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REVIEW REPORT

Cyber Skills Immediate Impact Fund – Payments to Hacker House Ltd.

30 October 2019

**Recipient: Jacinda Humphry
Finance Director
Department for Digital, Culture, Media &
Sport**

Subject

Review of grant payments awarded to Hacker House Ltd under the Cyber Skills Immediate Impact Fund (CSIIF).

Executive Summary

1. Reports in the media in September 2019 claimed that the Department for Digital, Culture, Media & Sport (DCMS) had awarded a grant of £100,000 from the Cyber Skills Immediate Impact Fund (CSIIF) to Hacker House Ltd, despite the applicant failing to satisfy the necessary eligibility criteria. The Government Internal Audit Agency (GIAA) were asked to undertake an independent review of the assessment process and whether DCMS had applied appropriate due diligence to the application.
2. This review has not considered wider issues surrounding Hacker House Ltd and its representatives that have been reported in the media. A copy of the terms of reference can be found at Annex 1.
3. Hacker House Ltd is a registered company incorporated under the Companies Act 2006. The company made an application for grant funding of £273,000 under the CSIIF initiative in October 2018.
4. The application by Hacker House Ltd was one of 19 received in October / November 2018. Guidance indicated that applications would be assessed against several 'gateway questions'. However, as a result of the "manageable number of applications received", all 19 applications progressed to full assessment. This involved scoring applications using a scoring framework and a shortlisting exercise by a moderation panel. The shortlist was then reviewed and challenged by an Approvals Board.
5. The application by Hacker House Ltd did not satisfy the requirement that the value of the grant should not exceed 50% of the company's annual income. Had the initial gateway questions been considered, the review identified that six of the initial 19 applications would have not met at least one of the requirements. Three of the six organisations, including Hacker House Ltd, were subsequently awarded a grant.
6. Documents seen by GIAA reflected the Approvals Board's view that the initiative proposed by Hacker House Ltd may, in the longer term, provide an effective solution that identifies, trains and places candidates into cyber security roles. This was in line with the objectives of the CSIIF.
7. The Approvals Board approached the Department for Business, Energy and Industrial Strategy (BEIS) State Aid team who stated that funding a training scheme at 100% would be contrary to state aid rules for funding training. They advised the grant could be awarded using de minimis aid; applicants can be awarded a grant for a variety of activities, provided they haven't exceeded €200,000 within a three-year fiscal period.
8. The Approvals Board subsequently approved the application by Hacker House Ltd, but for a reduced funding figure of £100,000.

9. This review concludes that although the initial gateway questions were not considered for the 19 applications received, the rationale for considering all applications was not unreasonable. In respect of the grant award to Hacker House Ltd, the assessment of eligibility and subsequent award of a reduced value of £100,000, is considered appropriate.

Background

10. Following recent reports in the media, GIAA were asked to conduct an independent review covering the due diligence and assessment process for applications made to the DCMS Cyber Skills Immediate Impact Fund (CSIIF); specifically, the assessment of the application and subsequent grant award to Hacker House Ltd in 2018.
11. CSIIF is designed to boost the number and diversity of those working in the UK's cyber security industry, through helping a range of organisations to develop effective and sustainable initiatives that identify, train and place untapped talent from a range of backgrounds into cyber security roles quickly.
12. The review considered whether the assessment of eligibility and subsequent grant award by DCMS to Hacker House Ltd was appropriate. It considered the accuracy of information provided in the application and any additional correspondence relating to the application.
13. GIAA conducted a detailed analysis of the eligibility criteria, application process and the decision to award a grant to Hacker House Ltd. GIAA obtained copies of a wide range of documentation relating to the application by Hacker House Ltd and the governance of the CSIIF scheme. All documents considered as part of this review are detailed within the [appendices](#).
14. The review also considered the basis of the Approval Board's decision to waive the requirement for the allocation of funding to not exceed 50% of the company's annual income.

Findings

15. On 25 October 2018, Jennifer Arcuri, CEO of Hacker House Ltd, applied to DCMS for £273,000 grant funding under the CSIIF initiative. Hacker House Ltd is a Private Limited Company, incorporated under the Companies Act 2006 on 9 July 2015. It has a registered address in the United Kingdom, a Companies House registration number and is registered for VAT in the UK.
16. Applications for grant funding from the CSIIF initiative were required to meet two overarching objectives. The application by Hacker House Ltd met both requirements.
- *Provide clear evidence that initiatives are likely to **identify, train and place** candidates who have not been previously employed as cyber security professionals into cyber security employment that reflects the training and knowledge acquired through the initiative, within 12 months of initial funding.*
 - *Demonstrate a realistic prospect of becoming **self-sustainable** within 12 months of initial funding. As and when government funding ceases, confidence would be needed*

to assure DCMS that the removal of funding from this initiative would not affect the continued viability of the applicant organisation.

17. Prior to applications being assessed substantively, guidance stated that several gateway questions should be considered to ensure basic application requirements were met. Any applications not meeting any of these requirements would not normally progress to the next stage of consideration.
18. One of the gateway requirements states “*Amount of funding sought does not exceed 50% of the lead applicant organisation’s annual collective income*”. In section 4.1 of the application form submitted by Hacker House Ltd, the organisation’s annual income was recorded as £0.00. This figure was found to be inaccurate, as bank statements submitted with the application provided evidence of income during the previous financial year. However, the level of annual income was still less than the gateway requirement.
19. CSIIF Approvals Board minutes of 19 December 2018 state “*19 applications had been received in total. Given the manageable number of applications received, all were progressed to full assessment. These were assessed by DCMS staff from the wider DCMS cyber security team. Results were then moderated*”. All the applications were assessed using a scoring framework and the moderation panel shortlisted the applications. The shortlist was then challenged by the Approvals Board in order to ensure funding was allocated to projects that created a balanced portfolio.
20. The Approvals Board approved Hacker House Ltd’s application, but for a reduced amount of £100,000 stating “*although this initiative does not meet the ‘immediate’ aspect of CSIIF, we feel this initiative may, in the longer term, provide an effective solution that identifies, trains and places candidates into cyber security roles*”. This was pending approval from BEIS State Aid team that fully funding CSIIF applications was in line with state aid requirements.
21. Following provisional approval, initial due diligence checks identified no significant points of concern. DCMS stated they would request additional documents for audit purposes as part of the due diligence process. This was to include Disclosure and Barring Service (DBS) checks for both project leads. There is no evidence these checks were undertaken for either projects leads at Hacker House Ltd or project leads at the other organisations awarded grants.
22. BEIS concluded funding a training scheme at 100% under General Block Exemption Regulation (GBER) would be contrary to state aid rules for training aid. CSIIF is covered by GBER, which is used to provide lawful state aid without going through the normal notification and approval processes. However, BEIS advised that de minimis aid could be considered.
23. De minimis aid of up to €200,000 can be awarded for a variety of activities provided they have not exceeded that limit within a three-year fiscal period.
24. The Approvals Board subsequently confirmed the decision to award Hacker House Ltd the reduced grant of £100,000.

Conclusion

25. Hacker House Ltd is a Private Limited Company incorporated under the Companies Act 2006. The application form submitted by Hacker House Ltd was reviewed and found to have been completed in full. Despite failing to meet one of the initial gateway requirements to apply for funding under CSIIF, documentary evidence supported the decision to allow the application to proceed.
26. DCMS confirmed that had the initial gateway questions been considered, six of the initial 19 applications would have not met at least one of the requirements. All six applications progressed to full assessment and three applications, including that of Hacker House Ltd, were subsequently awarded a grant. Although initial due diligence checks were performed, there is no evidence that planned DBS checks were undertaken for project leads at any of the organisations awarded grants.
27. GIAA concludes the assessment of eligibility and subsequent reduced grant award to Hacker House Ltd was appropriate. It did however observe areas where questions on the grant application form would have benefitted from being clearer e.g. defining “limited trading history” in Section 4.1 and a breakdown of the roles of staff employed by the lead organisation in Section 1.16.

Limitations

This report has been drafted solely for the use of the Department for Digital, Culture, Media & Sport and its Accounting Officer following the review conducted at a point in time and is not written for any other purpose. Therefore, we take no responsibility for any reliance that a third party (i.e. other than DCMS) may place on it.

Annex A

Department for Digital, Culture, Media & Sport

Cyber Skills Immediate Impact Fund: Hacker House Limited Grant Award Review Terms of Reference

Objective

This independent review will cover the Cyber Skills Immediate Impact Fund (CSIIF) due diligence and assessment process, with specific reference to the assessment of the application and subsequent grant award to Hacker House Limited between October 2018 and February 2019.

Reporting to the DCMS Permanent Secretary, the review will also seek to identify any process improvements that will strengthen future grants offered by DCMS.

Process

The review will consider two elements:

1. Whether the DCMS assessment of eligibility and subsequent grant award to Hacker House Limited was appropriate. The review will consider the accuracy of information provided in the application and in any further correspondence related to the application;

2. The basis of the Approval Board's decision to waive the requirement for the allocation of funding to not exceed 50% of the company's actual income.

The Review Lead (see roles and responsibilities) will gather all relevant information, conclude its consideration and produce a report as soon as possible to allow for consideration by DCMS before publication, which will be no later than October 31 2019.

Key Principles

- Civil Servants and Approval Board members will not be directly attributed in the final report
- Focus will be on actions, decisions and evidence rather than individuals
- Where possible, evidence will be cited in order to support the review's conclusions

Roles and responsibilities

- Review Commissioner: DCMS Permanent Secretary
- Review Senior Responsible Owner: DCMS Finance Director
- Review Lead: Government Internal Audit Agency

Appendices

Appendix 1	CSIIF Application Form
Appendix 2	CSIIF Guidance for Applicants
Appendix 3	CSIIF Application Form from Hacker House Ltd
Appendix 3a	Incorporation to Companies House – Hacker House Ltd
Appendix 3b	Cash Flow Profile 2019 – Hacker House Ltd
Appendix 4	Approvals Board Terms of Reference
Appendix 5	Approvals Board Paper 2 Assessments/Approvals Process
Appendix 6	Approvals Board Paper 3 Overview and Recommendations
Appendix 7	Approvals Board Clarification Responses and Recommendations
Appendix 8	Approvals Board Minutes
Appendix 9	Approvals Board Clarification Questions
Appendix 10	Due diligence Process
Appendix 11	Due Diligence Report
Appendix 12	Moderation Panel Minutes
Appendix 13	Email chain between DCMS and BEIS