National Audit Office

REPORT

DCMS's management of its COVID-19 loan book

Department for Culture, Media & Sport (DCMS)

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Key facts

£474mn

repayable finance (loans) made by the Department for Culture, Media & Sport (DCMS) to culture and sports bodies to help them survive the pandemic

120

number of culture and sports bodies which received DCMS loans between October 2020 and March 2022

£41mn

total repaid to DCMS by October 2024, 97% of the repayments it had scheduled by that date

£218 million	total loans DCMS made to 83 sports bodies
£256 million	total loans DCMS made to 37 culture bodies
11	number of borrowers which have repaid their loans in full ahead of schedule, totalling £3.8 million
9	number of borrowers, with loans totalling £46.1 million, which had become insolvent, with DCMS recovering £10.1 million to date
£25 million to £29 million	loan repayments, in cash terms, that DCMS will not receive from insolvent borrowers
7.5%	percentage of borrowers which had become insolvent by October 2024, four years after the first loan was issued, against DCMS's expectation of up to 14% over the first 10 years of the loans

Summary

Introduction

1 COVID-19 hit the culture and sports sectors hard. Organisations were required to close by law on 23 March 2020 when the UK entered the first national lockdown, which immediately meant that they faced reduced audience, visitor and spectator numbers, severely reducing their income, yet also faced ongoing costs. Between October 2020 and March 2022, the Department for Culture, Media & Sport (DCMS) provided around £2.6 billion of support to the culture and sports sectors to help them survive the pandemic. Having decided that, in some circumstances, repayable finance (loans) offered better value for money compared to grants, DCMS lent £474 million to 120 borrowers, with 37 culture bodies receiving £256 million and 83 sports bodies receiving £218 million. The loans were issued by DCMS through three schemes: the Culture Recovery Fund; the Sport Winter Survival Package, which became the Sport Survival Package; and the Rugby Football League Loan Scheme. In October 2021, DCMS decided to bring the schemes together in one loan book, referred to in this report as 'the DCMS loan book'. DCMS now has a single team in place which manages the ongoing loans from these schemes alongside each other.

2 In March 2021 we reported on DCMS's support provided through the Culture Recovery Fund to UK cultural, arts and heritage institutions.[1] In June 2021, Parliament's Committee of Public Accounts expressed concerns about DCMS's ability to manage the significant and ongoing loan book commitments created by this fund.[2] It recommended that DCMS should make sure it had the resources in place for managing the loans, and draw on learning from across government. During 2022, Parliament's Culture, Media and Sport Committee was also interested in the collapse of rugby clubs, on which it reported in January 2023.[3]

1 Comptroller and Auditor General, *Investigation into the Culture Recovery Fund*, Session 2019–2021, HC 1241, National Audit Office, March 2021.

2 Committee of Public Accounts, *Covid 19: Culture Recovery Fund*, Eighth Report of Session 2021-22, HC 340, June 2021.

3 Digital, Culture, Media and Sport Committee, *Current issues in rugby union*, Sixth Report of Session 2022-23, HC 1018, January 2023.

3 Several central government departments undertake financial transactions, for example issuing loans or guarantees, but this is the first time that DCMS has managed a significant loan book. DCMS had to balance its objectives for the loan schemes. It wanted to support bodies to survive the pandemic and minimise any long-term damage to the sectors in line with its long-standing interest in protecting the sustainability of the sports and culture sectors and the benefits they generate, while also minimising the costs of intervention to the Exchequer. However, once the government had lifted COVID-19 restrictions in February 2022, DCMS focused more on maximising financial returns, as it considered its objective of supporting the sectors to survive the pandemic had been achieved. From the start of the schemes, DCMS has been accountable for managing the loan book and appointed two of its arm's-length bodies (ALBs), Arts Council England and Sport England, as its loan agents with responsibilities for day-to-day monitoring and management of the schemes including relationships with borrowers. Decision-making rests with DCMS.

4 This report examines whether DCMS is delivering value for money through its management of the loan book. It examines:

- whether DCMS established an appropriate management approach for its COVID-19 loan book;
- whether DCMS has been effective in managing the loan book so far; and
- whether DCMS is well placed to manage the loan book for the future.

5 DCMS's decision to use loan funding alongside grant funding in the original support packages and whether this was the right way to support the sectors – and the individual award decisions – are not within the scope of this report.

Key findings

Establishing DCMS's management approach for its COVID-19 loan book

6 **DCMS's loan book has a unique combination of characteristics, but it could have done more to distil learning from other government departments and organisations operating loan schemes.** DCMS set up the loan schemes in challenging circumstances in 2020, making assessments of the borrowers as it decided which bodies to award loans to. It made the loans on favourable terms: an average term of 15 years, with three loans running for 25 years; and repayment holidays, on average for three years, where no repayments were due. Although they have increased since, interest rates were lower at the start of the pandemic, and DCMS decided that almost all loans would be charged at 2% simple interest for the whole loan period. Although its loan book has a unique combination of characteristics, it has similar elements to other loan schemes issued and managed directly by the government.[4] These include closed loan schemes established during the pandemic, or to borrowers with poor credit histories at cheaper rates than usual. In setting up its approach for managing its own scheme, DCMS drew on relevant expertise from HM Treasury and UK Government Investments and, later, from the British Business Bank. It also liaised with colleagues who led on Future Builders fund, a loans-based investment scheme supporting third sector organisations.[5] However, DCMS could have gone further in reaching across government to distil learning from similar schemes, including, for example, appropriate governance structures; developing the right expertise and skills; developing its risk management approach; and experience of long-term modelling and costing (paragraphs 1.2, 1.6, 1.9 and 1.11 to 1.14).

4 Innovate UK (part of UK Research and Innovation), Bounce Back Loans and Start Up loans issued by the British Business Bank.

5 Future Builders England: About us (*futurebuilders-england.org.uk*).

7 **DCMS recognised that without its loan funding some bodies would fail.** It accepted that some borrowers were financially risky before the pandemic. It nonetheless considered it needed to provide loans to some organisations in both the culture and sport sectors despite their financial vulnerability because without these, the bodies would almost certainly have failed, and its overriding intention was to protect the sectors through the pandemic. There were some groups of loans concentrated in particular sectors. For example, DCMS loaned Premiership Rugby clubs £124 million (57% of sports loans). Through Arts Council England's existing funding relationships, DCMS had some prior knowledge of 10 borrowers within the culture sector which already received separate substantial National Portfolio Organisation grant funding as leading organisations in their fields, such as the National Theatre. Arts Council England, therefore, already held some information about the financial position of these organisations, which received 40% of the culture loans (£103 million). For other borrowers in both sectors where it had no existing funding relationship, while some were known to DCMS through its ALBs – and it undertook financial assessments of all potential borrowers as part of the application process – inevitably its prior information before awarding the loans was more partial. While over time not all these borrowers have proved high risk, it meant that DCMS was inherently taking financial risks at the outset, increased by its use of unsecured loans for some borrowers. Without this knowledge, DCMS had incomplete visibility of some borrowers' financial positions at the time of award and the likelihood of repayment (paragraphs 1.8 and 1.9).

8 **DCMS issued the first loans from October 2020, early in the pandemic, but was then slower than it planned to formalise all aspects of its approach to managing and tracking its loan book.** The government announced the first emergency loan in May 2020 and provided £474 million under the individual loan schemes between October 2020 and March 2022. By December 2022 DCMS had completed a full business case for the combined loan book. It decided to continue using the loan agents for day-to-day management of the borrowers and to procure a managed service provider to set up a data collection and storage platform, recognising loan agents had initially set up separate systems, and to support on individual cases. It also needed to develop its approach to data, governance and decision-making for the loan book. While DCMS was developing its plans in 2022, 19 borrowers began to make their repayments before or during the 2022-23 financial year. DCMS and its loan agents processed these repayments and managed decisions under existing arrangements. By October 2024, 50 borrowers had made at least one repayment, but, while DCMS continued to develop its loan management approach in that period, it missed key implementation milestones set out in its 2022 business case. DCMS considers it took the right course of action where it delayed work and that this had only a minimal impact on achieving its objectives as it did not impede its ability to engage with borrowers nor prevent it collecting repayments, processing them, and taking case decisions where needed (paragraphs 1.2, 1.16, 1.17 and 2.17).

DCMS's performance in managing the loan book so far

9 **DCMS is working with its loan agents towards adopting a consistent management approach.** DCMS set up its loan agents to make use of their knowledge of the sectors, but they were new to loan management on this scale and were initially short on loan-specific knowledge and expertise. Arts Council England and Sport England diverged in their approaches, recruiting teams with different skills and capabilities, and using third-party providers differently. Since 2021, DCMS has sought to increase consistency across the agents and to develop a long-term operating model for working with them over the next 20 years. However, the model is yet to fully bed in. DCMS is also still to agree a memorandum of understanding with Arts Council England about its loan management relationship, which will sit alongside a December 2020 administration agreement, although it agreed a memorandum with Sport England in February 2024. Both loan agents told us they had observed a high turnover of relevant DCMS staff, leading to a loss of knowledge and experience (paragraphs 1.15 and 2.3 to 2.6).

10 **DCMS introduced a loan management system in June 2024, 15 months late, with a wider scope than planned.** DCMS appointed PwC, a professional services provider, as the managed service provider for its loan book in February 2023, with a contract running to March 2025. PwC was to develop a data collection and storage platform to help support management of the loan book, building on existing work by Sport England to develop its own loan management system (LMS). DCMS then decided to increase the scope of PwC's work to develop an LMS, including reporting functions, which then contributed to it taking longer to deliver. The increased scope, along with the associated design of an updated future operating model, also contributed to an increase in the contract value of 47% (from £1.9 million to £2.8 million). DCMS planned to have its original data platform in place in March 2023. The LMS has been operational and in use by loan agents and borrowers since it went live in June 2024, with DCMS tolerating existing systems longer than planned. At this point DCMS launched the LMS on the basis that it had in place the key operational functionality needed. However, Arts Council England told us it was concerned that the LMS is not yet providing the full functionality needed. DCMS recognised that it had to resolve a small number of issues to ensure the system was operating as intended after go-live, and it plans further improvements to functionality (paragraphs 1.16 and 2.7 to 2.9).

11 **In July 2024 DCMS refreshed its governance structures to bring improved clarity to its loan management arrangements.** Initially, to provide expert oversight, DCMS set up a Loans Committee in January 2022, which became its Loans Advisory Board in June 2023. A DCMS-commissioned review in December 2023 recommended a rationalisation of loan book governance, as existing structures no longer met its needs, leading to confusion around roles and responsibilities, decision-making, a lack of challenge at appropriate times and levels, and a failure to achieve milestones. In July 2024, DCMS clarified roles and involvement from various oversight boards, also designating a single senior responsible owner for loan book management to chair a new Programme Board. As at December 2024, these updated arrangements remained relatively new. There will be another significant increase in the number of borrowers making repayments during 2025, with all scheduled to have made a first repayment by September 2025, which could increase the demands on DCMS's governance bodies (paragraphs 1.18, 1.19 and 2.10).

12 **DCMS has been monitoring and tracking its loans and borrowers since 2022 and continues to develop its approach further.** DCMS's Loans Committee first considered a specific risk register for the combined loan book in March 2022 (the final loans having been issued in March 2022), with descriptions of risks, assigned owners, and planned mitigations in place. In June 2022 DCMS set out its financial distress and insolvency guidance to guide actions once concerns about borrower distress had been identified. The Loans Committee considered the first 'watchlist' of borrowers and loans in August 2022, building on lists already maintained by the loan agents. DCMS has since developed its regular reporting for the loan book and now has a performance dashboard in place, which it is still developing, providing a comprehensive picture of the status and risks of the loans and borrowers, covering, for example, loan repayments and Red-Amber-Green ratings of borrower risk, with overviews of loan amounts and potential insolvency losses (paragraphs 2.11 to 2.14).

13 **DCMS has plans to finalise its tracking of loan agents' performance, but it has yet to establish how it will track its own loan management performance.** We would expect DCMS to monitor and report regularly on its own loan management performance. It is now starting to track the performance of its loan agents in a more regular, consistent way and its memorandum of understanding with Sport England includes tracking of service level metrics. DCMS has not yet signed a similar agreement with Arts Council England. DCMS is looking to agree and finalise what Sport England and other delivery partners will report on formally to the loan book Performance and Risk Committee, which met for the first time in November 2024. Furthermore, DCMS has not been able to provide any meaningful data showing how it is tracking its own loan management performance. For example, DCMS does not report systematically how long it takes to reach decisions on borrower requests, which can be important for the loan agents in helping them to manage their relationships with borrowers (paragraphs 2.5, 2.15 and 2.16).

14 **By October 2024, with DCMS achieving 97% of the repayments it had scheduled, just under half of solvent borrowers had made first repayments, totalling £40.9 million.** By October 2024, 45% of solvent borrowers had made at least one repayment, with the remainder still on repayment holidays. All borrowers should have made their first repayment by September 2025. DCMS achieved £40.9 million from solvent borrowers against the £42.1 million it had scheduled to receive by October 2024 (97%). In addition, 11 borrowers have repaid their loans in full ahead of schedule, totalling £3.8 million. Of its solvent borrowers, nine were not making repayments as planned. The loan agents had previously identified seven of these borrowers as at risk of missing repayments (paragraphs 2.17 to 2.19 and Figure 10).

15 **As at October 2024, nine borrowers, with loans totalling £46.1 million, had become insolvent, with DCMS expecting to recover 39% to 48% of the value of these loans.** DCMS expected 5% of borrowers to fail in the first three years of the loans, with up to 14% failing after 10 years. By October 2024, four years after the first loan was issued, 7.5% of borrowers (two culture and seven sports borrowers) had become insolvent. DCMS issued loans of £46.1 million to the nine borrowers, almost 10% of the £474 million issued across the whole loan book. Of the £46.1 million, 90% went to three rugby union clubs: London Irish, Wasps and Worcester Warriors. As at October 2024, DCMS had recovered £10.1 million from two of these insolvencies and expects to recover a further £7.3 million to £11.1 million from all the loan book insolvencies so far. DCMS will not receive the originally anticipated £11.2 million in interest payments from the insolvent borrowers (paragraphs 2.20 and 2.21, and Figure 11).

16 **DCMS has had to increase its engagement with, and oversight of, loans to rugby union clubs given their ongoing financial difficulties.** All clubs in the Premiership Rugby League, received loans from DCMS, totalling £123.8 million (26% of the whole loan book value). By June 2023, three of the 13 clubs in the league became insolvent, highlighting financial and sporting challenges facing rugby union. Recognising the failures of some clubs and the wider financial challenges facing professional rugby union including those stemming from the pandemic, in June 2023, the government appointed two independent advisors to help the Rugby Football Union and the Premiership Rugby League stabilise the future of the sport. Acknowledging its ongoing role as a key stakeholder, DCMS has continued to monitor the risk it faces to protect its investment in rugby union clubs on behalf of taxpayers (paragraph 2.23).

Managing the loan book in the future

17 DCMS has conducted minimal analysis of the costs of managing the loans over their lifetime, with no assessment of the factors that might increase costs or reduce income. DCMS's business case recognised that it would review its approach to loan book management in spring 2024, and that the 2021 Spending Review period was likely to represent the peak of loan book management activity. In the 2021 Spending Review, HM Treasury allocated DCMS £5 million each year to manage the loans up to 2024-25, including both one-off and ongoing costs. DCMS recognised that cost pressures could impact on the affordability of managing the loan book, although it has largely stayed within budget, forecasting that it will spend £17.3 million by March 2025. Beyond that, DCMS expects its one-off costs to fall after the introduction of its LMS and its ongoing management costs to come down, with overall costs lower from 2025-26. However, it has not done any modelling to support its assumption. If all loans are repaid, with no further insolvencies, DCMS would receive £78 million (in cash terms) in interest payments between 2025 and 2046, but for each insolvency or early repayment its interest payments would be reduced. DCMS has also not yet considered scenarios where costs may need to rise, such as defaults or periods of higher risk where some borrowers may need closer supervision or intervention (paragraphs 3.3 and 3.4, and Figures 12 and 13).

18 DCMS has not yet looked at how different scenarios may impact the loan book over its lifetime. In March 2022, DCMS commissioned an assessment of different options for the long-term management of the loan book, including its sale, in-house management, and a managed service provision. DCMS is keeping long-term management decisions under review as it moves into a fuller repayment phase, but as at December 2024 has not updated its earlier assessment. For example, it has not yet considered what scenarios might emerge for the loan book as a whole and what action it would plan to take. This might include identified indicators which trigger plans for wider interventions – beyond on a case-by-case basis – as circumstances change, such as the percentage of all borrowers missing payments, a concentration of late payments in a particular sector, or financial challenges amongst types of borrowers. We would expect DCMS to assess possible changes to circumstances across the loan book through scenario testing and to test the implications for the borrowers and sectors. This would include identifying and planning for a situation where the cost of managing the loan book outweighs the benefit of continuing to do so. DCMS is modelling its expected credit loss as part of its financial accounting requirements and to inform its annual accounts, but it could make better use of this model to understand risks and to inform its longer-term approach (paragraphs 3.5 to 3.7).

19 DCMS is seeking to learn and adapt in how best to engage with borrowers and influence their behaviour as the loan book moves into a fuller repayment phase. DCMS has given its loan agents the responsibility for engaging with borrowers. The loan agents are in regular contact with borrowers, and sometimes they and DCMS receive representations about changes to borrowers' loan terms. Consequently, the loan agents have had to communicate consistently to make sure borrowers continue to meet the requirements of their loan agreements. DCMS recognises the risks of borrower advocacy, with PwC noting this as one of the higher risk areas needing attention as the number of borrowers entering repayment periods changes, and they require more active day-to-day management by the loan agents. The changing profile is likely to present evolving risks across the loan book and we would expect engagement with borrowers to develop proportionately. Although day-to-day responsibility for borrower monitoring and engagement rests with the loan agents, DCMS has yet to set out an overarching strategy guiding its future engagement with borrowers (paragraphs 3.8 to 3.9).

20 Building on existing evaluation and recent learning exercises, DCMS is now planning for a longer-term approach, and is drawing together learning from across its loan book into one place. DCMS published evaluations of the Culture Recovery Fund and of the Sport Survival Package in 2022 and 2023, respectively, which found that the schemes (including grants) had protected the sectors from greater harm during the pandemic. DCMS has set aside £180,000 for future evaluations but has yet to define the scope or type of evaluation, including how it will evaluate long-term value for money. In terms of learning lessons about how it is managing the loan book, DCMS has undertaken discrete reviews covering some of the building blocks of its loan operating model, for example, five cross-programme thematic lessons learned workshops with its loan agents and a report on the launch of its LMS, and it is bringing this learning together, with a planned review by its Programme Board. This longer-term lesson learning is particularly important for DCMS in the context of its loan book, given its extended lifetime and the risk of a loss of insight as a consequence of high levels of staff turnover to date (paragraphs 3.10 to 3.11).

Conclusion

21 DCMS decided to provide loans to the culture and sports sectors in extremely demanding circumstances and these helped many organisations survive the immediate threat of the pandemic. After being slower than originally planned to develop its loan book operating model, DCMS has been setting up the structures, governance and operational arrangements that will help it manage its loan book more effectively over the longer term. So far, DCMS has achieved 97% of the repayments it had scheduled by October 2024, with just under half of the 120 borrowers now repaying their loans. Eleven borrowers have also repaid their loans in full ahead of schedule and exited the loan book. There have nonetheless been some significant defaults. DCMS will not recover between £25 million and £29 million in the capital value of the loans, and the taxpayer will miss out on a further £11 million of future interest. DCMS has, however, reduced its losses owing to £10 million from insolvency settlements.

22 There remains a high degree of uncertainty over how much of the loan book will be repaid. Building on the progress it has made, DCMS now has an opportunity to develop its plans for the medium and longer term to improve the effectiveness of its approach to managing the loan book. Doing so would enable DCMS to determine the cost-effectiveness of managing its loan book in its current form and provide it with the tools it needs to adapt its approach or change course as needed. Given all borrowers should be repaying by September 2025, DCMS must prioritise putting in place measures to track costs and its performance and determine its plan to protect future returns.

Recommendations

23 DCMS should:

a As a priority, model its expected costs for managing the loan book over its lifetime. This should include both one-off and ongoing costs, including for DCMS, its loans agents and external providers, and may need to include a range of costs where there is less certainty in the longer term.

b Assess future scenarios which may arise across the loan book and plan for a clear series of interventions for responding to different scenarios where loss of public money may be a risk. This work should feed into its cost-modelling so it has better visibility of whether the financial returns outweigh the costs of managing the loans.

c Working with its loan agents, set out an overarching engagement strategy for borrowers and how it expects to adapt this over time, as the scale and nature of its portfolio changes. Within this it should use its knowledge about segmentation of risk and tailor its engagement with borrowers accordingly, so that engagement is dynamic and proportionate.

d Set out a strategy for the longer-term evaluation of its loan book. This assessment should include a clear articulation of the standards by which it assesses value for money of its management, including how it will know if the loans have met their objectives and how the loans have interacted with its wider support for the sectors.

e Develop its approach to gathering and learning lessons, working with its loan agents and external providers, so that it has a knowledge management plan to ensure relevant background and insight are preserved over the loan book's lifetime. This should include ongoing capability that will equip it to fulfil its responsibilities, recognising this will change over time, and succession planning for specialist skills.