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REPORT

DCMS's management of its COVID-19 loan book

Department for Culture, Media & Sport (DCMS)

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DCMS's management of its COVID-19 loan book

Department for Culture, Media & Sport (DCMS)

Report by the Comptroller and Auditor General

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Gareth Davies
Comptroller and Auditor General
National Audit Office

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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.

Part One

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

1.1 This part of the report examines how the Department for Culture, Media & Sport (DCMS) established its loan book, covering:

- the background to the culture and sport loan schemes;
- an overview of the different loan schemes;
- learning DCMS applied in setting up the management of its loans; and
- DCMS's arrangements for managing the loan book.

The background to the culture and sport loan schemes

1.2 COVID-19 had a significant financial impact on the culture and sports sectors. Organisations were required to close by law on 23 March 2020 when the UK entered the first national lockdown. They immediately faced reduced audience, visitor and spectator numbers, severely reducing their income, yet they also faced ongoing costs. In May 2020, the government announced an emergency loan to the rugby football league (RFL) to safeguard the immediate future of the sport. In July 2020, DCMS estimated that around a third of organisations in the arts, entertainment and recreation sectors would run out of money within the next three months. Similarly, in October 2020, it reported that prolonged COVID-19 restrictions meant many elite sport organisations faced the threat of insolvencies. The government intervened and, between October 2020 and March 2022, it provided around £2.6 billion of financial support to the culture and sports sectors to help organisations survive the pandemic. The financial support was a mix of grant funding and repayable finance (loans). Having decided that, in some circumstances, repayable finance (loans) offered better value for money compared with grants, DCMS provided £474 million of loans.

1.3 In March 2021, we reported on DCMS's support provided through the Culture Recovery Fund to UK cultural, arts and heritage institutions.[6] In June 2021, Parliament's Committee of Public Accounts expressed its concerns about DCMS's ability to manage the significant and ongoing loan book commitments created by this fund. It recommended that DCMS should make sure it had the resources in place for managing the loans and draw on learning from across government.[7] During 2022, Parliament's Culture, Media and Sport Committee was also interested in the collapse of rugby clubs (Worcester and Wasps) on which it reported in January 2023.[8]

An overview of the different loan schemes

1.4 The £474 million of loans provided comprised three schemes: the Culture Recovery Fund (£256 million); the Sport Winter Survival Package, which later became the Sport Survival Package (£215 million) and the Rugby Football League Loan Scheme (originally £16 million, with all but £3 million transferring to the Sport Survival Package), with total loans to sports bodies of £218 million (**Figure 1**).

Figure 1

The Department for Culture, Media & Sport's (DCMS's) COVID-19 loan schemes

DCMS provided £474 million of loans, lending £256 million to culture bodies and £218 million to sports bodies

	Culture loans[2]	Sports loans[3]	Total
Loan agents	Arts Council England	Sport England	
Loans issued (£mn)	255.5	218.5	**474.0**
Scheduled interest payments[4] (£mn)	59.7	40.3	**100.0**
Number of borrowers	37	83[5]	**120**
Largest loan (£mn)	40.0	24.2[5]	

Notes

1 Figures are in cash terms.

2 Culture loans were issued as part of the Culture Recovery Fund.

3 Sports loans include loans issued as part of the Sport Survival Package (SSP) and the Rugby Football League (RFL) scheme. The RFL scheme was originally £16 million, with all but £3 million transferring to the SSP. The SSP was originally called the Sport Winter Survival Package.

4 Assuming no further changes to the loan book such as insolvencies.

5 The sports loans include two secondary loan models. DCMS provided £10.2 million to the Rugby Football Union, which distributed the funds as loans to 91 rugby union clubs, and £24.2 million to Rugby Football League Limited, which distributed £19.7 million to 25 rugby league clubs and kept £4.5 million for its own use. These secondary models are recorded as single entries in the table. The largest sports loan to an individual borrower was for £21.5 million to the Horserace Betting Levy Board.

6 Figures have been rounded to one decimal place.

Source: National Audit Office analysis of Department for Culture, Media & Sport documents and data

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

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

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

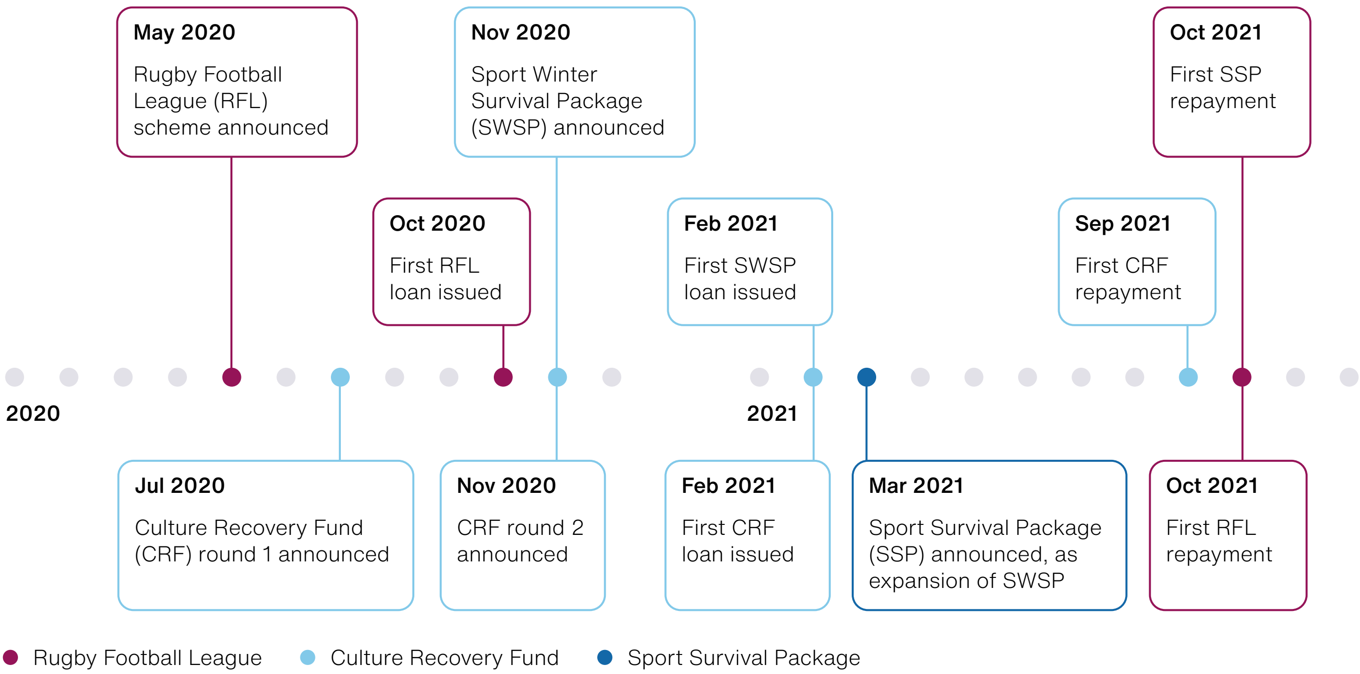
1.5 The government announced the schemes and issued them over several rounds (**Figure 2**). In this report we refer to the schemes as 'culture loans' and 'sports loans'. Having determined that it would manage the schemes as one loan book in October 2021, in December 2022 DCMS prepared a business case which brought the schemes together, to be managed by DCMS (see paragraph 1.16). DCMS now has a single team in place which manages the ongoing loans from these schemes alongside each other. Several central government departments undertake financial transactions, such as, issuing loans or guarantees but this is the first time that DCMS has managed a significant loan book.

1.6 The loan book is closed (not open to new loans) and the loans were made on favourable terms: an average loan term of 15 years, with three loans running for 25 years. Although they have increased since then, interest rates were lower at the start of the pandemic. DCMS decided through its business case processes for almost all loans to be charged at 2% simple interest for the loan period. At the start, DCMS gave borrowers a repayment holiday ranging from five months to four and a half years, on average for three years, where no repayments were due (with holiday periods reflecting factors including borrower risk levels), to support organisations to recover before starting to repay the loans.

Figure 2

Department for Culture, Media & Sport's (DCMS's) announcements, first payments and first repayments for its COVID-19 loan schemes, May 2020 to October 2021

Between May 2020 and March 2021, DCMS announced several rounds of loan funding across culture and sports



Source: National Audit Office analysis of Department for Culture, Media & Sport documents and data

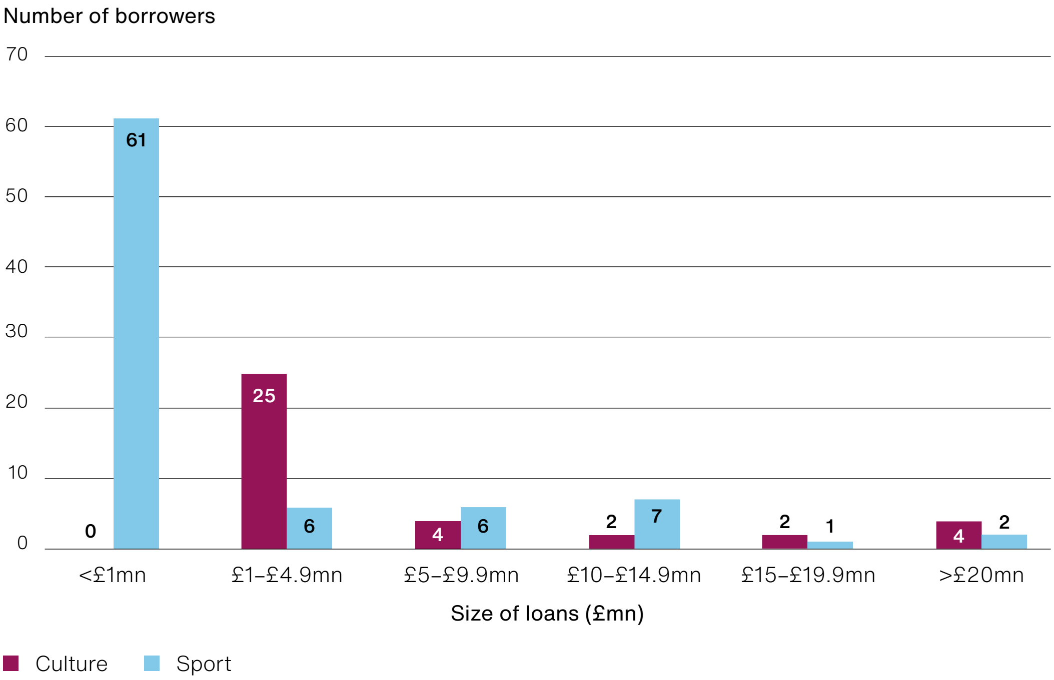
1.7 The government gave loans of £20,000 to £40 million to culture and sports bodies across England.

- All culture loans, made to 37 organisations, were over £1 million, including eight that were over £10 million (**Figure 3**).
- The largest loan to an individual borrower across all schemes was a £40 million culture loan to the Historic Royal Palaces, while the largest sports loan to an individual borrower was for £21.5 million to the Horserace Betting Levy Board.
- DCMS gave £145 million of the culture loans (57%) to performing arts organisations. It gave £139 million of the sports loans (64%) to rugby union (**Figure 4** on pages 20 and 21).
- Headquarters of culture loan recipients were more concentrated in London, whereas the sports loan recipients were more distributed across England, with £236 million, half the total loaned amount of £474 million, issued to London-based organisations (**Figure 5** on pages 22 and 23).

Figure 3

Number of culture and sports sector borrowers by size of loans

Only sports borrowers received loans of less than £1 million, with 61 sports borrowers receiving such loans. All culture loans, made to 37 organisations, were over £1 million



Notes

1. Organisations made applications for financial support so data presented on borrowers are a subset of those applications.
2. The minimum amount that could be applied for across the culture loan rounds was £1 million.
3. The minimum funding request for sports was for £20,000: only 22 of the 83 sports loans were over £1 million, including 10 over £10 million. Eight culture loans were over £10 million.

Source: National Audit Office analysis of Department for Culture, Media & Sport data

Figure 4
Amount loaned by sector

The Department for Culture, Media & Sport (DCMS) gave £145 million of the culture loans (57%) to performing arts organisations, and £139 million of the sports loans (64%) to rugby union

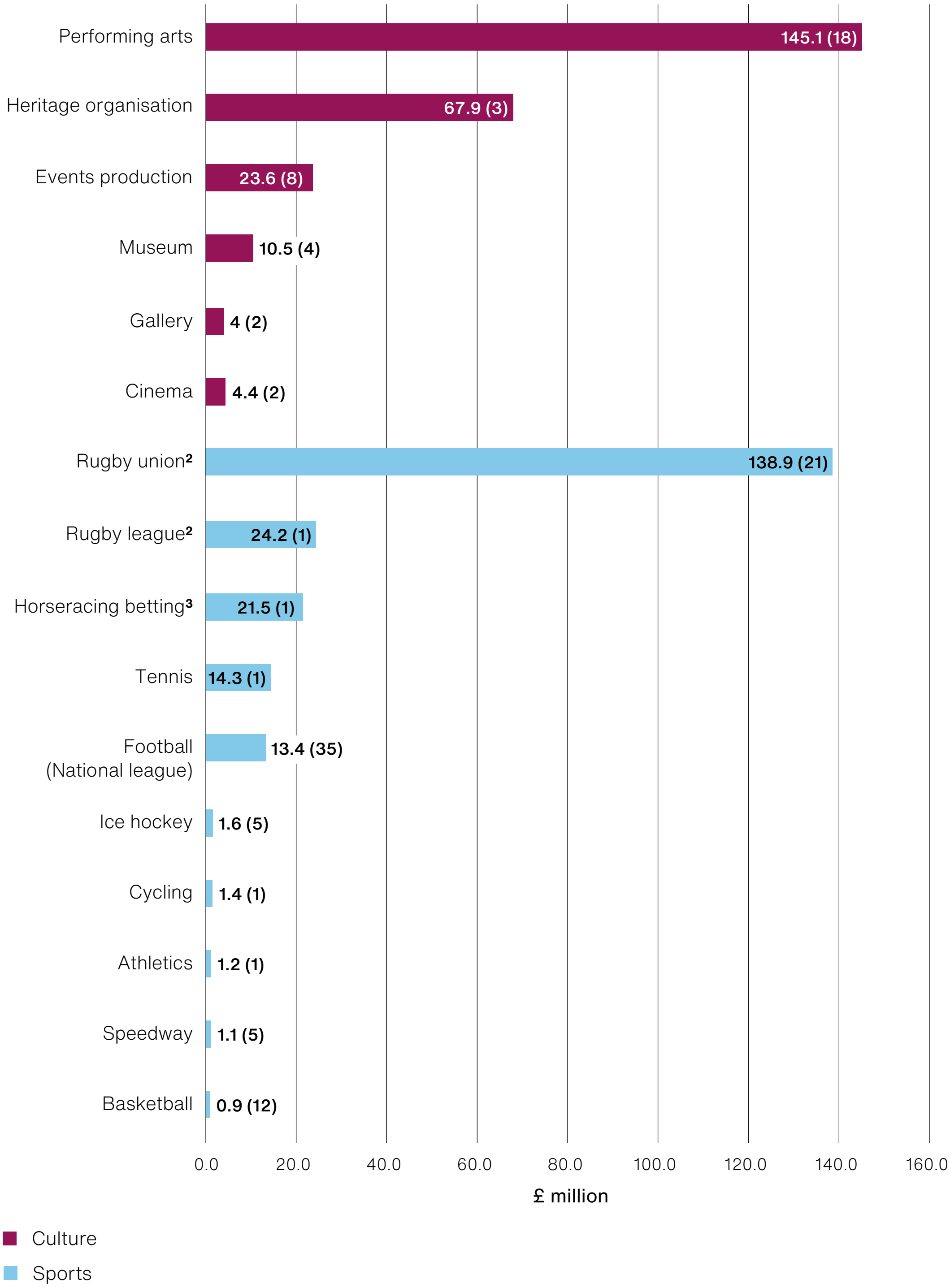


Figure 4 *continued*
Amount loaned by sector

Notes

1 Organisations made applications for financial support, so data presented on amounts loaned are a reflection of loan applications.

2 The sports loans include two secondary loan models. DCMS provided £10.2 million to the Rugby Football Union, which distributed the funds as loans to 91 rugby union clubs, and £24.2 million to Rugby Football League Limited, which distributed £19.7 million to 25 rugby league clubs and kept £4.5 million for its own use. These secondary models are recorded as single entries in the table. The largest sports loan to an individual borrower was for £21.5 million to the Horserace Betting Levy Board.

3 The Horserace Betting Levy Board is a statutory body established by the Betting Levy Act 1961 which operates in accordance with the provisions of the Betting, Gaming and Lotteries Act 1963 (as amended). Unlike most other government non-departmental public bodies, the Board receives no central government grant-in-aid and no National Lottery funding. Instead, section 24(1) of the Betting, Gaming and Lotteries Act 1963 requires the Horserace Betting Levy Board to assess and collect monetary contributions from bookmakers and betting exchange providers.

4 The bracketed data relate to the number of borrowers within the sector category.

Source: National Audit Office analysis of Department for Culture, Media & Sport data

The financial viability of loan recipients

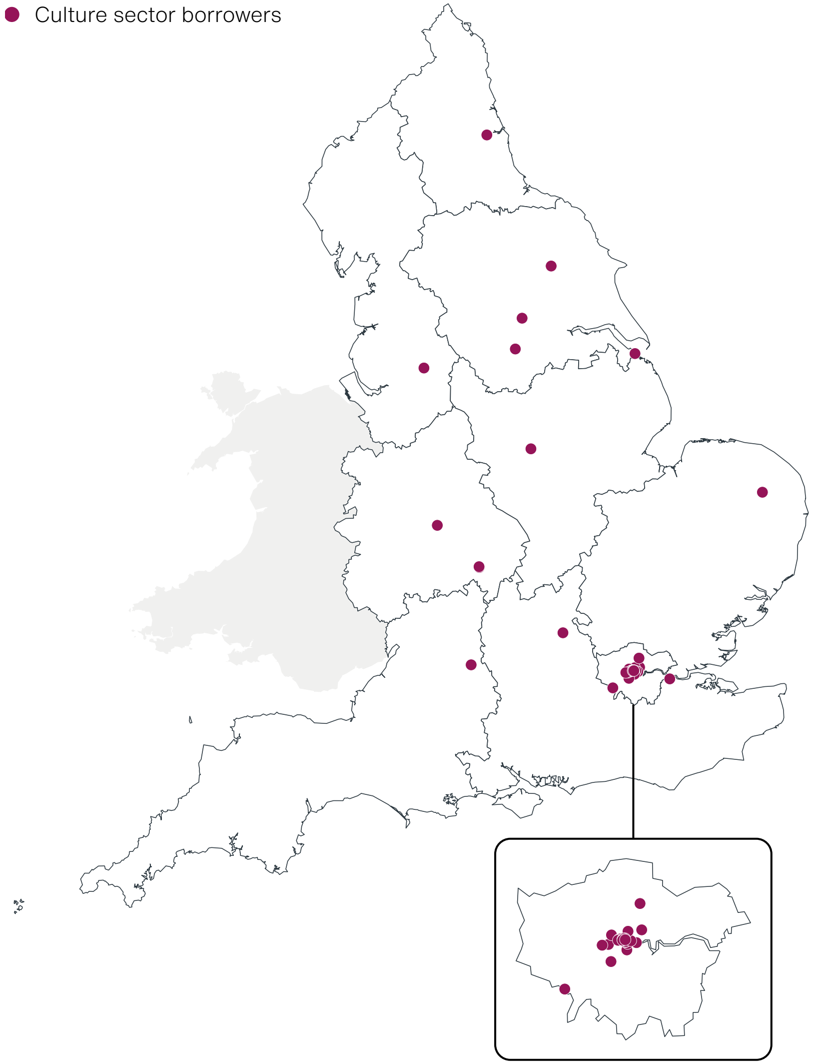
1.8 One of DCMS's criteria for both culture and sports loans was that the organisations were financially viable before the pandemic. Commercial best practice expects lenders to have sufficient, accurate and up-to-date information to assess an organisation's ability to repay a loan.[9] DCMS accepted that some borrowers were already financially risky before the pandemic. It nonetheless considered it needed to provide loans to some organisations in both the culture and sports sectors despite their financial vulnerability as otherwise 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 parts of DCMS's sectors. For example, DCMS loaned Premiership Rugby clubs, the top division of rugby union, £124 million (57% of sports loans).

9 The Lending Standards Board, *The Standards of Lending Practice for business customers*, November 2022, updated September 2024; and European Banking Authority, *Final Report – Guidelines on loan origination and monitoring*, May 2020.

Figure 5

Location of borrowers' headquarters, by sector and English region, 2024

Culture loan recipients were more concentrated in London, whereas the sports loan recipients were more distributed across England, largely due to the location of their headquarters;[1] of the £474 million borrowed, £236 million went to organisations based in London[2]



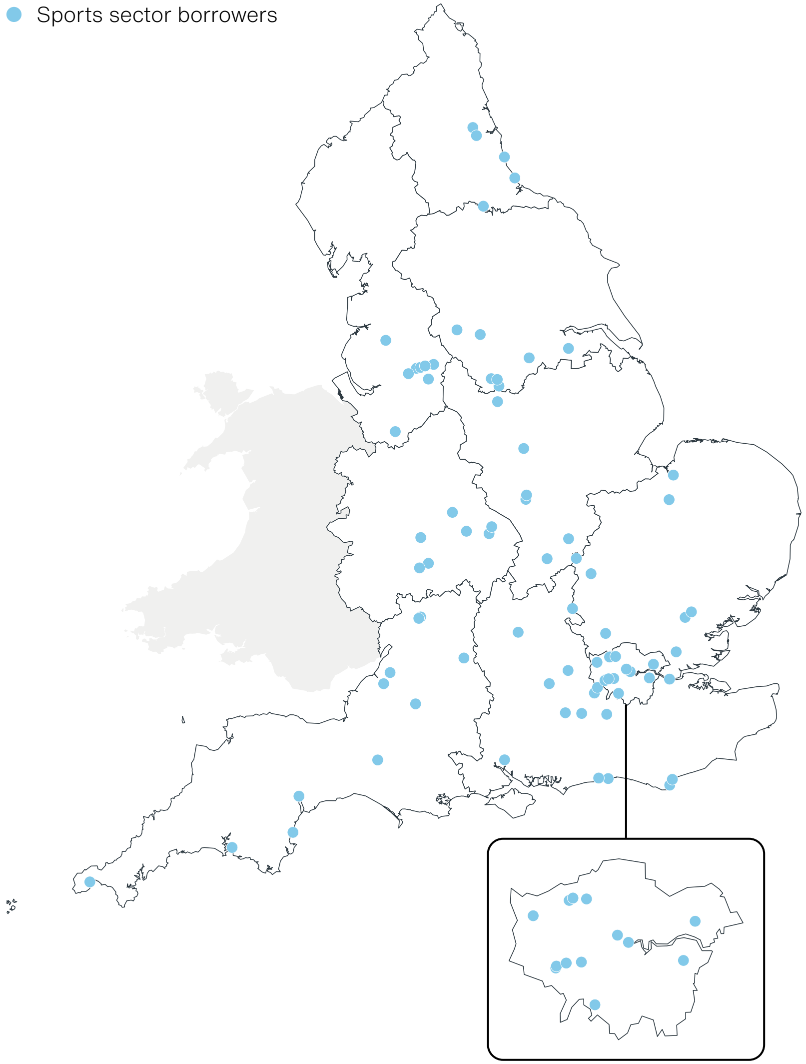


Figure 5 *continued*

Location of borrowers' headquarters, by sector and English region, 2024

	Culture sector		Sports sector		
Region	**Borrowers**	**Loans**	**Borrowers**	**Loans**	**Total loans**
		£mn		£mn	£mn
London	23	169.2	13	66.5	235.7
West Midlands	3	23.4	7	33.4	56.8
South West	1	23.4	11	31.0	54.4
Yorkshire and The Humber	4	22.9	7	1.5	35.1
North West	1	7.3	8	33.6	30.1
East Midlands	1	1.0	7	18.0	19.0
South East	2	2.9	14	15.8	18.7
North East	1	3.0	5	15.1	18.2
East of England	1	2.5	10	3.1	5.6
Total	**37**	**255.5**[5]	**82**[3]	**218.0**[3]	**473.6**[3]

Notes

1 By comparison, for the Culture Recovery Fund grants, London received 31% of overall grant funding, with the rest of the grants received outside London. The North West region was awarded the highest capital grants value overall (£29.7 million), and the North East region received the highest average revenue grant value of around £217,000.

2 The data are based on the head office locations of borrowers, as shown on the maps, so may not necessarily represent where the money is spent. This may mean that a higher proportion of borrowers appear in larger cities (for example, London) as that is where the headquarters for some large borrowers are based. The map and table do not reflect any touring work of the different borrowers.

3 A loan of £0.4 million was received by one sport borrower, which has its head office in Northern Ireland and is not included on the map nor in the table.

4 The data include borrowers which had become insolvent.

5 Totals may not sum due to rounding.

Source: National Audit Office analysis of Department for Culture, Media & Sport data. Office for National Statistics licensed under the Open Government Licence v.3.0. Contains OS data © Crown copyright and database right 2024

1.9 DCMS had some prior knowledge of 10 borrowers that were already funded by Arts Council England as National Portfolio Organisations, such as the National Theatre.[10] Arts Council England therefore already held some information about the financial position of these organisations, which received £103 million (40% of the culture loans). For other borrowers in both sectors where there was no existing funding relationship, while some were known to DCMS through its arm's-length bodies (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. This was partly due to borrowers furloughing key finance staff and struggling to provide consistent and robust information during the application process. DCMS had to balance due diligence on loan requirements and affordability across all borrowers in order to get support out quickly. Therefore, DCMS had incomplete visibility of some borrowers' financial positions at the time of award and of their ability to repay the loan. While over time not all these borrowers have proved high risk, this meant DCMS was inherently taking financial risks, increased by its use of unsecured loans for some borrowers.

DCMS's objectives for the loan schemes

1.10 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 to the Exchequer by maximising financial returns. As DCMS developed its business case through spring 2022, it focused more on maximising returns as it considered it had achieved its objective of supporting the sectors to survive the pandemic.[11] DCMS recognised the inherent risk in balancing these objectives, particularly when actions to recover repayments could lead to a borrower falling into insolvency.

10 A National Portfolio Organisation is a UK-based arts or culture organisation, usually a leader in its field, receiving substantial funding from Arts Council England.

11 *Evaluation of the Culture Recovery Fund*, July 2022, and *Evaluation of Sport Survival Package*, November 2023: A DCMS-commissioned evaluation found its overall Culture Recovery Fund had protected up to 20,500 sector jobs in the culture sector. A separate evaluation also found the Sports Survival Package had prevented insolvency of 323 sports clubs.

Lessons for setting up the management of loans

1.11 DCMS's loan book has a unique combination of characteristics. These include the following.

- The nature of its borrowers, necessarily concentrated in the culture and sport sectors: they are culturally significant and capable of attracting public attention, so carry reputational risk; and some of them are financially precarious.
- The loans are managed directly by DCMS, through its loan agents.
- The loan book is closed to new borrowers, with no further lending.
- DCMS gave the loans to some borrowers that would not normally receive commercial loans.
- The terms of the loans were unusual, for example with bespoke terms for individual borrowers and repayment holidays.

1.12 However, we have observed that the schemes have elements similar to other loan schemes issued and managed directly by the government, which DCMS can learn from.

- There are several examples of loans issued and managed directly by the government, by: the British Business Bank, the National Wealth Fund, and Innovate UK.[12]
- Other schemes with a closed loan book include the Help to Buy scheme, and the British Business Bank's investment through the Funding Circle, which was first announced in 2014 and stopped issuing new loans in 2020. Similarly, all government COVID-19 loan schemes, such as Bounce Back loans, have stopped issuing new loans.
- While the loan terms are unusual for government, they are not unique. Student loans have repayments spread over decades rather than years; Start Up business loans are issued below market rates and are accessible to applicants who may not otherwise secure a loan;[13] and Innovate UK often grant concessions to Innovation loan borrowers that include repayment holidays on capital, interest or both.[14]

12 National Wealth Fund (formerly the UK Infrastructure Bank): About us | National Wealth Fund (ukib.org.uk). See other websites linked below.
13 British Business Bank: Start Up Business Loans – Start Up Loans.
14 UK Research and Innovation: Innovate UK – UKRI.

1.13 DCMS did draw on some relevant expertise at key points. It liaised with colleagues who led on Future Builders fund, a loans-based investment scheme supporting third sector organisations.[15] In setting up its approach for managing the schemes, DCMS also drew on external expertise from HM Treasury, UK Government Investments and, later, the British Business Bank. It also engaged with HM Revenue & Customs to understand its approach for making judgements on actions to recover debts.

1.14 However, from these and wider examples, we consider DCMS could have gone further in reaching across government to distil learning from other government bodies operating similar schemes about how to set up and manage its loans, 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.[16, 17, 18,19] Government also sets an expectation that the board level individual accountable for debt management in an organisation should actively seek out and integrate best practice in debt management.[20] We have previously highlighted such learning as essential to the effective management of interventions and in pre-empting factors that are likely to have impacts in the future.[21]

DCMS's arrangements for managing the loan book

The loan agents

1.15 From the start of the loan schemes, DCMS has been accountable for their management. During 2020, DCMS appointed two of its ALBs, Arts Council England and Sport England, as its loan agents to make use of their knowledge of the culture and sports sectors. In 2022, DCMS confirmed the loan agents as responsible for day-to-day monitoring and management of the schemes, including relationships with the borrowers, monitoring borrower performance and reporting risks to DCMS. While the loan agents provide case management of the loans, decision-making rests with DCMS.[22]

15 Future Builders Fund: About us (*futurebuilders-england.org.uk*).
16 Comptroller and Auditor General, *Lessons learned: Delivering programmes at speed*, Session 2021-22, HC 667, National Audit Office, September 2021.
17 Comptroller and Auditor General, *Initial learning from the government's response to the COVID-19 pandemic,* Session 2021-22, HC 66, National Audit Office, May 2021.
18 National Audit Office, *Good practice guide: Overcoming challenges to managing risks in government,* Good practice guide, December 2023.
19 National Audit Office, *Good practice guide: Monitoring and responding to companies in distress*, October 2023.
20 HM Government, *Government Functional Standard – GovS 0014: Debt*, July 2021.
21 Comptroller and Auditor General, *Lessons learned: Cross-government working*, Session 2022-23, HC 1659, National Audit Office, July 2023.
22 DCMS's arrangements with the loan agents provide for delegated authority (for example its memorandum of understanding with Sport England) but currently it has not delegated authority to them for any decisions.

DCMS's development and implementation of its management approach

1.16 DCMS issued the first loans from October 2020, but was then slower than it planned to formalise all aspects of its long-term operating model for managing its loan book, having its operating model in place from July 2024. Having decided in October 2021 to bring the schemes together into one loan book, DCMS used 2022 to complete its planning and, by December, had prepared its full business case for the combined loan book. It decided to continue using the two loan agents and to procure a third-party managed service provider to set up a data collection and storage platform, recognising loan agents had initially set up separate systems. Following a procurement process, DCMS appointed PwC, a professional services provider, as its managed service provider in February 2023, with a contract running to March 2025 (and an optional extension period of up to an additional two years).

1.17 DCMS's business case set target dates for achieving key milestones, which it missed (**Figure 6** on pages 28 and 29). While DCMS was developing its plans in 2022, 19 borrowers began repaying before or during the 2022-23 financial year. DCMS and its loan agents processed these repayments and managed decisions under existing arrangements. The new arrangements were still delayed in 2024 when more borrowers started repaying (Part Two). 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.

DCMS governance

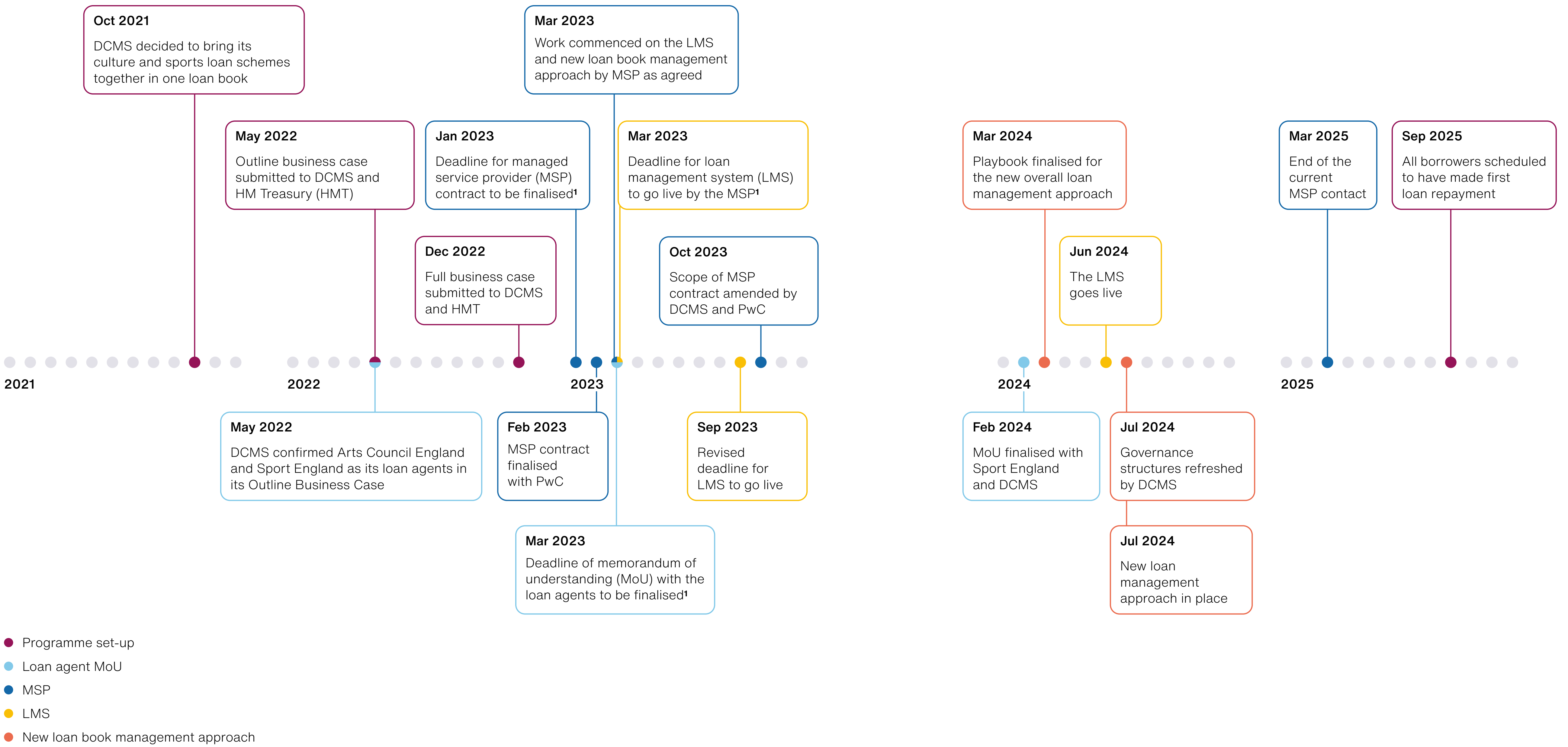
1.18 In January 2022, DCMS set up a Loans Committee to provide expert oversight of its loan book management. Membership included UK Government Investments, which advised DCMS on its options following borrower insolvencies. From April 2022, it had an independent member from the sports sector and, in April 2023, an independent member from the culture sector. In June 2023, DCMS replaced the Loans Committee with a Loans Advisory Board, clarifying that it provided advice only and operated outside formal assurance processes. DCMS added an independent member to this board from the British Business Bank to provide expert input from a financial, banking and insolvency perspective. DCMS considers the Board has provided a useful forum for assessing difficult decisions and providing advice to DCMS's loan management team.

1.19 In December 2023, DCMS's Delivery and Risk Committee reviewed loan book management and found that the existing governance 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. It recommended a rationalisation of governance, which DCMS accepted. The review also identified that existing management arrangements would come under increasing stress as more borrowers came to the end of their repayment holidays and requests for variations increased.

Figure 6

Timeline of key milestones from October 2021 to September 2025

Since the Department for Culture, Media & Sport (DCMS) prepared its full business case in December 2022, it has missed key milestone target dates



Note

1 Key milestone deadline set in the full business case.

Source: National Audit Office analysis of Department for Culture, Media & Sport documents

Part Two

DCMS's performance managing the loan book so far

2.1 This part of the report examines the Department for Culture, Media & Sport's (DCMS's) management of the main building blocks it has put in place to manage the loan book. We examine:

- DCMS's own capacity and capabilities;
- working with loan agents;
- the loan management system;
- governance and oversight;
- risk management; and
- management performance.

We then examine DCMS's performance in managing the loan book so far in terms of loan repayments and borrower insolvencies.

The building blocks for managing the loan book

DCMS's capacity and capabilities

2.2 Once it had distributed the loans, DCMS did not initially have the capacity and capabilities to manage the loan book. In December 2022, DCMS's finance committee raised concerns about the lack of relevant experience and expertise in the loan book management team, and the need to upskill members of the governance committees to provide effective oversight. During 2023 and 2024, DCMS faced challenges with capacity and did not secure staff for developing its loan book management as quickly as planned. In particular, it did not have sufficient internal digital, data and technology skills, which created risks in managing a technology project with PwC, its managed service provider (see paragraph 1.16). Furthermore, machinery of government changes in February 2023 increased demand on DCMS's digital, data and technology team, reducing its capacity to support loan book management. Subsequently, DCMS successfully recruited staff with commercial and financial management experience and, as at July 2024, considered recruitment to be almost complete.

Loan agents

2.3 Managing loans and borrowers on this scale was new for both loan agents (paragraph 1.15). Initially, they were short on loans-specific expertise, such as knowledge of loan restructuring and the use of digital technology to identify problem cases. Arts Council England and Sport England both set up new teams and recruited new skills to their organisations. The two loan agents diverged in their approaches, recruiting teams with differences in skills and capabilities, and using third-party providers differently to help them manage the loans. This created a challenge for DCMS as it sought to bring the loan schemes together.

2.4 Since 2021, DCMS has sought to increase consistency across the loan agents and to develop a long-term operating model for working with them over the next 20 years. DCMS confirmed the ongoing role of its agents in its December 2022 business case and, through 2023, it worked with them to define their roles and responsibilities, including how PwC would support their work (**Figure 7** overleaf).

2.5 DCMS still has to fully bed in the operating model and ensure PwC is not duplicating some of the loan agents' work, noting the different approaches adopted by the loan agents, as DCMS pushes for consistency. As of December 2024, DCMS and Arts Council England have yet to agree a memorandum of understanding (MoU) setting out their loan management relationship, roles and responsibilities, which will sit alongside their current administration agreement signed in December 2020. DCMS agreed an MoU with Sport England in February 2024. Sport England told us that having an MoU in place was a substantial move forward as not having defined roles and responsibilities was a genuine concern. It said that the MoU helped smooth over relationships, aided communication and strengthened trust.

2.6 Although DCMS has worked constructively and collaboratively with its loan agents and managed service provider, the process of developing a plan and associated management systems has proved challenging. Both loan agents told us that they had observed a high turnover of staff on the DCMS loans team, which made it harder for them to establish settled relationships and ways of working with DCMS. It also led to a loss of knowledge and experience, with the loan agents having to repeat conversations with DCMS, such as previously agreed ways of working.

Figure 7

Roles and responsibilities for the management of the Department for Culture, Media & Sport's (DCMS's) COVID-19 loan book

DCMS is accountable for the loans, with Arts Council England and Sport England, DCMS's loan agents, managing the relationship with borrowers, and PwC, a professional services provider, providing a loan management system to support data processes and the role of managed service provider

Organisation	Roles and responsibilities
DCMS	• Overall accountability for the loan book (Project management) • Developing a policy framework for the loan book (Project management) • Project management of the loan book, including monitoring and responding to programme risks (Project management) • Managing the performance of the loan agents (Performance management) • Contracting and managing the performance of PwC (Performance management) • Decision-making for individual borrowers' cases where required (Case management)
Loan agents: Arts Council England and Sport England	• Managing and engaging with the borrowers day-to-day (Case management) • Processing of repayments and debt collection from borrowers (Case management) • Decision-making on delegated matters, such as basic consent requests (Case management) • Analysing borrower requests and providing DCMS with a recommended response (Case management) • Collecting borrower monitoring information in line with borrowers' reporting requirements (Monitoring) • Risk assessing all borrowers and maintaining a watchlist of high-risk borrowers, reporting borrower risks to DCMS, including gathering and reporting sector intelligence (Case management) • Reconciling borrower repayments against their schedules and updating borrowers' repayment schedules after amendments (Monitoring) • Supporting PwC with data analysis based on their knowledge and relationship with borrowers (Monitoring)
Managed service provider: PwC	• Building and maintaining the loan management system which enables data collection, storage, validation, analysis and reporting (Case management) • Developing a risk framework and providing a Red-Amber-Green assessment of borrowers from monitoring and reporting to inform loan agent management of borrowers (Monitoring) • Monitoring borrowers for fraud and financial risk (Monitoring) • As needed, supporting the loan agents to manage individual borrower cases (Case management) • Developing a manual of all operating model processes, including standardised reporting templates (Monitoring)

Project management · Performance management · Case management · Monitoring

Source: National Audit Office analysis of Department for Culture, Media & Sport documents

Loan management system

2.7 In February 2023, DCMS appointed PwC to develop a data collection and storage solution to improve the quality, consistency and efficiency of DCMS's loan management, noting loan agents had initially set up separate systems. During 2023, DCMS decided to increase the scope of the work and asked PwC to develop a loan management system (LMS), which increased costs and then contributed to it taking longer to deliver. As well as supporting the collection and storage of borrowers' data, it intended the LMS would build on existing work by Sport England and roll out the system to Arts Council England, to provide a better reporting experience for borrowers and include data analysis functions for the loan agents, producing a risk rating and dashboard for each borrower. The LMS would reduce manual reporting processes for borrowers and the loan agents. Furthermore, having a data infrastructure that supports detailed monitoring of borrowers' credit risk is an important standard for loan management. In October 2023 the increased scope, along with the associated design of an updated future operating model, contributed to DCMS increasing its contract with PwC to £2.4 million, and in March 2024, to £2.8 million, a 47% increase to the original contract value of £1.9 million. DCMS forecast that one-off, set-up costs will reach £1.0 million by March 2025, compared with £0.5 million specified in the original contract.

2.8 The increased scope of the LMS also contributed to the delay in its delivery date. In its December 2022 business case, DCMS planned to have its original data platform in place by March 2023. It subsequently revised this deadline to September 2023, before going live in June 2024 with its LMS, which has been operational and in use by loan agents and borrowers since. During this time, DCMS tolerated existing systems for longer than planned, with ongoing manual processing increasing the risk of error. In the interim, the loan agents extended their supplier contracts.

2.9 DCMS launched the LMS in June 2024, on the basis that it had in place the key operational functionality it needed. It recognised, however, that it still had a small number of issues to resolve with the LMS when it went live to ensure it operated as DCMS intended. For instance, after the LMS went live, borrowers reported that they were not able to log onto the platform. However, this delay did not impact borrowers submitting their monitoring information. Arts Council England reported that the current version of the LMS does not provide it with the full functionality it needs; in particular, it does not recalculate borrowers' interest payments if they default on a repayment or if they make an early repayment, meaning that Arts Council England is currently maintaining spreadsheet records that the LMS was meant to replace. Sport England is also still using spreadsheets for some of its data analysis. DCMS plans further improvements to functionality, but, as at the start of December 2024, had yet to agree this work with PwC.

Governance and oversight

2.10 DCMS has developed its governance structures progressively since it distributed the loans and during 2024 it further updated its governance structures as they were no longer fit for purpose (paragraphs 1.18 and 1.19). In July 2024, DCMS implemented a revised governance structure (**Figure 8**), designating a single senior responsible owner (SRO) for loan book management for clarity, where previously there were three named SROs. The new SRO chairs a new Programme Board. The other two SROs were renamed as senior business owners (SBOs) for the sport and culture loan books, respectively. This refresh also introduced a new Performance and Risk Committee. This also brought improved clarity to the oversight arrangements. As at December 2024, DCMS's revised governance structure remained relatively new. Under its previous governance arrangements, DCMS recorded requests or issues from over three-quarters of borrowers, with DCMS escalating difficult cases through its governance structure for decisions. With 61 more borrowers scheduled to start repaying during 2025, and all borrowers scheduled to have made a first repayment by September 2025 (**Figure 9** on page 36), there could be an increase in difficult cases for DCMS to respond to, increasing the need for effective and efficient governance, and a clear route for decision-making.

Risk management

2.11 DCMS has been monitoring and tracking its loans and borrowers since 2022. 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.

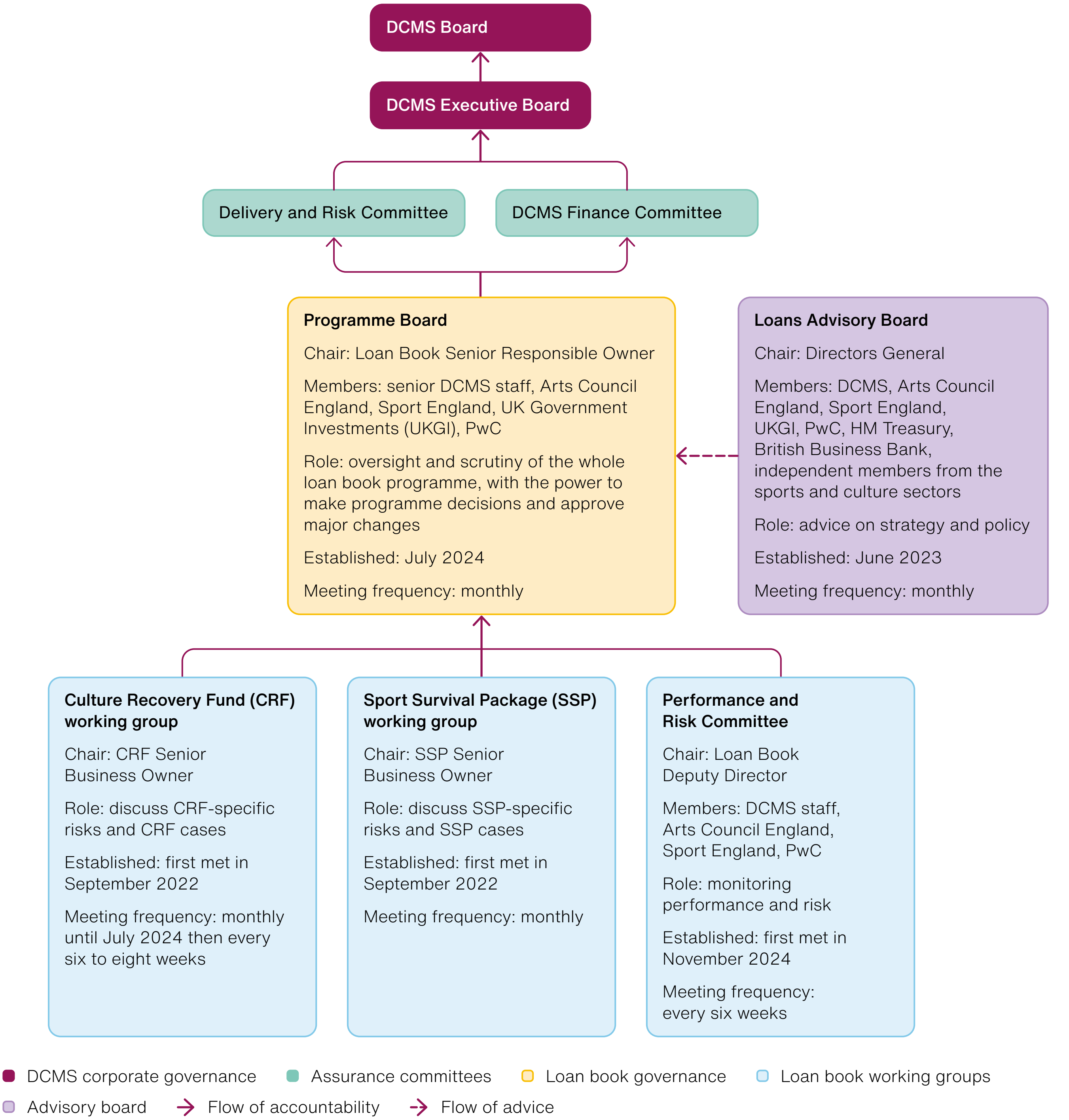
2.12 The loan agents maintain a watchlist of borrowers which they report to DCMS monthly. They have assessed such borrowers as at a high risk of default, and undertake greater monitoring of them, enabling DCMS to develop its options and mitigations should the borrower become insolvent. The loan agents regularly engage with the borrowers and receive financial information from them, such as financial accounts, board minutes and business plans. Based on this information and, using their informed judgement, the loan agents identify which borrowers have a high risk of default and should be placed on the watchlist, applying Red-Amber-Green ratings. DCMS continues to closely monitor these borrowers.[23]

23 The government's functional standard on debt expects those responsible for debt to report on an agreed set of key performance indicators, focused more widely than cash recoveries. See HM Government, *Government Functional Standard – GovS 0014*: Debt, July 2021.

Figure 8

Department for Culture, Media & Sport's (DCMS's) governance of its COVID-19 loan book, as at December 2024

The Loan Book Programme Board is responsible for the oversight and scrutiny of the loan book; it reports into DCMS's corporate governance and receives advice from the Loans Advisory Board

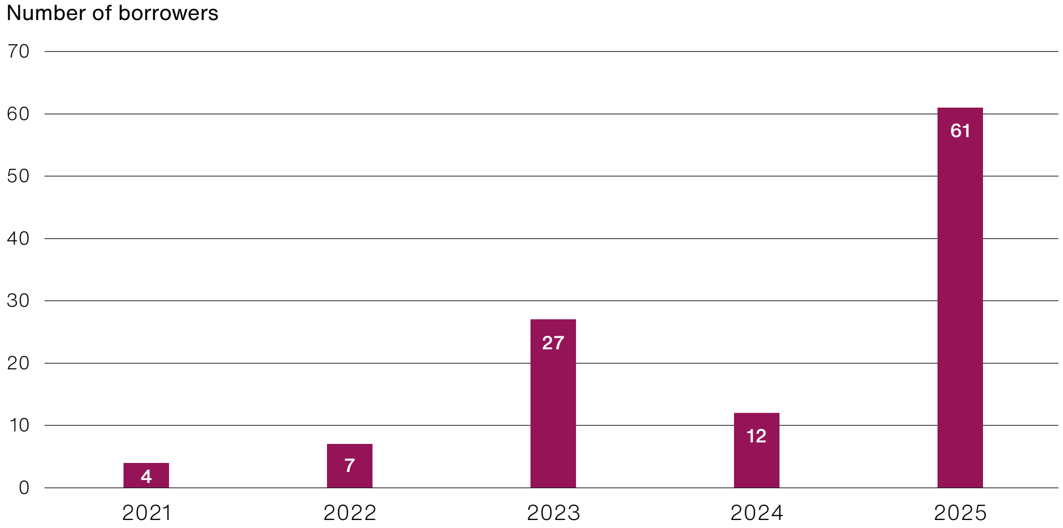


Source: National Audit Office analysis of Department for Culture, Media & Sport documents

Figure 9

Number of borrowers starting repayments, by year

By the end of 2024, 50 borrowers will have started repaying their loans, with 61 more borrowers scheduled to begin repayments in 2025



Note

1 This analysis excludes nine borrowers that, as at October 2024, had become insolvent.

Source: National Audit Office analysis of Department for Culture, Media & Sport data

2.13 DCMS's 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.

2.14 In November 2022, DCMS recognised that segmenting the loan book into performing and non-performing loans based on whether the borrowers had breached the terms of their loans would help it manage and prioritise its risk management activities. To support more proportionate management, in August 2023, PwC proposed an updated segmentation, beyond the existing Red-Amber-Green rating of borrowers’ ability to repay, be applied across the whole loan book, categorising borrowers with similar risk profiles based on the size of the outstanding loan and a viability assessment of the individual borrower’s performance.[24] In March 2024, DCMS agreed a risk-based approach for the segmentation of different groups of borrowers based on earlier work. This segmentation would then determine the regularity and depth of monitoring and reporting, the regularity and detail of data analysis performed on borrower data, the approach to borrower requests, and the approach to borrower issues requiring case support. Sport England has used this new segmented approach in its October 2024 monitoring and reporting pack for DCMS.

Management performance

2.15 DCMS is not yet tracking its own loan management performance. DCMS has been unable 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. This can be important for loan agents in helping them to manage their relationships with borrowers. Now that DCMS has its loan management approach in place, we would expect it to monitor and regularly report on its own loan management performance.

2.16 Without agreed and tracked indicators, DCMS cannot determine how well its loan agents are performing, even as the loan agents respond to borrower requests and increasing repayments. DCMS has developed metrics for how it will track the performance of its loan agents and is now starting to track their performance in a more regular, consistent way. In February 2024, DCMS signed a MoU with Sport England that included service level expectation metrics for tracking (paragraph 2.5). These include DCMS’s expected turnaround time for Sport England to perform its loan agent functions: sending formal written notification to borrowers in breach of their loan terms within two working days of the breach, and, following a request from a borrower for a variation, making recommendations to DCMS within five working days. 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. DCMS’s as yet unsigned MoU with Arts Council England will include the same service level expectations. In June 2024, PwC recommended that DCMS review whether its MoUs gave it appropriate control over its loan agents’ performance.

24 The assessment consists of three tests: (1) is the borrower forecasting an inability to make repayments; (2) is the borrower in breach of loan terms; and/or (3) is there an SRO decision to elevate the borrower to Tier 1.

DCMS's performance in managing loan repayments and insolvencies

Repayments

2.17 The loan terms included repayment holidays of up to four and a half years from the issuing of the loans (paragraph 1.6). Of the original 120 borrowers, 61 had yet to start repaying by October 2024, 50 had made at least one repayment, and nine had become insolvent.[25] This means that just under half (45%) of the solvent borrowers had started repaying by October 2024. Loan agents began receiving informal requests from the borrowers to extend repayment holidays as multiple borrowers started to approach the date of their first repayments. All borrowers should have made their first repayment by September 2025.

2.18 By October 2024, DCMS had received £40.9 million from solvent borrowers, achieving 97% in repayments against the £42.1 million it had scheduled to receive by this date (**Figure 10**). Nine borrowers were behind on their repayments, three of which are over £1 million behind their repayment schedule. The loan agents had previously identified seven of these borrowers as at risk of missing repayments. Borrowers' reasons for defaulting on repayments include: worse than expected financial performance, insufficient cashflow, and delays in securing sponsorship. Borrowers which default on payments accrue interest on their missed repayments at 2% higher than their standard rate each day until repayment.

2.19 The loan terms allow the borrowers to repay early. By October 2024, 11 borrowers, nine from the sport loan book and two from culture, and with loans totalling £3.8 million, had repaid their loans in full ahead of schedule.

Insolvencies

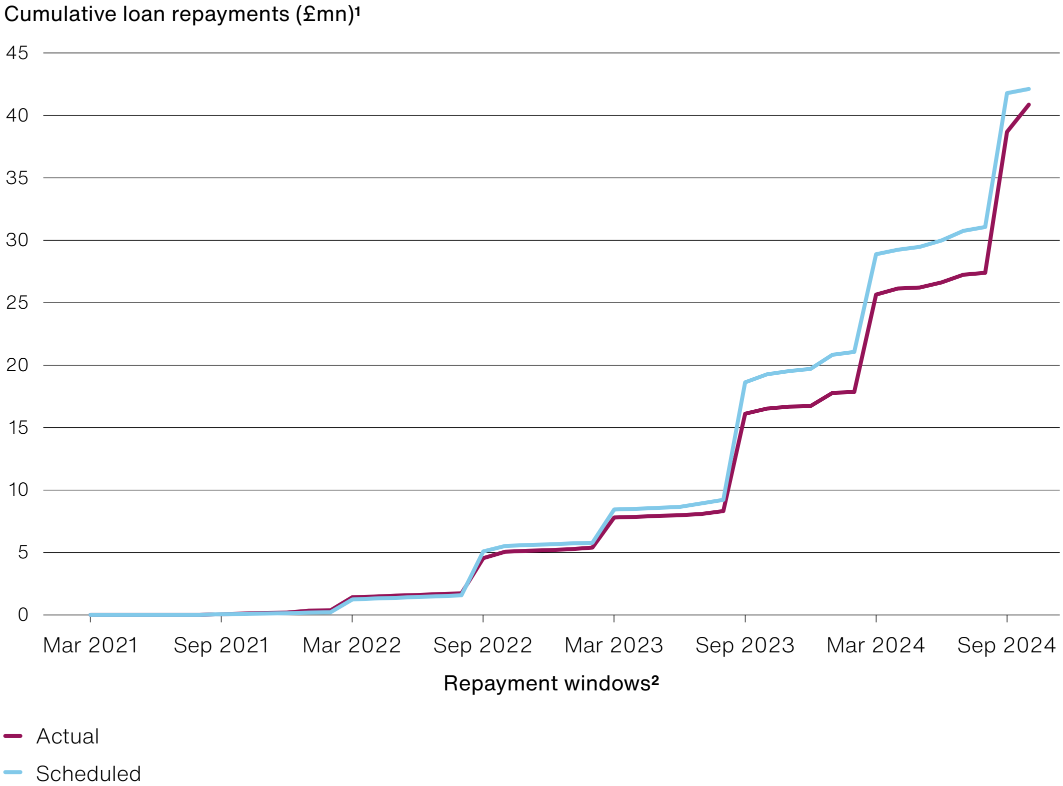
2.20 By October 2024, four years after the first loan was issued, nine of the borrowers had become insolvent – 7.5% of borrowers. Seven of the insolvencies were sports borrowers and two were cultural organisations (**Figure 11** on page 40). In its December 2022 business case, DCMS expected 5% of borrowers to fail in the first three years of the loans, with a further 4% to 9% failing by 10 years. DCMS did not make an appraisal for borrower failure over the lifetime of the loan book and has not updated the assumptions on borrower failure in its business case.

25 One of these insolvent borrowers was purchased from administrators by new ownership. One additional borrower also became insolvent. However, another party agreed in advance of the insolvency that the obligations of the loan would be transferred to its ownership. Therefore, this insolvency was not counted by DCMS in its list of nine insolvent borrowers.

Figure 10

Cumulative repayments received by October 2024 against scheduled repayments

By October 2024, the Department for Culture, Media & Sport (DCMS) had received £41 million in repayments from solvent borrowers, 97% of the £42 million DCMS had scheduled to receive by this date



Notes

1 Repayments include both the repayment of the principal loan and interest payments.

2 Most borrower repayments occur in March and September repayment windows, though some borrowers pay at other times.

3 This analysis excludes nine borrowers that, as at October 2024, had become insolvent.

4 This analysis includes scheduled and actual repayments from eleven borrowers which have fully repaid their loans ahead of schedule and exited the loan book.

Source: National Audit Office analysis of Department for Culture, Media & Sport data

Figure 11

Borrower insolvencies and lost income, October 2024

By October 2024, nine borrowers, which had received loans totalling £46 million, had become insolvent, with the Department for Culture, Media & Sport (DCMS) recovering £10 million to date

	Culture loans	Sports loans	Full loan book
Insolvencies	2	7	9[2]
	£mn	£mn	£mn
Value of loans issued to insolvent borrowers	2.5	43.6	46.1
Amount recovered, October 2024	0.0	10.1	10.1
Further expected recoveries[3]	0.0	7.3–11.1	7.3–11.1
Future loan repayments that DCMS will not receive[3]	2.5	22.4–26.2	24.9–28.7
Future interest payments that DCMS will not receive	0.3	10.9	11.2

Notes

1 All amounts are in cash terms.

2 One of these insolvent borrowers was purchased from administrators by new ownership.

3 The range in values reflects the worst case and best case scenarios for further recoveries, as reported to DCMS by the insolvent borrowers' administrators.

Source: National Audit Office analysis of Department for Culture, Media & Sport documents and data

2.21 DCMS issued loans of £46.1 million to the nine borrowers which had become insolvent, almost 10% of the £474 million issued across all the loans. Of the £46.1 million, 90% went to three rugby union clubs: London Irish, which received a loan of £11.8 million; Wasps, £14.1 million; and Worcester Warriors, £15.7 million. In June 2023, the administrator of the insolvent estate for Worcester Warriors made an insolvency payment of £9.8 million and in October 2024, the administrators of Wasps paid £0.3 million. DCMS is still in discussion with administrators over further insolvency settlements and expects to receive a further £7.3 million to £11.1 million from all the loan book insolvencies so far. Combining payments received and expected, DCMS expects to recover between 39% and 48% of the amount loaned to borrowers which had become insolvent. DCMS will not receive income from interest payments of £11.2 million from the insolvent borrowers. Prior to their insolvencies, the loan agents had tracked all nine borrowers, for example through risk registers or watchlists.

2.22 From the outset of the loan schemes, DCMS recognised they were a significant area of fraud risk given the high insolvency risk of some borrowers, the long duration of the loans and the relative inexperience of DCMS and its loan agents in managing the loan book. Examples of the fraud that may occur after issuing the loans include diversion of funds by borrowers' owners, misuse of securitised assets (for example, selling assets that a loan was secured against), or manipulation of monitoring or reporting. As at December 2024, DCMS had identified two possible incidents of fraud among its borrowers, relating to loans valued at £2.2 million. Both cases are still under investigation, with the potential fraudulent exposure being lower than the value of the loans. While DCMS carried out fraud risk assessments when it issued the original loans, it has yet to finalise an updated assessment for the repayment period of the loans. DCMS is working with the Public Sector Fraud Authority to update its fraud risk assessment (FRA). This has been split into two; the first was completed in October 2024 and the second is due for completion at the end of December 2024. Both FRAs determine how best to continue managing the risk over the remaining life of the loans.

Rugby union

2.23 DCMS has had to increase its engagement with and oversight of loans to rugby union given ongoing financial challenges for the sport. By March 2022, DCMS had issued loans to all 13 clubs in the Premiership Rugby League, the top tier of English rugby, providing £123.8 million of loans – 26% of the total loan book value. By June 2023, three of the clubs had become insolvent, highlighting financial and sporting challenges facing rugby union. Recognising the failures of some clubs and the wider financial challenges facing rugby union including those stemming from the pandemic, in June 2023, the government appointed two independent advisors to help the Rugby Football Union (the national governing body for rugby union in England) and the Premiership Rugby League stabilise the future of the sport. Acknowledging its ongoing role as a key stakeholder, DCMS is closely monitoring the remaining Premiership clubs to identify any which may be behind on their repayments and facing financial difficulties. In doing so DCMS is monitoring the risk it faces to protect its investment on behalf of taxpayers.

Part Three

Future management of the loan book

3.1 The Department for Culture, Media & Sport (DCMS) set up the loan schemes at the height of the pandemic to support a high distress situation within the culture and sport sectors. Over four years on from the start of the pandemic, changes in audience, spectator and consumer behaviour alongside a varied and ongoing financial impact mean that widespread uncertainty persists across the culture and sports sectors. In this Part, we assess the effectiveness with which DCMS is implementing its loan management approach for the future and lessons from our work and elsewhere.[26,27,28,29]

3.2 From this work, we have identified four broad areas we consider to be significant for the effective management of DCMS's loan book. These are:

- analysing the future costs of managing the loan book;
- scenario planning;
- borrower engagement; and
- evaluation and longer-term learning.

26 Comptroller and Auditor General, *Initial learning from the government's response to the COVID-19 pandemic*, Session 2021-22, HC 66, National Audit Office, May 2021.
27 Comptroller and Auditor General, *Lessons learned: Delivering programmes at speed*, Session 2021-22, HC 667, National Audit Office, September 2021.
28 National Audit Office, *Good practice guide: Monitoring and responding to companies in distress*, October 2023.
29 The Lending Standards Board, *The Standards of Lending Practice for business customers,* November 2022, updated September 2024; European Banking Authority, *Final Report – Guidelines on loan origination and monitoring*, May 2020.

The future costs of managing the loan book

3.3 DCMS's analysis of the costs of managing the loans over their 25-year lifetime has been minimal. In its July 2020 business case for the Culture Recovery Fund loans, DCMS estimated that managing its culture loans would cost £25.8 million over 20 years. However, two years later, in its December 2022 business case for management of the entire loan book, DCMS did not include such an analysis, but recognised that it would review its approach to loan book management in spring 2024. DCMS's business case also noted that the 2021 Spending Review period was likely to represent the peak of loan book management activity and associated costs. 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 has largely stayed within budget, forecasting that it will spend £17.3 million by March 2025 (**Figure 12**). DCMS has not estimated its costs beyond March 2025.

Figure 12

Department for Culture, Media & Sport's (DCMS's) management spend and forecasts, July 2024

DCMS's management spend on the loan book was within budget for 2022-23 and 2023-24 and forecast to be over-budget in 2024-25. DCMS has not produced a budget nor conducted financial modelling for its expected costs from 2025-26 onwards

	Budget	Actual	Forecast
	£mn	£mn	£mn
2022-23	6.4	5.8	–
2023-24	5.6	5.4	–
2024-25	5.4	–	6.1
2025-26 to 2045-46	–[2]	–	–

Notes

1 DCMS forecasts that it will have spent £17.3 million by March 2025.

2 DCMS has not produced a budget for 2025-26 onwards, nor conducted any financial modelling of the expected costs between 2025-26 and 2045-46.

Source: National Audit Office analysis of Department for Culture, Media & Sport documents and data

3.4 DCMS recognises that cost pressures could impact on the affordability of managing the loan book, but it has not assessed what factors might increase costs or reduce income over the long-term nor considered scenarios where its costs or income from the loans might vary. DCMS and its loan agents, may face periods of temporary or sustained higher risks in particular parts of the loan book where, as a result, ongoing management costs may need to rise, for example, where higher risk borrowers need closer supervision. DCMS expects one-off costs to fall after the introduction of its loan management system (paragraph 2.9) and its ongoing management costs to come down, with overall costs lower from 2025-26. We have not seen any modelling to support its assumption. If all remaining loans are repaid, with no further insolvencies, DCMS would receive £78 million in interest payments (in cash terms) between 2025 and 2046 (**Figure 13**), but, as a consequence of each insolvency or early repayment, its interest payments would be reduced.

Scenario planning

3.5 DCMS commissioned an assessment of different options for long-term management of the loan book in March 2022. The options considered included sale of the loan book (DCMS's exiting from managing the loan book), in-house management, and a managed service provision. DCMS decided to retain management of the loan book, with day-to-day management through the loan agents, supplemented by appointing PwC as its managed service provider (paragraph 1.16). Since its exercise in March 2022, DCMS is keeping a decision about its management approach under review as the loan book moves into its fuller repayment phase. As at December 2024 it has not updated this assessment. Nor has it considered if, by managing the loan book in isolation, it has a long-term rationale for managing the loan book as part of the government's portfolio of financial assets (as examined in our report *Evaluating the government balance sheet: financial assets and investments*).[30]

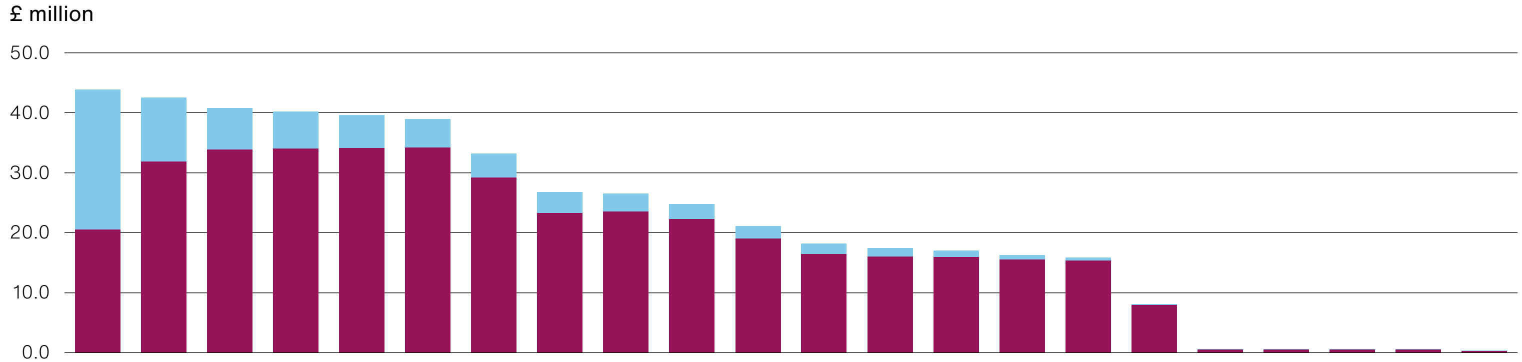
3.6 DCMS has set out its approach and the procedures it should follow, for example, in the event of financial distress of borrowers (paragraph 2.11). However, DCMS has not yet considered what scenarios might emerge for the loan book as a whole and what actions it would plan to take. This might include 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 among 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.

30 Comptroller and Auditor General, *Evaluating the government balance sheet: financial assets and investments*, Session 2016-17, HC 463, National Audit Office, June 2016.

Figure 13

Scheduled loan repayments and interest payments from 2025 to 2046

Repayments will be greatest between 2025 to 2031, with scheduled annual repayments falling until the end of the loan terms in 2046



	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045	2046
Interest payments[3]	23.3	10.6	6.9	6.1	5.4	4.7	4.0	3.4	3.0	2.5	2.1	1.7	1.4	1.1	0.7	0.4	0.1	0.0	0.0	0.0	0.0	0.0
Principal loan repayments	20.6	31.9	33.9	34.0	34.2	34.3	29.2	23.3	23.5	22.3	19.1	16.4	16.0	16.0	15.5	15.4	8.0	0.6	0.6	0.6	0.6	0.3

Notes

1 This analysis excludes nine borrowers that, as at October 2024, had become insolvent.

2 Figures are in cash terms.

3 Scheduled interest repayments between 2025 and 2046 sum to £78 million.

4 Figures have been rounded to one decimal place.

Source: National Audit Office analysis of Department for Culture, Media & Sport data

3.7 DCMS is modelling its expected credit loss as part of its financial accounting requirements, but it could make better use of its models to inform its management of the loan book.[31] DCMS models its expected credit loss by calculating a probability of default for each borrower based on information about the borrower and historic insolvency rate data about similar organisations. We reviewed the model and found that, while its modelling of expected credit loss meets financial reporting requirements, and the results are used to inform its annual accounts, the modelling methods applied were immature, which limits the usefulness of the model for understanding future risks. To model future defaults, DCMS applies the same historic rate across every year in the loan book, rather than adjusting the rate for different years. While DCMS models different scenarios, these are simplistic and based on historical data rather than forecasts. This means the model does not show how the credit risk might change over time, which is a missed opportunity to better inform its longer-term thinking on value for money. DCMS has sought to obtain future credit risk to feed into the model but told us that credit agencies have been unable to provide such data.

Borrower engagement

3.8 DCMS has given its loan agents the responsibility for engaging with borrowers (paragraph 1.15). DCMS receives information through regular discussions and reporting (such as its quarterly reporting) or when cases have been escalated to it for decisions. In addition, DCMS and its loan agents told us they sometimes receive representations from borrowers, for example, about changes to their loan terms. The loan agents therefore have had to communicate consistently to make sure borrowers continue to meet the requirements of their loan agreements.

31 Expected credit loss (ECL) is a financial accounting term that refers to the estimated loss an organisation expects to incur from its loan portfolio over a specific period.

3.9 DCMS recognises the risks of borrower advocacy, with PwC noting borrower and stakeholder engagement as one of the higher risk areas for DCMS, as the number of borrowers in repayment periods changes and they require more active day-to-day management by the loan agents. DCMS is learning and adapting in how best to engage with borrowers and influence their behaviour. DCMS monitors its borrowers (paragraph 2.18) and macro-economic factors that affect them, and, for example, it sought feedback from some borrowers when testing its loan management system in May 2024 before it went live. It is not however gathering systematic feedback from borrowers (for example through regular surveys). Such feedback could help it gain insight into borrowers' perspectives on the effectiveness of DCMS and its loan agents' engagement with them and how the overall management of the loan book might be improved, as is the practice commercially and with other government loan schemes. For instance, if a loan agent identifies that an individual borrower is expanding its activities to make sure it meets its repayments, this may mean the borrower is changing the way it works. It may also have wider relevance for potential action or support in other parts of the loan book, and strengthens DCMS's ability to influence borrowers. 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.

Evaluation and longer-term learning

3.10 DCMS has evaluated short-term impact but is yet to develop plans for evaluating whether it is achieving its long-term objectives for the loans. DCMS published evaluations of the Culture Recovery Fund and of the Sport Survival Package in 2022 and 2023 respectively. It found that the schemes (including grants) had protected the cultural and sports sectors from greater harm during the pandemic. We would expect DCMS to have a long-term evaluation plan articulating the standards by which it will assess value for money of its management and whether the overall loan book has achieved its objectives and how its loans have interacted with wider support for the sectors. DCMS has set aside £180,000 for future evaluations but has yet to define the scope or type of evaluation.

3.11 DCMS has undertaken discrete learning exercises for some of the building blocks of its loan operating model. In July 2024, PwC produced a lessons learned report on the launch of the loan management system, which DCMS intends will shape its plans for updating it. DCMS has also led five cross-programme thematic lessons learned workshops with its loan agents, on topics including governance and decision-making; analysis and advice; and stakeholder relationships. These have identified areas that have worked well, such as shared meetings to resolve complex cases, and areas to improve, such as the amount of information required for simple borrower requests. It is encouraging to see DCMS's willingness to learn lessons and adapt activities as its loan management approach is implemented. It plans to bring this learning together for a 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.

3.12 DCMS recognises that the capability and skills it will need to manage the loan book will evolve during different phases over the next 20 years. However, it has yet to review these long-term needs and how it will apply its learning about managing the loan book as it develops this capability. DCMS and its loan agents recognise that the experience, new skills and knowledge from operating the loan book might inform future thinking for alternative options for funding models for the culture and sports sectors.

Appendix One

Our audit approach and evidence base

Our scope

1 Between October 2020 and March 2022, the Department for Culture, Media & Sport (DCMS) provided £474 million in loans to organisations in the culture and sports sectors to help them survive during the period of COVID-19 restrictions. In October 2021, DCMS decided to bring its culture and sports loan schemes together in one loan book, referred to in this report as the DCMS loan book. This is the first time that DCMS has managed a significant loan book. Once the government had lifted COVID-19 restrictions, DCMS focused more on maximising financial returns, as it considered its objective of supporting the sectors to survive the pandemic had been achieved.

2 DCMS is accountable for managing the loan book. It 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 culture and sports sector borrowers.

3 At the outset, we framed our inquiry to examine whether DCMS is delivering value for money through its management of the loan book using the following audit questions.

- Has DCMS set up an appropriate and proportionate governance and oversight structure to deliver its objectives for the COVID-19 loan schemes?
- Has DCMS been effective in managing the loan schemes so far?
- Is DCMS well placed to meet the challenges of managing its loan book in the future and maximise financial returns?

In structuring our findings into this report, we organised the report into three main parts covering whether DCMS:

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

DCMS's decision to use loan funding, whether this was the right way to support the sectors and the individual award decisions are not within the scope of this report.

4 We reached our independent conclusions on DCMS's management of its COVID-19 loans following analysis of evidence collected primarily between May and October 2024. In forming our conclusions, we drew on a range of study methods and evidence sources, which are set out in the paragraphs below. We also worked closely with colleagues from our internal expertise teams. These included colleagues with expertise in commercial practice, financial instruments, financial audit, modelling, and quantitative and qualitative analysis, among others.

Our evidence base

Accounting analysis

5 In its annual report and accounts, DCMS classifies its COVID-19 loans as financial assets. In line with International Financial Reporting Standard 9: Financial Instruments, DCMS recognises the financial assets at their fair value at initial recognition, which is different from the transaction price (the cash value of the loans that DCMS issued). Fair value is the price that would be received to sell an asset or be paid to transfer a liability in a market. To calculate the fair value of the COVID-19 loans, DCMS discounts each loan using HM Treasury's discount rate and a borrower-specific risk adjustment. In line with International Accounting Standard 20: Government Grants, DCMS treats the difference between the transaction value and the fair value as a government grant, recording the adjustment in its Annual Report and Accounts for the year the loans were issued. In this report, unless otherwise stated, we refer to the transactional value of the loans to enable comparisons of loan value across multiple years.

6 DCMS also models an expected credit loss for the lifetime of the loan book, which it records in its annual report and accounts. Credit risk is the risk of financial loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations. A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity, such as a loan. To model the expected credit loss of its COVID-19 loans, DCMS models a probability of default for each borrower alongside other components of the expected credit loss calculations, such as loss given default. To inform its model, DCMS uses macro-economic assessments and borrower-specific information including the following: external credit risk agency scores, net assets, operating profit, average revenue, level of securities, and whether there are any existing creditor agreements.

7 With support from internal experts in modelling and financial instruments, we reviewed DCMS's modelling of expected credit loss. As well as reviewing whether DCMS had appropriately modelled the expected credit loss, in line with the relevant standards, we examined the assumptions contained in the models and the controls around the models. We also extracted data from the models to inform our wider findings about the loan book.

Quantitative analysis

8 The loan book includes two secondary loan models, both to sports borrowers, in which DCMS provides a loan to one body, which re-distributes the funds as smaller loans to other bodies. In this report, we counted secondary models as a single borrower, reporting that DCMS had 120 borrowers. In its annual report and accounts, DCMS has included recipients of secondary model loans, reporting that 220 organisations had received loan funding.

9 In May 2024, we analysed the loans, including their size, the detailed sector or sport that they went to and the location of the borrowers. This analysis underpins some of the data in the report and provides background information about the loans. We updated the analysis in November 2024 to include repayment data up to October 2024. We also examined detailed notes about borrowers which were behind on their repayments, including any reprofiling (forbearance) of the loans.

10 We extracted data about borrowers' previous and future scheduled repayments from DCMS's records of financial transactions for individual borrowers known as journals. These journals contain each borrower's repayment profiling, including a breakdown of repayments against the principal loan and interest payments. DCMS updates the journals monthly to account for any changes to the schedules. We used these data to determine when borrowers started or will start to make repayments to DCMS. We also compiled the data to show the repayments DCMS has received to date and the repayments DCMS is scheduled to receive each year up to 2046, when the final repayment is scheduled to be received. Lastly, we extracted information from the journals about the borrowers that had become insolvent (nine in total).

11 In its annual report and accounts, DCMS discloses the loan repayments received each year. In its 2021-22 accounts, the disclosed repayments appear larger than reported here as they include rugby football league loans that DCMS changed to Sport Survival Package loans (entering the new loans as an addition to the accounts). We analysed DCMS's actual and forecast expenditure on its loan book management, based on data provided by DCMS in July 2024. In working through the various sources of data, we noted some inconsistencies in the numbers that were being recorded within the datasets. However, we were able to work through these limitations and were able to reconcile all the numbers across the various datasets.

Interviews

12 We held interviews with DCMS, Arts Council England, Sport England and other stakeholders between June and September 2024 (**Figure 14**). We analysed the interviews thematically, based on our evaluative criteria (paragraph 3). We used interviews to explore topic areas and guide subsequent requests for and review of documentation. Our interview analysis was used in the report to support our audit findings, or validate conclusions drawn from other evidence, for example, document review.

Figure 14
Interviews

We held interviews with the Department for Culture, Media & Sport (DCMS), its loan agents (Arts Council England and Sport England) and other stakeholders between June and September 2024

Organisation	Number and details	Why organisation(s) were selected	Main topics/questions covered in interview
Accountable department: DCMS	Twelve interviews with officials	DCMS is accountable for its COVID-19 loans and their management	The COVID-19 loan book management programme including: strategy design and delivery, governance, roles and responsibilities, resourcing, monitoring, evaluation, lessons learned and best practice, stakeholder management, and long-term loan management
Arm's-length bodies: Arts Council England and Sport England	Six interviews, three with each body	Arts Council England and Sport England operate as DCMS's loan agents, responsible for the day-to-day monitoring and management of the loans, including engaging with borrowers	Experience of working with DCMS, managing the loan book, rollout of the loan management system (LMS), comprehensive background and context to the loans, role in monitoring and borrower engagement
Other government departments: HM Treasury (HMT)	One interview with officials	HMT approved the COVID-19 loans business cases and has expertise across government loan schemes	Reflections on DCMS's management of the loan book, and lessons learned from across government
Other government entities: British Business Bank (BBB), UK Government Investments (UKGI)	Two interviews, one with each body	BBB and UKGI provide the government with technical and commercial expertise; they are also both members of DCMS's Loans Advisory Board	Reflections on DCMS's management of the loan book, lessons learned from across government, and responding to borrower insolvency
Private company: PwC	Two interviews	DCMS contracted PwC as its managed service provider to support its loan book management. PwC developed DCMS's loan management system	Project risks and rollout and demonstration of the LMS

Source: National Audit Office analysis of interview data

Document review

13 Between May and September 2024, we reviewed internal and publicly available documents from DCMS, its loan agents (Arts Council England and Sport England) and other sources to inform our study. We used these documents to:

- define the scope of the audit and deepen our understanding of the DCMS's management of its COVID-19 loans;
- inform further discussion with DCMS, its loan agents and other stakeholders; and
- inform and triangulate findings from other sources, including interviews and data analyses.

14 We reviewed a wide range of documents, including:

- papers presented to relevant DCMS boards and the minutes of meetings;
- loan book documentation, such as business cases, budgets and timelines;
- external evaluation reports, internal lessons learned reports and internal audit papers;
- DCMS's contracts with PwC as its managed service provider;
- PwC documents in support of loan book management, such as playbooks of roles and responsibilities, technical specification for the loan management system and lessons learned reports;
- documents governing the relationship between DCMS and its loan agents; and
- a sample of loan agreements with borrowers, including the terms and conditions of the loans.

15 We reviewed each document thematically, in line with our evaluative criteria. We consulted with internal experts to guide our analysis of DCMS's contracts with PwC.

16 We also reviewed relevant guidance on loan management as well as the National Audit Office's back catalogue of relevant reports, frameworks, good practice guides and lessons learned reports on monitoring and responding to companies in distress, delivering programmes at speed, and managing risks in government, among others, to identify best practice and support our evaluative findings. We supplemented this work with a review of external guidance and commercial best practice on loan management, including: the Government Functional Standard on debt, the Lending Standards Board's '*The Standards of Lending Practice: business customers*' and the European Banking Authority's '*Guidelines on loan origination and monitoring*'.[32,33,34] We conducted our review between May and October 2024. We used findings from these reviews to support our evaluation of DCMS's loan book management and to inform our recommendations. We harnessed internal expertise and tested our findings with a steering group with expertise in loan management, commercial practice, financial instruments and financial audit.

32 HM Government, *Government Functional Standard – GovS 0014: Debt,* July 2021.
33 The lending Standards Board, *The Standards of Lending Practice for business customers*, November 2022, updated September 2024.
34 European Banking Authority, *Final Report – Guidelines on loan origination and monitoring*, May 2020.

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