National Audit Office

Report
by the Comptroller
and Auditor General

Investigation into the management of the Libor Fund

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Investigation into the management of the Libor Fund

Report by the Comptroller and Auditor General

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This report has been prepared under Section 6 of the National Audit Act 1983 for presentation to the House of Commons in accordance with Section 9 of the Act

Sir Amyas Morse KCB
Comptroller and Auditor General
National Audit Office

6 September 2017

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Investigations

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

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Contents

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Key facts

£973m
fines collected by the Financial Conduct Authority (FCA) committed to the Libor Fund

£773m
amount assigned to be granted to charities and good causes by HM Treasury and the Ministry of Defence

£200m
amount given to the Department for Education to spend on 50,000 apprenticeships

£40 million	amount remaining from Libor fines yet to be committed through any scheme
£141 million	amount committed to the Covenant Fund from Libor fines that is yet to be spent

What this investigation is about

1 The London Interbank Offered Rate (Libor) is a benchmark interest rate published daily based on the rates at which banks lend short-term unsecured funds to each other. An international investigation beginning in 2012 into Libor revealed that several banks in the United States and the European Union, including the UK, had manipulated Libor for profit.

2 UK regulators fined the banks £688 million.[1] In 2012, the then Chancellor announced that "the multi-million pound fines paid by banks and others who break the rules will go to the benefit of the public and not to other banks". The previous regulator, the Financial Services Authority, kept all income from fines and used it to subsidise the cost of fees to the banks. The Financial Conduct Authority (FCA) is now responsible for collecting the fines and paying them to HM Treasury.

3 In June 2015 the Chancellor added a £284 million fine for manipulation of foreign exchange markets (Forex) to the Libor Fund.[2] This brought the total available in the Fund to £973 million.[3]

4 Parliament and the media have questioned the transparency of how the money from the fines is being distributed. This investigation explains how the government has distributed the money. It does not seek to evaluate the value for money of these decisions.

1 The investigation is continuing; therefore, we cannot comment on whether further fines will be added to this total.
2 In 2013, an investigation was launched into allegations that dealers were manipulating exchange rates. Six banks were fined £6.3 billion in 2015. This included fines of £1.5 billion for Barclays by five international regulators, of which £284 million was issued by the UK's FCA.
3 Libor and Forex fines cited may not total £973 million due to rounding.

Summary

Key findings

On the allocation of the Libor Fund

1 **The government's Libor Fund totalled £973 million**. The Financial Conduct Authority (FCA) fined eight banks a total of £688 million for Libor offences between 2012 and 2015. The FCA transferred the whole amount to HM Treasury in accordance with legislation, to be spent by the government. In June 2015, the Chancellor added a £284 million Forex fine to the Libor Fund (paragraphs 1.1 to 1.4 and Figure 1).

2 **Up to September 2017 the government had committed £933 million of the £973 million**.[4] The majority of this has been to support Armed Forces and emergency services charities and other related good causes. HM Treasury and the Ministry of Defence (MoD) have distributed £592 million of the Fund since 2012 to a range of different causes that they judge to demonstrate "the very best of values" and meet with the government's pledge for the Fund.[5,6] In April 2015, the then Prime Minister David Cameron pledged £200 million of the fund to support 50,000 Apprenticeships (see paragraphs 1.5 and 1.7, and Figure 3).

3 **Of the £933 million committed to the Fund, £141 million has yet to be distributed but will support the Covenant Fund**. The Covenant Fund is a scheme that will make grants up to £10 million per year in perpetuity. It is currently funded from the Libor Fund. £40 million of the Libor Fund is still held by HM Treasury but yet to be committed (paragraphs 1.7, 1.13, 3.13 and Figure 3).

4 **The government pledged £200 million of the Libor Fund to support 50,000 new apprenticeships but the Department for Education is unable to demonstrate that these have been delivered.** In April 2015, as part of a general election campaign pledge, the then Prime Minister committed £200 million of Libor Fund spending – more than 20% of the fines – to create a three-year fund to support 50,000 new apprenticeships for unemployed 22–24 year olds. HM Treasury deducted £200 million from the Libor Fund total and included this as part of the overall apprenticeships budget provided to the Department for Business, Innovation & Skills. The Department for Education, now responsible for apprenticeships, was not directed to use the £200 million to pursue a specific policy to deliver apprenticeships for unemployed 22–24 year olds and cannot demonstrate whether 50,000 new apprenticeships for this group have been provided (paragraphs 1.8 to 1.12).

4 In June 2017 the government announced a further £1.5 million that will be provided to support the mental health of emergency services workers. However, this amount has yet to be formally agreed through a grant arrangement and therefore is not included within the £933 million committed or taken into account within any of the numbers and figures that follow in the report.

5 Approximately £0.6 million of administration costs is included in this figure.

6 Taken from a quote on the government website. In 2012, HM Treasury announced that: "the proceeds from LIBOR fines would be used to support Armed Forces and Emergency Services charities and other related good causes that represent those that demonstrate the very best of values." Available at: www.gov.uk/government/publications/libor-funding-applications.

5 **Of the £592 million distributed through grants, two-thirds (£385 million) has been awarded following requests for funding directly to the Chancellor of the Exchequer** from charities, MPs and government departments. HM Treasury officials provided advice on which causes to fund. The remaining £207 million was spent through competitive application processes managed through HM Treasury and MoD (paragraphs 2.4 to 2.10).

On the distribution of funds

6 **So far, 729 different grants have been awarded to 639 different charities and causes**. Grants ranged from £1,000 to £50 million. The average grant was £0.8 million. Figure 4 provides a further breakdown between schemes.

7 **Not all grants from the Libor Fund had terms and conditions attached to them as standard until the Autumn Statement 2015**. Between October 2012, when the first HM Treasury Libor (HMT Libor) grant was awarded, up to and including the summer Budget in July 2015, 67 grants totalling £272 million were made by HM Treasury and other departments from the HMT Libor scheme on behalf of the Chancellor; £196 million of the £272 million grants were given out without any terms and conditions attached, of which HM Treasury states that £139 million did not require them (paragraphs 3.2 and 3.3).

8 **HM Treasury and the MoD cannot yet confirm that charities spent all grants as intended**. HM Treasury commissioned MoD in January 2017 to carry out a retrospective review of all grants awarded since 2012 to seek assurance on how the grants were spent and provide information for future monitoring. The departments hold differing levels of information on grants depending on when they were paid and from what scheme. MoD is currently gathering information from grant holders for 236 of the 729 grants. For the other 493 grants, the departments believe the monitoring requirements already built into the schemes under which the grants were given is sufficient to complete the review. The review is expected to be completed by December 2017 (paragraphs 3.6 to 3.11).

9 **The government cannot yet demonstrate the impact the Libor grant fund has had as it has not been evaluating the impact of the grant schemes on the charity sector**. However, it has committed to completing an external evaluation in 2018 once it has completed the retrospective review in December 2017. By this time, more than 80% of the grant fund will have been awarded (paragraph 3.16).

10 **MoD is now using a grant from the Libor Fund for a project to help understand the needs of the Armed Forces community**. This will inform the distribution of the £141 million of Libor funding still to be spent from the Covenant Fund grant scheme. MoD is also using a grant from the fund to pay for the creation of a measurement framework in order to be able to assess impact on an ongoing basis (paragraphs 3.14 and 3.15).

Part One

The Libor fines

1.1 The London Interbank Offered Rate (Libor) is a benchmark interest rate published daily. It is based on the rates at which banks lend unsecured funds to each other on the London interbank market. An international investigation into Libor beginning in 2012, revealed that multiple banks had manipulated Libor for profit. The investigation led regulators in the United States and the European Union, including the UK, to fine the banks involved. In the UK, the Financial Services Authority (FSA), and from April 2013 the Financial Conduct Authority (FCA), fined eight banks a total of £688 million for Libor-related offences.

1.2 In July 2012, following the first Libor fine, the government announced a change to the Financial Services Bill. It made the FCA responsible for paying collected fines to HM Treasury, less an agreed amount of retained enforcement costs per year. The income from the fines would therefore be available for government to spend. Previously the regulator, the FSA, kept all income from fines and used it to subsidise the cost of fees to the banks.

The Libor Fund

1.3 In 2012, HM Treasury announced that the Libor fines would be used to support the Armed Forces through the introduction of the £35 million Armed Forces Covenant Grant Scheme.[7] At this time, the government did not know how much money the FCA would collect in Libor fines as the investigation was ongoing.

1.4 The government's Libor Fund totals £973 million. Between 2012 and 2015, the FCA transferred the proceeds from eight Libor fines totalling £688 million to HM Treasury. In addition, on advice from HM Treasury the Chancellor decided to add one yet to be committed Forex fine of £284 million in June 2015.[8] See **Figure 1** for a breakdown of the fines.

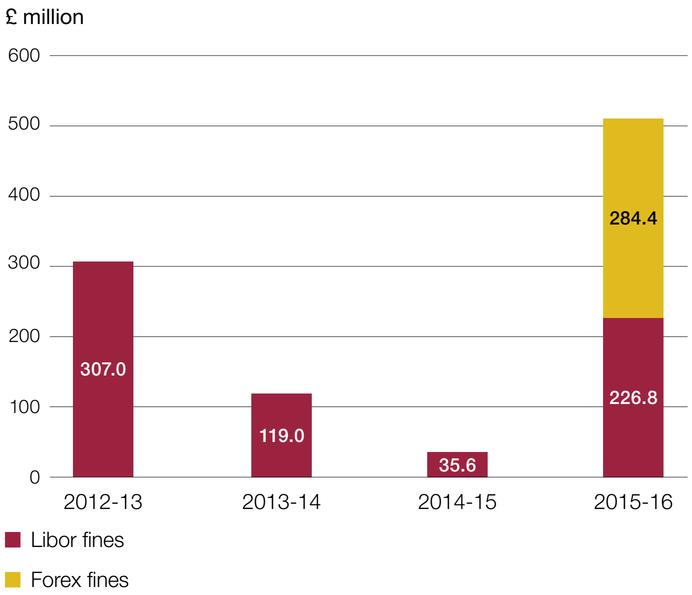
7 The Armed Forces Covenant is a promise from the nation that those who serve or have served, and their families, are treated fairly. The government is working with businesses, local authorities, charities and community organisations to support the forces through services, policy and projects.

8 Figures may not total £973 million due to rounding.

Figure 1
Banking fines applicable to the Libor Fund

Firm fined	Date	Amount	Reasoning
Barclays Bank Plc	27 Jun 2012	£59.5 million	For misconduct relating to the London Interbank Offered Rate (Libor) and the Euro Interbank Offered Rate (Euribor).
UBS AG	19 Dec 2012	£160 million	For misconduct relating to Libor and Euribor.
The Royal Bank of Scotland	6 Feb 2013	£87.5 million	For misconduct relating to Libor.
ICAP Europe Limited	25 Sep 2013	£14 million	For misconduct relating to Libor.
Rabobank	29 Oct 2013	£105 million	For misconduct relating to Libor.
Martin Brokers Ltd	15 May 2014	£0.63 million	For misconduct relating to Libor.
Lloyds Banking Group	28 Jul 2014	£35 million	For misconduct relating to Libor.
Deutsche Bank	23 Apr 2015	£226.8 million	For misconduct relating to Libor and Euribor.
Barclays Bank Plc	20 May 2015	£284.4 million	For failing to control business practices in its foreign exchange (Forex) business in London
Total		**£973 million**	

FCA issued Libor/Forex fines per financial year



Note

1 Barclays Bank's fine in May 2015 relates to Forex and not Libor. This is the only fine included in the Libor Fund that relates to a different type of banking fine.

Source: Analysis of data from the Financial Conduct Authority website: https://www.fca.org.uk

1.5 As the value of income received from fines increased, government made more announcements relating to different schemes that the money would be spent on (see **Figure 2**). The initial pledge that the money would support Armed Forces charities and good causes was later expanded in October 2014 to include "Armed Forces and emergency services charities and other related good causes that represent those that demonstrate the very best of values".[9]

1.6 There is no government directive that provides any further detail about how the money is expected to be spent or what constituted 'the best values'. This means that, although the 2012 announcement pledged the money to the Armed Forces and later to emergency services charities, the money is not ring-fenced and the government has been able to use the money for any government spending.

9 Taken from a quote on the government website. In 2012, HM Treasury announced that: "the proceeds from LIBOR fines would be used to support Armed Forces and Emergency Services charities and other related good causes that represent those that demonstrate the very best of values." Available at: www.gov.uk/government/publications/libor-funding-applications

Figure 2

Timeline of key Libor Fund events and announcements

2012

Jun 2012

First FCA fine on a bank (Barclays £59.5 million)

Jul 2012

Change in law announced – FCA was to pay fines over to HM Treasury (backdated to April 2012)

Oct 2012

Libor money to go to charities announced

First announcement of a grant given from the HMT Libor Fund to the Imperial War Museum

Dec 2012

£35 million to Armed Forces Covenant Grant Scheme

2013

Jun 2013

Covenant Fund announced (£10 million each year in perpetuity)

2014

Feb 2014

Veterans Accommodation Fund launched (£40 million)

2015

Mar 2015

Aged Veterans Fund announced (to start August 2015)

Apr 2015

Prime Minister announces £200 million for apprenticeships

Jul 2015

£10 million per year Covenant Fund scheme opens

Aug 2015

Aged Veterans Fund launched (£30 million)

Source: National Audit Office analysis of key announcements and data from HM Treasury and Ministry of Defence

Allocation of the Libor Fund across government

1.7 The government has so far committed £933 million of the £973 million Fund (**Figure 3** on page 14) through schemes managed by:

- HM Treasury – £467 million
- Ministry of Defence (MoD) – £266 million
- Department for Education – £200 million

The remaining £40 million of the fund is held by HM Treasury but has not yet been committed to any particular scheme.

Department for Education – £200 million

1.8 In April 2015, the then Prime Minister David Cameron made a general election campaign pledge that £200 million of the fines were to be dedicated to funding 50,000 new apprenticeships for 22–24 year olds over three years. The Department for Education (DfE) now responsible for apprenticeships states that the subsequent apprenticeships policy did not include a specific plan covering the details set out in the campaign pledge.

1.9 A target of three million apprenticeships, to be funded by welfare cuts, had already been announced in October 2014. The government later announced that the same number of apprenticeships would be funded by a levy starting in April 2017. All apprenticeships from the financial year 2017-18 are expected to be funded by the Apprenticeship Levy.[10]

1.10 The then Department for Business, Innovation & Skills (BIS) received the £200 million, to be spent during the 2016-17 financial year, as part of its spending review settlement for apprenticeships in November 2015. Following changes to departmental responsibilities in July 2016 after the Referendum on leaving the European Union, the full BIS apprenticeships budget (including the £200 million from Libor fines) was transferred to DfE.

1.11 The government's target of three million apprenticeships did not increase as a result of the campaign pledge. The funding received by DfE as part of the November 2015 Spending Review included the £200 million of Libor money and was provided by HM Treasury on the basis of DfE aiming to achieve the original target of three million apprenticeship starts. DfE has therefore not pursued a specific policy to deliver apprenticeships to previously unemployed 22–24 year olds and it cannot demonstrate whether 50,000 new apprenticeships for this group have been provided. It is not possible to distinguish the impact of the £200 million Libor fund spending from the performance of the overall apprenticeship programme.

10 The Apprenticeship Levy, launched in April 2017, requires employers with an annual pay bill of more than £3 million to contribute 0.5% of their payroll. It is expected to raise £2.5 billion to fund apprenticeship training and assessment across England.

1.12 There is no specific requirement to report progress to HM Treasury on the use of the Libor funding received. Each month, DfE reports on overall apprenticeship programme spending and delivery to HM Treasury and a cross-government programme board. No specific reporting requirements were attached to the Libor funding for how it would be spent or how it would be evaluated.

HM Treasury and MoD grant schemes – £773 million

1.13 Of the £973 million Libor Fund, 79% was allocated to schemes managed by HM Treasury (£507 million) and MoD (£266 million).[11,12] Since 2012, HM Treasury and MoD have awarded grants totalling £592 million through five different grant schemes supporting the Armed Forces, emergency services charities and other related good causes (Figure 3).

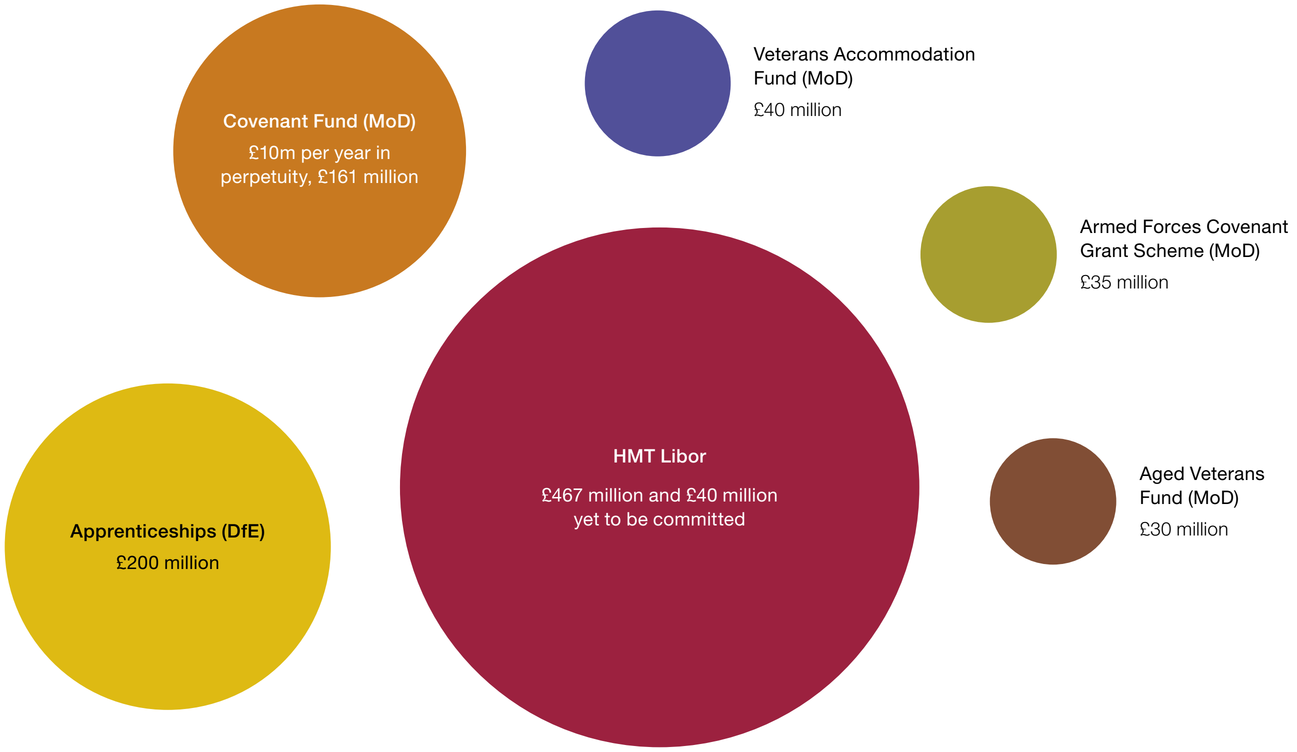
1.14 Three schemes are now closed, having spent their allotted funds. Two schemes are still awarding grants: the HMT Libor fund; and the MoD Covenant Fund. The Covenant Fund still has £141 million of Libor funding yet to be distributed and government has committed to continuing to make grants in perpetuity. The HMT Libor fund still holds £40 million that is not yet allocated. HM Treasury closed its most recent round of applications for grant funding at the end of August 2017. It is currently assessing applications and has not committed to a set value of grants being made.

11 HM Treasury has awarded £467 million and holds £40 million that is yet to be committed.

12 MoD has awarded £125 million of grants and will spend a further £141 million already committed from the Libor Fund on grants out of the Covenant Fund.

Figure 3

Allocation of the Libor Fund between schemes



Total fines included	£973 million
Amount committed to grants through HM Treasury and MoD	£773 million
Amount given to apprenticeships through DfE	£200 million
Total committed to all schemes so far	£933 million
Amount not yet committed	£40 million (expected to be spent by the HMT Libor scheme see below)
Amount spent on grants	£592 million

Total yet to spend	HM Treasury – through HMT Libor scheme	MOD – through Covenant Fund
	£40 million	£10 million a year in perpetuity, of which £141 million is funded by Libor

Notes

1 Values are those spent and committed in £millions including, for the grants, the costs of administration charged from the fund which MoD estimate to be £0.6 million.

2 The Covenant Fund will pay out £10 million a year in perpetuity. £161 million of the scheme is supported by the Libor Fund. So far, £20 million of Libor funds have been distributed through the Covenant Fund, with £141 million yet to be spent.

Source: National Audit Office analysis of data provided by HM Treasury

Part Two

Administration of the Libor grant funds

The rest of the report deals with the grant schemes administered by HM Treasury and the Ministry of Defence (MoD).

2.1 The way the Libor Fund has been administered has evolved over time. This part examines who received the £591 million[13] in grants from HM Treasury and MoD that have been awarded and the administration of the £773 million of Libor funds being managed by HM Treasury and MoD.

Grants awarded

2.2 HM Treasury and MoD have awarded £591 million through 729 different grants to 639 different charities and causes. Grants ranged from £1,000 to £50 million. The average grant was £0.8 million. **Figure 4** on pages 16 and 17 provides further analysis broken down between HM Treasury and MoD schemes.

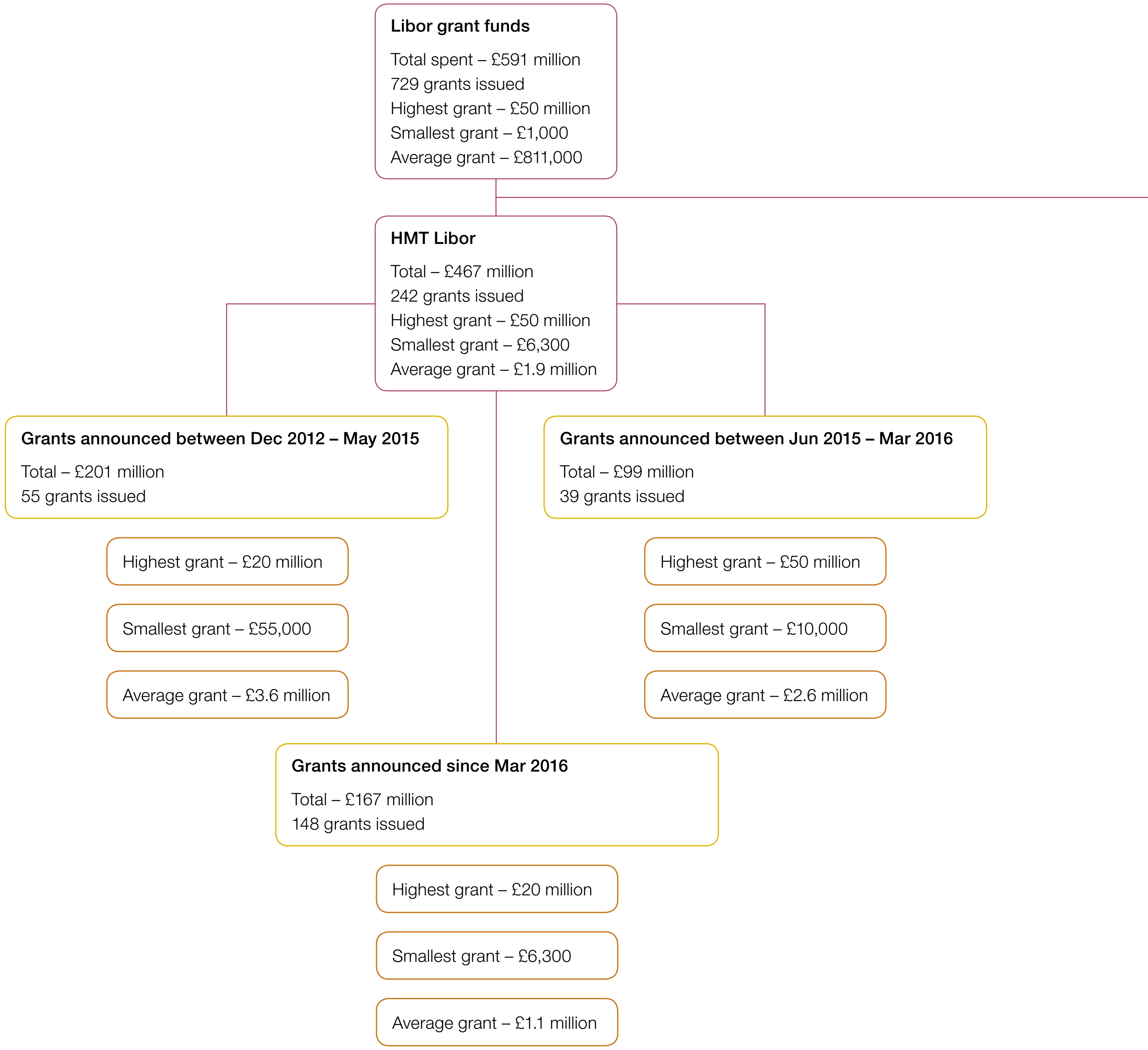
2.3 Overall, government has awarded the majority of grants to charities related to the Armed Forces, such as for accommodation for veterans, research, and memorials. HM Treasury also awarded grants to air ambulance charities and emergency services charities in line with the government pledge in October 2014 set out in paragraph 1.5 (**Figure 5** on page 18).

Grant award process

2.4 Of the £592 million spent to date, £467 million has been awarded through HM Treasury-managed schemes and £125 million through MoD-managed schemes. HM Treasury and MoD now follow broadly the same processes for awarding grants and the team that initially assesses applications is the same for both the ongoing grant schemes (HMT Libor and the Covenant Fund). The way in which grants were applied for and awarded by HM Treasury and MoD differed significantly until the Autumn Statement 2016. All of the grants awarded by MoD, for example, have been through public subscription whereas HM Treasury did not run any public subscription schemes until the Autumn Statement in November 2016.

13 Elsewhere in the report this is referred to as £592 million which includes £0.6 million of administration costs.

Figure 4
Analysis of the grants awarded



Notes

1 The MoD Covenant Fund is ongoing and will give out grants of up to £10 million per year. £161 million has been committed to this; £20 million has been spent so far; and £141 million remains in the fund.

2 The Aged Veterans Fund had a budget of £30 million and has spent £29.4 million on grants.

3 The MoD Covenant Fund has committed £2 million to the Royal British Legion for the Veteran's Gateway project, which is a significant outlier. If this were not accounted for, the average grant from the Covenant Fund would be £50,000.

4 The HMT Libor grants announced between June 2015 and March 2016 included a £50 million grant committed to the Cadet Expansion scheme, which is a significant outlier. If this was not accounted for, the average for this period would be £1.3 million.

MoD

Total – £124 million
487 grants issued
Highest grant – £8.6 million
Smallest – £1,000
Average grant – £254,000

Armed Forces Covenant Grant Scheme

Total – £35 million
97 grants issued

Highest grant – £2.7 million

Smallest grant – £5,000

Average grant – £359,000

Veterans Accommodation Fund

Total – £40 million
16 grants issued

Highest grant – £8.6 million

Smallest grant – £50,000

Average grant – £2.5 million

Aged Veterans Fund

Total – £29 million
19 grants issued

Highest grant – £5 million

Smallest grant – £304,000

Average grant – £1.5 million

Covenant Fund

Total – £20 million
355 grants issued

Highest grant – £2 million

Smallest grant – £1,000

Average grant – £55,000

5 £40 million remains from the total fines allocated to the fund, which has not yet been committed to any scheme.

6 As well as MoD, HM Treasury used other government departments to make grants on the Chancellor's behalf from the Libor Fund. These grants are referred to under the HMT Libor heading as HM Treasury hold the overall fund.

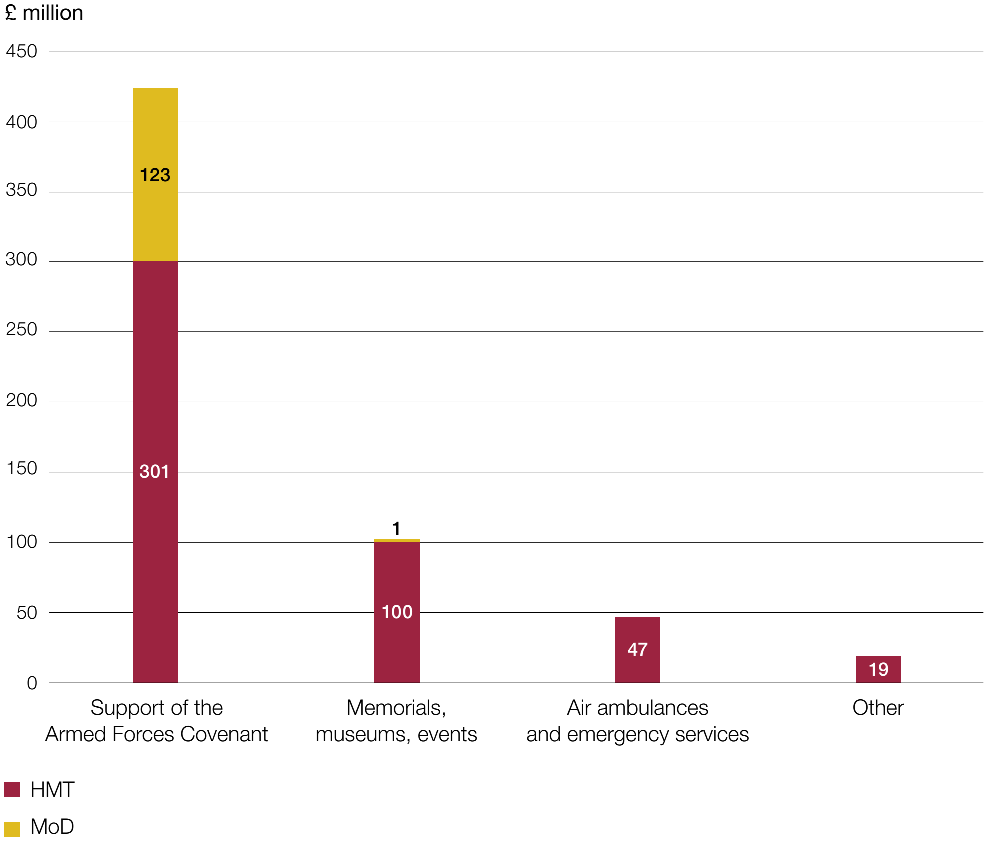
7 Figures may differ due to rounding.

Source: National Audit Office analysis of data received from HM Treasury and Ministry of Defence

Figure 5

Where grants have been awarded

Libor fund (total spent on grants to date £591million)



Notes

1 Support of the Armed Forces Covenant includes all the money dedicated to charities that aim to improve the well-being of veterans, serving personnel and their families and veterans' accommodation. The Armed Forces Covenant pledges that those who serve or have served, and their families, should be treated fairly.

2 Memorials, museums and events are related to the Armed Forces.

3 Air ambulances and emergency services covers funds dedicated to buy air ambulances, support emergency services and emergency responders.

4 The 'Other' category includes grants dedicated to causes not covered by the HM Treasury statement referred to in paragraph 1.5 (children's hospitals, Virgin Money Foundation and the Women, Peace and Security Centre at the London School of Economics)

5 The graph represents £591 million of the £933 million that the government has so far committed. The difference of £342 million comes from approximately £0.6 million of administration costs, the £141 million committed but not yet spent from the Covenant Fund and £200 million dedicated to apprenticeships.

Source: National Audit Office analysis of data provided by HM Treasury and Ministry of Defence

2.5 Since June 2015, the Covenant Fund executive has run the ongoing MoD schemes and works with officials in HM Treasury to support the HMT Libor scheme. The current head of the Covenant Fund executive has previous grant-giving experience and a legal background. This expertise was used to update governance processes, terms and conditions and monitoring in both the MoD schemes and the HM Treasury scheme.

2.6 Some differences remain across the HM Treasury scheme and the MoD scheme. Since July 2015, the final decision on applications to the MoD Covenant Fund has been made by a national panel, whereas for HMT Libor the Chancellor makes the final decision.

HMT Libor Fund grants – £467 million

2.7 HM Treasury did not have a formal comparative assessment process for awarding the majority of grants from the HMT Libor fund. Of the £467 million awarded from the HMT Libor fund to date, £385 million (82%) has been awarded following requests for funding directly to the Chancellor of the Exchequer from charities, MPs and government departments rather than through a public subscription scheme.

2.8 Before the Autumn Statement 2016, grant applications were made by letter to the Chancellor. The Chancellor made decisions throughout the year and announced them either at fiscal events such as during a Budget speech, or during visits related to the Armed Forces. For example, £45 million of grants were awarded at the Budget in 2016. In the Budget speech, the Chancellor picked out a number of the grants to announce. He stated that one was in response to the powerful case made to him by a Member of the Scottish Parliament for new community facilities in Helensburgh and for Royal Navy Personnel at Faslane.

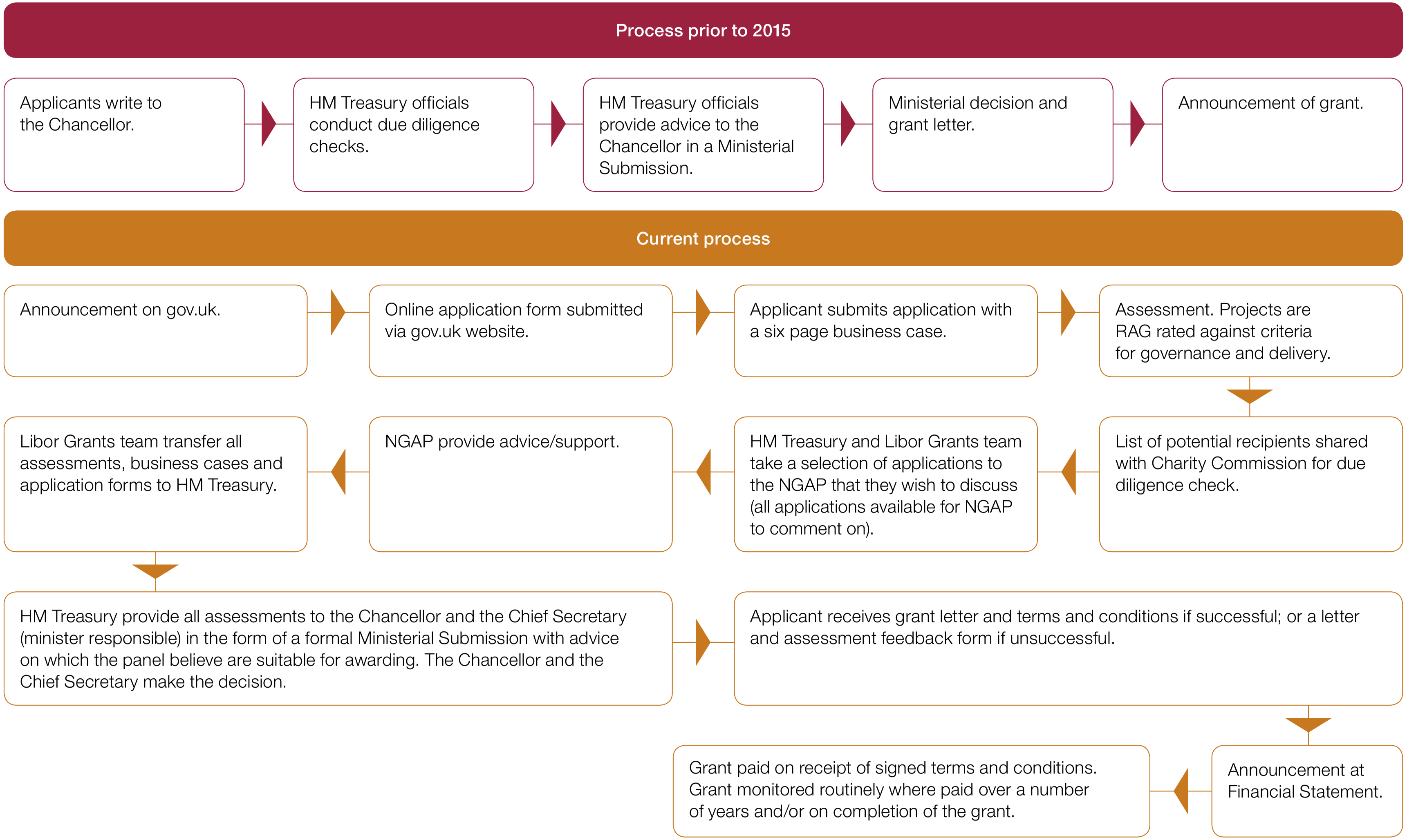
2.9 HM Treasury officials run the HMT Libor scheme and provide advice to the Chancellor on which causes to fund. Following the closure of Kids Company, the Public Administration and Constitutional Affairs Committee (PACAC) made recommendations in February 2016 regarding allocating funding to charities. The committee made it clear that there must be no suggestion that individual ministers have funds under their personal control or are exercising personal patronage.

2.10 From the Autumn Statement 2016, the process for applying for grants from the HMT Libor scheme changed (**Figure 6** overleaf). For the first time, HM Treasury announced that its grant scheme was open to public subscription on the government website. Applications to the HMT Libor scheme were made using a standard application form through HM Treasury rather than a letter to the Chancellor directly. As at November 2016, £82 million had been awarded through the revised process. The Chancellor still has the final decision on authorising the grants.

2.11 The Treasury believes that since Autumn Statement 2016, the grants made from the HMT Libor scheme are now in accordance with the principles of the Government Grant Minimum Standards that came into effect in December 2016, following the closure of Kids Company (**Figure 7** on page 21).

Figure 6

Processes before 2015 and since – HMT Libor Scheme



Notes

1 Processes described relate to HM Treasury's administration of the HMT Libor scheme. Processes for MoD's schemes include different steps.

2 NGAP = National Grants Advice Panel.

Source: HM Treasury data

Figure 7
Grant standards

- Standard 1: named responsible officer for each grant

  All government grants require a named senior responsible officer with clearly defined responsibilities throughout lifetime of grant.

- Standard 2: grant approvals process

  Departments will ensure they have a robust grants approval process to approve spend of more than £100,000 and that details of all current grant schemes and awards are available on the Government Grants Information System (GGIS).

- Standard 3: new grants advice panel

  New government grants, including those that are high risk, novel and contentious, as well as those undergoing a step-change in scope or funding, should be considered for submission to the New Grants Advice Panel for scrutiny and advice from subject experts.

- Standard 4: the business case

  A robust business case, proportionate to the level of expenditure and risk, must be developed for all government grants. This will be scrutinised and approved in stages, as part of grants approval process, in line with the guidance in *Managing Public Money*.

- Standard 5: competition for grant funding

  Government grants should be competed by default; exceptions may be approved where competition would not be appropriate. Detailed supporting evidence for any direct award decision must be provided in the approved business case.

- Standard 6: robust grant agreements

  All government grants must be awarded through robust grant agreements, proportionate to the value of the grant and which reflect the minimum standards for government grants, in line with guidance in *Managing Public Money*. All government grant agreements will include terms of eligible expenditure.

- Standard 7: due diligence and fraud risk assessment

  All government grants will be subject to timely and proportionate due diligence and fraud risk assessment.

- Standard 8: defining outputs

  All government grants will have outputs agreed and longer-term outcomes defined, wherever possible, to enable active performance management, including regular reviews and adjustments where deemed necessary.

- Standard 9: annual reviews

  All government grants will be reviewed annually at a minimum with a focus on financial reconciliation, taking into account delivery across the period, resulting in a decision to continue, discontinue or amend funding.

- Standard 10: mandatory training for grant-makers

  All those involved in the development and administration of grants must undertake core training in grant management best practice.

Source: Government website: www.gov.uk/government/publications/grants-standards/grant-standards

MoD grant schemes – £125 million

2.12 MoD has administered four grant schemes since 2012. The Covenant Fund, which provides grants of up to £10 million per year, is ongoing. The other schemes are now closed (see Figure 4).

2.13 When the Covenant Fund was announced in June 2013 as an ongoing scheme (in perpetuity), MoD recognised that it needed to complete a benchmarking exercise and lessons learned exercise, based on the grants it had awarded from previous schemes. The lessons learned exercise identified key areas for improvement such as in the support given to applicants and the monitoring of projects. It also identified the need for grant-giving expertise.

2.14 In April 2015, in line with the lessons learned recommendations, MoD requested approval to set up a stand-alone grant team to administer the Covenant Fund and the Aged Veterans Fund (£30 million). Since June 2015, the Covenant Fund executive, made up of four members, has run the MoD schemes. Until this point, a member of the Armed Forces covenant team had administered the MoD's grant schemes alongside their other duties. The head of the Covenant Fund executive has previous grant-giving experience and a legal background.

2.15 Funding priorities for the Covenant Fund and earlier MoD grant schemes were set by the Covenant Reference Group. Members include representatives from the devolved administrations and many government departments, such as MoD, HM Treasury, Department of Health, Department for Communities and Local Government, Department for Education and representatives of the charity sector.

2.16 The assessment of each application to be funded by the Covenant Fund is put to the national panel, which decides which charities to fund. The national panel is made up of representatives from MoD, HM Treasury, the devolved administrations and the charity sector.

Part Three

Governance and evaluation of grants from the Libor Fund

3.1 This part examines how government assures itself that grants from the Libor Fund have been spent in line with the original application and the government's plans for future use of the fund.

Governance of grants

3.2 Not all grants from the Libor Fund had terms and conditions attached to them as standard until the Autumn Statement 2015. Between October 2012, when the first HMT Libor grant was awarded, up to and including the summer Budget in July 2015, 67 grants totalling £272 million were made on behalf of the Chancellor (58% of the £467 million spent under the HMT Libor scheme). The Ministry of Defence (MoD) made £196 million of these grants on behalf of HM Treasury without any terms and conditions attached. Successful applicants received a letter from the Chancellor stating that they would receive a grant to carry out the task they had requested money for. Other government departments which administered £72 million of Libor grants in the same period on behalf of HM Treasury did attach terms and conditions to their grants.[14]

3.3 HM Treasury believes that of the £196 million, £139 million of grants did not require terms and conditions because of the nature of the organisations the grants were paid to. In terms of best practice in grant-making, the remaining £57 million of grants should have had terms and conditions attached. HM Treasury states the following points in support of the £139 million that it believes did not require terms and conditions:

- MoD received £107 million of grants as part of its spending estimates to complete specific projects that did not fall under standard departmental spending, but that MoD took responsibility for as part of the Armed Forces Covenant.[15]
- The Royal British Legion received £32 million of grants. This charity has executed a number of different projects on behalf of HM Treasury and the MoD. An agreement was put in place between HM Treasury and the Royal British Legion regarding Libor funds in June 2016 to cover past and future payments.

14 £4 million of the grants announced at the summer budget in 2015 were paid out by MoD with terms and conditions attached as they were agreed following terms and conditions becoming standard practice.

15 The Armed Forces Covenant is a promise from the nation that those who serve or have served, and their families, are treated fairly. The government is working with businesses, local authorities, charities and community organisations to support the forces through services, policy and projects.

3.4 Grants made by MoD under its Armed Forces Covenant Grant Scheme (£35 million) contained limited terms and conditions that set out some obligations of the organisation and some of the MoD's rights. However, it did not set out MoD's access rights. Grants made by MoD for the Veterans' Accommodation Fund (£40 million) contained more detailed terms and conditions about access rights, the organisation's obligations and repayment and recovery of the grants. The Covenant Fund executive responsible for the Aged Veterans Fund (£30 million) and the Covenant Fund (£10 million per annum) introduced more detailed terms and conditions for grants. For example, these terms and conditions set out obligations for monitoring projects against the outcomes and outputs detailed in applications and milestones set out at the time the grant was made. They were used as the basis of those attached to the HMT Libor grants from Autumn Statement 2015.

Powers of government to recover misspent grants

3.5 Even in the absence of specific rights where terms and conditions of awards are not in place, HM Treasury and MoD believe government has the necessary power to withdraw any award if it remains unspent, or to recover any money where it can prove that grants were not spent in accordance with the application. These powers have not been challenged by any grant holder but government believes they are supported by trust law where successful applicants hold the grant money on trust for the beneficiaries to serve a specific purpose. If they do not do what they requested the money for, government believes it can ask for the money to be returned.

Monitoring

3.6 Up until autumn 2016, HM Treasury and MoD did not plan to conduct any formal monitoring to assess how Libor grants had been spent after payment. Although some of those who have received grants have provided information on their activities to HM Treasury without being asked, HM Treasury has not proactively sought this information. In most cases it has not received further information from them since awarding the grant. This is also the case for the legacy MoD schemes.[16] The Aged Veterans Fund and Covenant Fund were set up with terms and conditions regarding monitoring.

3.7 All HMT Libor scheme grants announced at Budget 2016 were issued with a condition requiring recipients to submit information and records on request from HM Treasury or MoD. Since Autumn Statement 2016, the terms and conditions were updated to hold a clause to request an end of grant report within three months of the end of the grant period as standard. MoD has included this condition since the Aged Veterans Fund was introduced in August 2015. Some HMT Libor scheme grants are paid in multiple parts, some over a number of years. In May 2017, HM Treasury and MoD stated that they formalised a process to set out if a grant is to be paid in multiple parts, it is expected that monitoring information will have been received before making any further payments. Therefore, as well as awards made under the new terms and conditions, monitoring information will be requested from some historical grant holders on an ongoing basis.

16 Armed Forces Covenant Grant Scheme and Veterans' Accommodation Fund.

3.8 Before the requirement to submit performance data, no formal process was in place. Therefore not all activity has been documented. The departments told us that they would react to any information received on performance issues as they arose through:

- talking to relevant people related to the charity;
- referring charities to the Charity Commission for consideration and further investigation;
- visits to charities and events to view where the money has been spent;
- meeting the trustees of charities to discuss governance and provide advice;
- ongoing contact with the charity;
- requests for evidence from charities; and
- reviewing information provided by charities.

Retrospective review

3.9 To seek assurance that grants have been spent as intended, in autumn 2016 HM Treasury states it decided to retrospectively review all grants awarded from the Libor Fund since 2012. In January 2017 HM Treasury commissioned MoD's Covenant Fund executive team to carry out this work. It will submit a written report of its findings by the end of 2017. The review plans to:

- check every grant made and ensure that there is evidence that funds have been used appropriately in accordance with individual grant aims;
- check every grant for fraudulent activities; and
- refer any problematic grants for further investigation or action where appropriate.

3.10 The departments hold differing levels of information on grants depending on when they were paid and from what scheme. At the time of writing, the Covenant Fund executive team had begun the review process of the 729 grants made from the Libor Fund, assessing the data already held on the grants and contacting grant holders for further information where required. MoD is currently gathering information from grant holders for 236 of the 729 grants where it does not have sufficient information to conduct the review. For the other 493 grants, MoD believes existing monitoring arrangements provide sufficient information to enable a review to be conducted.

3.11 When the review is complete, the aim is that HM Treasury and MoD will hold sufficient information to confirm whether charities spent all grants as intended. It will also give the departments the information to actively monitor all ongoing grants rather than just those from more recent schemes. This review was ongoing at the time of writing and is expected to be completed by December 2017. Government is therefore currently unable to confirm that charities spent all grants as intended.

The future of the Libor Fund

3.12 HM Treasury is conducting one more public subscription of the HMT Libor scheme to spend most of the remaining funds it holds under that scheme. At the time of writing HM Treasury was assessing applications. There are currently no further fines that HM Treasury expects to be included in the Libor Fund. If further fines are paid over by the Financial Conduct Authority (FCA) relating to Libor as part of its ongoing investigation, the Chancellor will decide whether these will be paid into the Fund. There is no rule committing the government to spending the FCA fines on grants and good causes.

3.13 The Covenant Fund will continue to make grants of up to £10 million per year in perpetuity. The Libor Fund will provide a further £141 million towards the cost of this scheme in addition to the £20 million already awarded.

3.14 In order to inform the Covenant Fund executive of what the future priorities for the fund should be, MoD has used part of the allocation to fund a project to help understand the needs of the Armed Forces community and direct the grants to where they are required.

3.15 The Covenant Fund executive team has also requested bids to develop an outcome measurement framework for measuring the outcome and impact of its various funded grant programmes over the next 25 years.

Impact assessment

3.16 Government has not yet evaluated the impact of the grant schemes on those sectors it hoped would benefit from the Libor Fund. It has committed to completing an external evaluation in 2018, following completion of the grant review in 2017. By this time, it is expected that 80% of the Libor Fund will have been awarded. The Covenant Fund executive will be tasked with arranging the evaluation. A written report of the findings will be submitted to HM Treasury.

3.17 The objectives of the evaluation are to:

- analyse the geographical and thematic spend of Libor grants; and
- identify positive activities and impact delivered by grant holders.

Appendix One

Our investigative approach

Scope

1 We conducted an investigation into how government has distributed money resulting from fines levied on banks found to have manipulated the London Interbank Offered Rate (Libor), and foreign exchange (Forex) markets for profit between 2012 and 2015. All Libor fines and one Forex fine were used to fund the Libor Fund, which was distributed by HM Treasury and the Ministry of Defence through a number of Libor grant funds. In addition, the Department for Education was provided with money from the fund to support apprenticeships.

2 We investigated:

- the value of fines applicable to the Libor Fund, what government intended the Libor Fund to be used for, and how the Libor Fund was allocated;
- how government has administered Libor grant funds; and
- how government gains assurance that grants from the Libor Fund have and will be spent as intended, and whether grant impact is evaluated.

Methods

3 In examining the issues in paragraph two above, we drew on a variety of evidence sources.

4 We reviewed government announcements relating to policy decisions on the application of the Libor Fund.

5 We reviewed departmental documents relating to the allocation of Libor grant funds from HM Treasury, the Ministry of Defence, and the Department for Education to identify how much funding had been provided and to which organisations.

6 We interviewed officials from HM Treasury, the Ministry of Defence and the Department for Education to establish how departments have, and will continue to, distribute Libor grant funds in practice.

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