having in society. We wanted to help it to get there, and Methods Consulting was doing some good work with it. We found that Kids Company was not particularly good or particularly interested in measuring its outcomes until there came a moment in early 2015 when a good head of impact measurement came in, its attitude changed and it became rather good at it, or interested in improving its technique. By the time we came to fund it—

Q33 Chair: Sorry, can you be clear: did they become rather good at it or at honing their techniques?

Richard Heaton: They got the point of outcome measurement in a sense that really they had not got before.

Q34 Chair: They got the point, but were they doing it?

Richard Heaton: By the time that we made the grant, yes, we thought it was possible that they could embed a proper outcomes framework, building on the Methods work. We were more optimistic at the beginning of 2015 than we had been six months earlier.

Q35 David Mowat: You are right that throughout the evidence there appears to be some reluctance to take the measurement side seriously. One reason might be that they were not required to do that in order to get the £1 million a month. I declare somewhat of an interest: I was chairman of a charity called Fairbridge in Manchester over some of this period. We did a lot of commissioning work with local authorities, with similar sorts of children or young people. We had to provide measures of that, otherwise we would not have got the money, so it made us do it. The difference here is that you guys were giving them the money

without them doing that. Even though you were asking them to do it, they didn't, but you kept giving them the money.

Richard Heaton: If you look at the conditions for our £4 million grant, they were quite substantial and rigorous on outcomes, so I would say that for that grant we were doing it.

Q36 David Mowat: So you are saying that by the time it got to your watch, in 2015, you had got it enough to ask that question, which hadn't been asked for the previous 20 years.

Richard Heaton: No, it had been asked, but it was something that, across Government, we were getting better at. It was an improving story.

Q37 Chair: Can I ask one question before David carries on? You gave £4 million in one hit, rather than £1 million quarterly. We are talking about the outcomes: did you know what that £4 million was going to be spent on?

Richard Heaton: Yes, we had a detailed grant agreement. Two thirds of it was on a specific set of measures that are recorded item by item in the grant agreement, and the rest of it is for restructuring the charity.

Q38 Chair: It went on staff salaries, did it not?

Richard Heaton: There is an issue about why we paid the entire sum once, and I have looked at that again and again. I think it is worth sharing my thoughts on that, if you will hear me. I have asked myself whether I would have done something differently if I had known what has subsequently happened. The reason why we paid it all in one sum, having set out what I think was a good outcome framework, was because had we not done so it is likely that the charity would not have survived. We were not starry-eyed or over-optimistic. We worked really hard with the head of the charity's finance and risk committee, who is a distinguished figure from the private sector. We worked with their external auditors. We looked at their balance sheet and at their forecasts. We thought that if we funded them the entire sum up front, we could get out of this a sustainable organisation that would be free of Government funding and would have a decent outcomes measurement at its heart.

We went into that with our eyes open. We made a judgment—I made a judgment call that that was an acceptable use of public money. In hindsight, would we have made a different choice? It is hard to say, but it was not an over-optimistic case we were making; it was a properly measured decision on advice.

Q39 David Mowat: A judgment like that would have required you to see quite detailed plans. We will come back to that. Perhaps the other way of thinking about this is that for the previous seven years, roughly speaking, Kids Company had received £1 million a quarter and that had been bedrock funding that enabled it to keep going. Suddenly, in 2015, this £1 million a quarter of bedrock funding that central Government had been giving them

was given to them all in one go because they had cash flow issues. It seems to be arguably quite naive to think that, unless massive structural change took place, they weren't going to be back in two months' time to say, "We need the funding for the next quarter, which we don't have now." Presumably your hope was that you were not going to fund them again for that year.

Richard Heaton: That is right, and indeed two months later that is what happened, so it now looks like a naive thing for me to have done.

Q40 David Mowat: I do not want to be overly critical in hindsight, but what made you think you had enough evidence to know that, by going away from the pattern of £1 million a quarter to one of one years' funding in one go, they would use that £4.5 million to restructure and become solvent?

Richard Heaton: The best I can say is that we thought we had turned a corner with this charity. We thought they had a good head of impact, who we really thought got it and could produce a framework. They had really serious philanthropists, who were prepared to put money in—really serious philanthropists, right up until when the curtains came down. They were preparing a radical restructuring and we thought that we would deliver it; we thought that with the charity we could help to deliver a sustainable organisation that would not require continued Government funding. As I say, that may in hindsight look like naivety—

Q41 David Mowat: But you saw a plan—because clearly for an organisation like this, with one month's reserves, the cash flow issues mean people, really; that is all it can be. Therefore you saw plans, did you, that saw them shedding people, making people redundant and on that basis you began to feel it was solvent and you could go on.

Richard Heaton: Not quite, but we saw the willingness to make plans; so if you look at our original grant letter, it said, "Condition 1; you must produce contingency plans to reduce costs or to withdraw from Bristol," and so on and so forth. So we required plans to come to us very quickly—within six weeks. They did not, in the end. That was one of the measures—

Q42 David Mowat: "Willingness to make plans" does sound a bit weak.

Richard Heaton: Yes, but we were talking to serious philanthropists—people who were prepared to come on board and help the charity and turn it round. We were optimistic because—

Q43 Chair: Can you name them, Mr Heaton?

Richard Heaton: We were talking to the head of audit, who was a former chief executive of WH Smith, who is very serious player. At a later stage we were talking to

philanthropists who were prepared to back the charity; but that was in the direction episode, which was a bit later.

Q44 Chair: Can you name the philanthropists you were talking to, apart from their own head of audit?

Richard Heaton: I am not sure when we started talking to Stuart Roden; he is a very serious philanthropist. He was prepared to come in and help the charity as a prospective new chair. I think that was the subsequent occasion.

Q45 Caroline Flint: You just said you made decisions on the basis of these philanthropists coming in, and you cannot actually verify someone you spoke to before you gave them £4 million.

Richard Heaton: I can get details on the names of the philanthropists.

Chair: It would be very helpful if you could. Chris Wormald wanted to come in on this.

Chris Wormald: On that last point, I refer the Committee to figure 5 of the National Audit Office Report. One of the things that we looked at about Kids Company was its ability to find resources. As you will see from that chart, the portion of central Government money as a proportion of their total income was declining quite rapidly. It had gone down from 31% in 2010 to about 20% in 2013. Of course my people, prior to this going to the Cabinet Office, were looking at the same information. One of the things we did not doubt was that they were becoming more and more successful every year at raising non-Government money. That is one thing I would say.

A couple of other things, while I have got the floor. There was a point a moment ago about how we monitored and evaluated. It is true that we took, first through the Methods Consulting contract and then through everything the Cabinet Office did, a completely different approach from 2013 onwards, to that we had taken previously. Previously, we had monitored and evaluated Kids Company in exactly the same way as we did everyone else who had been successful in those grant bidding processes. Obviously, we were going into something completely different in 2013, and we therefore did put in different arrangements; so I just wanted to say that as well.

Q46 Chair: You talk about monitoring. Can you just explain to us the role of civil servants in that data monitoring, and whether it went beyond data? The data was poor. Secondly, if I am correct Methods Consulting started under the DfE's watch and then moved over to the Cabinet Office. Can we have answers to those two questions?

Chris Wormald: There are three bits to the story, because there were three different sets of arrangements. I want to find the relevant part of my notes. Under the Youth Sector Development Fund—that was how they were funded from 2008 to 2011—the Department appointed a managing agent, ECOTEC, to monitor the entire fund, including Kids Company.

It was that organisation that gave us assurance reports that money was being spent on what it was supposed to be spent on. Then, as I mentioned earlier, we had an evaluation of the programme, run by GHK Consulting. That is what happened under the Youth Sector Development Fund.

Under the VCS national prospectus scheme—that was 2011 to 2013—the monitoring was done in-house, so there were quarterly reports from Kids Company about their progress. There were then quarterly meetings between civil servants from DfE and Kids Company, who went through that data and also looked at the evaluation plans that Kids Company had. As I have said all the way through—and it is one of my four learning points out of this—that was more focused on outputs than outcomes, and I do think that is an issue that we will have to go away and think about.

Q47 David Mowat: That is true of the whole period. You made a fair point at the start of that piece of evidence, which was that Kids Company received a lot of money from external sources, as well as from Government. All I would say to that is that one possibility for the healthy amount of external resourcing that they received, when people were concerned about how much value for money this charity was and how effective it was versus competing charities—because there are others—was the very fact that you guys were funding them with £4 million a year since 2008. This was *prima facie* evidence to the private sector that this was a good charity to fund. So actually, there is a school of thought that says that the damage you did in funding a charity that may not have been such high value for money as other charities was exaggerated by a leverage effect that the charity was able to have by saying, “The Department for Education wouldn’t be funding us unless we were good value for money, nor would the Cabinet Office.” Whereas in fact, the evidence in the Report is that they were not good value for money.

Chris Wormald: I do not think the NAO Report says that, because they did not take judgment on value for money.

Q48 David Mowat: Well, it says, *inter alia*, at 2.1.8, that the reason you didn’t go with their bid was because it was poor value for money.

Chris Wormald: I am not disputing that their bids were not value for money.

Q49 Chair: We recognise that there is a technical distinction. This is an investigation, not a value for money report. Most people, Mr Wormald, wouldn’t appreciate that distinction, but David Mowat’s point is perfectly correct. Would you answer the question?

Chris Wormald: I think what you have said about figure 5 is a fair challenge. Indeed, at times, Kids Company has said that receiving public money was something that it could use to leverage private sector resources. Of course, from one point of view, that is a good thing. I was making a simpler point that, when you look at the information in figure 5, it is not the profile that you normally see for a charity that is going to be in trouble. Secondly—

Sir Amyas Morse: I do not mean to stop you from putting your point, but I am reflecting as I listen to the testimony you are both giving on what Mr Heaton said about when he became involved—it was an organisation that lived hand to mouth. Was there any control environment? I do not deny that they could draw up plans, but when it came to carrying out those plans, was there evidence that they ran through their funding and were constantly up against it, no matter what? Does that really mean that there just wasn't a habit or environment of control in that organisation?

Chris Wormald: That comes exactly to the second point I was about the make. I think that is a very fair question. On the table we had reports from ECOTEC in 2009 that said that Kids Company was basically a well governed organisation. Of course, when the Cabinet Office sent in accountants in 2014 to do a full study, they found a well governed organisation with proper financial controls that had a cash flow problem. What the accountants found even in 2014 matched what the Department had found before: it was not an organisation that was badly governed or lacked financial control. It may be that we were wrong and that there was evidence that the contractors we used and the Cabinet Office and PKF Littlejohn had missed. Properly qualified people went in and assured first my Department and then the Cabinet Office that this was a financially well run organisation. We may have relied too heavily on that advice, which may have been wrong, but we had evidence on the table at those points that this was a financially reasonable organisation.

Richard Heaton: In answer to the question asked by the Comptroller and Auditor General, PKF Littlejohn showed us quite starkly that the charity had no reserves, which meant that it was in a precarious cash flow situation. Our leading worry throughout our engagement with this charity was its lack of reserves and its ability to go bust at any time, and therefore its constant demand for Government back-up funding. Looking back, one observation you could make is that we became obsessed about that point. That was our single biggest worry, and we were developing the outcome framework as well. So we had that thing in mind throughout.

Did it get better? When it came to the direction stage, I had become convinced that it would not get better. I was more optimistic six months before that, at the time the PKF Littlejohn report came in. I thought there was something seriously—

Q50 David Mowat: You said quite an important thing just now. You said PKF made it clear that they had no reserves. But surely you knew that already. Surely, in all these grant applications, they were putting in things around their financial positions within the Department. That was surely not hidden from you.

Richard Heaton: PKF Littlejohn reported on the charity as it came under our watch.

Q51 David Mowat: That is the Cabinet Office. What about the Department for Education? You have been dealing with these guys for 15 years. It did not just happen.

Chris Wormald: And I think there are learning points for us—

David Mowat: One of the learning points is that you might have told your colleague, as you passed responsibility for it to his Department, that they had no reserves, so he would not have to rely on a report from the accountants.

Chair: Let Mr Wormald finish.

Chris Wormald: This is one of the things we will have to look at again in future. When we deal with grant applications, we do not tend to look at those wider questions about the organisation as a whole. We look at the grant on the table and whether it is value for money. I think it is a fair challenge—this is one of the learning points that came out for me in looking at this story. Should we have looked longer term in the way that we did post-2013?

Q52 David Mowat: I just have a couple of quick questions for Mr Heaton before I finish. On the £4.5 million, when you gave it all in one go, as against the quarterly payments that had been happening for the previous few years, you said one of the good things was that it indicated “a willingness to make a plan” to show how that would be enough to recalibrate and re-baseline. You were totally comfortable with that at the time. Just for clarity, you did not consider seeking a ministerial direction for that decision in the way that you did six weeks later.

Richard Heaton: I will be perfectly honest, I was not totally comfortable with it. It was an issue that I found a close call and quite a difficult one. But I thought we had sufficient evidence to suggest that this charity could be put on a stable footing because of the indications of good will and the capability they were building. It was not an open and shut case. I did consider a direction, but I decided I did not need one.

Q53 David Mowat: The second part of my question was: at that time, did you consider seeking a ministerial direction for that £4.5 million in the way that you finally did six weeks later?

Richard Heaton: I did consider it, yes.

Q54 David Mowat: Did you have a dialogue?

Richard Heaton: I discussed it with officials and with my team, but I decided that I did not require a direction. However, I did consider it, yes.

Q55 David Mowat: And when six weeks later they asked for £3 million more, you just said, “That’s it. I am not prepared to sanction this any longer.”

Richard Heaton: Yes. It was a different proposition that came in. Do you want me to detail that?

David Mowat: Yes.

Richard Heaton: Within weeks of the £4.3 million—not £4.5 million—grant agreement, we were startled, shocked and surprised that the charity would come to Government—DWP, as it happens—and ask for more emergency funding. It was astonishing that the charity had apparently spent our money and was already requiring more emergency funding from Government. They had in that time failed to fulfil some of the conditions of the grant, so we were worried, but we did not realise that they would be coming to Government quite so quickly for more money. The Government’s initial reaction was to say, “No, out of the question.”

The charity then came back with a very bold restructuring proposal that would involve the chief executive of the charity stepping aside. It would have involved a new trustee membership, including a new chair, and a radical downsizing of the charity. It was a very specific proposition that I was being asked to fund, which was: will you pay £3 million to fund that particular radical restructuring? I thought that was on the wrong side of the line because, for it to succeed, it required the chief executive to step to one side; the trustee board to be replaced; management to have the grip to downsize an organisation, which is hard work and difficult; and no drop-off in philanthropic funding. It would require all those things to come to pass for the restructuring to be successful, and I did not think the probability was high enough to justify public money. It was a very specific proposition on which I sought a direction, and Ministers quite reasonably took the view that it was a punt that was worth funding. It was a prospect, even if it was a narrow prospect, that was worth giving one last chance to the charity. That is the area on which the direction was funded—quite a specific proposal for radical restructuring, which I could not sign up to, or I could not advise Ministers to sign up to.

Q56 David Mowat: And in hindsight, you called it right at that point?

Richard Heaton indicated assent.

Q57 David Mowat: One question for both of you as I sign off. What really matters in all of this is the young people who were being helped. We need to bear that in mind, albeit that they were all based in one part of our country. When they were handed over to local authorities—I think that something like 1,900 case files were handed over—you gave £200,000 to the local authorities to continue the work. That seems quite a big difference compared with the amounts that were being given to the charity previously. I am interested in any facts or observations that you have on that.

Richard Heaton: I do not have any facts or figures. I do know that as soon as it became clear that Kids Company was going to fold, we had two priorities. The first was the young people whom Kids Company was helping, so we were talking to as well as funding Lambeth and Southwark, and Bristol. I do not know precisely how much money we put in; I am sorry. I might have that information behind me.

The second thing was to safeguard taxpayers’ money, because we had £3 million and we wanted to make sure that we got it back on behalf of the taxpayer. The primary concern, exactly as you say, was the young people who were to be helped by Kids Company who would be left in the lurch.

Q58 Chair: Could I ask you to supply us with that figure, either now, if you have got it, or in writing?

David Mowat: I think the Report has got it as £200,000. It is in the Report.

Chris Wormald: Can I add one thing? DfE's other involvement was in the conversations with local authorities at closure on exactly the issues that Mr Heaton has just described. We focused on whether there would be an impact on statutory social services, which is very different from various activities that Kids Company were carrying out which were not statutory social services. The things that we were talking to local authorities about were, for example, whether there would be an impact on the statutory child protection system, not the big range of other activities that Kids Company were carrying out that no social services department would do.

Q59 Chair: How would they have known that?

Chris Wormald: This is what the handing over of the case files is about. Mr Mowat was asking about the difference in the amount of funding. Kids Company was being funded for a whole range of outputs that statutory social services do not do, so it was not a case of them picking up everything that Kids Company were doing. The question we were discussing with local authorities was whether there would be an impact on their statutory social services such as child protection services and social work.

Q60 Chair: Thank you. We have got that. My final question for you at this point is: did you consider or consult at any point about taking a ministerial direction?

Chris Wormald: No. I—

Chair: You said no; that is fine.

Q61 Karin Smyth: I think we should go back to some of the learning points. We have talked about the fact that there was a lot of private sector support for the organisation, but there was not a lot of support across the rest of the country. I am particularly interested in the learning that you might have taken from Bristol and other local authorities in the way they awarded contracts and the additional criteria they placed in those contracts. In Bristol's case, it was to meet the Ofsted criteria, which they failed to do. Was there any dialogue between both Departments and the local authorities concerned about how that was operating on the ground?

Chris Wormald: I am not aware that there was. There may well have been, but I cannot say that I have looked at that specific issue, so I might have to come back to you.

Chair: Please come back to us on that.

Richard Heaton: I am aware that when we took Kids Company on, we had informal conversations with Lambeth and Southwark—I am not sure about Bristol—exploring why they appeared to be outside the statutory framework, and why local authorities found it difficult to fund them in some cases and easier in others, but I am not sure that we tackled quite the question you are asking.

Q62 Karin Smyth: Do you think you should have done? Given the level of expertise of commissioning services and monitoring services in local authorities, and given that there were contracts with those local authorities, is that something that your Departments would have benefited from?

Richard Heaton: Yes is the answer to that, if it is the case that Government should be in the business of directly funding locally provided services. One of the learnings from this is that the use of the Charities Act powers to step in and provide front-line services is unusual and should be treated with a bit of caution. It is probably better channelled through people who understand methodology and front-line issues better than Government. I know that the direction the Cabinet Office is currently going in is to spend less money on directly interventionist grassroots activity, because that is not something that central Government is very well sighted on.

The other learning is, as I have mentioned before, that the sector needs to be better at understanding what works, and that the Government has a role in helping the sector to achieve that. It backed, for example, the What Works Network, the Impact Readiness Fund and the Youth Impact Fund, so charities understand how to demonstrate their impact so that it can be scaled up. Government is best suited to making those sorts of interventions, rather than direct interventions in front-line services, where I don't think central Government is well placed.

Chris Wormald: Shall I add to my answer? I gather that there were some discussions with local authorities about some specific things. I will send you details of what they were, because it is not something I have briefed myself on.

There is a general point here about why we fund the voluntary sector at all. Normally—a number of the cases I quoted earlier are in this category—we fund it to do things the statutory services can't, such as talk to people who statutory services can't talk to. I am sure all Committee members have seen examples of that in practice.

Our intention through all this is not to try to turn charities into bodies run exactly like local authorities or schools. Indeed, that would not be the point. There is—this is another of my learning points—a question for us about the right balance of having the kind of conversations you have just been describing and keeping the voluntary and charity sector free enough so that we get value out of it, in terms of doing things—

Q63 Karin Smyth: My question was not about whether the local authorities should be running the services. It was about how they commission and then monitor performance. We are not looking at the governance. They seem to have done that in a better way than the Departments have done. My question was, can you learn from them?

Chris Wormald: The Government does an awful lot around commissioning with local government. We can all improve.

Q64 Chair: The question was, can you learn from them? Yes or no.

Chris Wormald: Yes, we undoubtedly can. It is not a secret that the London authorities had a slightly mixed history over that period, in terms of the quality and effectiveness of some of those local authorities. There are different questions in different parts of the country. I think it is a very fair challenge, however.

Chair: I am going to pass over to Chris Evans, and we are going to do quick-fire questions around the table.

Q65 Chris Evans: Mr Heaton, I put it to you that once you had conducted that review with the Cabinet Office, it was too late. The Government was the holding company of Kids Company, and Kids Company was a subsidiary of the Government. How often have charities had tax debts written off by HMRC? The executive brief says that £590,000 was written off. According to your review, there was an arrangement with HMRC to pay off historic debt, but we don't know what that amount is. Why don't we know what that amount is, and how many other charities have had tax debts written off in the past 10 years?

Richard Heaton: I don't know the answer to that. I would have to ask HMRC, or you would have to do so. I wouldn't know that sort of tax information.

Chris Wormald: No, and HMRC, as you know, doesn't discuss the tax position of individuals, so I'm not sure that is an answerable question, I'm afraid.

Q66 Chris Evans: This is not an individual; it is public money. £590,000 was written off for a charity. My question is this, Mr Heaton. I would say that the Government was so hard-wired into this charity that, once the review was conducted, there wasn't a lot that could be done.

Richard Heaton: Well, as it turned out, the charity didn't succeed. We thought, during the year and a half that we were looking after the charity, that there was a chance of turning it into a sustainable charity at arm's length from the Government, like every other service provider. In the event, that didn't come to pass.

Q67 Chris Evans: At what point, though, did the Government believe it had to save this particular charity above all others that had received money? Why was it picked out?

Richard Heaton: As I said right at the beginning of the hearing, Ministers collectively took the view that this charity was doing good work, and they wished to back it. Our job as civil servants was to test that against *Managing public money*, and, once those tests were passed, ensure the money was spent effectively. Ministers are entitled, under their powers in

the Charities Act, to back whichever charities they think best make an impact. That is a ministerial decision.

Q68 Chris Evans: This is my last question, as others want to come in. Do you believe that the safeguards are now in place, and that if another charity faces the same problems as Kids Company, this will not occur again?

Richard Heaton: A few things have changed. Returning to the lessons I would learn from this, I think we should be less willing to use our general powers under the Charities Act to make uncompeteds grants. As Mr Wormald has said, there are plenty of instances where we would, but we should be cautious. We should be cautious about charities with multiple approaches into Government, because they are quite hard to corral. We should be very careful about anyone in or near Government giving what appear to be funding commitments to charity without referring it first to the funding Department. We should be careful about grants to charity that are contributed to by a whip-round across Departments, because that tends to take the attention off—it tends to remove it from the mind of individual Departments if they are merely chipping in a small amount to a large figure. There are all sorts of learnings for how Government funds charities, and those are some of them, if that helps.

Chris Wormald: I agree with all of those, and as I have said throughout, I do think there are learning points, certainly for my Department, about how we deal with the voluntary sector as a whole. After this hearing, I will be looking at how we do our grant regime in the light of the learning. That said, the straight answer to your question whether we can guarantee that no other charity will go under is no, of course we can't. Just as we can't in the private sector, we can't rule out failure in the public sector.

Q69 Bridget Phillipson: Mr Wormald, you referenced a number of charities and organisations that were funded on a direct grant basis from the Department, but Kids Company received significantly more than the vast majority of other organisations, including charities and organisations operating at the national level. What was the grant split between organisations operating at national level and those operating at what you might call local or regional level?

Chris Wormald: I do not have an auditable figure on that. I can go away and have a look.

Q70 Bridget Phillipson: It appears that central Government were funding what was effectively a local organisation over a sustained period.

Chris Wormald: I don't think there is any particular mystery here. Government funds a range of things that operate both nationally and locally, and we decide how to do so on the basis that we have described. I can go away and look at that question for you, but I do not have a number that I could swear in front of the NAO was correct. I will go away and do that.

Q71 Bridget Phillipson: Mr Heaton regards that—I hope I am being accurate—as something that is unusual and should be treated with caution.

Richard Heaton: There may be a different emphasis between Mr Wormald and I because the education sector is a specific sector. From where I am sitting in the Cabinet Office, it is unusual for the centre of Government to fund local interventions, but as I say, a specific sector like education may be slightly different.

Chris Wormald: As this Committee well knows, we fund local interventions all the time across the range of our responsibilities, and we discuss it with you a lot, so I don't think it would be so unusual in the Department for Education. However, the challenges that have been raised about our relationship with the voluntary sector and how these things work are fair, and I will certainly be looking at them within my Department.

Q72 Bridget Phillipson: Do you think a charity in Sunderland would receive the same level of direct grant funding from the Department as a charity in, say, London?

Chris Wormald: I am not sure that is an answerable question. As a matter of fact, I do not think there is a—

Bridget Phillipson: Kids Company received significantly more than many national charities—charities operating across the country. We have what is effectively a charity operating, for most of the period, within two London boroughs receiving significant funds from Government.

Chris Wormald: Yes, but it was spreading out to other areas. As you know, there isn't a—

Chair: To Bristol.

Chris Wormald: Bristol and Liverpool they were operating in, I believe, so there was a national outreach. Do we fund anything like that in Sunderland? No, we don't.

Q73 Bridget Phillipson: I don't dispute that the work was worth while. When I look at what they were seeking to achieve or the outcomes delivered for the young people, it of course strikes me as positive, worth while and beneficial. The question is whether it is fair to fund what is effectively a London-based charity for such a long period with extensive amounts of Government funding that would not be offered to charities or organisations operating elsewhere in the country.

Chris Wormald: I am not sure that is something I can comment on.

Q74 David Mowat: It is something you can comment on, actually, because your criteria were that they weren't national. Back in 2012, you tried to make them more national, but you didn't succeed. The point being raised is that there are children in Sunderland,

Warrington or Doncaster with just as difficult needs as the ones in London, and the very fact that you were funding in this way ignored them. That is the point being made.

Richard Heaton: It is a fascinating question. If there had arisen a charity in Sunderland with the same compelling methodology and the same appeal to politicians, perhaps it would have succeeded. It is almost an impossible hypothetical.

Chair: Ah, there's the phrase—"the same appeal to politicians". We will come back to that.

Q75 Deidre Brock: The replication of this model was one of the requirements of the funding, was it not? So I can't really understand why it got no further than it did—I mean, just to two areas really: Bristol and London—and yet that was a condition of funding from between 2005 and 2014.

Chris Wormald: The replication takes two forms: there is the spreading-out of the charity itself, which is as you have described; and a point in the story was the development of techniques that could be picked up by other people. And as I have said, prior to recent coverage I think that most people have seen Kids Company as something that was developing innovative practice that was not being developed elsewhere. As I say, there were two sides to that replication.

Q76 Deidre Brock: And was the Department involved in sharing those techniques?

Chris Wormald: Oh, yes. That is why we evaluate programmes and publish the results; that is what the youth sector development fund was all about.

Q77 Caroline Flint: It is very interesting, Mr Wormald, how you keep saying that they were challenging and doing innovative practice, but the quarterly progress reports, which were not independently validated, show that it did not really ask anything about outcomes. I think you have admitted that today. Why were those quarterly reports not independently validated and why weren't you more "on it" in terms of the outcomes? Given that you have said today that the work they were doing was hugely innovative, I would have thought that would be something you would want to look at.

Chris Wormald: They were not externally validated in the way that we had under the previous scheme; they were tested by civil servants. They were submitted to civil servants and then there were quarterly meetings with civil servants, so it was an in-house exercise that we ran on that.

As for the outputs and outcomes question, it is a much bigger question than Kids Company. With this type of work, it is very difficult to come up with good outcomes data as opposed to good outputs data. I was discussing the same question with the NSPCC about ChildLine. Because it is a confidential service, ChildLine has quite a lot of challenge in demonstrating a quantitative output.

Q78 Chair: Mr Wormald, do you know how much ChildLine gets? Can you tell us?

Chris Wormald: It gets £2 million a year. *[Interruption.]* Sorry, can I finish my description?

Chair: I think we have got the point.

Q79 Caroline Flint: Let me just stop you there, Mr Wormald. I don't think anybody on this Committee would underestimate how difficult it is sometimes to look at what point of an intervention makes a real difference, especially when you are dealing with vulnerable young people, whether it is the Troubled Families programme, or the family intervention programme. Over many years, under the Labour Government and under this Government, we have had various schemes; we had the social inclusion unit and everything else. But there has to be some attempt to validate an organisation, and from what I understand—correct me if I'm wrong—one of the key criteria for assessing the impact of Kids Company was that it was felt by civil servants, and maybe by Ministers, that it had a model, in the use of therapies and other things that it did, that had some traction to something that could be offered nationally.

Now, ChildLine—you have used that example many times during the course of the last hour—is an organisation that is clearly available nationally. I think you mentioned Teach First as well, which is another example of an organisation that perhaps started in one part of the country but we know that it is broadening because it has shown that it can be validated by peers in the sector, but it has also shown what works. Kids Company, however, beyond these couple of boroughs in south London and, it seems, an abortive attempt in Bristol, because it couldn't even get the support of the local authority there, has not demonstrated that reach for many years. Why would that not trigger alarm bells and why would that lead to money just being handed over hand over fist to this organisation to carry on?

Chris Wormald: No, that is disputed territory.

Caroline Flint: What is disputed?

Chair: It's not disputed.

Caroline Flint: It's not a national organisation.

Chris Wormald: Sorry, it is not disputed that it is not a national organisation, but whether there is a model of qualitative—

Chair: You had 13 years and £42 million of public money, and you still think it's okay for an experiment—

Chris Wormald: Sorry, I hadn't finished my answer. The point I was making about ChildLine—indeed, about a lot of people who work in this area—is that what you can get is quite good qualitative evidence but not good quantitative evidence, which is a very difficult area. And there was the same sort of evidence around Kids Company. I have already quoted

the evaluation that we did in 2011, and there was also the LSE study, the UCL study, et cetera. There were proper studies writing up this work—

Q80 Caroline Flint: Yes, but, some of those studies I think they commissioned themselves, so how independent and valid they were is open to debate.

Chris Wormald: Well, there is the LSE study, which it put its name to—

Q81 Caroline Flint: Can I ask another question? In 2011—you must be aware of this, although I know you took over a bit later—the DWP and the DfE seconded staff into the organisation to oversee and help with not only their fundraising, but their corporate capacity. Who did the individual civil servants report back to, and what was the learning point?

Chris Wormald: I am sorry, but I do not know about the DWP one. For the DfE one, which I have looked at, it was actually quite a junior civil servant who was sent there to assist with fundraising and developing alternative sources of income. They were not there to—

Chair: Fundraising?

Chris Wormald: Sorry—developing alternative sources of income in the public sector. They were not there to audit the organisation; they were not trained to do that, and they did not report back on that when they came back. As I say, this was quite a junior person. We second quite a lot of our junior staff to different organisations.

Caroline Flint: Given the worries there had been for a considerable time, what was the thinking about who you were sending in and their capability? You are saying you sent some very junior person into an organisation you had worries about.

Q82 Chair: To help with fundraising. Why fundraising?

Chris Wormald: No: sources of funding in the public sector—could they develop their relationship with local government and so on.

Chair: Can I bring the National Audit Office in on this point, and then go back to Caroline Flint?

Ashley McDougall: Just to confirm, that was completely unsuccessful.

Q83 Caroline Flint: Can I just move on to Mr Heaton? If Kids Company had not gone insolvent at the time it did—just 12 days after you had given them £3 million—would you still be funding them today?

Richard Heaton: Would we be funding them today? It depends. No, I think our model was: absolutely not. That would be a charity that is solvent, at arm's length from Government and is sustainable without hand-to-mouth Government funding. I think the

model we are hoping for is that it would not be funded by Government today, unless through a competitive process.

Q84 Caroline Flint: One thing I have found difficult to understand—Anne-Marie and I were talking about this—is that when you gave the £4.5 million and the £3 million, it was all on a promise that, somehow, they would miraculously produce some sort of plan for taking action. Why didn't you ask for the actions to be agreed in writing before you handed the money over?

Richard Heaton: Two very different interventions. The £3 million was on a direction; it was not spending that I agreed with. As for the £4 million, as I said earlier to the Committee, we thought long and hard about whether this required a direction. I judged that it didn't, because the dealings we had the charity gave us realistic grounds for optimism that we were at a turnaround moment. We had better staff in the charity, we had a better undertaking—

Q85 Caroline Flint: It was all on the never-never—it was all on a promise down the road.

Richard Heaton: No. We thought we had made a breakthrough with them. We thought that, for the first time—

Q86 Caroline Flint: Why didn't you say something like, "You have to cut your staff by this number," or "You have to reduce your costs per child"? If we had £6,000 per head for children in Doncaster in the same situation, we would be delighted.

Richard Heaton: I think that, for the first time, we had very, very, very clear milestones, which they were required, under the grant agreement, to meet. One was a downsizing plan, and one was to do an end-to-end review of the charity within six months and to report to us. So we were getting serious on this—no question.

Q87 David Mowat: They hadn't done the downsizing plan; they told you they were willing to do one. The question really is: why did you give them £4.5 million without the plan having been delivered?

Richard Heaton: It would have been possible to have staged the payments—you're absolutely right—over the period, but the charity would then have gone insolvent. We were therefore in a very difficult position.

Q88 David Mowat: In fact, you didn't have a chance to get a plan, because they said, "We are going to go bust unless you give us the money."

Richard Heaton: Okay, but we judged that the prospect of a realistic outcome was sufficient for us to make the investment. Given that, and given that they would have gone insolvent had we not paid the money, I took the call that it was okay to pay the money in one lump sum with ministerial authority. As I said earlier, you can criticise that. It may not have been a judgment that was the right one, but that was the judgment I took—that because we had a realistic prospect of finally turning this charity round and ending its dependence on Government funding, it was a plan that was worth following.

Q89 Caroline Flint: Would it be fair to say, given what you have said today, that you did not have a firm guarantee of how they would downsize the organisation or make structural changes that would bring their costs down and make their viability better before you gave them the money?

Richard Heaton: That is correct. As it turns out, it did not happen, so yes, that is correct.

Q90 Mrs Trevelyan: The challenge we all have here is that there has been, over many years, a willingness to give money without ever stopping to ask, “Why can’t you actually show us what’s being done?” Why did no one say at any point, “Try cutting your cloth first and then we’ll give you the next instalment”? Why was that never a question? If it was always because Ministers were keen—we are going back to section 70 of the Charities Act—why on earth has there not been a ministerial direction all the way through, because your judgment and your predecessors’ judgment has been flawed and flawed and flawed and flawed? It seems to me there has never been a point at which you have said, “We’re not really making the progress we would like here.” Although the work they were doing was very interesting, I can tell you that in Berwick-upon-Tweed, £6,000 for the children who most needed it would have revolutionised their world, too. Why on earth were there not ministerial directions again and again through this process?

Chris Wormald: As I say, I will discuss this with my predecessors as accounting officers as well. For the period until 2013, this was an organisation that was winning competitive bids for schemes, fulfilling the objectives of those schemes and being monitored against what they had bid, and it appeared to be delivering the outputs that we had set out in the bid and the scheme. The questions of ministerial directions did not arise because the Government was getting for its pounds what the charity had set out in its bid that it had won competitively.

From 2013, we had a completely different situation, as we have described, and we put in extra monitoring and evaluation at that point. I did not consider a direction in 2013, because I had assured myself that there was a public interest in the proposal that was being taken forward, as we have described.

Q91 Mrs Trevelyan: On that point, what I still do not understand is the move to the need for a public interest test because it was failing to pass other, national prospectus award grant attempts. It just doesn’t fit together. The Report says it would have affected the

Government's wider agenda if you had not put forward the public interest case, but then it was not fitting with the priorities in terms of the prospectus grant framework. I do not understand where at any point a single Department that is looking at all these things from different directions can see that one outweighs the others if it isn't for the fact that Ministers are determined to support this particular charity, in which case why on earth were you not asking for a ministerial direction?

Chris Wormald: As I say, the question I asked myself through the public interest case was: was this a reasonable case that could be put to Ministers for a decision? It is a decision Ministers are allowed to take on the basis of the evidence that we put in front of them. I assured myself that it was a reasonable question to ask Ministers; we put the question to Ministers; and they took their decision. I am very, very clear—I have not seen anything in the audit trail otherwise—that that was a properly taken decision and a decision that Ministers are allowed to take. Other people can conclude that they don't agree with Ministers and would have set their spending priorities differently, but in that circumstance, I did not see anything wrong in the discretion by Ministers that was being exercised, and I stand by that decision now.

Q92 Chair: So both of you effectively got Ministers to decide.

Chris Wormald: Just like Mr Heaton, I accept that other people might take a different decision, looking at the same evidence, and I might criticise them for doing so.

Q93 Chair: But the point is that you two are the accounting officers who were responsible for the last few years and you are the ones who make the decision on your watch.

Chris Wormald: Yes.

Chair: And I think you can hear from the Committee that we have some really serious concerns, but Richard Heaton, could you answer Mrs Trevelyan's question please? Perhaps you could repeat it.

Q94 Mrs Trevelyan: Looking at this in the round—it is my view that you have probably been the most robust Permanent Secretary in this process in challenging it, although perhaps a little short-sighted, and I would question whether April was the time—the issue is that differentiating between something that affects the Government's wider agenda, whatever that actually means, and the fact that they were not fitting any of the granting programmes; they could not pass any other test that was coming out of central Government, yet you were still handing over money. Shouldn't that have required ministerial direction all the way through?

Richard Heaton: Just because I did not seek a ministerial direction does not mean that my Department was doing nothing and was sitting back and being lackadaisical. We worked very hard, with the consultancy firm Methods and with Kids Company, to get them into a better place so they were a better recipient of public funds. We were more optimistic

and, I think, on better grounds than we would have been a year ago that we had a decent investment case.

Q95 Mrs Trevelyan: And philanthropists followed that lead and poured huge amounts of money into this charity in a way that perhaps they would not have done if they had felt that central Government were not being so free with their cash.

Richard Heaton: I am not sure that Coldplay and other people who were backing the charity were following the Government's lead. I don't think Coldplay hold a rock concert, reassured that Government is funding the charity; I don't think it quite works like that. There were philanthropists who of their own—

Caroline Flint: So perhaps they were all mesmerised.

Richard Heaton: Of their own volition, they wanted to fund this charity. Did I have to assess whether the same money could have achieved a better social outcome in Sunderland or Greater Manchester than south London? No, I don't think so. Ministers were entitled to say, "We want to back this charity, so long as it passes managing public money tests." On the one occasion it came to me, I judged that it did pass those tests, although I paused over it, earlier this year, but these are ministerial decisions to back a charity. Of all the charitable sector, Ministers are entitled to decide that they want to back this particular sector and this particular charity.

Q96 Chair: I want to bring in the National Audit Office on this point.

Paul Oliffe: Richard, the powers under which you issued your grant were in the Charities Act 2006.

Richard Heaton: Yes, section 70.

Paul Oliffe: You referred to the powers that Ministers have to provide financial assistance. Chris, was that the same legislation you used?

Chris Wormald: No, we used the Education Act 2002.

Paul Oliffe: So when Richard describes how Ministers are allowed to take a decision to provide financial assistance to a charity, that is under the Charities Act, but it is a different set of circumstances—

Chris Wormald: Yes, under the 2002 Act we have extensive grant-making powers that are similar.

Paul Oliffe: But I think Richard's ordering is that the Ministers selected the charity and that provided the means against which the grant could be awarded, so long as it met MPM standards. Is the ordering not slightly different under the Education Act, Chris?

Chris Wormald: Sorry, I don't quite understand the point you are making.

Paul Oliffe: The Charities Act says that Ministers can provide financial assistance to the charity, yes?

Chris Wormald: Yes, I'm with you now.

Paul Oliffe: That is the basis on which Richard was saying that Ministers selected a charity and backed it. It is a different ordering for what you did.

Chair: It's the wrong way round.

Chris Wormald: For the cross-Government fund that we agreed in 2013, we used the 2002 Act, and we specified—I appreciate that the Committee does not agree that they were challenging enough—the outcomes that we wanted. That was a different nature of grant from the one Richard is describing from 2015, for instance, which was done under the Charities Act. You are correct that there were different legal powers, but there was also a very different grant arrangement that went with those different legal powers.

Chair: Okay. I think we got the picture of that from the Report. I am going on to Nigel Mills, and then I have some mop-up points at the end.

Q97 Nigel Mills: Mr Heaton, you said that you thought about whether ministerial direction was appropriate when you approved the £4 million of funding earlier this year. Can you talk us through why you did not think such direction was appropriate and, especially, whether any of the issues that the Department for Education had previously used weighed heavily on your mind, such as “Oh God, we have been funding this for years and there is lots of political interest here”?

Richard Heaton: We had in mind that the money would go in two parts. One part would be to deliver outcomes, and we thought that we had a reasonable outcomes framework to which the charity would have to deliver. The other part was for restructuring and downsizing the charity. So we thought £1.5 million would go to the restructuring and the balance would go to funding the charity.

My consideration of direction came into whether we should pay in one lump sum. That is the area that I found most difficult. Again, the Committee may think that I was being naive, but I considered on balance that the degree of heavyweight support and expertise we were talking to led us to believe that there was a reasonable prospect that we could turn this charity around, as I said before, and that the charity that would emerge would be fitter.

Q98 Nigel Mills: So you were not influenced by the high-level political interest in this. You didn't think, “Oh God, if I ask for a direction here it will be in the public domain and the whole story will blow up. I'm not sure I want to take this on.”

Richard Heaton: I certainly came under no political pressure to either give or not give a direction. I hadn't given a direction before, so I had no muscle memory of how these things work, but I do not think I was unduly influenced by the politics. I mean, I was aware that it was a prime ministerially favoured charity and that plenty of Ministers across

Government favoured it, so I would have had to have robust grounds on which to seek a direction, but I think I am fairly robust and that if I had decided that direction was the right thing to do, I would have done it.

Q99 Chair: This decision was made during purdah—or your consideration of whether to do it was.

Richard Heaton: Yes, it would have been.

Chair: Did that influence your thinking?

Richard Heaton: I was aware that it was an election period and that everything was of heightened interest, but, again, no one put pressure on me to do or not do something because it was purdah. I took a decision that I am happy to defend on its merits.

Q100 Nigel Mills: You gave a long list of things that you thought could be done better across Government for the funding of these kind of organisations. For example, not getting caught in long-term funding and making sure you have real outcome measures—all those things you listed. When the Cabinet Office took over the funding of Kids Company, did you think, “What an awful mess we have got ourselves into?” Didn’t you think “Why on earth are we funding them to this level already?”

Richard Heaton: I took it over with some apprehension, because it was a very unusual jewel in our funding crown. It seemed to draw a lot of political interest. It seemed to draw a lot of annual public money. It had unorthodox methods. It seemed to operate outside the statutory framework in local authorities—although, as Mr Wormald said, that is not necessarily a bad thing. Ministers are entitled to fund innovation. It seemed to have low reserves and therefore coming to us was always slightly last-minute. I was apprehensive for all those reasons, and we wanted to get to the bottom of why this charity was behaving in this way, which is why we sent the accountants in and got our internal audits in. We tried to work out whether this charity was being badly run.

Q101 Nigel Mills: Okay, but did you think the DfE had done a good job in the way they had been funding this charity for several years before? Did you think this was a bad way of funding a partner?

Richard Heaton: I don’t think I came to a judgment. I took the view that the Methods Consulting work was a good start in trying to create an outcomes framework, but that we needed to go further on it, which we did; and we got some way. As I say, by the time we got to the big grant I thought we had got to quite a good place on outcomes. So I took it over knowing what I was taking on; but I do not think I would pass judgment on my predecessors.

Q102 Nigel Mills: Mr Wormald, you gave the impression in one of your recent answers that Kids Company had been winning bids, and it was only towards the end it had to get some sort of specialised funding or alternative funding structure. But the NAO Report

seems to suggest that there were briefings to Ministers in 2002, 2005, 2007, 2010 and 2012 that the charity had been coming to you and saying, “If you don’t give us this next round of funding we’ll go bust, and there will be all manner of nasty consequences.” That does not sound like—

Chris Wormald: There were points a long way back where it was funded on a non-competitive basis. There was the 2002 thing, which I think you are referring to, where the Home Office put together a funding package for them that was non-competitive. I was talking about the period when it was a part of our wider grant schemes, when it was bidding for money competitively. The National Audit Office has correctly described the course of events across the years you described. It has also made clear that it is making no judgment about causality.

Q103 Nigel Mills: So when you reviewed the files in preparation for this hearing, did you find on those files comments that said, “They have bid: we can award them some money, but we are a bit concerned about the value for money and that they make these threats that they will have to shut down if they don’t get it, so politically we have to do it”?

Chris Wormald: No. It is not unusual for civil servants to raise concerns about lots of things that the Government does. That is what they are paid to do. I did find concerns on the file. I also found a proper audit trail—I think the National Audit Office found this too—of advice going to Ministers and decisions being taken.

Q104 Nigel Mills: Did you find any “Dear Tony”, “Dear Gordon”, “Dear Dave” letters that had been passed on saying—

Chris Wormald: Well, it is a matter of public record that there were a number of letters to Ministers—

Q105 Nigel Mills: But were they on the DfE files? Did you find letters passed on from No. 10—

Chris Wormald: As I said, it is a matter of public record that there were a number of letters to successive Prime Ministers.

Q106 Chair: I think what Mr Mills is driving at is whether the Prime Ministers wrote to the Department.

Chris Wormald: I think, from the files, they were referred to the Departments in question in the usual way. I did not see anything unusual in the correspondence or the audit trail, and, as I say, I think Mr McDougall would agree with me that what we saw on the file was a set of submissions from—

Q107 Chair: So there is no special pleading on file, that is what you are saying.

Chris Wormald: As I am sure many members of the Committee are aware, people lobby Government all the time.

Q108 Chair: But there is no special pleading from No. 10 on the files of your Department. The letters were simply transferred in the normal way, as you describe.

Chris Wormald: I don't think we found anything, did we, Ashley?

Ashley McDougall: I don't think there were any letters from No. 10 to Departments. They were officials working through channels.

Q109 Nigel Mills: But no notes of conversations, no emails, nothing from No. 10 at any point saying, "Would you mind approving one of these bids, because we want this charity to survive?"

Chris Wormald: Throughout this story I have only got the same information that the National Audit Office had for their Report.

Ashley McDougall: There were a series of discussions. No. 10 co-ordinated officials, so they brought them together for a number of discussions.

Q110 David Mowat: A final question or observation to Mr Heaton. I have been reflecting on your evidence. In June, it looks like you called it right in seeking a ministerial direction for the last £3 million. Six weeks earlier, though, you let the £4.5 million go in one go, albeit with some undertakings from the charity and on the understanding that it would be sorted out. You must have thought about this. In hindsight, do you think that the charity misled you?

Richard Heaton: In one respect, the numbers we had before I signed off the £4 million grant—incidentally, just to correct my earlier evidence, it was just before purdah that I took the decision. Purdah was 30 March, and I took the decision the week before.

Chair: Can I just clarify that for the record, because I did not hear what you said?

Richard Heaton: Purdah started on Monday 30 March, and my decision was just before purdah, I am told.

In one respect, the numbers that we had about the current financial position of the charity when we made the decision were worse, it turned out, than we had thought. We found that disappointing. I do not think we were deliberately misled, but nevertheless we were disappointed to find that the numbers on which we had based the £4.2 million grant were not quite as they appeared at the time we made the grant.

Q111 David Mowat: Which numbers are you talking about?

Richard Heaton: It was either cash flow or donated amounts.

Q112 David Mowat: You also relied on undertakings that they gave you that they were on the verge of structural change, which did not happen. Do you think, in hindsight, that you were misled about all that and they just wanted the £4.5 million, or was it an honest mistake?

Richard Heaton: Certainly, when I took the subsequent decision to seek a direction, I did not think that the charity had the management strength or willingness to see this through. I think that is how I would put it. I do not think I would put it in terms of being positively misled.

Chair: There are a lot of questions, but I want to ask some quick mop-up ones before I touch on some of the other points.

Chris Wormald: May I add one quick thing?

Chair: Very briefly, because we are running out of time.

Chris Wormald: I want to go back to my previous answer to Mr Evans, just to make myself absolutely clear. It is a matter of public record that the centre of Government expressed views about Kids Company, and the Prime Minister has said what his views were. I would not want to give the impression from my previous answer that there was no communication between the Department and the centre of Government around these issues. I am very clear that I do not want to mislead the Committee in any way. That is on file.

Chair: We appreciate that immediate clarification.

Chris Wormald: What I am saying is that the audit trail is a clear set of propositions from civil servants and decisions by Ministers within the Department. There was the normal traffic between us and the centre, as we have across the range of Government issues.

Q113 Chair: But there were other views made known. I just want to ask some quick-fire questions before I touch on a couple of final points. Mr Heaton, earlier in your evidence you talked about Ministers collectively agreeing to fund the charity. Can you tell us which Ministers were part of that collective—which Departments and which Ministers?

Richard Heaton: I think it is in the Report that the £4 million was contributed to by four Departments, which were the Cabinet Office, DWP, Health and Education. So it was the Ministers in those Departments.

Q114 Chair: Did they do that through a Cabinet Committee, or through exchange of letters?

Richard Heaton: I think it was a series of conversations of some sort. I am not quite sure how or where they took place.

Q115 Chair: So they were not actually in the same room.

Chris Wormald: No. I want to be clear that the decision to establish the fund was done in DfE by DfE Ministers. Other Departments were contributing to that fund, but the decision-making process was by DfE officials and DfE Ministers.

Q116 Chair: We are very aware of that. At any point—you can both answer this—did Ministers put pressure on you to agree this funding? Did they come in and say, “Go on, Chris and Richard, can you sort this out for us?” or words to that effect?

Richard Heaton: None of my Ministers at the time put personal pressure on me.

Q117 Chair: Did they need to put pressure on you? Did they raise their eyebrows or make any suggestions?

Richard Heaton: My job as their Permanent Secretary was, subject to passing the managing public money tests, to successfully deliver what they wanted to achieve. But I was under no personal pressure to do one thing or another. I was expected to deliver for them, as all civil servants are.

Chris Wormald: No, I was not put under any pressure.

Q118 Chair: Just to be clear, the funding responsibility transferred from the DfE to the Cabinet Office in 2013. Why?

Chris Wormald: This was part of a more general machinery of government change in which responsibility for youth policy was brought together in the Cabinet Office.

Q119 Chair: It was not that you were trying to get rid of this hot potato.

Chris Wormald: Prior to 2013, the DfE had the lead on youth policy, but the Government’s major intervention, the National Citizen Service, was run out of the Cabinet Office, so there was a rather unhelpful split. We brought it all together in one place—the whole of youth policy—in the Cabinet Office, and Kids Company transferred as a part of that more general move.

Q120 Chair: Okay, so nothing more than that.

Mr Heaton, you talked about a willingness to make plans by the charity. I think you said it was very hand-to-mouth; there was a lack of decent measures; you did not look at the

overall financial stability of Kids Company. Can I ask you both—you have touched on this in the hearing, but just for the record—what you have learned and what you would do differently now if an organisation presented itself with the same data and evidence?

Chris Wormald: I have referred to most of these as we have gone through the hearing.

Chair: Is there anything you want to add?

Chris Wormald: There are four learning points. We did too much one-off decision making as opposed to looking at the entire story. We need to look at the balance between self-reporting and external evaluation. We had a balance. I am not sure, going forward, that it was quite right. We need to be able to answer the questions about outputs and outcomes, and we need to do further work on making sure we are properly measuring both. There is a very specific one. It has been slightly exacerbated by the fact that we did not have a team any more that did this, and by the speed of it, but it has raised issues about our record keeping and our ability to bring up the right information at the right time. Those are my four specific learning points. As I said earlier, in the light of this story, I will want to look at how we work with the voluntary sector.

Q121 Chair: Can I be clear on the record keeping point? You talk about the right information at the right time. As Mrs Trevelyan put it clearly, you have got a lot of information in Whitehall about an organisation, but it seems that it was not brought together in any one place. Is that the sort of record keeping that you mean?

Chris Wormald: There are two things. The latter point goes with my first point. We found it quite tough to pull together the records that the National Audit Office needed to write the story, and if our knowledge management was better, some of my other questions would be easier to answer, so it is an area that I want to look at.

Chair: That is a process thing about your being able to answer questions after the event. Mrs Trevelyan was talking about—

Chris Wormald: Also showing information as you go along. So I will want to look at those four things, but also at the wider question of how we work with the voluntary sector and how these grants work, and whether we have got that quite right. I will be going away from this hearing and addressing that within the Department.

Richard Heaton: I would mention those, but I would say it is a counsel of perfection. I think evidence first, decision second is better than the other way round.

Chair: Revelation! Sorry—forgive us if we are a little cynical. Carry on.

Richard Heaton: Sorry, you asked for my observations and I am trying to give them.

Chair: Fair enough.

Richard Heaton: Second observation: funding commitments that involve passing the hat round can mean people letting their guard down, so I would be cautious about that.

Thirdly, as I said earlier, requests for funding coming into Government through all sorts of different routes is a bit messy, and people should exercise self-discipline and should not freelance and, in particular, should not give what appear to be funding commitments without referring to the funding Department first.

Q122 Chair: Okay, thank you. I want to touch on a couple of things: in particular, Mr Wormald, the free school that the Department was working with Kids Company to establish.

Chris Wormald: They put in a proposal for a free school, which we turned down.

Q123 Chair: Right. Was any money spent on that proposal?

Chris Wormald: I do not think so, no.

Q124 Chair: So there was nil cost to the taxpayer on that free school.

Chris Wormald: As far as I know. I will go away and absolutely check, but that is my understanding.

Q125 Chair: If there is any change to that, please let us know ASAP.

You said at the very beginning that there was no special treatment for Kids Company. Do you stand by that?

Chris Wormald: Well, others can take a view on what you mean by “special treatment”. I agreed exactly with how Mr Heaton answered the question. Ministers of successive Governments have made clear that they thought that Kids Company was doing very important work and deserved support. If you want to call that special treatment, then do. I was answering the question from, “did we break any rules?”

Q126 Chair: So do you stand by what you said, that there was no special treatment for Kids Company?

Chris Wormald: In the terms in which I was answering the question, which were: was anything improper—

Q127 Chair: Sorry, we are asking the questions. Do you stand by the statement that there was no special treatment for Kids Company?

Chris Wormald: In the terms in which I have just answered, yes. If you want to define special treatment as “Were people taking a special interest?” then clearly they were.

Chair: Just to be really clear, you two are representative of accounting officers in Whitehall. Politicians will have all sorts of pressures on them and make decisions—good or bad—with other pressures. In the end, you are responsible for watching taxpayers’ money, so it has been very instructive to hear what you have had to say.

Our Report will be coming out shortly, and the lessons to be learned that you have highlighted, frankly, strike us as rather staggering. It is staggering that these things were not asked some time before today, now that everything has gone belly-up and this hot potato has had problems. So we will be producing our Report. We will get it out to you as soon as it is available, and just to warn you, we may well call you back, as well as other accounting officers, if we come across any issues like this in future. We think that taxpayers’ money spent by the charitable sector warrants our scrutiny as much as money spent by Government or the private sector. Your roles as accounting officers are really important, and this is a key example of big issues about how you carried out your role, which we will cover in our Report. Thank you very much indeed for your time.