



National Audit Office



REPORT

Investigation into the financial sustainability of the British Council

Foreign, Commonwealth & Development Office

SESSION 2026-27
17 JUNE 2026
HC 30

Key facts

The loan support that the Foreign, Commonwealth & Development Office (FCDO) has given the British Council since the pandemic

£60 million	initial value of the loan given in 2020
£197 million	current value of the outstanding fixed-term loan
£42 million	interest the British Council has paid on the loan between 2020-21 and 2025-26

Actions that the British Council has taken to try and recover its position since the pandemic

2,110	full-time equivalent staff cut from the British Council between April 2021 and January 2026
£129 million	proceeds from the disposal of the British Council's language exams operation in India
-£184 million	cumulative net losses for the British Council since 2020-21

The British Council's turnaround plan forecasts by 2029-30

£306 million	net benefits, primarily through improved commercial revenues and cost efficiencies
11	proposed country closures across the British Council's global operations, with this position to be finalised with FCDO
-£184 million	forecast free reserves, despite the improvements it is seeking
£9 million	forecast net operating surplus after tax and investment in growth in 2029-30

What this investigation is about

1 The British Council describes itself as the UK's soft power and cultural relations agency. It aims to promote a wider knowledge of the UK and the English language. Established as a charity by Royal Charter, it is an arm's-length body of the Foreign, Commonwealth & Development Office (FCDO) that has its governance arrangements set out in its framework agreement. It had a total of 7,880 full-time equivalent staff in January 2026. Most of the British Council's income, which totalled £1,010 million in 2024-25, comes from commercial activities, with the largest source of revenue coming from its English teaching and exams business. It also receives grant funding from FCDO, making up approximately 15% of its overall income. This funding is largely for use on Official Development Assistance activities, such as promoting economic development in developing countries.

2 The COVID-19 pandemic had a large negative impact on the commercial revenues of the British Council with its total income falling by 28% in 2020-21. To help try and ease these financial pressures, HM Treasury and FCDO agreed to provide a £60 million loan to the British Council in July 2020. The term of the loan, and the amount available to the British Council, have been amended and extended on several occasions since then. The fixed-term loan is currently worth £197 million and was due to expire in September 2026 but the government has committed to extend this for a further year, with the British Council and FCDO in negotiations over a long-term extension of the loan with revised conditions attached.

3 The British Council's position is that it is unable to repay the loan and believes that some form of loan forgiveness or an asset swap (using the British Council's art collection in place of cash repayment) would be the best way forward. FCDO and HM Treasury want to find a solution that enables the loan to be repaid in full, whilst ensuring compliance with the UK Subsidy Control Act 2022. In October 2025, the British Council told the Foreign Affairs Committee that there was an urgent need to resolve the issue as there would otherwise be a significant threat to the financial stability of the British Council. In 2024-25, the British Council made a net loss of £40.1 million, with a total expenditure of £1,054 million.

4 Through our annual financial audit of the British Council, we have been closely monitoring the impact of the uncertainty over the loan position and its wider commercial position which has led to doubts over the British Council's going concern position.¹ The Comptroller and Auditor General signed off the 2024-25 accounts in March 2026, drawing attention to the note in the accounts stating that there remains a material uncertainty over the organisation's ability to continue as a going concern in the longer term.

5 Given the time that has elapsed since the loan was issued and the ongoing Parliamentary interest, we decided to conduct an investigation looking at the financial position of the British Council. Our report covers:

- the role of the British Council and the impact that the pandemic had on its finances;
- the initial loan support that FCDO provided to the British Council; and
- current loan support and negotiations over the future terms of support.

6 Our report does not cover in detail the operations of the British Council at a country or divisional level. We did not seek to evaluate the overall value for money of the British Council's operations, nor the interventions from FCDO.

¹ An entity is a going concern if it is viewed as being able to continue in business for the foreseeable future. The foreseeable future is defined to be a period of at least 12 months from the end of the reporting period.

Summary

Impact of the pandemic on the British Council

7 The British Council has made net losses of £184 million since the start of the pandemic. Its income fell by 28% in 2020-21 as it was forced to temporarily close many of its operations across the world, significantly reducing its income from its commercial activities of teaching English and examinations. Although its revenues have begun to recover since 2020, it has continued to make losses in each year, the one exception being in 2021-22, when it generated proceeds from the disposal of its share in the International English Language Testing System (IELTS) exams market in India (paragraphs 1.8, 1.9 and 1.15, and Figure 4).

8 As a result of these net losses since 2020-21, the British Council's free reserves went from £87 million in 2019-20 to negative reserves of £111 million by 2024-25. The British Council's total reserves stood at £304 million in 2024-25; however, most of this is inaccessible as cash as there are restrictions on how different reserve funds can be used. Its free reserves fund, which is accessible, has fallen from £87 million in 2019-20, to – £111 million by 2024-25 (paragraphs 1.10 and 1.12, and Figure 5).

9 The British Council had a 2020 five-year business plan, across which it estimated it made £179 million in cost efficiency savings, but it continues to be making losses. The plan was expected to achieve a cumulative improvement of £450 million in operating surplus by 2025-26, returning the organisation to profitability. It forecast the British Council would achieve £289 million in additional surplus from revenue growth, and a further £160 million in cost efficiency savings through restructuring and headcount cuts of about 2,000 full-time equivalent staff by 2025-26. The British Council implemented the headcount cuts, and estimated it made £179 million in cost efficiency savings against a £185 million target agreed with FCDO, revised from its initial £160 million savings target. However, it has been unable to achieve significant revenue growth and continues to be making losses. The British Council accepts that the plan was too ambitious, particularly in terms of recovering its English language teaching and exams income, where competition in the sector has increased, especially through online platforms. A review of the British Council in 2019 noted that the British Council was falling behind its competitors in digital teaching services (paragraphs 1.14, 1.15 and 1.17, and Figures 4 and 6).

FCDO's financial support to the British Council

10 FCDO provides financial support to the British Council through annual grant-in-aid funding, on average representing around 15% of its income.

Grant-in-aid funding is intended to support the British Council's three objectives (cultural relationships, the English language, and education) as set out in its Royal Charter. Grant-in-aid funding for the British Council averaged £171 million per year in the five years prior to the pandemic, making up 15% of its overall income. It has continued to account for around 15% of its income since the pandemic. The majority of grant-in-aid funding is restricted for use on Official Development Assistance (ODA)-eligible expenditure in eligible countries (paragraph 1.4 and Figure 3).

Loan support since 2020

11 FCDO, with approval from HM Treasury, agreed a £60 million revolving credit facility loan on commercial terms with the British Council in July 2020 to alleviate financial pressures from the pandemic. FCDO provides grant funding to the British Council, but this is intended to support the non-commercial part of the business. The British Council relies heavily on its commercial activities, with around 85% of its income derived from these activities. FCDO assessed that, to be compliant with the state aid regime at the time (now UK's Subsidy Control Act 2022), any financial assistance to the British Council to help alleviate the financial pressures from the pandemic should be provided on commercial terms, including commercial interest rates. The British Council initially asked for financial assistance of up to £300 million but HM Treasury was only willing to sign up to a £60 million revolving credit facility (paragraphs 1.6 and 2.3 to 2.7).

12 The initial loan has been amended and extended several times and is currently worth £197 million. After the initial £60 million loan to cover the British Council's short-term losses, FCDO increased the revolving credit facility to £145 million and provided an additional £100 million investment loan to support its commercial investments and restructuring. The two loans were merged in January 2022 to a £200 million loan, consisting of a £100 million revolving credit facility and a £100 million fixed-term loan. This was converted to a £197 million fixed-term loan in March 2024, which was initially scheduled to mature in March 2025 (paragraphs 2.9 to 2.11 and Figure 10).

13 The British Council has not made any capital repayments since April 2024 on the current £197 million loan. The British Council made seven repayments between August 2021 and January 2024, ranging from £6.5 million to £52 million, when the loan was structured as a drawdown facility. However, since it was amended solely to a fixed-term loan in April 2024, the British Council has not made any capital repayments as both FCDO and the British Council agree it has been unable to afford repayments. Between 2020-21 and 2025-26, the British Council has paid a total of £42 million in interest and commitment fees on the various loans and currently forecasts it will pay a further £53 million in interest up to 2029-30 (paragraphs 2.12 and 2.13, and Figure 11).

Loan negotiations and the turnaround plan

14 The current £197 million fixed-term loan arrangement was due to expire in September 2026, but FCDO, in agreement with HM Treasury, has committed to extend this until September 2027 while FCDO and the British Council continue to negotiate the revised loan terms. The loan was initially scheduled to expire in March 2025 but was extended in that month to September 2026. The British Council trustees collectively wrote to the Foreign Secretary in November 2025, warning that the British Council remained at high risk of insolvency. Without any commitment from FCDO to extend the loan beyond September 2026, they considered there was a risk that the British Council could not prepare its 2024-25 accounts on the basis of being able to continue to operate for the next 12 months. FCDO commissioned an external review of the British Council's cashflow up to March 2027, which found that there was a potential scenario in which the British Council's projected cashflow position might improve based on potential upside sensitivities, and deferral of certain investment decisions. It also found that this investment deferral could adversely impact delivery of the British Council's turnaround plan and in the mid-term could delay the British Council's return to sustainability. Following that review, FCDO committed to a further one-year extension to the loan to ensure the accounts could be signed off. In agreeing the extension, both sides committed to concluding renegotiations on a longer-term restructuring of the loan by the end of quarter one of 2026-27 (paragraphs 2.3, 2.11 and 3.9, and Figure 10).

15 The British Council's turnaround plan, which was a condition of the March 2025 loan extension, expected to deliver £306 million in net benefits by 2029-30. The projections in February 2026 showed the £306 million primarily comes from £172 million of restructuring and efficiency projects, including further headcount reductions of 25% of the business. An external review found that successful execution of these restructuring and efficiency projects will be key to the financial sustainability of the British Council. The development of new online products and pricing strategies are forecast to generate £125 million with a further £76 million coming from asset sales. An external review has noted that the revenue growth improvements could be ambitious. The plan proposed the closure of British Council offices in a number of countries, and as of June 2026 the British Council's intention is to proceed with closures in 11 countries, with this position to be finalised with FCDO. The British Council sold its Madrid school in April 2025 for £49 million. In April 2026, it got approval to use those proceeds in the plan after FCDO sought assurances about how that money could be used (paragraphs 3.3 and 3.13 to 3.15 and Figures 12 and 13).

16 Even if it delivers on the improvements in its turnaround plan, the British Council will not be generating an operating surplus until 2029-30. Its free reserve position at the end of 2024-25 was – £111 million but despite improvements expected from the plan, the British Council was forecasting in February 2026 that it will be generating net operating deficits until 2029-30 and as a result its free reserves will fall to – £184 million by 2029-30. It was also projecting a worsening cash position, with available cash falling to £127 million in 2029-30, down from £174 million in 2025-26. These projections are made assuming that the loan is not written off by FCDO, with approval from HM Treasury (paragraph 1.12 and 3.16 and Figure 14).

17 The British Council's current turnaround plan expresses a desire for either the loan to be written off or some form of asset swap, which FCDO has discounted on the basis of compliance with the UK Subsidy Control Act 2022. The plan, given to the Foreign Secretary in August 2025, made the case for loan forgiveness or an asset swap while recognising that FCDO was considering other options. FCDO commissioned external advice in August 2025 to consider a range of options for how the loan might be restructured. The findings were that, based on the information made available to the reviewers, the British Council was not at immediate risk of insolvency, so a loan write-off would not be appropriate. HM Treasury has also indicated it would not support a loan write-off. FCDO has commissioned a number of further reviews of the British Council since August 2025. In September 2025, FCDO suggested to the British Council that it should be possible to agree in principle a preferred option by the end of that month. While the two organisations are working towards implementing an agreed-in-principle solution, no full agreement is yet in place (paragraphs 3.6 to 3.10 and 3.17, and Figure 12).

Concluding remarks

18 FCDO has been providing loan support to the British Council for six years since the onset of the pandemic. The British Council and FCDO agree that the British Council plays a valuable role, most notably in promoting Britain's soft power influence across the globe. Finding agreement on how the British Council can become financially sustainable going forward has proven harder. FCDO wants to find a financially sustainable solution which enables the British Council to repay the £197 million loan. The British Council, for its part, accepts the need for it to return to profitability but sees no viable path for it being able to repay the loan in the foreseeable future.

19 At present, FCDO and the British Council are yet to reach agreement on a revised loan arrangement though the expectation is that this will happen soon. Any agreement needs to provide Parliament with clarity on:

- a** how the loan structure provides a viable pathway for FCDO recovering the initial money lent to the British Council;
- b** what the future role of the British Council looks like, both in terms of where it operates and what it focuses its business on;
- c** how realistic FCDO and the British Council believe the financial projections in the turnaround plan to be, and how risks in it will be managed; and
- d** what the governance arrangements will be to ensure oversight of progress against the plan's implementation, and early intervention if the plan proves unrealistic.