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Budget cuts killed off Libor inquiry

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Britain's premier anti-corruption agency refused to carry out a criminal investigation into alleged manipulation of the benchmark Libor bank lending rate because it did not have enough money to fund it.

The Serious Fraud Office (SFO) ruled out an investigation into allegations that staff at Barclays and other banks had tried to rig the lending rates which could have led to anyone found guilty facing prison sentences. Officials said last night that the SFO and the Financial Services Authority (FSA) were now urgently reviewing details of the allegations following the outcry over the decision not to investigate originally. Justice Secretary Ken Clarke said yesterday: "Once these investigations are complete, if they have committed criminal offences they should be brought to trial."

The Independent on Sunday understands that the former SFO director, Richard Alderman, came under pressure from the Treasury, the Ministry of Justice and the FSA last September to take the lead in the Libor inquiry last September. But he resisted, blaming financial restrictions imposed by the Treasury and a heavy existing workload. The decision effectively left the FSA as the only UK body investigating the Libor allegations, resulting in last week's record-breaking £290m fine.

The failure to get to grips with the Libor claims from the start laid bare profound concerns over the state of the UK regulatory system. Critics have complained repeatedly that the Labour government's "light-touch" regulatory regime had enabled financial institutions to outgun the SFO, the FSA and the Bank of England.

Sukhdev Johal of Manchester University's Centre for Research on Socio-Cultural Change said: "This is effectively banking regulating itself. We have reached a point of complexity in which this closed system of regulation is undermining democracy. This regulation system has to be broken up this time and it has to be done decisively."

SFO chiefs complain that their ability to investigate cases has been compromised by cuts to their budget, which fell from £51m in 2008-09 to £33m this year - and it is set to fall to £29m by 2014-15. Mr Clarke yesterday conceded the UK was "very bad at prosecuting financial crime".

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