



National Audit Office



Investigation into the Culture Recovery Fund

Department for Digital, Culture, Media & Sport

REPORT

**by the Comptroller
and Auditor General**

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What this investigation is about

- 1** The COVID-19 pandemic has hit the arts, culture and heritage sector hard. The sector is diverse and large. It includes museums, galleries, cinemas, music venues, nightclubs, theatres, arts centres, archives and heritage sites. Many of these organisations closed their doors to visitors from mid-March 2020 and were required to close by law on 23 March 2020 when the UK entered the first national lockdown. Some were able to reopen partially in the summer and autumn. Many organisations in the sector have remained entirely or mostly closed for nearly a year.
- 2** These organisations are important to communities and economies of towns and regions, supporting other businesses, such as food, drinks, retail and transport. The Department for Digital, Culture, Media & Sport (the Department) estimates that the arts and culture industry directly contributed around £34.6 billion to the UK economy in 2019 and supported around 670,000 jobs. It includes many charitable, non-profit organisations, small businesses and the self-employed.
- 3** The sector's funding comes from a range of sources, including around £1 billion annually from government grants, donations, sponsorship and commercial income such as ticket sales. Local authorities spend around £770 million a year on culture and heritage. The Department funds some large museums and galleries directly but distributes most of its grants through its arm's-length bodies, such as Arts Council England.
- 4** The performing arts and other venues have seen commercial income significantly decline since March 2020. Without targeted support, the Department expected the pandemic to cause large-scale financial failure across the sector as organisations ran out of money around the end of September 2020. In June 2020 the Department estimated that the cultural sectors had seen commercial income fall by 95%. Many of the sector's charitable, non-profit or small organisations run on low reserves and the loss of income, combined with refunding for cancelled future events, created significant cashflow challenges.

5 The UK government's initial response to the pandemic to May 2020 focused on frontline services and financial support to businesses and individuals.¹ Despite there being some support available for businesses in general, the Department's arm's-length bodies recognised that the arts, culture and heritage sector was struggling and made several sector-specific emergency funding packages available immediately following lockdown. In June 2020, an Office for National Statistics survey found that 78% of the workforce of arts, entertainment and recreation businesses that had not permanently stopped trading, had been furloughed under the terms of the UK government's Coronavirus Job Retention Scheme. Employer contributions to furlough, which government introduced from August 2020, left many organisations facing significant staffing costs with limited income to cover them. Smaller organisations often did not qualify for government support, such as from the Coronavirus Business Interruption Loan Scheme.

6 In July 2020, the Culture Secretary announced a £1.57 billion package, the Culture Recovery Fund (CRF) to help the UK's cultural, arts and heritage institutions survive the pandemic and the Department is accountable for this fund. This investigation covers the period up to 19 February 2021, presenting a snapshot based on the fund data at that point. As the CRF continues to operate, our report does not represent the final position on the fund and how it has been awarded and paid out. The Department plans to evaluate the CRF later in 2021. The report presents a factual summary of:

- government's support for the sector;
- the process for awarding the CRF;
- progress in distributing the funding; and
- oversight and governance of funding.

7 We cover the CRF in England only and not the funds given to the devolved administrations. We have not assessed the impact of the funding on the applicants or those who use their services as it is too early to do so. Nor does this report assess the future financial prospects of individual organisations in receipt of support. Appendix One provides details of our audit approach and our evidence base.

¹ Comptroller and Auditor General, *Overview of the UK government's response to the COVID-19 pandemic*, Session 2019-2021, HC 366, National Audit Office, 21 May 2020.

Summary

8 The COVID-19 pandemic meant that museums, galleries, cinemas, music venues, nightclubs, theatres, arts centres, archives and heritage sites were required by law to close their doors to visitors on 23 March 2020 when the UK entered the first national lockdown. Many organisations in the sector have remained entirely or mostly closed for nearly a year. Without targeted support, the Department for Digital, Culture, Media & Sport (the Department) expected large-scale financial failures arising from the pandemic during 2020-21. The Department considered the end of September 2020 represented a cliff-edge for the sector, with many organisations likely to close permanently if support was not available by then.

9 In July 2020, the Department announced its £1.57 billion Culture Recovery Fund (CRF) to help the UK's cultural, arts and heritage institutions survive the pandemic, supporting their long-term sustainability. The fund's primary objective is to rescue cultural and heritage organisations at risk of financial failure in the financial year 2020-21 due to COVID-19. Revenue grant funding could be used by organisations, for example, to prepare business plans to cover future viability, for costs towards enabling re-opening or towards 'mothballing' operations (keeping venues in good condition so that they can open again quickly). It could not be used to cover costs that could be met from other government support schemes (such as the Coronavirus Job Retention Scheme). A condition of the awards made was that all revenue (and some capital) funding had to be awarded by 31 March 2021.

Key findings

10 The Department's funding package comprised different types of financial support aimed at discrete parts of the sector. The Department's July 2020 announcement covered five main funding areas targeted at different groups of organisations (**Figure 1**):

- £880 million (56%) in revenue grants (including £258 million for contingency), described by the Department as "recovery grants", for organisations across the arts, culture and heritage sector in England;
- £270 million (17%) in loans (repayable finance) to culture and heritage organisations in England;
- £120 million (8%) in capital grants for construction of cultural infrastructure in England;

- £100 million (6%) extra grant-in-aid for English cultural heritage organisations and English Heritage; and
- £188 million (12%) in grants for devolved administrations to be used as they saw fit.
- It also allowed for extra costs of £15 million to administer the fund (paragraphs 1.7, 2.5 and 2.15, Figure 2).

Figure 1

The Culture Recovery Fund's (CRF's) main funding streams, 2020-21

The Department for Digital, Culture, Media & Sport's funding package comprised different types of financial support

Funding stream	Type of funding	Amount (£m)
Grants the Department targeted at organisations across a range of arts, culture and heritage sectors in England	Revenue grants ¹	622
Loans to culture and heritage organisations in England	Loans (repayable finance)	270
Capital funding for construction of cultural infrastructure in England ²	Capital grants	120
Additional cashflow support to arm's-length bodies	Grant-in-aid	100
Total available for England in phase one		1,112
Funding for Scotland, Northern Ireland and Wales ³	Grant, to be used as the devolved administrations see fit	188
Contingency	Revenue grants ¹	258
Administration cost allowance		15
Total across all CRF main funding streams		1,573

Notes

- 1 Revenue grant funding totals £880 million: £622 million in phase one, and £258 million contingency.
- 2 Of the £120 million, £30 million came from reprioritisation of the Department for Digital, Culture, Media & Sport's 2020-21 Cultural Investment Fund capital allocation.
- 3 Scotland received £97 million, Wales received £59 million and Northern Ireland received £33 million. Figures do not sum due to rounding.

Source: National Audit Office analysis of the Department for Digital, Culture, Media & Sport's documentation

On determining the size of the CRF and awareness of risk

11 The Department aimed to support the survival of 75% of the organisations in the sector at risk during 2020-21. The Department wanted to prevent permanent loss of cultural assets and organisations and, by extension, their workforces. It analysed information it had about the sector to determine the level of support it needed to provide and agreed £1.57 billion of funding with HM Treasury. It secured funding within the range it had requested (paragraphs 1.3, 1.6 and 1.7).

12 The Department's scenario planning for determining the overall funding extended up to March 2021. To determine the overall package the Department considered various scenarios about activity in the sector and the pandemic's impact. Its worst-case scenario assumed that social distancing measures would remain until the end of March 2021 and that demand would remain at 40% of pre-COVID-19 levels. As of the end of February 2021, the current situation exceeds this worst-case scenario. The scenarios also took account of the government's Coronavirus Job Retention Scheme (widely referred to as the furlough scheme) and the Self-Employment Income Support Scheme. The Department has had to adjust elements of its response over time to take account of the pandemic's progression and the impact it has had on the sector, for example, in terms of operating with COVID-19 safety measures and further lockdowns and extended use of employment schemes (paragraphs 1.2 and 1.4).

On transparency of responsibilities and how decisions are made

13 While not involved in specific award decisions, ministers, the Department and HM Treasury determined the overall criteria for awarding funding. The overall criteria for awarding funding included: that organisations were financially viable before COVID-19; had exhausted all other funding options; were 'culturally significant' internationally or nationally or were essential to the cultural fabric of a place or supported the government's wider 'levelling-up' agenda (paragraph 1.8).

14 The Department gave responsibility for awarding the funding to four arm's-length bodies (ALBs). The Department determined the overall amounts of funding for each of its four funding streams for England. It then decided that four of its ALBs: Arts Council England (ACE), Historic England (HE), the National Lottery Heritage Fund (NLHF) and the British Film Institute (BFI), would be responsible for the award, distribution and administration of £1 billion of funding in the CRF's first phase. The Department delegated decision-making responsibilities for loans to the Culture Recovery Board (CRB) (see paragraph 19). ACE then acted as the loans delivery agent, reporting to the CRB and to the Department (paragraphs 1.9, 2.2, 2.3, 2.15 and 4.2).

15 The four ALBs ran their own, mostly separate, competitions to award funding using their established governance and assurance processes. They ran the processes to differing timescales. For example, the BFI invited applications for funding from independent cinemas over 12 weeks, compared with two weeks for other funds, to allow cinemas to modify their applications throughout the process to adapt to changing conditions (paragraphs 2.2 and 2.9).

On progress awarding and distributing the CRF

16 Overall, of the £1 billion of funding available, the ALBs awarded a total of £830 million to the sector with £495 million paid out to recipients.² Applications for both revenue and capital grants were oversubscribed in the first funding phase (which invited applications up to the end of November 2020). Loans funding was undersubscribed. The speed at which different funds have paid out to recipients varies (paragraph 3.2 and Figures 6 and 7). By 19 February 2021:

- the Department's ALBs had awarded £660 million in revenue and capital grants, to 3,525 organisations, with £462 million paid out (70% of the grant funding awarded). By 15 January, nearly all awards (98%) made by the ALBs were under £1 million. The first awards were made in August 2020, and funding is still being distributed (paragraphs 3.2, 3.10, Figure 3 and Figure 7). Among the ALBs:
 - the BFI awarded grants totalling £21.1 million to independent cinemas, against a budget of £30 million. It had paid out £10 million; and
 - ACE moved quickly and provided grants totalling £3.4 million to 135 music venues through its Emergency Grassroots Music Venues Fund. It began to pay out by 24 August 2020, within one month of receiving applications (paragraphs 2.9, 3.6 and Figure 7 in Appendix Two).
- following the decisions of the CRB, ACE had offered loans totalling £170 million to 12 applicants. The largest loan awarded, £40 million, was to Historic Royal Palaces. Almost £33 million has been paid out (paragraphs 3.2, 3.13 and Figure 7).

17 The four ALBs awarded funding to a diverse range of organisations across England. By December 2020, of the £510 million total revenue grants awarded by then, the ALBs had awarded around 85% to the arts and 15% to heritage organisations. Overall, 59% of the £510 million was awarded by ACE to theatre, music and combined arts organisations. By location, London received 31%, followed by the North West and South East which each received 12% of the total. The North East, which received 4% of the funding overall received the highest average revenue grant (more than £217,000). The North West was awarded 28% of the capital grant funding (£29.7 million) (paragraphs 3.4, 3.10 and Figure 4).

2 Excluding the £100 million grant-in-aid for the Department's ALBs (Figure 1).

18 The Department has not yet paid out any funding from its second phase of funding, totalling £400 million. It added funding not awarded in the first phase to the £258 million revenue grant funding that it had held back as contingency. On 11 December 2020 it announced phase two funding of £300 million in revenue grants and £100 million in loans to support organisations' transition back to usual operations from April 2021. It intends to distribute this second phase funding based on the lessons learned from the first phase with decisions scheduled to be made in March 2021. By 19 February 2021 the ALBs had received more applications for revenue grant funding than in the first phase, with £646 million in total requested against the £300 million available. In addition, ACE had received applications for loans of £145 million against the £100 million available. A further £300 million has since been made available to the CRF by HM Treasury as part of the 3 March 2021 Budget (paragraphs 3.16 and 3.17).

On oversight and governance

19 The Department created the Culture Recovery Board in July 2020 to increase assurance over the fund. It established the board to bring in external expertise to support decision-making. Given the pressing timescales, its chair and members were appointed on invitation by ministers and approved by HM Treasury. While the ALBs had overall responsibility for the award, distribution and administration of funding, the board was required to approve loans, advise the ALBs on the allocation of grants between £1 million and £3 million, and provide assurance on revenue grants under £1 million (paragraphs 2.2, 4.1 and 4.2).

20 In common with other emergency COVID-19 funding, implementing the CRF has presented risks of fraud, error, duplication and overpayment.³ The Department acknowledged an increased risk of fraud and error under the CRF. This was due to the speed at which the ALBs were designing programmes, assessing and awarding large volumes of grants, combined with awarding public funding to organisations that had not previously received it. To try and minimise these risks the Department used both Cabinet Office standards and guidance and worked within its existing framework for grant-giving to undertake due diligence on applications together with some post-award checks. The Cabinet Office's Government Counter Fraud Function reported in January 2021 that three reports of fraud were made through the COVID Fraud Hotline relating to two grants administered by ACE. The grants, totalling £473,000, were withheld by ACE. ACE told us that in no cases where a grant had been paid out had fraud been identified (paragraphs 4.3 to 4.5 and 4.8).

³ Comptroller and Auditor General, *Investigation into the Bounce Back Loan Scheme*, Session 2019–2021, HC 860, National Audit Office, October 2020.