



National Audit Office



REPORT

# Funding of Coventry City of Culture Trust

Department for Culture, Media & Sport

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Department for Culture, Media & Sport

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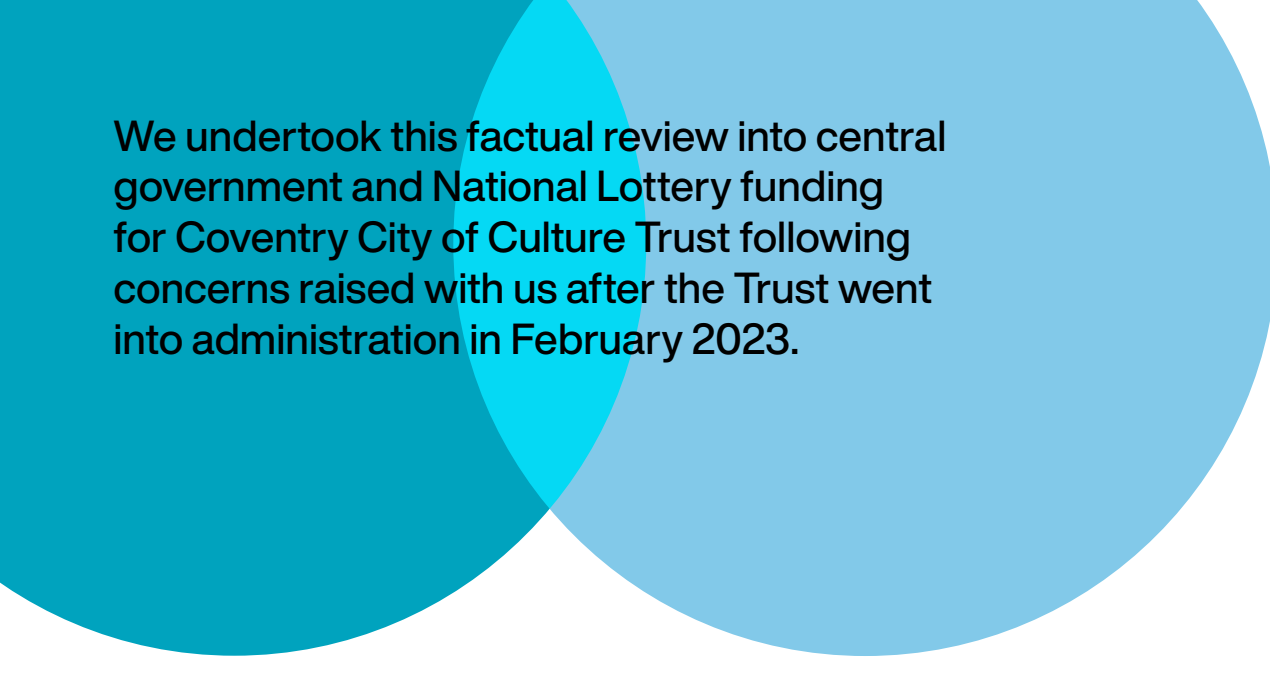
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**Gareth Davies**  
**Comptroller and Auditor General**  
**National Audit Office**

**13 July 2023**



**We undertook this factual review into central government and National Lottery funding for Coventry City of Culture Trust following concerns raised with us after the Trust went into administration in February 2023.**

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## Summary

**1** In December 2017, following a competition run by the Department for Culture, Media & Sport (DCMS), Coventry was selected to be the UK City of Culture for 2021. Coventry City of Culture Trust (the Trust) had been set up in October 2015 to oversee Coventry's bid and subsequent activities. The Trust was overseen by a Board of Trustees. Coventry City Council agreed with DCMS to be the accountable body for Coventry's UK City of Culture 2021 programme. The Trust planned to start Coventry's year as UK City of Culture in January 2021, but due to the COVID-19 pandemic it delayed the start to May 2021.

**2** Coventry's year as UK City of Culture ended in May 2022. From June 2022 to March 2024, the Trust was responsible for delivering a 'legacy phase': continuing to run creative and cultural projects at a smaller scale and operating a digital gallery, the 'Reel Store'. The Trust planned to wind down at the end of March 2024, at which point the Reel Store was expected to be self-sustaining. The Trust reported that over Coventry's year as UK City of Culture, income, including from tickets for events, had been significantly below planned levels. In February 2023, the Trust went into administration having publicly reported financial pressures in October 2022.

**3** Over its lifetime, the Trust received funding from different sources, including central government funding and funding raised through the National Lottery. Our report covers funding derived from these two sources and awarded by DCMS or its arm's-length bodies.

- Most central government funding was awarded to the Trust either directly by DCMS or by its arm's-length body Arts Council England (ACE). Some central government funding was also awarded to the Trust by the British Council, which we do not examine in our report as such funding was not associated with DCMS.
- National Lottery funding is distributed and accounted for separately from central government funding by 12 distributing bodies, six of which are arm's-length bodies of DCMS. National Lottery funding was awarded to the Trust either by ACE or by another two of DCMS's arm's-length bodies, the National Lottery Community Fund and the National Lottery Heritage Fund.

**4** In spring 2023, we received correspondence raising concerns about the Trust's finances and how it came to go into administration. This factual briefing sets out the funding awarded by DCMS and its arm's-length bodies to the Trust and Coventry City Council for Coventry's year as UK City of Culture. We set out how DCMS and its arm's-length bodies oversaw the Trust's use of the funds they awarded. In carrying out this work we drew on documentation provided by DCMS and its arm's-length bodies, and publicly available documentation relating to the Trust and Coventry's year as UK City of Culture. We do not examine the underlying causes of the Trust's financial problems as these are matters subject to ongoing reviews by other bodies. We have not evaluated the effectiveness of the decisions made by DCMS and its arm's-length bodies in their oversight of the Trust. We do not examine in detail how Coventry City Council oversaw the funding it provided to the Trust.

## **Key observations**

### Central government and National Lottery funding

**5 DCMS and its arm's-length bodies awarded £22.8 million to the Trust, of which £12.0 million was funded by central government and £10.9 million from the National Lottery.**<sup>1</sup> Fifteen grants were awarded by DCMS or one of its arm's-length bodies: ACE, the National Lottery Heritage Fund, or the National Lottery Community Fund. The Trust also generated income from sponsors and ticket sales for events. A further £10.0 million of funding was provided to Coventry City Council to support Coventry's year as UK City of Culture: £9.6 million funded by central government and £0.4 million from the National Lottery. In addition, Coventry City Council gave £5.6 million to the Trust, and ACE awarded £3.0 million in grants from National Lottery funding to other local organisations to support Coventry's UK City of Culture programme of events (paragraphs 1.4, 2.3, 2.6, 2.8 and 2.9).

**6 In total, DCMS and its arm's-length bodies paid £21.3 million to the Trust over its lifetime.** Of this, £10.9 million was central government funding and £10.4 million was National Lottery funding. Of the total of £22.8 million awarded by these bodies to the Trust, £1.5 million was not paid out. Central government and National Lottery funding represented around 48% of the Trust's £44.5 million total income during the time it existed. Around 25% of the Trust's income was funded by central government and around 23% from the National Lottery (paragraph 2.3 and Figure 3).

<sup>1</sup> Amounts do not sum due to rounding.

## Oversight of funding

**7 DCMS delegated administering most of its grants and financial monitoring of the Trust to ACE.** In addition, ACE administered and monitored the grants it awarded. The National Lottery Community Fund and the National Lottery Heritage Fund administered and monitored the grants they awarded. Most grants were paid to the Trust in a series of payments over the course of the project each grant related to (paragraph 3.3).

**8 A representative of ACE attended the meetings of the Board of Trustees as an observer.** While individual grants were monitored in line with the grant conditions set by the awarding bodies, DCMS told us that its role does not extend to monitoring the totality of funding awarded by its arm's-length bodies to a single organisation, such as the Trust. DCMS told us, however, that it had a good understanding of the full amount of funding awarded to the Trust and for Coventry's year as UK City of Culture (paragraphs 1.2, 3.7 and 3.8).

## Response to financial risks emerging

**9 In August 2021, the Trust reported financial difficulties and assessed that it was at risk of not remaining a going concern.** In response, the Trust made budget cuts and negotiated with funders, including DCMS, to bring forward some grant payments. ACE became aware of the Trust's financial difficulties through the usual grant monitoring process. ACE commissioned an independent financial review of the Trust to help identify solutions to the financial problems. ACE told us that the Trust accepted all the recommendations, and that it had received evidence from the Trust that the recommendations had been acted upon. In March 2022, the Trust reported that it was back in good financial health (paragraphs 4.3 and 4.4, and Figure 6).

**10 By autumn 2022, the Trust's finances were under pressure again.** The Trust reported financial problems due to income being lower than envisaged and increased costs incurred during Coventry's year as UK City of Culture, because of the COVID-19 pandemic. While the Trust expected to receive further income, future grant funding earmarked for legacy projects, which included £1.1 million from DCMS, could only be spent on the intended projects and paid according to the grant conditions, and therefore would not resolve financial problems at the Trust. The Trust also identified an accounting error in August 2022 which negatively affected its finances (paragraph 4.6 and Figure 6).



**11 In October 2022, the Trust requested and accepted a £1 million loan from Coventry City Council.** The Trust forecast that the loan would enable it to deliver the legacy programme up to March 2024 as planned. In November 2022, financial problems re-emerged, and the Trust forecast it would face a cash deficit of £3 million. By December 2022, it forecast the deficit would reach around £4 million by the end of March 2023 (paragraph 4.7).

**12 In January 2023, DCMS decided against providing new funding to the Trust, but decided to bring forward agreed future funding subject to conditions, which ultimately the Trust could not meet.** DCMS and ACE officials monitored the Trust throughout winter 2022-23 and the DCMS UK City of Culture programme team updated DCMS ministers as and when required. The Trust and Coventry City Council put forward requests to DCMS when financial pressures emerged, which included bringing forward a grant, providing new funding, and transferring relevant grants to Coventry City Council to enable it to acquire and support the Reel Store. In late January 2023, DCMS decided to allow the Trust early access to the final £1 million payment of a £2.6 million grant, due in 2023-24, on the condition that the Trust secure sufficient funding from other sources to enable it to remain a going concern and deliver on legacy outcomes. The Trust did not meet this condition and the funding was not brought forward (paragraphs 4.9 to 4.12).

**13 In early February 2023, the Trust started to plan for the eventuality of going into administration, on the advice of insolvency practitioners.** At this time, the Trust could not meet the necessary conditions DCMS set on the Trust's funding requests and no further funding was awarded or paid. The Trust entered administration on 28 February 2023. The Reel Store was wound up and its assets sold (paragraph 4.12).

**14 Coventry City Council is considering how to preserve the legacy from Coventry's year as UK City of Culture.** In June 2023, Coventry City Council, in partnership with Coventry University and the University of Warwick, announced its support for a new city partnership called 'Coventry Culture Works'. The partnership aims to work with the cultural and creative sector to build on Coventry's year as UK City of Culture and to deliver the city's ten-year cultural strategy (paragraph 4.13).