



Ministry
of Defence

 THE ARMED FORCES
COVENANT FUND TRUST



The Armed Forces Covenant Fund Trust Financial Framework (2022-2027)

**The Ministry of Defence and the Armed Forces
Covenant Fund Trust.**

FINANCIAL FRAMEWORK 2022-2027

INTRODUCTION

1. This Framework sets out an arrangement between the Ministry of Defence (MOD) and the Armed Forces Covenant Fund Trust (the Trust) of 7 Hatherley Street, London SW1P 2QT (until March 2022) on the conditions governing payment and expenditure of the Grant in Aid (GIA) made by the MOD to the Trust. The sum of the GIA will be £10M per annum in perpetuity, which commenced 1 April 2018.
2. The Trust is a charitable body established by Declaration of Trust dated 7 February 2018. Under the powers contained in this, the objects of the Trust are set out in the Declaration of the Trust. The Trust is a registered charity (1177627) and regulated by the Charities Act 2011 (as amended).
3. This Framework shall be reviewed by the MOD, with the assistance of the Trust at 5 yearly intervals; or when the body appoints a new Chief Executive; or earlier if necessary. Amendments may be proposed for mutual consideration whenever either party considers this necessary.

OBJECT OF THE GRANT IN AID

4. This GIA is provided to the Trust in two parts. The first covers up to 8% of the total grant and this is for the running costs of the Trust, which is the maximum permitted value every year. The second is for the remaining maximum of 92% of the grant and is for the distribution of charitable grants (as approved by the Trustees). Both elements may increase annually with inflation. Any unspent GIA may be carried over to the following year, but the amount of funding requested must be reduced in the following year however this does not include the fixed 8% for running costs.
5. The running cost element may be used for pay, office accommodation, IT costs, travel costs and professional advice including governance costs (as required).
6. The nature of the GIA provided to the Body is to provide charitable assistance and support to those who serve, in the Armed Forces, whether regular or Reserve, those who have served in the past and their families, dependents and carers, including (but not limited to) funding projects that:
 - i. Advance community development by helping to integrate military and civilian communities and allow the Armed Forces community to participate fully as civilians. This includes providing information, advice, help and expertise to those who serve, or have served, during their transition into civilian life, including supporting their resettlement and, if needed, helping them gain employment;
 - ii. Prevent or relieve poverty, financial hardship or other charitable need;
 - iii. Relieve unemployment;

- iv. Advance health, including but not limited to the promotion of good mental and physical health and prevention of substance abuse or misuse;
 - v. Provide (or assist in the provision) of facilities in the interests of social welfare for recreation or other leisure occupation of individuals who have need of such facilities by reason of their youth, age infirmity or disability, financial hardship, or social circumstances with the object of improving their conditions of life;
 - vi. Educating the public with a view to promoting a national understanding of the Armed Forces and their contribution to society, including but not limited to supporting regimental museums, heritage projects and gardens of remembrance;
 - vii. promote the efficiency of the armed forces by the provision and support of facilities and activities for the efficiency and well-being of service personnel that is above and beyond what is provided statutorily;
 - viii. Promote the efficiency and effectiveness of charities, the effective use of charitable resources and the Voluntary Sector.
7. This GIA should be treated as Restricted within the Body's accounts.

RELATIONSHIP WITH MOD

8. For the purposes of day-to-day dealings, all reference in this document to MOD may be taken as referring to the Armed Forces People Support team. Payment of the GIA is subject to the MOD being satisfied that the conditions set out in this document are being met, except where some variation in these has been agreed between the parties in writing.

9. At the start of each Financial Year the MOD will receive from the Trust a formal request to approve the £10M GIA¹ to be applied in accordance with the objects of the Trust. The request will include an estimated breakdown between the charitable grants and overhead expenditure. The amount notified is subject to Parliamentary approval and represent a cash limit.

PAYMENT OF GIA

10. Payment will be authorised by the MOD on the basis of spend against the GIA, in accordance with need and in receipt of the formal funding request from the Trust. The £10M per annum is ring-fenced in the Defence Budget (held within the Head Office TLB) and is spread across the financial year, depending on submission of invoices from the Trust to the MOD. An annual uplift to reflect inflation will be negotiated.

11. Any GIA not paid to the Trust by the end of the financial year will lapse, but any unspent GIA may be carried over to the following year, but the amount of

¹ An annual uplift to reflect inflation will be negotiated.

funding requested must be reduced in the following financial year. The MOD budget teams must monitor any unspent GIA.

12. The Trust will inform the MOD if a grant (or part thereof) is withdrawn or returned. In case of funding returned by the organisations to the Trust or underspends from funding programmes run by the Trust, the Trust may re-utilise those funds for what is deemed by the Trust to be the closest alternative from amongst its open programmes, use the Solicitation process to reallocate, or add to the funds available for the next round of funding decisions. The Trust will notify the MOD each time such a grant (or part thereof) is reallocated.

INSPECTION AND REVIEW

13. The MOD may carry out, with the agreement of the Trustees, periodic inspections or review of the Trust's management or other internal controls, in relation to GIA funds, if it deems it necessary. The Trust will cooperate with such inspections or reviews where such agreement has been given.

AIMS, OBJECTIVES AND PERFORMANCE INDICATORS

14. The MOD and the Trust shall agree appropriate aims, objectives, and measurable performance indicators in respect of the GIA, as per Annex A of the Armed Forces Covenant Fund Trust Governance Framework. The Trust will provide the MOD with an annual report that provides a summary of the work completed by the Trust to ensure that the Terms and Conditions for each grant are in place and have been adhered to. The annual report must also contain details of any non-compliance that has been identified and details of the corrective action that has been taken away by the Trust.

ACCOUNTABILITY

15. The MOD is accountable through its Principal Accounting Officer (the Permanent Secretary) to Parliament for the following:

- a. Determination and payment of the GIA in accordance with the rules of Managing Public Money²;
- b. The conditions attaching to the GIA;
- c. Monitoring the Trust's observance of the conditions; and
- d. Deciding what performance indicators that the Trust should use and how the organisation should report against them, as per Annex A of the Armed Forces Covenant Fund Trust Governance Framework.

16. The Trust's Accounting Officer's responsibilities include:

²

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/994901/MPM_Spring_21_without_annexes_180621.pdf

- i. Signing the accounts and ensuring that proper records are kept relating to these accounts and that they are properly prepared and presented in accordance with charity law, Treasury Guidance and any directions issued by the Secretary of State of Defence;
- ii. Preparing and signing a Governance Statement covering corporate governance, risk management and oversight of any local responsibilities, for inclusion in the annual report and accounts;
- iii. Ensuring that effective procedures for handling complaints about the Trust are established and made widely known within the Trust;
- iv. Acting in accordance with the terms of this document, Managing Public Money and other instructions and guidance issued from time to time by the MOD, HMT and Cabinet Office; and
- v. Giving evidence, normally with the MOD PAO, when summoned before the Public Accounts Committee on the Trust's stewardship of public funds.

THE ROLE AND RESPONSIBILITIES OF THE CHIEF EXECUTIVE

17. The Chief Executive is responsible to the Board of Trustees for the proper conduct of the Trust's business in accordance with clause 9.2 of the Declaration of Trust and accounting for all the funds of the charity in accordance with the Charity Commission Statement of Recommended Practice (SORP). The Chief Executive as Accounting Officer is personally responsible for safeguarding the public funds for which they have charge; for ensuring propriety and regularity in the handling of those public funds; and for day-to-day operations and management of the Armed Forces Covenant Fund. In addition, they should ensure that the Armed Forces Covenant Fund as a whole is run on the basis of the standards, in terms of governance, decision making and financial management that are set out in Box 3.1 of Managing Public Money (see footnote 1).

18. The accountabilities include:

- a. The administration of, and proper accounting for, the GIA, so that all resources are used economically, efficiently and effectively;
- b. The maintenance of adequate internal expenditure controls in relation to GIA funds;
- c. The provision of advice to the Board so that financial issues affecting GIA are considered fully, at all stages, in framing and reaching decisions and their execution;
- d. Observance of the conditions attaching to the GIA;

- e. The maintenance of adequate systems of financial control to prevent theft or fraud in relation to GIA funds;
- f. The signature of the accounts and ensuring that proper records are kept relating to the accounts;
- g. Write-off of losses from GIA funds;
- h. Ensuring that the GIA is used only for the purposes detailed in this agreement and is not used for investment or speculation with the intent of generating additional income; and
- i. Ensuring that the Trust, as it is also a Non Departmental Public Body of the MOD, follows the standards and guidance set out in reporting any exceptions to its sponsor Department.
- j. The responsibilities of the Accounting Officer are detailed in Chapter 3 of Managing Public Money³.

19. In the event that the Chief Executive receives instructions that they regard as conflicting with this framework, in relation to the GIA, he/she should make appropriate written representation to the Chair of Trustees (with a copy to the MOD Permanent Secretary and Armed Forces Covenant Team).

20. The Chief Executive may delegate day-to-day duties (except for their personal authority to write off losses) to an executive Director of Finance or equivalent.

THE PLANNING FRAMEWORK

21. Each year, the MOD will ensure that the planning baseline includes £10M per annum for the Armed Forces Covenant Fund⁴. Although part of MOD funding, this £10M will be ring-fenced and will not be used for any other purpose. By 31 March each year, the Trust is required to provide the MOD with a statement that shows the projected breakdown of administrative costs and the expected value of grant payments for the three-year period commencing from 1 April. The administrative costs should be broken down by pay; pensions; rent; IT support costs; audit, legal and professional fees; and any other sundry costs⁵.

22. In addition, the Trust will provide information on how it plans to utilise the GIA funding, this should ideally be via a formal management plan. This should include a restatement of the aims, objectives and performance targets detailed at paragraph 13.

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https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/994901/MPM_Spring_21_without_annexes_180621.pdf

⁴ An annual uplift to reflect inflation will be negotiated.

⁵ This clause may need some modification in that the Trust can readily ask for £10M every year but cannot of course specify the Annual Priorities for those years.

23. The plan should also contain details of any capital projects, whether funded through GIA or other sources, which may have a future impact on the requirement for GIA funding.

24. Payments and receipts shall be closely monitored by the Trust at all times during the financial year so that timely action can be taken to ensure that the cash limit of the GIA is not exceeded. The Trust is not permitted to overspend and must ensure that processes are in place to maintain financial control.

25. The Trust will provide MOD (copied to the Armed Forces Covenant Team) with a full set of financial accounts and commercial balances on a quarterly basis (30 June; 30 September; 31 January and 31 March). Evidence is to be provided within two weeks of the end of these periods respectively. The format to be used will be provided and the completed template sent to the MOD finance team (HO Fin-People FBP1). The Chief Executive will be advised of the contact point.

26. The Trust will provide the MOD HO Fin-People FBP1 with a copy of the annual audited accounts each year, produced in accordance with the Charity Commission SORP, and such management information as may be necessary to allow the MOD to discharge its responsibilities as set out in Paragraph 14 of this document.

FINANCIAL CONTROLS AND FINANCIAL AUTHORITIES

27. The Trust must seek MOD approval to veer funds between expenditure type, including if necessary, to increase above 8% of the £10M total budget to include inflation. If this is likely to occur, the Trust will inform MOD of the reason behind the breach and whether this a contained incident or will be an on-going position.

28. In case of returned funding or underspends from funding programmes run by the Trust, it is agreed that the Trust can re-utilise the funds for what is deemed by the Board of Trustees to be the closest alternative from open programmes.

29. In respect of the GIA, the Trust will:

- a. Maintain to the MOD's satisfaction an appropriate system of financial management;
- b. Maintain adequate records, covering the last five financial years, of payments and refunds made against the GIA to meet National Audit Office external audit needs;
- c. Ensure that the GIA is accounted for and managed separately from any other funds managed by the body; and
- d. Maintain the minimum level of cash balances and reserves consistent with the efficient conduct of business.
- e. Ensure that a maximum of 8% of the GIA is used for admin costs.

GOVERNANCE

30. In respect of governance processes, the Trust will:
- a. Produce, publish, and make available to all its staff a Whistleblowing policy and Fraud Policy, to be reviewed and re-promoted each year;
 - b. Provide MOD with an annual return on any instances of fraud that have been detected and provide details of any losses that have been identified. This should be underpinned by any work done to evaluate how the grant was spent and the impact of the spend;
 - c. Provide the MOD with a return for the Annual Assurance Review (AAR) each year; and
 - d. Abide by all Terms and Conditions set out for each of the Grants it has responsibility for.

MANAGEMENT AND DISPOSAL OF ASSETS

31. The Trust is accountable to the MOD for the safe keeping of all assets obtained through the GIA, including maintenance of inventories or other records, as agreed with the MOD.

ACCOUNTING ARRANGEMENTS

32. The accounts shall be produced in accordance with the current SORP. As the charity is also an NDPB, the accounts should also be prepared in accordance with the Government Financial Reporting Manual (FReM).

REPORTING

33. In addition to the financial information requested at Paragraph 27, the Trust will also need to report on a quarterly basis, all losses, and special payments both incurred and made. A template and timetable will be issued separately once the Financial Framework is agreed.

AUDIT

34. The Trust's accounts shall be audited by an independent auditor appointed by the Trustees. The annual audited accounts will be signed by the Chair and the Chief Executive after acceptance by the Board.
35. The auditor shall also examine the economy, efficiency, and effectiveness with which the Trust has used its resources to carry out the tasks at Paragraph 4 and the procedures adopted to comply with the principles of Managing Public Money and for the prevention of fraud.

36. Defence Internal Audit may also examine any or all these same aspects, in relation to GIA funds, at the request of the MOD or the Chief Executive of the Trust. The Trust accepts this requirement for access as a condition of GIA payment.

37. The Trust should comply with the Government Internal Audit standards (GIAS) in order that the Department Accounting Officer may receive an annual assurance on risk management, governance, and control. This assurance can be provided by an external organisation., The Department Accounting Officer requires Defence Internal Audit to ensure periodically that the service provided meets the requirements of GIAs. The Trust accepts this requirement for access as a condition of GIA payment.

38. The accounts of the Trust may be subject to audit by the NAO if so, designated by HM Treasury in accordance with the Government Resources and Accounts Act 2000.

INSURANCE

39. The Trust is responsible for its own insurance.

DURATION

40. This Framework will remain in effect for five years from the date of signature unless a new Chief Executive is appointed or either party requests termination or amendment before that date. The agreement may be terminated by either party following 12 months' notice, unless both parties agree to a shorter timescale. Amendments may be proposed by either party at any time, but amendments must be implemented by agreement.

MOD Signatures:

Name of Funding Budget Holder: James Greenrod

Title: Head of Armed Forces People Support

Date: 23/11/2022

Signed: 
(On Behalf of the Ministry of Defence)

Name of Chief of Defence People: Lt Gen James Swift

Title: Chief of Defence People

Date: 23/11/2022

Signed: 
(On Behalf of the Ministry of Defence)

Trust Signatures:

Name of the Chief Executive: Anna Wright

Title: Chief Executive

Date: 23/11/2022

Signed: *A. Wright*
(On behalf of the Armed Forces Covenant Trust Fund Limited)

Name of Chair: Helen Helliwell

Title: Chair of the Board of Trustees

Signed: 
Date: 23/11/2022
(On behalf of the Armed Forces Covenant Fund Trust Limited)