



National Audit Office



REPORT

# Funding of Coventry City of Culture Trust

Department for Culture, Media & Sport

---

SESSION 2022-23  
18 JULY 2023  
HC 1663



We are the UK's independent public spending watchdog.

We support Parliament in holding government to account and we help improve public services through our high-quality audits.

The National Audit Office (NAO) scrutinises public spending for Parliament and is independent of government and the civil service. We help Parliament hold government to account and we use our insights to help people who manage and govern public bodies improve public services.

The Comptroller and Auditor General (C&AG), Gareth Davies, is an Officer of the House of Commons and leads the NAO. We audit the financial accounts of departments and other public bodies. We also examine and report on the value for money of how public money has been spent.

In 2022, the NAO's work led to a positive financial impact through reduced costs, improved service delivery, or other benefits to citizens, of £572 million.



National Audit Office

# Funding of Coventry City of Culture Trust

**Department for Culture, Media & Sport**

---

## **Report by the Comptroller and Auditor General**

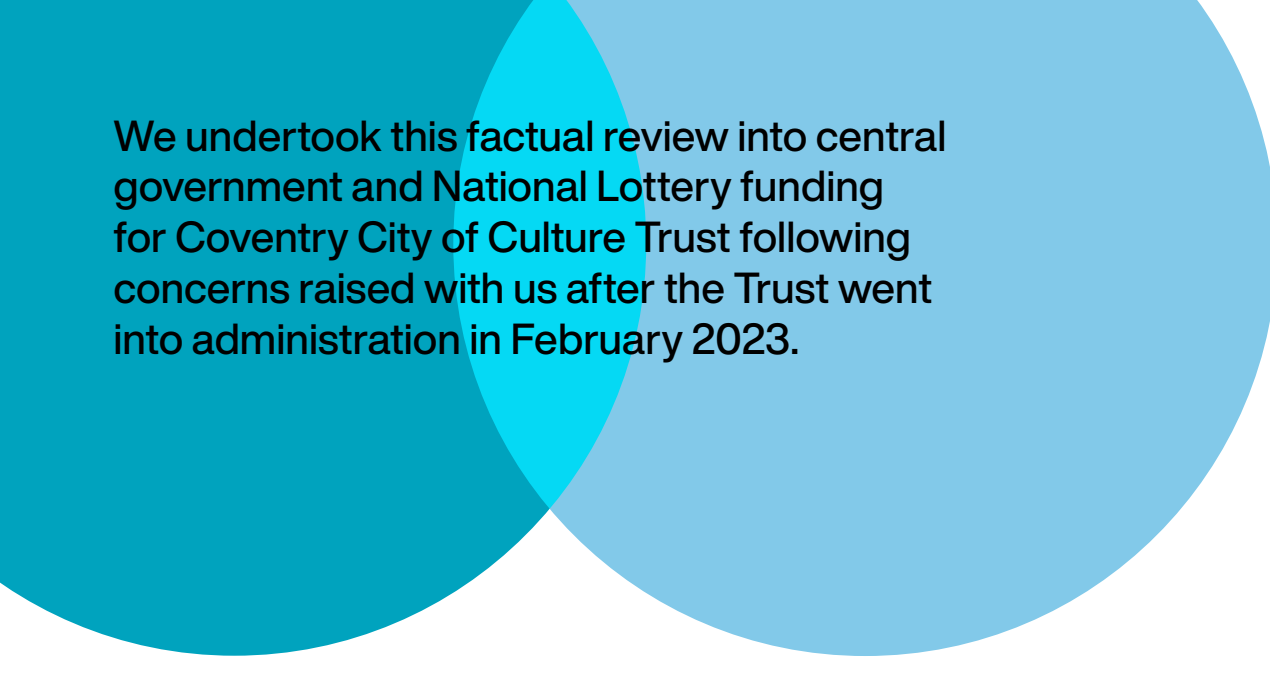
Ordered by the House of Commons  
to be printed on 17 July 2023

This report has been prepared under Section 6 of the  
National Audit Act 1983 for presentation to the House  
of Commons in accordance with Section 9 of the Act

---

**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.**

The material featured in this document is subject to National Audit Office (NAO) copyright. The material may be copied or reproduced for non-commercial purposes only, namely reproduction for research, private study or for limited internal circulation within an organisation for the purpose of review.

Copying for non-commercial purposes is subject to the material being accompanied by a sufficient acknowledgement, reproduced accurately, and not being used in a misleading context. To reproduce NAO copyright material for any other use, you must contact [copyright@nao.org.uk](mailto:copyright@nao.org.uk). Please tell us who you are, the organisation you represent (if any) and how and why you wish to use our material. Please include your full contact details: name, address, telephone number and email.

Please note that the material featured in this document may not be reproduced for commercial gain without the NAO's express and direct permission and that the NAO reserves its right to pursue copyright infringement proceedings against individuals or companies who reproduce material for commercial gain without our permission.

Links to external websites were valid at the time of publication of this report. The National Audit Office is not responsible for the future validity of the links.



# Contents

**Summary** 4

**Part One**

Introduction 8

**Part Two**

Central government and  
National Lottery funding 12

**Part Three**

The process of awarding  
and monitoring grants 20

**Part Four**

The response to financial issues  
at Coventry City of Culture Trust 23

**Appendix One**

Our approach 30

This report can be found on the National Audit Office website at [www.nao.org.uk](http://www.nao.org.uk)


If you need a version of this report in an alternative format for accessibility reasons, or any of the figures in a different format, contact the NAO at [enquiries@nao.org.uk](mailto:enquiries@nao.org.uk)


The National Audit Office study team consisted of:


Susannah Drazin,  
Catherine Hayes, Howard Revill  
and Andy Whittingham,  
under the direction of  
Lee Summerfield.

For further information about the National Audit Office please contact:

National Audit Office  
Press Office  
157-197 Buckingham Palace Road  
Victoria  
London  
SW1W 9SP

 020 7798 7400

 [www.nao.org.uk](http://www.nao.org.uk)

 @NAOorguk

## 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).

# Part One

## Introduction

### **Coventry UK City of Culture 2021**

**1.1** Coventry was selected as the UK City of Culture for 2021. The UK City of Culture is a designation given to a city for one year, during which the city hosts cultural events, with the aim of supporting cultural regeneration and wider social and economic benefits. The Department for Culture, Media & Sport (DCMS) runs a competition approximately every four years to select a city.<sup>2</sup> Cities submit bids and the winner is chosen by DCMS's Secretary of State, on the advice of an independent panel. DCMS provides funding for the programme, usually delegating administration and monitoring of grants to Arts Council England (ACE). ACE then awards the funding based on the city's proposed activities. ACE also works collaboratively with the relevant local authorities and UK City of Culture bodies if set up. Cities also raise funding from other sources, including public sources such as National Lottery funding, and private sources such as local and national businesses.

**1.2** Coventry City of Culture Trust (the Trust) was incorporated in October 2015 as a company limited by guarantee and a registered charity, to oversee Coventry's bid to be UK City of Culture in 2021 and subsequent activities (**Figure 1**). Coventry City Council agreed with DCMS to be the accountable body for Coventry's UK City of Culture 2021 programme. The Trust was governed by a Board of Trustees, supported by an Audit and Risk Committee comprising trustees and three independent members from partner organisations, both of which met every two months. An Executive Board, comprising trustees, the chief executive and representatives from Coventry City Council met fortnightly. A representative of ACE attended the meetings of the Board of Trustees as an observer.

<sup>2</sup> Prior to 7 February 2023, the department was called the Department for Digital, Culture, Media & Sport.

**Figure 1**

Timeline of key dates relating to Coventry City of Culture Trust (the Trust) between October 2015 and May 2023

**Coventry City Council and local partners set up the Trust to bid for Coventry to be UK City of Culture in 2021 and then run the programme of events if the bid succeeded**

Date	Event
4 October 2015	Coventry City of Culture Trust is incorporated to oversee Coventry's bid to be UK City of Culture in 2021 and, if the bid is successful, to run the year of events
April 2017	The Trust submits the initial bid for UK City of Culture 2021. There are 11 bids in total
September 2017	The Trust submits the final bid for UK City of Culture 2021. There are five cities on the shortlist
8 December 2017	Coventry is named UK City of Culture 2021
27 May 2020	The Trust agrees to postpone Coventry's year as UK City of Culture from the period January to December 2021 to the period May 2021 to May 2022, because of the health and safety risks posed by the COVID-19 pandemic
15 May 2021	Digital launch of Coventry's year as UK City of Culture
5 June 2021	First live event, Coventry Moves, takes place
July 2021	Baseline economic impact assessment is published
31 May 2022	Coventry's year as UK City of Culture ends and the Trust starts to work on ensuring the cultural legacy from the year
28 February 2023	The Trust is placed into administration
4 May 2023	The administrators' statement of proposals is published

Source: National Audit Office analysis of Department for Culture, Media & Sport, Arts Council England and Coventry City of Culture Trust documents

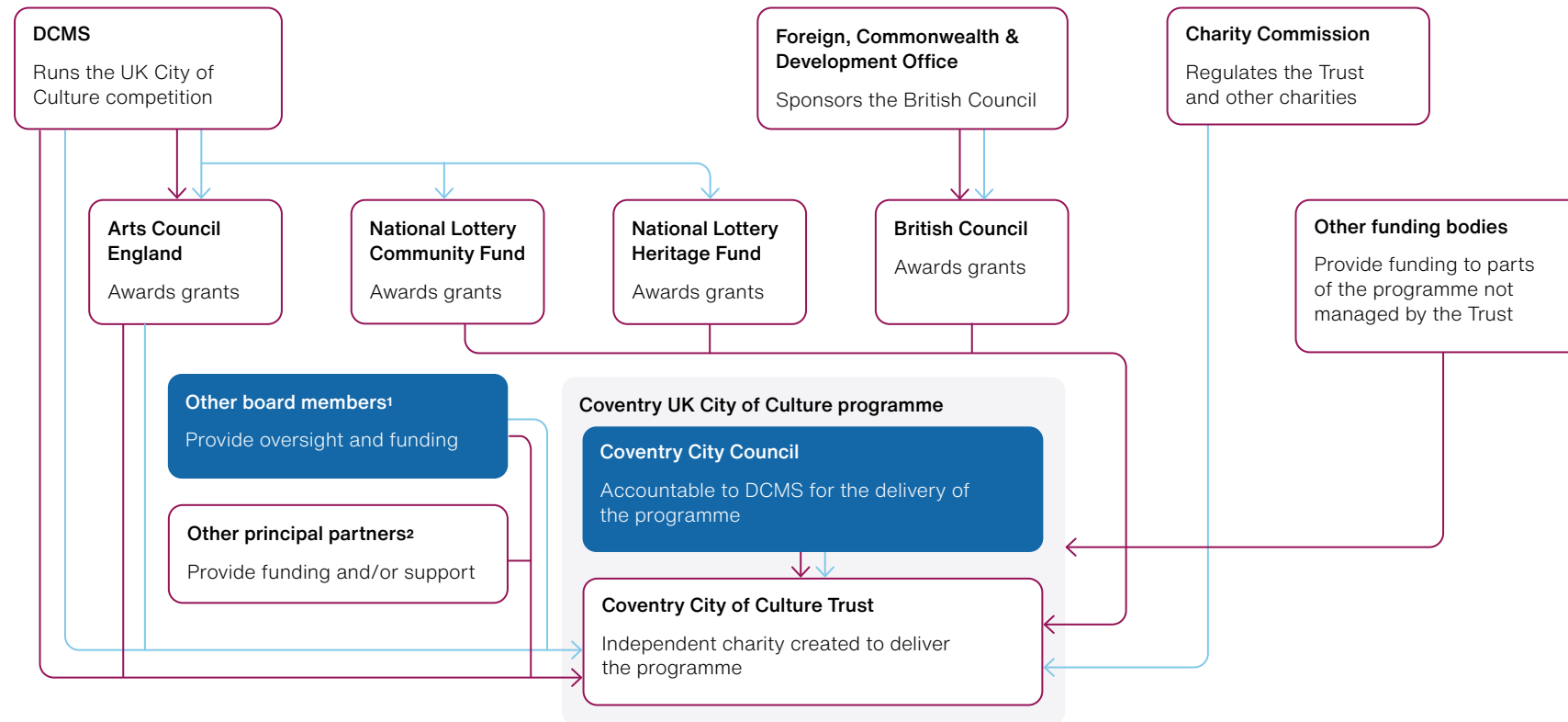
**1.3** In December 2017, Coventry was named UK City of Culture 2021. The Trust then took the role of planning for the year, and to preserve a legacy for the city of Coventry. Other organisations, including Coventry City Council, provided funding and oversaw the Trust's use of the funding (**Figure 2** overleaf). The Trust planned on starting Coventry's year as UK City of Culture in January 2021 and achieving 1.5 million attendances at events over the year. However, the start to the year was delayed to 15 May 2021 because of the health and safety risks posed by the COVID-19 pandemic and the social-distancing requirements in place at that time. The Trust revised the programme of events to include more digital events and to provide opportunities for online engagement, with live events redesigned or scaled down to improve COVID-19 safety.

**1.4** The Trust reported that over Coventry's year as UK City of Culture, income from tickets for events was significantly below planned levels. In September 2022, it reported that around 400,000 tickets had been issued for events. In addition, an estimated 137,000 people had attended un-ticketed events, and there had been an estimated 510,000 engagements for digital events. In total, the Trust estimated that there had been around 1.1 million attendances and engagements.

**Figure 2**

Funding and oversight arrangements for Coventry City of Culture Trust

The Department for Culture, Media & Sport (DCMS) and its arm's-length bodies awarded funding to Coventry City of Culture Trust (the Trust) but were not represented on the Board of Trustees



→ Funding and monitoring    → Oversight role    ■ Represented on Board of Trustees, as at 1 October 2022

**Notes**

- As at 1 October 2022, Warwickshire County Council, Coventry University and the University of Warwick were represented on the Board of Trustees as well as Coventry City Council.
- The Trust's other principal partners who were not on the board were West Midlands Combined Authority and Spirit of 2012.
- An Arts Council England official attended trustees' meetings as an observer but was not a director of the Trust and did not participate in decisions.
- The National Lottery Community Fund and the National Lottery Heritage Fund are arm's-length bodies of DCMS. DCMS is responsible for the policy framework for the income generated from the National Lottery, which is distributed to the National Lottery Community Fund, National Lottery Heritage Fund, and other 'distributing bodies'. For more information, see National Audit Office, Department for Culture, Media & Sport Departmental Overview 2021-22, March 2023.

Source: National Audit Office analysis of Department for Culture, Media & Sport, Arts Council England and Coventry City of Culture Trust documents

**1.5** Despite the challenges caused by COVID-19, the Trust reported in January 2022 a range of positive impacts for Coventry through being the UK City of Culture. An economic impact assessment undertaken by external consultants found that up to July 2021, the UK City of Culture title had led to Coventry securing £172.6 million of investment, contributing to regeneration that brought benefits valued at over £500 million. When Coventry's year as UK City of Culture came to an end in May 2022, the Trust pledged more than £5 million in creative and cultural legacy projects over the years 2022-23 and 2023-24. It opened a digital gallery, the 'Reel Store', in May 2022. The Trust planned to wind down at the end of March 2024, at which point the digital gallery was expected to be self-sustaining.

**1.6** In summer 2021, the Trust's Audit and Risk Committee forecast financial pressures, which the Trust addressed through achieving savings of around £1.6 million. In June 2022, the Audit and Risk Committee alerted the Board of Trustees to a forecast shortfall in income and available cash later in 2022-23, which would mean it would not be able to pay creditors. The Trust first publicly reported financial pressures in October 2022. Despite receiving a loan of £1 million from Coventry City Council in October 2022, and other efforts to bring forward future grant payments and secure new funding, the trustees sought the advice of insolvency practitioners in January 2023. The Trust went into administration at the end of that month.

### **Purpose of this briefing**

**1.7** We have produced this briefing in response to correspondence received about the financial circumstances which led to the Trust going into administration. It sets out the following.

- Central government and National Lottery funding awarded to the Trust by DCMS and its arm's-length bodies ACE, the National Lottery Community Fund and the National Lottery Heritage Fund.
- The processes for awarding and monitoring funding to the Trust from these bodies.
- How these bodies responded to the financial problems at the Trust.

We did not examine oversight of funding provided by other bodies.

**1.8** This is a factual briefing and does not aim to evaluate or report on the value for money of Coventry's year as UK City of Culture or of the Trust. We did not look into the causes of the Trust's insolvency. Our focus has been on central government's actions, and we did not examine the actions and decisions of Coventry City Council and Warwickshire County Council.

**1.9** Several other organisations are investigating the Trust's insolvency, including the administrators, who aim to understand how the Trust became insolvent, and the Charity Commission, which is conducting a compliance investigation of the Trust. This briefing is intended to complement the other reviews.

## Part Two

### Central government and National Lottery funding

**2.1** Government awarded funding to support Coventry's year as UK City of Culture both directly to Coventry City of Culture Trust (the Trust), and to Coventry City Council for supporting activities. This part sets out the following.

- Funding awarded to the Trust.
- Funding involving Coventry City Council.
- Other funding awarded by Arts Council England (ACE).

**2.2** The funding set out in this report has two sources, central government and the National Lottery. National Lottery funding is intended to fund 'good causes'. The Department for Culture, Media & Sport (DCMS) and ACE provided central government funding to both the Trust and Coventry City Council. ACE also awarded some grants funded from the National Lottery. The grants awarded by the National Lottery Community Fund and the National Lottery Heritage Fund are also funded from the National Lottery. The amounts for central government and National Lottery funding to the Trust that we provide include only funding that went directly from DCMS and its arm's-length bodies to the Trust. We have excluded funds which originated with central government or the National Lottery, but which reached the Trust through intermediaries such as local government bodies and charitable trusts. We have also excluded funds provided to the Trust by the British Council because the British Council is not part of DCMS; these funds have a total value of less than £1 million.

#### **Funding awarded to Coventry City of Culture Trust**

**2.3** Between December 2018 and July 2022, DCMS and its arm's-length bodies awarded 15 grants to the Trust totalling £22.8 million (**Figure 3**), of which £12.0 million was funded by central government and £10.9 million from the National Lottery.<sup>3</sup> Of the awarded funding, £21.3 million was paid, representing around 48% of the Trust's total income of £44.5 million (25% funded by central government and 23% from the National Lottery). Details of the individual grants are set out in **Figure 4** on pages 14 to 16.

<sup>3</sup> Amounts do not sum due to rounding.

**Figure 3**

## Central government and National Lottery funding awarded and paid to Coventry City of Culture Trust

Between them, the Department for Culture, Media & Sport (DCMS) and its arm's-length bodies awarded £12.0 million central government funding and £10.9 million National Lottery funding to Coventry City of Culture Trust (the Trust), of which £10.9 million of the central government funding and £10.4 million of the National Lottery funding has been paid

Awarding body	Central government funding		National Lottery funding		Totals	
	Amount awarded	Amount paid	Amount awarded	Amount paid	Amount awarded	Amount paid
	(£mn)	(£mn)	(£mn)	(£mn)	(£mn)	(£mn)
DCMS	11.0	9.9	-	-	<b>11.0</b>	<b>9.9</b>
Arts Council England	1.0	1.0 <sup>2</sup>	6.2	5.7	<b>7.1</b>	<b>6.6</b>
National Lottery Community Fund	-	-	1.7	1.7	<b>1.7</b>	<b>1.7</b>
National Lottery Heritage Fund <sup>3</sup>	-	-	3.0	3.0	<b>3.0</b>	<b>3.0</b>
<b>Totals (£mn)</b>	<b>12.0</b>	<b>10.9</b>	<b>10.9</b>	<b>10.4</b>	<b>22.8</b>	<b>21.3</b>

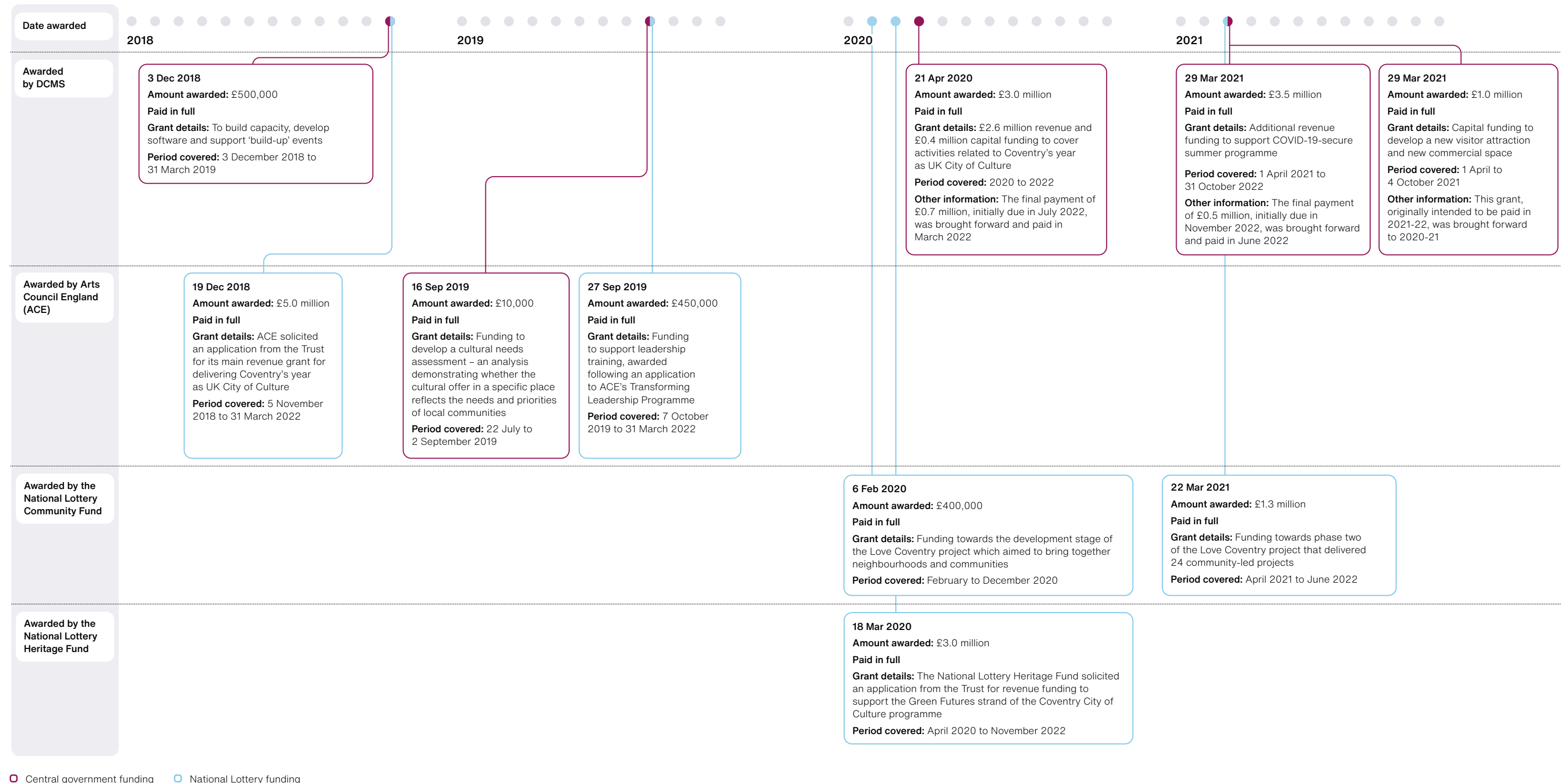
**Notes**

- 1 Grants were paid in stages. Each payment was only paid to the Trust once it met specified payment conditions. Where the amount paid is less than the amount awarded, this means the Trust did not meet the conditions for a payment to be made.
- 2 £1,360 of the central government-funded grants awarded by ACE was not paid but this is not apparent in the table due to rounding.
- 3 The National Lottery Heritage Fund awarded a grant of £1.5 million to the Trust in 2017 as part of the Great Places Scheme. This is not included as it was not directly related to Coventry's year as UK City of Culture.
- 4 Amounts may not sum due to rounding.

Source: National Audit Office analysis of Department for Culture, Media & Sport, Arts Council England, National Lottery Community Fund and National Lottery Heritage Fund documents

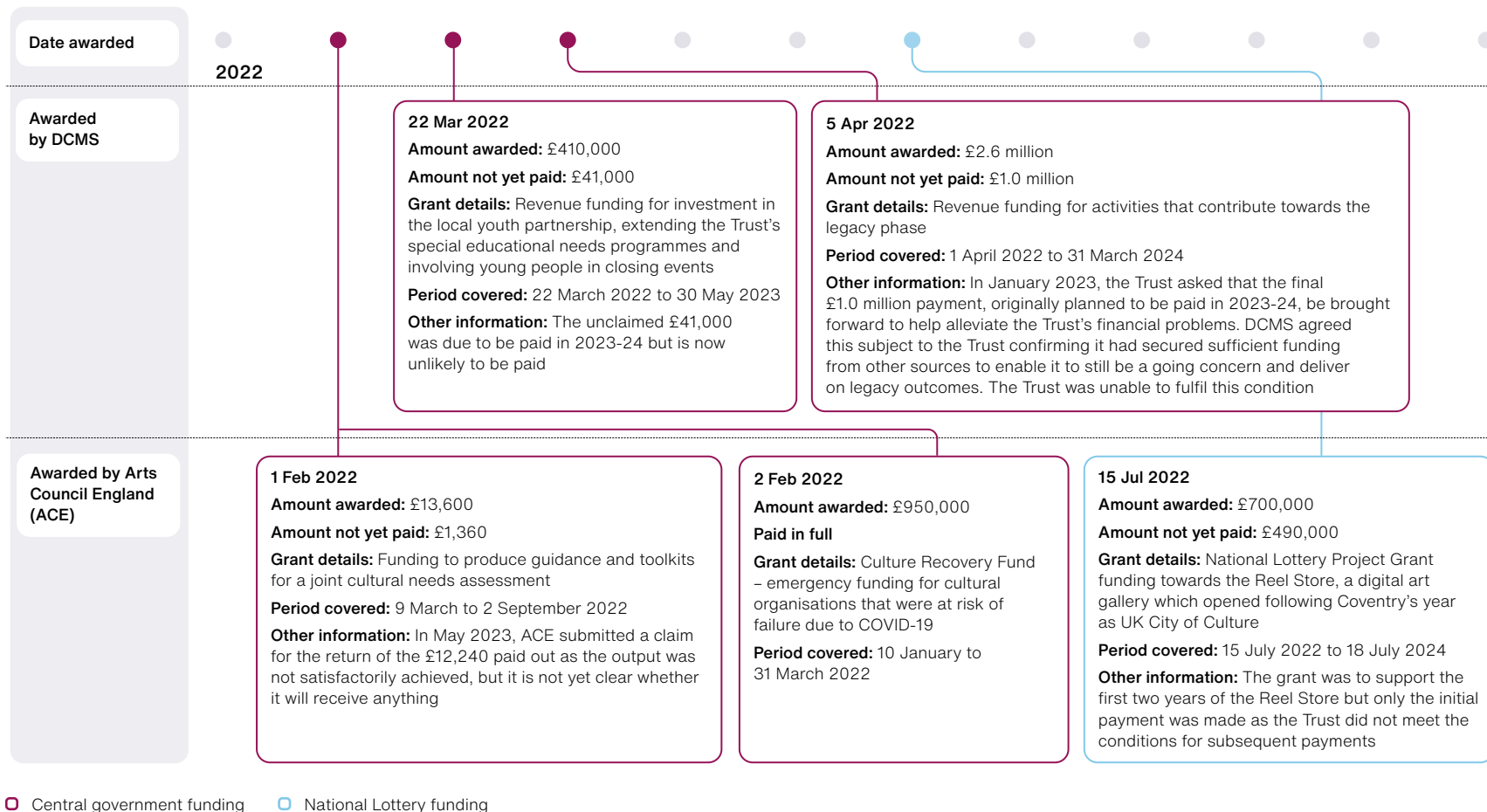
**Figure 4**  
Grants awarded to Coventry City of Culture Trust

The Department for Culture, Media & Sport (DCMS) and its arm's-length bodies awarded 15 grants to Coventry City of Culture Trust (the Trust) to support delivery of Coventry's year as UK City of Culture





**Figure 4 continued**  
Grants awarded to Coventry City of Culture Trust



Source: National Audit Office analysis of Department for Culture, Media & Sport, Arts Council England, National Lottery Community Fund and National Lottery Heritage Fund documents

**2.4** In addition to the grants it was awarded, the Trust made other applications for funding from DCMS and its arm's-length bodies that were rejected.

- In February 2021, the Trust submitted a business case to DCMS asking for an additional £10 million. After consideration, DCMS awarded £3.5 million to the Trust in March 2021 to enhance COVID-19 measures. In April 2021, the Trust asked for the remainder of its request, increasing the amount to £7 million, but DCMS did not make any additional award in response.
- In August 2022, the Trust applied to the National Lottery Community Fund for £850,000 to commission community partner organisations to deliver cultural projects with a focus on 'Green Futures' as part of the legacy phase. The National Lottery Community Fund was initially supportive of the application, but the Trust could not meet the conditions of the offer to provide adequate match funding. The National Lottery Community Fund rejected the application in March 2023, after the Trust had gone into administration.
- In February 2023, the National Lottery Heritage Fund rejected an application for £250,000 to build on the successes of Coventry's year as UK City of Culture by delivering legacy activities, due to high delivery risks and a lack of clear heritage focus.

**2.5** On four occasions, the Trust asked DCMS that a grant payment be brought forward. In July 2020, DCMS agreed to bring forward £1 million of capital funding for developing a digital art gallery from 2021-22 to 2020-21. The Trust made three further requests to bring forward funding to address its financial problems. DCMS agreed to these requests so long as the Trust met the required payment conditions, which the Trust was only able to do for two of the payments.

- In November 2021, DCMS agreed to bring forward £0.7 million, due in July 2022. It was paid to the Trust in March 2022.
- In June 2022, DCMS agreed to bring forward £0.5 million, due in November 2022. It was paid to the Trust in June 2022.
- DCMS initially agreed that the final £1 million payment of a £2.6 million grant, due in 2023-24, could be paid in 2022-23 subject to the Trust confirming it had secured 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.

### **Funding involving Coventry City Council**

**2.6** In addition to grants to the Trust, DCMS and ACE also awarded five grants relating to Coventry's year as UK City of Culture, totalling £10.0 million, to Coventry City Council. Of this, £9.6 million was funded by central government and £0.4 million from the National Lottery (**Figure 5**).

**2.7** Coventry City Council established local governance arrangements to manage its investment in a range of cultural and heritage projects and its programme of work leading up to, and through, Coventry's year as the UK City of Culture. These arrangements included the development and adoption of an assurance framework for the Cultural Capital Investment Programme, overseen by an internal Capital Investment Group. Each project was independently assessed against set criteria, including deliverability, importance to delivery of the UK City of Culture 2021, and the project's contribution to longer-term legacies.

**2.8** Coventry City Council has contributed £5.6 million to the Trust. This comprised £0.1 million in grant payments to support developing and delivering the bid for the UK City of Culture 2021 title, £3.7 million for services delivered in the build-up to, and delivery of, Coventry's year as UK City of Culture, £0.8 million for legacy services, and a £1.0 million loan to meet the Trust's financial shortfall.

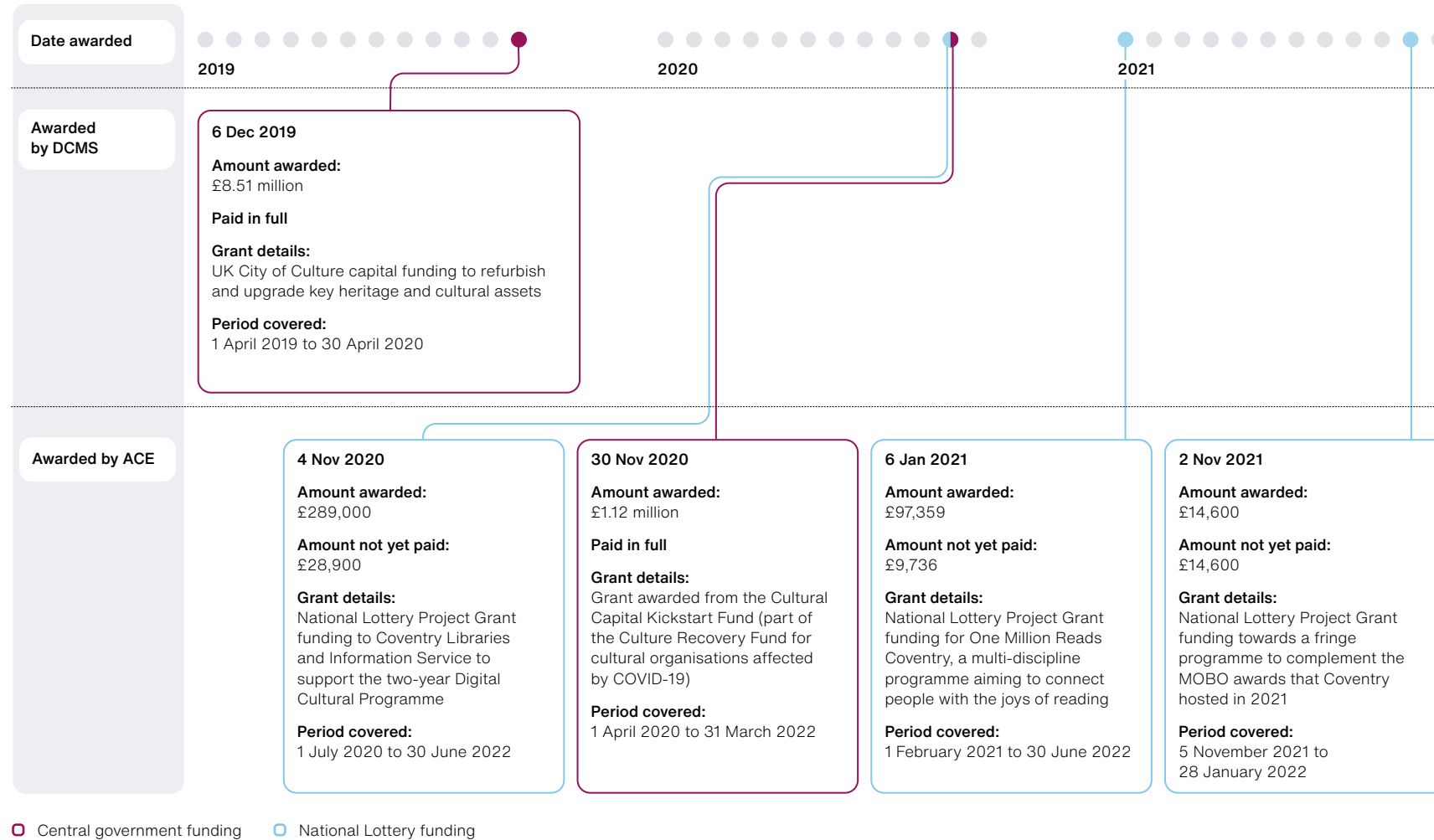
### **Other funding awarded by Arts Council England**

**2.9** In addition to grants to Coventry City Council and the Trust, ACE awarded 16 grants, totalling £2.2 million, to other organisations for projects that were part of the programme of events over Coventry's year as UK City of Culture. ACE awarded three grants, totalling £0.8 million, to projects that partially included Coventry as locations for their activity which were also part of the UK City of Culture programme. All these awards were funded from the National Lottery.

## Figure 5

### Grants awarded to Coventry City Council

The Department for Culture, Media & Sport (DCMS) and Arts Council England (ACE) awarded five grants, totalling £10.0 million, to Coventry City Council to support delivery of Coventry's year as UK City of Culture



#### Note

1 This funding is in addition to £22.8 million awarded directly to Coventry City of Culture Trust.

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

## Part Three

### The process of awarding and monitoring grants

**3.1** This part of the report sets out how the Department for Culture, Media & Sport (DCMS) and its arm's-length bodies awarded and monitored grants to Coventry City of Culture Trust (the Trust). It sets out the following.

- The routes for awarding grants to the Trust.
- Governance and monitoring arrangements for the grants.
- Oversight of the UK City of Culture programme.

#### **Routes for awarding grants**

**3.2** DCMS and its arm's-length bodies – Arts Council England (ACE), the National Lottery Community Fund and the National Lottery Heritage Fund – awarded grants to the Trust and Coventry City Council through four routes.

- The Trust and Coventry City Council applied for grants from ACE, the National Lottery Community Fund and the National Lottery Heritage Fund through existing grant schemes, which were not specific to the UK City of Culture programme and were open to other applicants. Most of these grants were from National Lottery funding but they also included grants under the Culture Recovery Fund, set up by DCMS in July 2020 to provide support to cultural organisations adversely affected by the COVID-19 pandemic and funded by central government.
- ACE and the National Lottery Heritage Fund earmarked National Lottery funding for the UK City of Culture programme and solicited applications from the Trust. For such grants, it was determined that the Trust was the only eligible bidder because it was the designated delivery body for UK City of Culture 2021.
- In some cases, the Trust or Coventry City Council submitted funding proposals to DCMS or ACE. In other cases, ACE identified a need for potential investment in line with ACE's strategic objectives and put the proposal to the Trust or Coventry City Council. On each occasion, the case for investment was carefully assessed and a decision on whether to fund the proposal was made according to government's or ACE's spending decision-making processes. These processes may have involved follow-up discussions with the Trust or Coventry City Council to robustly assess the case. Most central government funding was through this mechanism.

## **Governance and monitoring of the grants**

**3.3** DCMS delegated administration of most of its grants and financial monitoring of the Trust to ACE. The National Lottery Community Fund and the National Lottery Heritage Fund administered and monitored the grants they awarded and have their own application and monitoring processes. Most grants were paid to the Trust in a series of payments over the course of the project each grant related to. The dates, amounts and payment conditions were set out within the relevant grant award letter. To receive a payment, the Trust submitted the required documentation to the grant-awarding body, which would then review it against the grant conditions and reach a decision on making the payment. Typically, 10% of a grant was held back until the end of the project. Examples of the documentation the Trust had to provide are as follows.

- Reports showing progress against agreed objectives, including a final report at the end of the project.
- Income and expenditure relating to the grant. Where the grant was £50,000 or more, for the final payment to be released, ACE required an independently certified statement of income and expenditure.
- Other financial information, such as management accounts, budgets and cashflow statements.
- Some grants also required the Trust to provide minutes and papers from meetings of the Board of Trustees and the Audit and Risk Committee.

**3.4** The grant-awarding bodies have similar approaches to managing the payment process. Before releasing a payment, someone with the appropriate authority at the awarding body checks that the correct documents have been submitted and reviews them to ensure that they meet the requirements set out in the grant conditions. The reviewer must satisfy themselves that the project's progress is satisfactory and can request more information if they deem it necessary. If grant conditions are not met, the awarding body can withdraw funding and/or reclaim some or all of a grant that has already been paid.

**3.5** ACE administered all but one of DCMS's grants to the Trust, as set out in funding allocation letters and in memoranda of understanding governing the relationship between DCMS and ACE. A steering group comprising senior representatives from DCMS and ACE agreed decisions relating to elements of funding to the Trust between 2020 and 2022, and funding to Coventry City Council to refurbish and upgrade key heritage and cultural assets.

**3.6** ACE monitors the risks to the larger grants it administers. Its monitoring focuses on risks that affect the viability of the organisation in receipt of a grant, achievement of ACE's mission, and its reputation. ACE identifies risk factors and assesses the likelihood and impact of each risk, resulting in a risk score in a range from two to 11. The highest individual risk score is taken as the overall score for the organisation. ACE reviews and updates risk ratings at least every 13 weeks. It produces fortnightly internal risk snapshots giving an overview of all organisations rated nine or above. It also produces quarterly risk papers which go to the Executive Board and provides an overview of the risk profile of funded organisations. ACE regularly updated DCMS's UK City of Culture programme team on risks to the grants to Coventry City of Culture Trust it administered. ACE also reported on these risks to an established liaison meeting, which consists of representatives from DCMS and senior representatives from ACE. The DCMS UK City of Culture programme team updated DCMS ministers as and when required.

### **Oversight of the UK City of Culture programme**

**3.7** DCMS told us that its role does not extend to monitoring the totality of funding going to a single organisation from several of its arm's-length bodies, as was the case with the Trust. It told us, however, that it has a good understanding of the full amount of funding awarded to the Trust and for the UK City of Culture programme.

**3.8** The grant-awarding bodies generally monitor compliance at the grant level rather than monitor risk across all grants to the same organisation. However, in this case, a representative from ACE met regularly with the Trust and monitored most of the grants, so was able to take an overview of all the grants. For Coventry's year as UK City of Culture, the Trust held regular meetings with representatives of ACE, the National Lottery Community Fund and the National Lottery Heritage Fund, so the three organisations knew of the grants awarded by each other. ACE convened an internal team, the Client Handling Group, during periods when the Trust was reporting financial problems, to increase the level of scrutiny of the Trust's financial position.

## Part Four

### The response to financial issues at Coventry City of Culture Trust

**4.1** This part sets out what happened as the financial problems at Coventry City of Culture Trust (the Trust) became clear. It covers the following.

- Timeline of financial pressures at the Trust.
- How the Department for Culture, Media & Sport (DCMS) and Arts Council England (ACE) responded to the Trust's financial problems.
- Financial problems during the legacy phase.
- Government's oversight during winter 2022-23.
- Coventry's cultural legacy.

#### **Timeline of financial pressures at the Trust**

**4.2** The Trust first identified financial pressures in May 2021, just before Coventry's year as UK City of Culture was about to start (**Figure 6** on pages 24 to 26). In August 2021, the Trust advised DCMS and ACE that it was facing financial difficulties with a projected shortfall in cash of £500,000 in November 2021. In autumn 2022, after Coventry's year as UK City of Culture had ended in May 2022 and the Trust was delivering the legacy phase, the Trust identified financial pressures again. Figure 6 sets out the key events relevant to the financial position and management of the Trust between the start of Coventry's year as UK City of Culture in May 2021 and May 2023 when the administrators' proposals were published.



**Figure 6**

Timeline of events relating to the financial management of Coventry City of Culture Trust between May 2021 and May 2023

**Coventry's year as UK City of Culture started in May 2021, and it was placed into administration at the end of February 2023**

Date	Event
11 May 2021	The Trust's Audit and Risk Committee (ARC) minutes record that the Trust's projections show a cash deficit from February to August 2022, reaching a maximum deficit in March 2022 of £0.9 million.
15 May 2021	Delayed start to Coventry's year as UK City of Culture.
6 July 2021	Papers for ARC show an improved projected financial position, with the deficit reduced to £0.5 million at the end of March 2022, mainly through reprofiling the receipt of two funding streams (National Lottery Heritage Fund and West Midlands Police).
24 August 2021	The Trust advises Arts Council England (ACE) and the Department for Culture, Media & Sport (DCMS) that it is facing acute financial difficulty, with a projected £0.5 million cash deficit in November 2021. It judges that it will struggle to remain a going concern.
7 September 2021	ARC minutes record a revised budget for 2021-22, with savings of £1.6 million to be achieved through scaling down and cutting some events.
14 September 2021	The Trust's Executive Board action log records that a comprehensive review of income projections for 2021-22 has concluded income will be £1.6 million lower than previously forecast.
20 September 2021	ACE commissions an independent financial evaluation of the Trust by an independent consultant (the consultant).
27 September 2021	The consultant's draft report is considered at ACE's Client Handling Group (the final report is issued the next day). The consultant concludes that financial management and governance at the Trust are good, and that the revised budget, after £1.6 million savings, is achievable.
5 October 2021	ACE's Client Handling Group confirms the following. <ul style="list-style-type: none"> <li>• The Trust has received the consultant's report <i>Coventry City of Culture Trust Financial Review</i> and has been asked to respond to its recommendations.</li> <li>• ACE does not have resources to provide additional grant or loans to the Trust but would consider applications to its National Lottery Project Grant scheme.</li> <li>• ACE is the reporting situation to DCMS, and planning meetings with the Trust and Coventry City Council.</li> </ul>
9 November 2021	ARC minutes record that, over the previous few months, the Trust had negotiated to delay payments or bring forward some grant funding to regulate cashflow. This included bringing forward £0.7 million from DCMS.
24 November 2021	The Trust's auditors sign off its accounts up to 31 March 2021. The auditors conclude that the trustees' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.
23 March 2022	ARC informs the Board of Trustees and an observer from ACE that, following the receipt of funding from the Culture Recovery Fund, the Trust's finances are "felt to be in a healthy position", and the Trust's balance sheet is also "healthy".
31 May 2022	End of Coventry's year as UK City of Culture and start of the legacy phase.
1 June 2022	ARC informs the Board of Trustees, and an observer from ACE, that there are now "major worries" about the Trust's financial position, especially in June and July.
9 June 2022	Following a request from the Trust, DCMS and ACE agree to bring forward the final £0.5 million payment of a £3.5 million grant from November 2022 to June 2022, to ease the Trust's financial problems, subject to the Trust demonstrating that it has met the grant payment conditions early. The payment was made on 16 June 2022.
20 July 2022	The Trust's auditors sign off its accounts up to 31 March 2022. The auditors conclude that, as at March 2022, the trustees' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

**Figure 6** *continued*

Timeline of events relating to the financial management of Coventry City of Culture Trust between May 2021 and May 2023

Date	Event
August 2022	The Trust identifies an accounting error affecting its costs for summer 2022. It reports the issue to Coventry City Council.
28 September 2022	The Board of Trustees discusses the accounting error for the first time. It agrees it is necessary for there to be an independent financial review of the processes and events that had led to the current financial situation.
4 October 2022	Coventry City Council approves a loan of up to £1 million to the Trust at a commercial interest rate, to be repaid in full by March 2024.
5 October 2022	The Board of Trustees discusses the Trust's financial position and the potential loan from Coventry City Council. Uncertainty remains around the level of grant and ticket income the Trust can reasonably expect, and the level of spending already committed. The Trust's chief executive, finance team, auditors, and ARC, will continue to review the financial position over the following days. The trustees' decision to accept or reject the £1 million loan is scheduled for 12 October.
5 October 2022	<p>ACE's Client Handling Group reports the following.</p> <ul style="list-style-type: none"> <li>● ACE has requested detail on the elements of the Trust's financial issues, including the accounting error.</li> <li>● The £1 million loan from Coventry City Council is being explored, which would much reduce financial risk at the Trust. ACE asked for a plan for how the loan would be repaid.</li> <li>● ACE is reporting the situation to DCMS and is pausing further payments from grants.</li> </ul>
12 October 2022	<p>The Board of Trustees, and an observer from ACE, discuss a revised budget and financial forecast for 2022-23 to 2024-25. The revised budget includes £0.9 million of cost cuts including planned redundancies. According to the plans, the financial forecast is positive throughout 2022-23 and 2023-24, and all debts can be settled by the Trust's planned closure date in 2024.</p> <p>The Board of Trustees gives approval for the Trust to accept the £1 million loan from Coventry City Council, with eight trustees voting in favour of the resolution and two voting against it. Coventry City Council transfers the funds shortly afterwards.</p>
30 November 2022	The Board of Trustees, and an observer from ACE, are informed that the deficit stands at £1.8 million if unconfirmed income is included, and approximately £3 million if only confirmed income is counted. The Trust's financial position is a "continuing issue".
24 November 2022	The Trust sends a request to DCMS to change the payment terms on the next grant. The chief executive of the Trust meets with DCMS to discuss the Trust's financial issues.
21 December 2022	The Board of Trustees, and an observer from ACE, are informed that without further financial support, by the end of March 2023, the Trust will have no funds and debts will stand at over £4 million. A revised financial forecast shows major issues occurring in January 2023.
5 January 2023	The Trust and Coventry City Council meet with DCMS to discuss the Trust's financial challenges and a request to provide support. Follow-up information provided by the Trust indicates that as at 30 November 2022, the Trust faced a £3.6 million budget deficit in 2022-23, exceeding its reserves.
9 January 2023	The Trust writes to DCMS, requesting that it brings forward the final £1 million payment of a £2.6 million grant to the Trust from 2023-24 to 2022-23, to address financial challenges and to provide assurance to other funders.
11 January 2023	The Board of Trustees discusses the Trust's November management accounts. The projected deficit is £3.8 million. The main reason for the change since October 2022 is a reduction in expected grant income.

**Figure 6** *continued*

Timeline of events relating to the financial management of Coventry City of Culture Trust between May 2021 and May 2023

Date	Event
25 January 2023	<p>DCMS informs the Trust that, if it could demonstrate it is a going concern, then DCMS would consider bringing the agreed grant payment forward. However, DCMS decides against providing further funds for either debt mitigation or the Reel Store digital gallery, which was part of the legacy phase.</p> <p>The Board of Trustees decides the Trust is no longer a going concern. It considers putting the Trust into administration immediately but ultimately decides to engage insolvency practitioners for a period of up to 14 days, during which formal discussions will be held with funders, creditors, and other key delivery partners in a pre-administration framework, to understand the Trust's liabilities, risks and opportunities.</p>
Early to mid-February 2023	The Trust and Coventry City Council hold discussions with funding organisations on whether grants already awarded could be transferred to Coventry City Council, to support it to run legacy activities should the Trust cease to operate. ACE is open to considering this, subject to conditions. DCMS is not able to make a value-for-money assessment in the time available to decide. The National Lottery Community Fund does not agree.
13 February 2023	On the advice of the insolvency practitioners, trustees agree to delay appointing the proposed administrators until the end of February. This is to maximise income to the benefit of creditors, and support negotiations and a managed close-down of the Trust. This is subject to ongoing monitoring of the Trust's position and that of its key stakeholders.
27 February 2023	The Board of Trustees confirms its decision to appoint administrators.
28 February 2023	The Trust is placed into administration.
9 March 2023	Emergency meeting of Coventry City Council's Finance and Corporate Services Scrutiny Board to discuss the financial situation at the Trust.
4 May 2023	The administrators' statement of proposals is published.

Source: National Audit Office analysis of documents relating to the Department for Culture, Media & Sport, Arts Council England, the National Lottery Community Fund, the National Lottery Heritage Fund, Coventry City of Culture Trust and Coventry City Council

### How DCMS and ACE responded to the Trust's financial problems

**4.3** In September 2021, following the first reports by the Trust of financial difficulties and its assessment that it was at risk of not remaining a going concern, ACE commissioned an independent financial review of the Trust by one of its framework consultancy partners (the consultant), to help the Trust identify solutions to its financial problems. The review covered the following.

- Current financial position and projections.
- Financial management.
- Business model and organisational resilience, including assessment of plans to 31 May 2022.
- Any additional funding requirements.
- Savings and losses resulting from the COVID-19 pandemic.

**4.4** The consultant completed the review in September 2021. ACE shared the review with the Trust and Coventry City Council. The review made recommendations, mostly relating to enhancing the role of the Audit and Risk Committee, including: the committee should meet every two weeks with a primary focus on the current cash flow issue; detailed cash flow forecasts should routinely be reviewed by the committee; meetings of the committee should be minuted in more detail; and, the minutes should be tabled at Executive Board meetings, with a standing item of the cash flow situation and the impact of the current situation on operational decision making. 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.

### **Financial problems during the legacy phase**

**4.5** In July 2020, the Board of Trustees began to consider options for the legacy phase following Coventry's year as UK City of Culture. Trustees debated the length of time the Trust should continue to operate and agreed, in autumn 2021, to develop a business plan that would see the Trust continue to operate until 31 March 2024.

**4.6** By autumn 2022, the Trust's finances were under pressure again due to income, including from tickets for events, being lower than envisaged, and the increased costs incurred during Coventry's year as UK City of Culture, which had ended in May 2022. Future grant funding for legacy projects, which included £1.1 million from DCMS, was restricted to being spent on the intended projects and paid according to the grant conditions, and therefore could not be used to resolve financial problems at the Trust. The Trust also identified an accounting error in August 2022 which negatively affected its finances.

**4.7** In October 2022, the Trust requested and accepted a £1 million loan from Coventry City Council, which it forecast 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 deficit of £3 million. By December 2022, it forecast the deficit would reach around £4 million by the end of March 2023.

**4.8** In September 2022, the Board of Trustees had agreed it was necessary for there to be an independent financial review of the processes and events that had led to this financial situation. In December 2022, after Coventry City Council had awarded a £1.0 million loan to the Trust, the Trust disclosed further financial problems. Coventry City Council subsequently commissioned a consultancy firm to undertake a financial review of the Trust. Coventry City Council told us that, because the Trust went into administration, the review was not completed and no findings from this work were available to share with us. ACE told us that it did not commission its own separate review of the Trust's financial management because it considered that the report commissioned by Coventry City Council would cover the necessary ground.

## **Government's oversight during 2022-23**

**4.9** ACE's risk rating of the Trust peaked in August 2021, and again in February 2023 at the maximum score, coinciding with the periods when the Trust identified financial problems. The Trust's executives met with representatives of ACE and DCMS regularly throughout winter 2022-23. ACE increased contact with DCMS to ensure both organisations were up to date with the situation. DCMS was also in communication with Coventry City Council.

**4.10** During winter 2022-23, DCMS and ACE were asked by the Trust to consider the following intervention options.

- Change the schedule of grant payments. ACE can choose to make grant payments earlier than scheduled if the grant recipient can demonstrate that the work the grant is intended to cover has been done, the payment conditions are met, and the grant recipient's financial projections demonstrate that an advance payment is needed. ACE will generally not release payments if evidence suggests that the projects the grant is intended for may not be completed.
- Change the schedule of grant payments and provide new funding. In January 2023, DCMS considered providing up to £1.5 million additional funding to support the Reel Store digital art gallery and to aid the Trust to pay its creditors.

DCMS and ACE also considered providing no further support to Coventry City of Culture Trust and re-allocating future grant payments to other cultural activities.

**4.11** DCMS officials provided written advice to ministers on the financial situation at the Trust on eight occasions between the start of December 2022 and the end of February 2023. DCMS told us it decided against providing further funds to the Trust solely for the purpose of paying its debts. On 24 January 2023, DCMS took the decision 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 confirm it had secured sufficient funding from other sources to enable it to remain a going concern and deliver on legacy outcomes. The Trust was not able to meet the conditions and DCMS did not release the 2023-24 payment.

**4.12** In late January 2023, the Trust sought advice from insolvency practitioners and in early February it started to plan for the eventuality of going into administration. In late February 2023, DCMS considered a request from Coventry City Council to assist it to acquire the Reel Store digital gallery, to enable the gallery to keep trading. DCMS told us it was not able to assess the value for money of this new proposal in the few days available before the Trust was due to go into administration and therefore the proposal was not considered. The Trust entered administration on 28 February 2023. Ultimately the Reel Store was wound up and its assets sold.

### **Coventry's cultural legacy**

**4.13** In June 2023, Coventry City Council announced its support for 'Coventry Culture Works', a partnership with Coventry University and the University of Warwick. The partnership aims to work with the city's 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.

# Appendix One

## Our approach

### Scope

**1** In spring 2023, we received correspondence raising concerns about Coventry City of Culture Trust's (the Trust's) finances and how it became insolvent. We reviewed the funding awarded by the Department for Culture, Media & Sport (DCMS) and its arm's-length bodies to the Trust and Coventry City Council for Coventry's year as UK City of Culture. We looked at how those bodies oversaw the Trust's use of the funds. In examining these issues, we drew on a variety of evidence sources.

### Methods

**2** We interviewed key individuals from DCMS and Arts Council England (ACE) to establish how their grants to the Trust were awarded, processed and overseen, and how they monitored the Trust's activities and financial stability. We also aimed to understand what decisions central government had taken in relation to the Trust, and why. We also spoke to officials at Coventry City Council and the administrators of the Trust. We exchanged emails with the Charity Commission, the National Lottery Community Fund and the National Lottery Heritage Fund, but did not hold interviews with them. We did not speak with former executives or trustees of the Trust.

**3** 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 reviewed documents including the following.

- Correspondence between DCMS and the Trust.
- Papers and minutes of meetings of the Trust's Board of Trustees, covering the period December 2018 to February 2023, held by ACE.
- Minutes and emails from ACE's Client Handling Group.
- Administrative papers from ACE, the National Lottery Community Fund and the National Lottery Heritage Fund recording the awarding and monitoring of the grants they gave to the Trust.
- A summary, provided by DCMS, of ministerial submissions between December 2022 and February 2023 relating to the Trust.
- Publicly available information from the Trust, its administrators, and Coventry City Council, including the Trust's annual reports and accounts.

**4** The amounts for central government and National Lottery funding to the Trust that we provide include only funding that went directly from DCMS and its arm's-length bodies. We have excluded funds which originated with central government or the National Lottery, but which reached the Trust through intermediaries such as local government bodies and charitable trusts. We have also excluded funds provided to the Trust by the British Council because the British Council is not part of DCMS; these funds have a total value of less than £1 million.

**5** We have not audited the information on grants and funding requests given to us by DCMS and its arm's-length bodies. Therefore, we cannot assure the completeness and accuracy of this information.

**6** We present the proportions of the Trust's income represented by grants from central government and National Lottery funding using the scope of funding as outlined above. To calculate the Trust's income over its existence, we used audited income figures from the Trust's published financial statements up to 31 March 2022, and income from 1 April 2022 presented in the Trust's management accounts provided to us by ACE. The most recent management accounts we have seen present income for the financial year up to the end of January 2023. We do not know what income the Trust received in February 2023 before it went into administration.

**7** We did not examine the underlying causes of the Trust's financial problems as these are matters subject to other ongoing reviews. The administrators are investigating, and the Charity Commission is conducting a regulatory compliance investigation.





This report has been printed on Pro Digital Silk and contains material sourced from responsibly managed and sustainable forests certified in accordance with the FSC (Forest Stewardship Council).

The wood pulp is totally recyclable and acid-free. Our printers also have full ISO 14001 environmental accreditation, which ensures that they have effective procedures in place to manage waste and practices that may affect the environment.



National Audit Office

Design and Production by NAO Communications Team  
DP Ref: 013993-001

£10.00

ISBN 978-1-78604-506-5



9 781786 045065