



Department for
Digital, Culture,
Media & Sport

Rt Hon Nicky Morgan MP
Secretary of State for Digital, Culture,
Media and Sport
4th Floor
100 Parliament Street
London SW1A 2BQ

www.gov.uk/dcms
enquiries@culture.gov.uk

Damian Collins MP
Chair
Digital, Culture, Media & Sport Select Committee
House of Commons
London SW1A 0AA

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Dear Damian,

Re: HACKER HOUSE REVIEW

Following the DCMS Select Committee evidence session on 16 October, I am writing to you enclosing the Government Internal Audit Agency (GIAA) report into the Cyber Skills Immediate Impact Fund (CSiIF) grant award to Hacker House Ltd, together with relevant supporting documentation. I previously provided the Terms of Reference of the GIAA report to you and the Committee. Details relating to the assessment, approval and due diligence processes are set out in the GIAA report and supporting documents.

I want to start by reiterating how essential it is that organisations across the UK economy have access to the cyber security skills they need now, and for government to achieve this objective working with organisations across the sector. Through the CSiIF, government investment helps to unlock a broad range of industry-designed and led activity that increases the number and diversity of people working in the cyber security profession. Through this fund, the government is looking to stimulate a market through which individuals can have access to courses that will help them retrain and upskill from non-cyber security backgrounds into cyber security roles. The cyber security sector as a whole is made up primarily of small and medium-sized enterprises, and DCMS aims to ensure all organisations have access to support that helps to seed-fund and scale promising, innovative solutions that increase the number of qualified individuals, including women, in the sector, and increase the talent pool that UK companies have access to in order to be secure in a digital economy. The innovation provided by these emerging organisations is vital for solving the complex problems associated with cyber security. DCMS will continue this approach as part of its delivery of the National Cyber Security Strategy.

It is clearly essential that public funds are claimed, spent and managed appropriately. As such, if presented with information of any failing, the department will treat this evidence with the necessary urgency and consideration. Where any failing is established, DCMS will take the appropriate steps to address these. **The GIAA conclusion is that the DCMS's assessment of eligibility and the subsequent grant awarded to Hacker House Ltd was appropriate.**

The Department followed Cabinet Office Grant Standards for its CSIF due diligence process. DCMS practice was to include a further check in that process to provide further reassurance, however the Department failed to implement this additional check - namely to require relevant individuals within the grant recipients to be subject to a Disclosure and Barring Service (DBS) check. This was an administrative error. There is no evidence to suggest that had the check been completed that the grant award decision would have been different. Nonetheless, it is regrettable that the Department did not implement this step. I have asked my officials to ensure that processes are strengthened and that steps are taken to remedy this omission.

I would like to emphasise again that any notion that the Prime Minister or his advisers influenced - whether directly or indirectly - any aspect of the due diligence, assessment or award of any grant funding made through the CSIF is simply not true. The grant application in October 2018 and grant decision in February 2019 were, of course, at a time when the current Prime Minister was neither a member of the government nor the Mayor of London. Neither the Prime Minister, nor trade missions with the Prime Minister during his time as London Mayor, are referenced in the Hacker House Ltd application. Further, there is no evidence of lobbying from the London Mayor's office or Greater London Authority to influence the outcome of the grant awards process.

Indeed, as I noted previously, there was no Ministerial involvement in the selection of these initiatives, which were awarded by a panel of officials from across government and included industry representation – including DCMS, the Department for Education, techUK and the National Cyber Security Centre.

Much of the discussion in Parliament and the media regarding the grant award to Hacker House Ltd concerns the registered address of the business. The application form requires applicants to provide an address. The guidance notes for applicants, which remain available on GOV.UK, say that funded initiatives must be "carried out in England." Nothing in the application form, the guidance to applicants or the Grant Agreement requires a grantee to have and maintain a corporate presence in the UK. The legal basis for the grant award is section 8 of the Industrial Development Act 1982, which broadly stipulates that the grant must be for the benefit of the economy of the UK and in the national interest. My officials were satisfied that this stipulation was met - Hacker House Ltd's application outlined how its initiative would increase the UK cyber security skills base, enabling new entrants into the cyber security profession to the benefit of the economy. The Grant Approvals Panel - which, as mentioned above, included officials from across government and industry - determined that the initiative could provide an effective solution to retrain and upskill individuals in cyber security roles that are absolutely required as we work towards making the UK the safest place to live and do business online.

Companies House records show that the address given was Hacker House Ltd's registered address on the date of application - this was verified by DCMS as part of the application process against both the register maintained by Companies House, as well as against bank statements supplied by Hacker House Ltd. As such, while not a requirement of the grant, Hacker House was a UK registered company. Procedures exist under the Companies Act 2006, administered by Companies House, for updating the register. As such, it would be for Companies House to address any complaint that the register was not kept updated.

The Committee also asked about financial details concerning the other initiatives sponsored under the Cyber Skills Immediate Impact Fund. To date, DCMS has provided grant funding to eleven organisations, to carry out twelve projects, under this scheme. The funding range for applicants was up to £500,000 per initiative. It is a principle of funding through the National Cyber Security Programme, given reasons of national security, that the government does not generally release details of how much each specific programme has been awarded. However, I can confirm that Hacker House received the smallest allocation of funding of any organisation through the second funding round. I am unable to provide further financial detail on individual NCSP initiatives, including all the other projects supported through the CSIIIF to date.

You asked whether the 50% requirement for company's incomes was waived for any other application received through the CSIIIF. This point is addressed in the GIAA report. On conclusion of the bidding window, the Grant Approvals Panel determined that it was viable - given the number of applications received - to progress all applications for assessment and not apply the pre-assessment process, in order to fully assess and consider all proposals and their fit with policy aims. Hacker House Ltd was one of six organisations that progressed despite not meeting all the criteria of the fund. Hacker House Ltd was one of three applicants who passed the pre-assessment phase despite not meeting the 50% income requirement. With a fund of this kind it is regularly the case that officials consider waiving requirements, so long as the proposed initiative provides a high level of confidence in all other areas that it can meet policy aims and that associated risks are managed. Hacker House Ltd is closely monitored in its delivery against the grant agreement and only paid once agreed milestones are met. For example, the Department set out final targets in its formal grant agreement of 50 candidates to be placed into employment in cyber security roles, alongside a target for women to constitute at least 20% of these individuals.

The Committee asked about the accounts submitted by the organisation and, in particular, a loan of £713,000 made by Jennifer Arcuri to Hacker House Ltd. Both the company's accounting and financial information were considered during the assessment process and were provided, as requested, to the GIAA as part of their review into the due diligence process. In addition to the accounts submitted to Companies House, officials examined company bank statements to assess transaction history. As mentioned above, **the GIAA has concluded that the assessment of eligibility and subsequent grant award to Hacker House Ltd was appropriate.** In response to the question in your letter of 23 October, I can also confirm DCMS Ministers have not seen Hacker House annual accounts for 2017/18.

The Committee asked whether Hacker House Ltd was approached to apply for this funding opportunity. Hacker House Ltd contacted DCMS in March 2018 - shortly after the closure of the first round of CSIIIF funding - to express their interest in being notified of future funding opportunities. Having expressed this interest, the company was added to a list of approximately 130 organisations and individuals. These organisations were then all informed of the opening of the expanded funding round in October 2018. This type of market engagement is standard practice across government to ensure as wide a range of organisations as possible have the opportunity to bid for public funds as part of an open, fair and transparent process.

You asked how DCMS was satisfied that Hacker House Ltd had the capability to deliver this training programme in the UK when its principal resource seemed to be outside the UK. Through its application in the open, fair and transparent CSIIIF grant competition, Hacker House Ltd cited experience of successfully operating cyber security training in the UK. This gave the Grant Approvals Panel sufficient confidence that it had the ability to deliver the ambitions it outlined in its application that would benefit individuals with a demonstrable intention to work in the UK cyber security sector.

On related points, the Committee requested I consider the legitimacy of a LinkedIn profile. The decision to award this grant revolved around the applicant company's ability to deliver and meet the objectives of the policy intent, and did not include scoring factors based on the number of or information about people employed by the applicant. Given this was not a factor in the awarding of the grant and would be unlikely to influence the applicant's ability to deliver the agreed objectives, I do not consider this a matter for DCMS to consider further.

In your letter of 23 October, you asked me to confirm whether a Hacker House employee attended a government training event in September 2018 or September 2019. To clarify, a Hacker House employee recently attended a Brexit related cyber security skills event delivered by DCMS hosted by techUK on 10 September 2019.

Next steps

The findings of the GIAA review are clear that the award of funding to Hacker House Ltd was appropriate. However, the department is always looking to improve its processes to maintain the security and integrity of its systems. To this end, our work will continue in two parts. First, my officials will focus on enhanced monitoring, ongoing due diligence and tangible outcomes of all initiatives currently in receipt of grant funding through CSIIIF. Second, I have asked my officials to consider whether there are any improvements that can be made to the department's approach to awarding innovative and novel grant initiatives, particularly where we are seeking to stimulate nascent markets. External advice will be sought as appropriate.

In conclusion, this review has identified no impropriety in the awarding of the grant.

I will deposit a copy of this letter, the GIAA report and other relevant documents as part of the grant award to Hacker House Ltd in the Library of the House.

Mary
Nicky

Rt Hon Nicky Morgan MP
Secretary of State for Digital, Culture, Media and Sport