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Defence Committee

Armed Forces Covenant: NAO Review of LIBOR Funding

Seventeenth Special Report of Session 2017–19

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Seventeenth Special Report

On 30 June 2018, the Defence Committee published its Ninth Report of Session 2017–19 [HC 707] on the Armed Forces Covenant Annual Report 2017. The Government's response was published on 28 September 2018 as the Committee's Eleventh Special Report of Session 2017– 19 [HC 1571]. In its Report, the Committee considered the funding arrangements, particularly the use of LIBOR fines, for the implementation and delivery of Covenant pledges. The Committee expressed concern that the Treasury and the Ministry of Defence (MoD) could not confirm that charities had spent all LIBOR grants as intended and at suggestions that LIBOR funds had been used for core MoD activities. At the time of the Committee's Report, a review instigated by HM Treasury about how LIBOR funds had been spent by charities was still incomplete. Therefore, the Committee wrote to the Comptroller and Auditor General (C&AG) in July 2018 to ask the National Audit Office (NAO) to examine the outcomes of the review, once completed, in order to provide assurances that:

- Charities had spent all LIBOR grants as intended; and
- LIBOR funds had not been used incorrectly for core MoD activities.

The NAO's findings are appended to this report.

Appendix: Examination of the HM Treasury LIBOR Funds Grants Review

Letter from Comptroller and Auditor General to the Chairman of the Defence Committee

Last year, you wrote to ask whether I would review the conduct of the Treasury-commissioned Review of LIBOR grants undertaken by the Armed Forces Covenant Fund Trust when it was prepared.[1] This arose from concerns raised by the Committee as to how the Government had used LIBOR funding, and in particular, whether recipients had spent it as intended, and whether funds had been for core MoD activities.

Subsequently, Sir Tom Scholar sent me the Review report and we have now completed our review. I attach our memorandum which summarises our findings and sets out our methodology. This has been discussed and the facts checked with HM Treasury, the Chief Executive of the Armed Forces Covenant Trust Fund (which conducted the review), and relevant parts of the Ministry of Defence.

Overall, we consider the Review fulfilled its function. We found evidence that the Review team had followed up on the 1,005 grants, although we consider it could have been clearer that, for some grant awards, little or no supporting evidence was supplied by the recipient or relevant government departments (paragraph 1.10 of the memorandum). We also saw evidence of the team following up cases where they had identified a risk of fraud. However, their ability to do this was hampered by the paucity of evidence available in many cases and the need to rely on self-reporting (paragraph 1.14).

The Committee expressed concern at the delays in undertaking the Review. We established that HM Treasury commissioned a team of two grant specialists from within MoD to carry out the task of reviewing all grants awarded from the LIBOR fund. This was a sizable task and they carried it out in addition to their existing day-to-day grant management responsibilities. At one point, HM Treasury agreed with the team to put the Review on hold, and to prioritise the application and assessment process for the last round of LIBOR funding. This contributed to the completion of the Review in September 2018, nine months later than originally expected.

We consider there could have been greater clarity in how the Review was organised. We found that the team responsible for performing the Review also held responsibilities for managing some of the grants which fell within its scope. However, their responsibilities did not include making the award decisions.

The team is now responsible for actively managing all LIBOR grants, which allows it to follow up on matters identified during the Review, and it took the opportunity of the Review to improve the quality of grant information held. Because many of the grants have not yet run their course, it has not yet been possible to undertake a full evaluation of the impact of the grants. The Trust told us that they intend to commission an independent evaluation later this year, to report in 2021.

1 Armed Forces Covenant Fund Trust Report for HM Treasury: Review of all LIBOR Fund Grants made between 2012–17, September 2018, available at: www.parliament.uk/documents/commons-committees/defence/LIBOR-Grants-Review.pdf

HM Treasury did not ask the Review team to look at whether grants had replaced funding for 'core' activities. We did not identify any clear cases of grants being used to fund 'core' activities in the sample of grants that we examined.

I hope this is helpful for your Committee. I would, of course, be happy to discuss our work further if that would be of value.

Amyas C E Morse

1 April 2019

Memorandum by the National Audit Office

This memorandum has been produced in response to a request from the House of Commons Defence Select Committee (the Committee). In its report on the Armed Forces Covenant Annual Report 2017, published in June 2018, the Committee raised concerns about how the Government had used LIBOR funding for the delivery of the Covenant.[2] A Review instigated by HM Treasury to provide assurance about how LIBOR funds had been spent by charities was still incomplete at the time of the Committee's report. In July 2018, the Committee wrote to the Comptroller & Auditor General (C&AG) asking if he would agree to scrutinise the outcome of the Review once complete, in order to provide assurance that:

- charities had spent all LIBOR grants as intended; and
- LIBOR funds had not been used incorrectly for core MoD activities.

In its report, the Committee accepted that LIBOR funding has produced positive results for veterans and current service personnel and their families. It did not ask the National Audit Office to examine the impacts arising from LIBOR funding and this memorandum makes no comment on them.

Background to LIBOR grant awards

1.1 Following an international investigation by financial regulators in 2012, it was revealed that several banks in the US and the EU were manipulating for profit LIBOR, a benchmark interest rate used for inter-bank loans. UK regulators fined the banks a total of £688 million. The former Chancellor of the Exchequer announced that all proceeds would "go to the benefit of the public".[3] In 2015, an additional £284 million fine for manipulating foreign exchange markets was added to the LIBOR Fund. The government has used most of the proceeds to support Armed Forces and Emergency Service charities and other related causes.

2 House of Commons Defence Committee, 9th Report 2017–19, Armed Forces Covenant Annual Report 2017

3 Source: George Osborne, Statement by the Chancellor of the Exchequer, Rt Hon George Osborne MP, on LIBOR, July 2012, available at: www.gov.uk/government/speeches/statement-by-the-chancellor-of-the-exchequer-rt-hon-george-osborne-mp-on-LIBOR

1.2 The closure of the Kids Company charity in 2015 led to concerns about the objectivity and transparency of money distributed from the LIBOR Fund.[4] Subsequently, the C&AG investigated the management of the LIBOR Fund[5] and found that:

- Not all grants from the LIBOR fund had terms and conditions attached to them.
- The way the LIBOR fund had been administered had evolved over time.
- HM Treasury and the MoD could not yet confirm that charities had spent all grants as intended.

The aims and coverage of the HM Treasury review (the Review)

1.3 In autumn 2016, HM Treasury decided to review retrospectively all grants awarded from the LIBOR fund since 2012. In January 2017, it commissioned the Armed Forces Covenant team to do this work. The purpose was to seek assurance on how grants had been used and provide information for future monitoring.

1.4 In particular, the Review was designed to check 1,005 grants and sub-sets of grants across five funding streams to:[6]

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

The Review examined 1,005 grants and sub-sets of grants across five funding streams (see Figure 1).

Figure 1: Grants made from LIBOR funds

Grant Type	**Number**
Awarded through HM Treasury managed schemes	
LIBOR Funds awarded by the Chancellor	344
Awarded through MoD managed schemes	
£35m Armed Forces Covenant Grant Scheme	97
£40m Veterans Accommodation Fund	16
£10m per annum Covenant Fund	530
£30m Aged Veterans Fund	18
TOTAL	1,005

4 Source: HC Committee of Public Administration and Constitutional Affairs, *The collapse of Kids Company: lessons for charity trustees, professional firms, the Charity Commission and Whitehall, Fourth report of session 2015–16, HC433, February 2016 – para 143 "The government should consider whether sufficient safeguards are in place to ensure that the LIBOR fund is administered in line with (re-evaluated) principles of objectivity and transparency"*

5 Source: Comptroller and Auditor General, *Investigation into the management of the LIBOR fund*, Session 2017–19, HC 306, National Audit Office, September 2017.

6 See footnote 4, para 3.9.

The Review did not set out to look at LIBOR funds given to the Department for Education to spend on 50,000 apprenticeships, as they were covered by the NAO investigation.[7]

How the Review was carried out

1.5 To undertake the Review, officials within the Armed Forces Covenant team (the Review team) contacted grant holders to obtain information about the status of each grant. Grant holders were asked to provide a summary of the activities carried out and evidence of the benefits gained by beneficiaries. They were also asked to sign an electronic declaration to provide assurances including that:

- the grant had been used for the purposes intended;
- the report was accurate and true; and
- grant holders had sought to achieve value for money for the activity.

The Review team also gathered other sources of corroborating information, such as published accounts of grant recipients who were registered charities or Community Interest Companies; relevant information from the Charity Commission or Companies House websites; and other information such as from recipients' own websites.

Review findings and conclusions

1.6 Overall, the Review concluded that "no evidence of misuse of funds has been found to date".

1.7 In addition, it reported that, of the grants in the Review, 104 were closed as part of the Review process or were confirmed as having previously been closed by officials. Most grants were ongoing, and organisations had in most cases a balance of their grant to spend and had provided the Trust with information on how they will spend it. Grants made under the Covenant Fund, the Aged Veterans Fund and the final two rounds of the HMT LIBOR fund were subject to regular, established grant monitoring checks conducted prior to the release of additional grant instalments.

1.8 The Review team was not asked to check whether the funds had been used to support activities previously provided from the 'core' MoD budget. In March 2018, the Parliamentary Under Secretary of State at the Ministry of Defence told Parliament that LIBOR funding "should not be used to fund Departmental core responsibilities", although "the use of LIBOR fines to support additional facilities and programmes over and above the core activities, support, and infrastructure provided by the MoD is entirely consistent with the scope of the LIBOR fund".[8]

7 The £200 million was part of the spending review settlement for apprenticeships in November 2015. Each month, the Department for Education 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.

8 Source: Tobias Ellwood, Written Question – 131327, March 2018, available at: www.parliament.uk/business/publications/written-questions-answers-statements/written-question/Commons/2018-03-06/131327/

The NAO's examination of the Review

Scope of our work

1.9 In October 2018, the Permanent Secretary at HM Treasury sent the Summary of the Review Report to the Comptroller and Auditor General. Following initial discussions with HM Treasury and officials of the Armed Forces Covenant Trust, we examined the conduct of the Review to establish whether it had been sufficiently thorough in reaching an informed conclusion on whether charities have spent all LIBOR grants as intended, as well as forming a view on whether LIBOR funds had replaced MoD funding for core activities. In summary, we:[9]

- Examined a sample of awards representing 30% of the £773 million assigned to charities and good causes, as follows:
  - all grants exceeding £10 million (11 awards with a total value of £225 million); and
  - a random sample across the remaining population (9 awards with a total value of £2.56 million).
- Reviewed the Trust's grant management report write-ups for 457 grants and sub-sets of grants, representing 70% of grants by value.
- For the grant awards included in our sample above, and for all LIBOR 2017 covenant grant applications, both accepted and rejected, we considered whether any activities supported could be seen as more appropriately funded through the 'core' MoD budget, and discussed them with the Trust

We did not repeat any fieldwork undertaken by the Review team. Our review was based on the information held by the Review team, and we did not contact individual charities.

The NAO's findings

Overall conclusions

1.10 The Review concluded that the team had found no evidence of misuse of funds. However, the report did not explain that, for some grant awards, little or no supporting evidence was supplied by the recipient or relevant government departments. In two of our sample of 20 grants, both administered by government departments, the Review team had been unable to establish from the department how the funds were spent at the time of the Review. We saw evidence of the team following up cases where they had identified a risk of fraud. However, their ability to do this was hampered by the paucity of evidence available in many cases and the need to rely on self-reporting.

1.11 Completion of the Review in September 2018, nine months later than originally expected was due at least in part to it being the responsibility of two grant specialists from

9 70% of grants by value is calculated as follows: HMT LIBOR grants - £467m + Armed Forces Covenant Grant scheme - £35m + Veterans Accommodation Fund - £40m, totals £542m. Total awards assigned by HM Treasury and MoD £773m. £542m of £773m as a percentage is 70%. Figures based on the NAO's investigation into the management of the LIBOR Fund.

within MoD to carry out the task of reviewing all grants awarded from the LIBOR fund since 2012, in addition to their existing day-to-day grant management responsibilities. Included in the scope of the Review were grants being monitored by the same team, although the team was not involved itself in awarding the grants.

1.12 HM Treasury did not ask the Review team to look at whether grants had replaced funding for 'core' activities. From our examination of documentation provided by the Trust, we did not identify any clear cases of this having happened.

1.13 HM Treasury committed to following up the Review with an external evaluation of the impact of LIBOR grants, and to complete this in 2018. However, the scale of the necessary work, and the need for activities in receipt of grant awards to be closed prior to examination, means the evaluation will be completed in 2021.

Detailed findings

1.14 The detailed findings were as follows:

On the Review process

- Securing evidence that the Trust had made efforts to pursue grants and, where needed, carry out follow up work, was not a straightforward exercise. Departments held differing amounts of existing information on grants and there were a large volume of grants to review.
- *Finding: We found evidence that the Trust had sought information on each of the grants in our sample as part of its Review.*
- It was not practical for the Trust to visit each grant-holder as part of the Review, and so the Trust devised a report form which it sent out to grant holders to obtain information about the status of each grant. The form also asked grant holders to sign an electronic declaration devised to provide the Trust with assurance that the grant had been used for the purposes intended, that the report was accurate and true, and that grant holders had sought to achieve value for money for the activity. The Trust used this as a primary source of evidence when reaching its conclusions. Depending on the type of grant made, the Review team either collected information directly from the recipient or from the government department responsible for grant distribution.
- *Finding: Forms were not available for examination by NAO for nine of our sample of 20 test items. These nine items all related to grants managed by government departments, except for two grants awarded in April 2018. The Trust told us it was too soon to follow up awards granted in 2018. The Trust also told us that for all other grant award rounds it had received completed forms from every non-government grant holder. We gained assurance from other supporting evidence gathered by the Review team in seven of the nine cases. In the remaining two cases, we found that the Trust had not been able to establish the appropriate use of funds at the time of our work. The two cases where evidence to support grant expenditure had not been established were:*

  - *an award where the Trust was continuing to try and gather evidence from the Surgeon General's Office of the MoD, the recipient, as to how the grant of £10 million has been spent. We saw evidence of the Trust's unsuccessful contacts with the MoD from May 2018 to establish what the grant had been spent on. We discussed the case with MoD, which told us that the information was not supplied at the time due to internal communication issues. It told us that the funding had been used to provide rehabilitation services for operational casualties whose needs were long-term, or had materialised after the date that these services would qualify for funding under the HM Treasury arrangements for covering the additional cost of military operations;*

  - *a £10 million award for support to the emergency services where information was lacking at the time of the Review, but where the Trust is expecting supporting information to become available later in 2019. Gathering information was complicated by the fact that responsibility for the grant had passed between three government departments. New discussions are beginning with the Department of Health and Social Care, the department now responsible, to attempt to fill gaps in the information held on file by the Trust.*

- In another case an NHS institution had received an award aimed at providing rehabilitation for service veterans. The institution reported that the demand for the service for veterans had reduced over time, and consequently the services would also be made available to civilian patients requiring rehabilitation. The Trust felt that it was not appropriate to take further action in the circumstances.

- The team carrying out the Review relied on its grant management experience to identify anything in the evidence gathered about the grants that might indicate the presence of fraud.

  - *Finding: We saw evidence of the team following up cases where they had identified a risk. However, their ability to do this was hampered by the paucity of evidence available in many cases and the need to rely on self-reporting.*

On the replacement of 'core' funding

- An early grant award related to improving childcare facilities provided on premises across 39 sites on the defence estate. The Trust told us that it is unlikely that such an award would meet the published criteria which were put in place for the later open application rounds of LIBOR funding. We discussed this case with relevant staff from the MoD who explained that the facilities, although provided for service families, were operated by non-MoD organisations which occupied the properties under lease or licence, and would not have been eligible for funding from the core MoD budget.

- *Finding: We did not identify any clear cases of grants being used to fund 'core' activities.*

On administration

- The team carrying out the Review consisted of two people. They undertook the Review alongside their existing grant management responsibilities. The Trust told us that HM Treasury agreed with the team to put the Review on hold to prioritise the application and assessment process for the last round of LIBOR funding which resulted in the grants awarded in the 2017 Autumn Budget.
- *Finding: The size of the task involved and this reprioritisation of resources contributed to the nine month delay in completing the Review report.*
- The Treasury commissioned a Review team to carry out the work who were already managing some of the grants which formed part of the Review itself. However, while the team assessed grant applications, it did not make the award decisions. In carrying out the Review, the Trust team has taken the opportunity to build a digital database of information about grants to allow for better management of grants with unspent balances.
- The follow-up evaluation of grant impact was originally planned to be completed in 2018, but this has been delayed until most grants have been closed in order to allow for a meaningful evaluation which can assess the impact of grant funding.[10] Following open competition, a contractor will be appointed later in 2019, to deliver the evaluation by the end of 2021. HM Treasury told us that the assessment will:
  - consider the impact of LIBOR grants on their communities;
  - analyse the geographical and thematic spend of the grants; and
  - identify positive activities and impact delivered by grant holders.

10 Source: Comptroller and Auditor General, Investigation into the management of the LIBOR fund, Session 2017–19, HC 306, National Audit Office, September 2017.