



National Audit Office




REPORT

Investigation into the financial sustainability of the British Council

Foreign, Commonwealth & Development Office

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National Audit Office

Investigation into the financial sustainability of the British Council

Foreign, Commonwealth & Development Office

Report by the Comptroller and Auditor General

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of Commons in accordance with Section 9 of the Act

Gareth Davies
Comptroller and Auditor General
National Audit Office

10 June 2026

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The National Audit Office study team consisted of:


Ben Grogan, Matt Halliday,
Rosemary Hill, Henriette Tabbert,
Tom Tyson and Hetal Vaghela
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

 @NAOorguk

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.

Part One

The role of the British Council and the impact of the pandemic

1.1 This part of the report covers the role of the British Council and how it is funded, including its commercial revenues. It looks at the British Council's financial position before the pandemic and then the impact of the pandemic on those finances.

The British Council's role

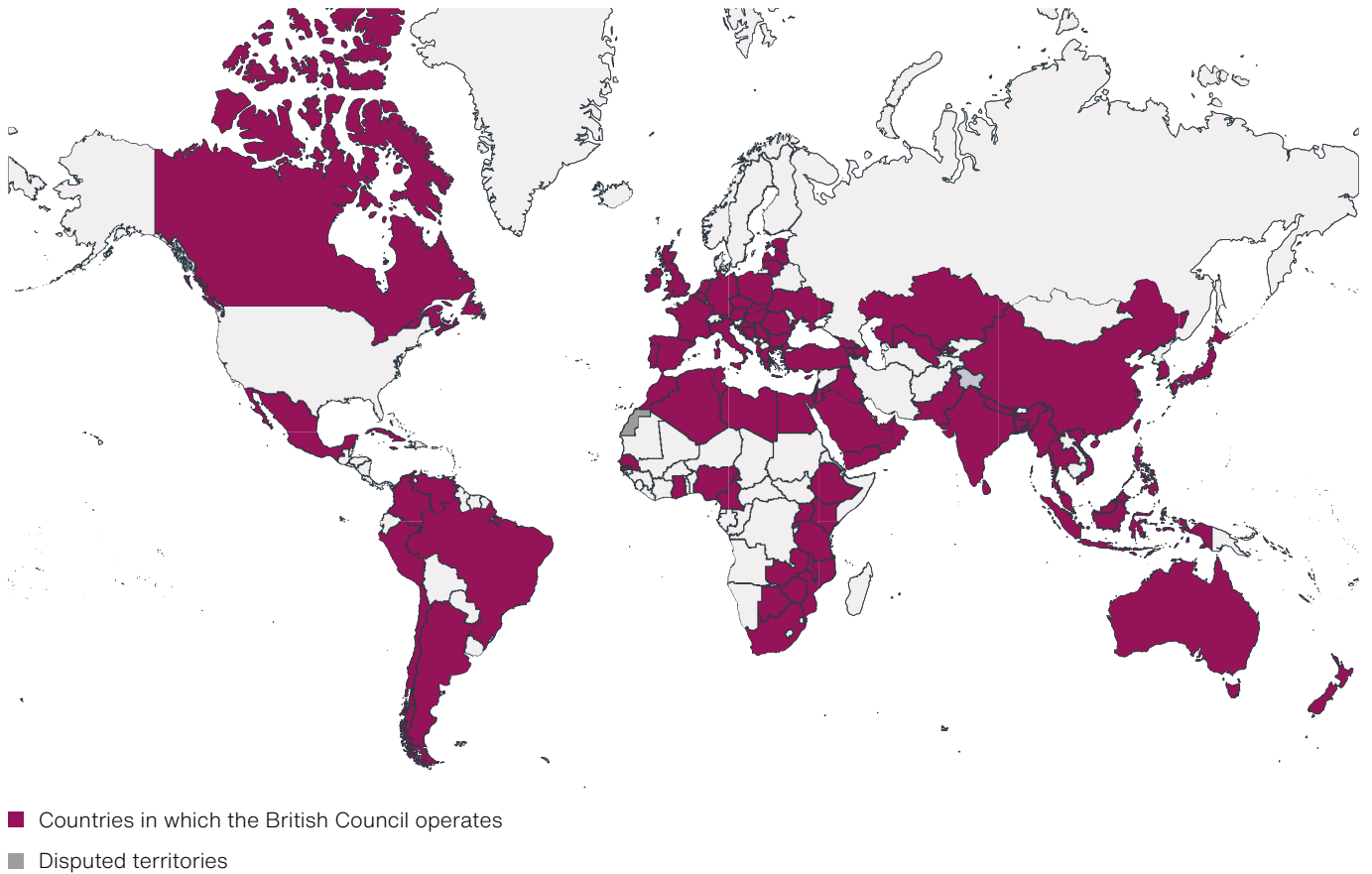
1.2 The British Council describes itself as the UK's international culture and education organisation. It aims to promote a wider knowledge of the UK and the English language. Established as a charity by Royal Charter, it is an arm's-length body of the Foreign, Commonwealth & Development Office (FCDO). At the start of the COVID-19 pandemic, the British Council operated in more than 110 countries, claiming a reach of 790 million people. The British Council operates in 96 countries as of March 2025 (**Figure 1**). The British Council reports that 25% of international students in the UK cite the British Council as a significant influence in their decision to study here.

FCDO governance and funding of the British Council

1.3 The British Council's relationship with FCDO is established in a governance framework document agreed between the two bodies. As the sponsor of the British Council, FCDO aims to provide sponsorship in line with the Cabinet Office's arm's-length body sponsorship code of good practice. FCDO also has trustee representation on the British Council's board.

Figure 1
Countries where the British Council operates, March 2025

The British Council operates in 96 countries as of March 2025



Notes

- 1 This map does not necessarily represent the views of the UK government on boundaries or political status. It has been designed for information purposes only and should not be considered an authority on the delimitation of international boundaries.
- 2 The British Council operates in the disputed territories of Cyprus and Taiwan.

Source: National Audit Office analysis of Foreign, Commonwealth & Development Office data and British Council data

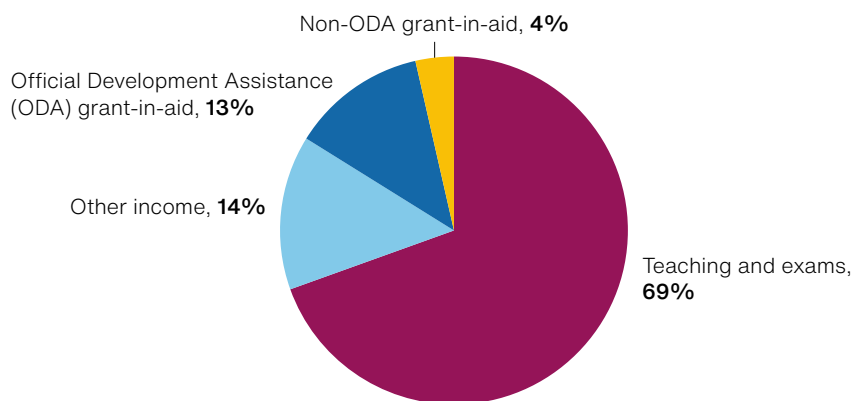
1.4 The British Council receives funding from a range of sources (see **Figure 2**). It receives grant-in-aid funding from FCDO, which is set at spending reviews and provided in line with HM Treasury’s Managing Public Money principles. This made up approximately 15% of its total income, both before (an average of £171 million per year in the five years prior to the pandemic) and after the pandemic. This is intended to support the British Council’s three objectives (cultural relationships, the English language, and education) as set out in its Royal Charter. Approximately 80% of this grant-in-aid funding is ‘restricted’ for Official Development Assistance (ODA) purposes, meaning that it can only be spent on ODA-eligible activities in eligible countries (**Figure 3**).

1.5 The non-ODA element of the grant-in-aid is typically spent on non-ODA eligible countries in Europe. While overall levels of grant-in-aid have remained fairly consistent over the last decade, non-ODA grant-in-aid significantly reduced in the five years prior to the pandemic, from £49 million in 2015-16 to £26 million in 2019-20, before stabilising at around £35 million between 2021 and 2025.

Figure 2

British Council income by source, 2024-25

The majority of the British Council’s income is earned through its teaching and exams business



Notes

- 1 Total income for 2024-25: £1,010 million.
- 2 ODA refers to Official Development Assistance, which can only be spent on specific aid activities in certain countries. Non-ODA grant-in-aid can be spent on aid activities in non-eligible countries.
- 3 Other income includes sponsorship income, investment income, foreign exchange gains and other grants intended for charitable activity.

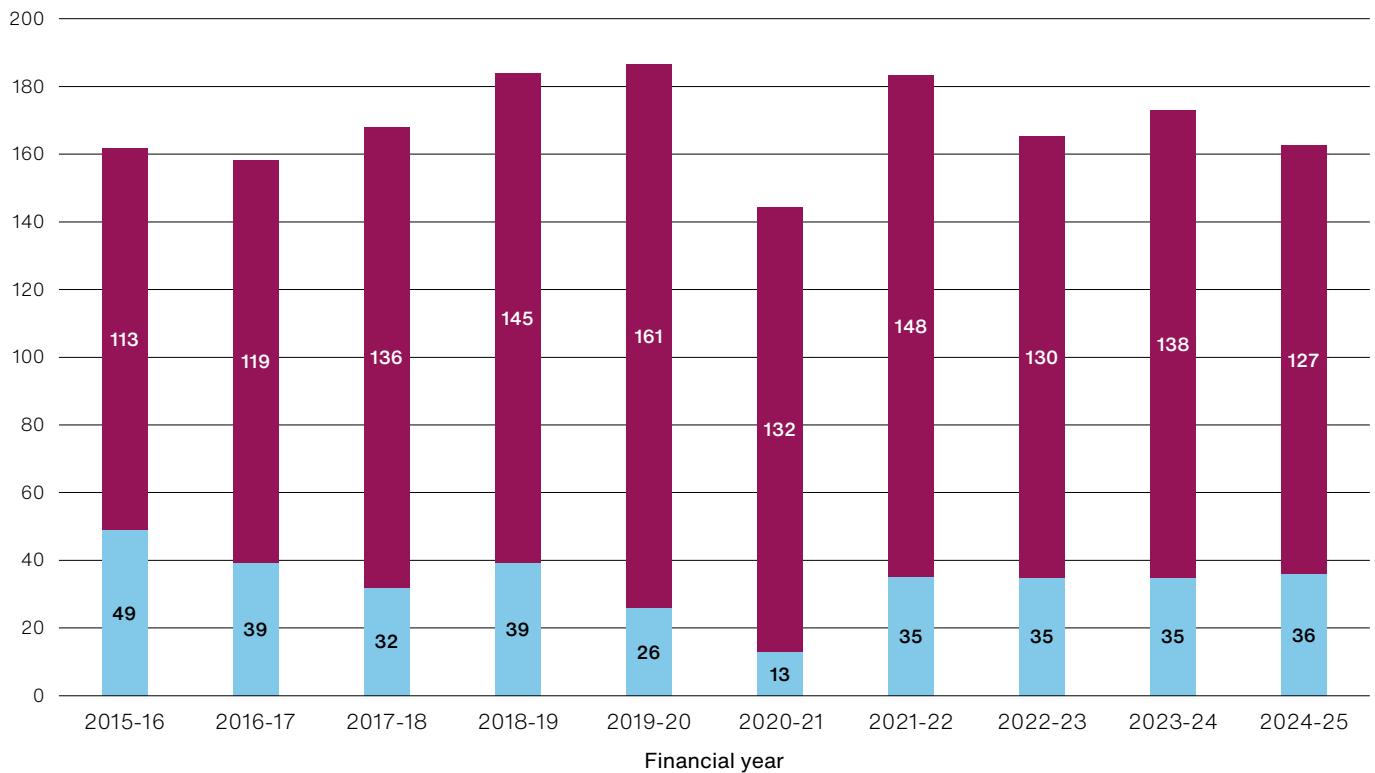
Source: National Audit Office analysis of British Council data

Figure 3

Foreign, Commonwealth & Development Office (FCDO) grant-in-aid funding to the British Council, 2015-16 to 2024-25

Non-Official Development Assistance (ODA) grant-in-aid significantly reduced in the five years prior to the pandemic, from £49 million in 2015-16 to £26 million in 2019-20

Grant-in-aid (£mn)



- ODA grant-in-aid
- Non-ODA grant-in-aid

Note

1 ODA grant-in-aid can only be spent on specific aid activities in certain countries. Non-ODA grant-in-aid can be spent on aid activities in non-eligible countries.

Source: National Audit Office analysis of British Council data

1.6 The majority of the British Council's income comes from commercial activity (around 85%), with its English teaching and exams business accounting for 69% of its total income in 2024-25. It is a member of the consortium which manages the International English Language Testing System (IELTS), a major standardised English test used by visa applicants to the UK and other countries. In 2025-26, the estimated global market share of the British Council and its IELTS partners was 52%. Pre-pandemic, its management of IELTS meant that, with its partners on IELTS, the British Council had 64% of the global market for English tests, and 50% of English teachers worldwide used British Council resources.

Financial performance pre-pandemic

1.7 In the years leading up to the pandemic, the British Council generally made relatively small annual surpluses or losses (**Figure 4**). These ranged from a loss of £9 million in the 2016-17 financial year, to a surplus of £9 million in 2015-16. The exception to this was a surplus of £30 million in 2018-19, as reserves benefitted from £12 million of non-ODA grant funding for which spend was recognised in the following period. During 2019-20, the British Council experienced slower growth in its India exams business, which had already put pressure on its budgets before the pandemic struck.

The impact of the pandemic on the British Council

Impact on income

1.8 The pandemic required the temporary closure of most British Council exam and teaching centres. The British Council's total income dropped by 28% in 2020-21 compared with 2019-20. It made a net loss of £91 million in 2020-21. This loss was driven by repeated closures of exam and teaching centres throughout the year as recurring waves of COVID-19 prevented them from re-opening fully for the entire year. The British Council's business is cyclical, with much of its revenue generated in the first three months of the financial year. This reflects school exams and the timing of grant-funded activity, and it meant that the initial pandemic closures in the early part of 2020-21 were especially impactful.

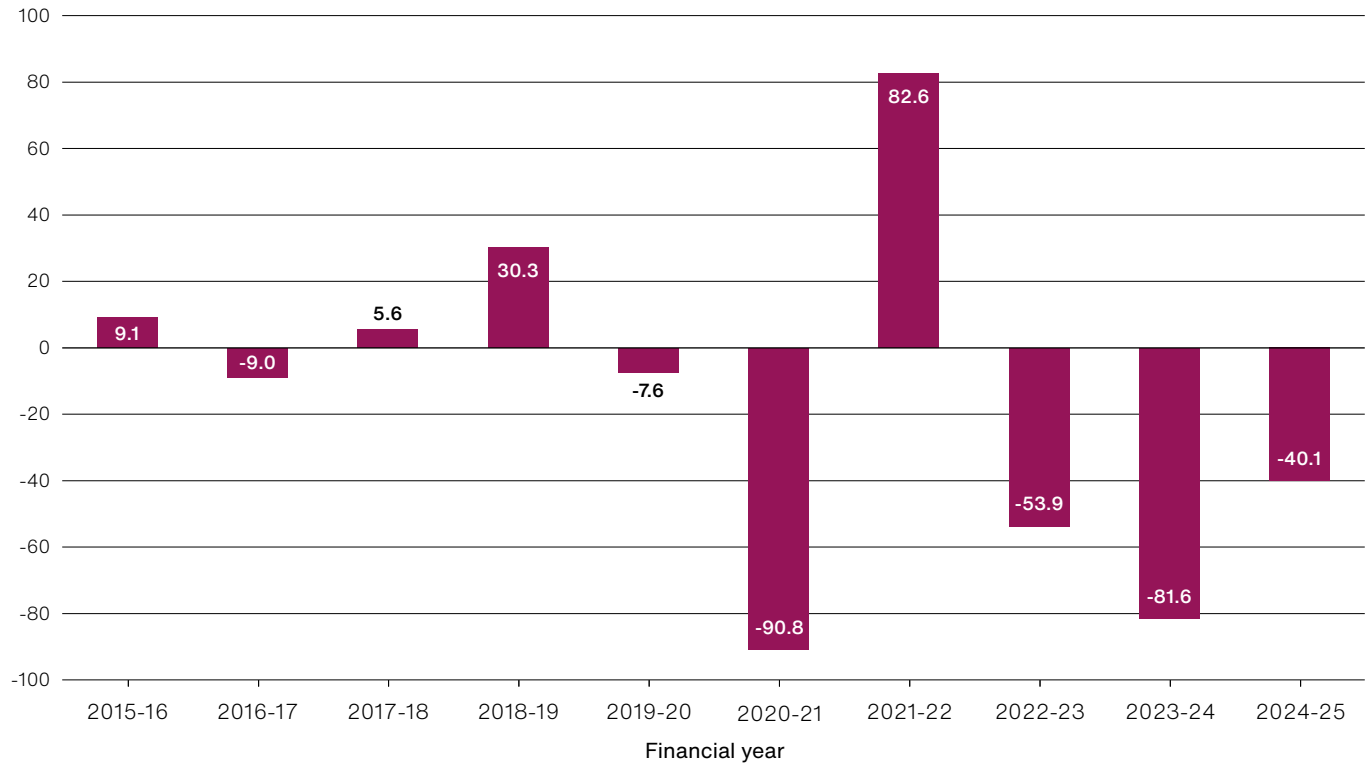
1.9 The British Council has accumulated net losses of £184 million since 2020-21. The one exception to this was in 2021-22 when, in response to increasing competition faced by its business in India, it agreed with its IELTS consortium partner IDP to withdraw from the India IELTS exams market for a period of three years. As part of this agreement, the British Council sold its Indian subsidiary, with the combined agreement generating a profit of £129 million, resulting in net income for the year of £82.6 million. Without this sale, its net income in 2021-22 would have been a loss of £49 million. The British Council estimates that whilst this asset sale generated cash, it cost about £60 million in foregone surplus until 2024-25.

Figure 4

Net income of the British Council, 2015-16 to 2024-25

The British Council has made large losses in each year since 2020-21, with the exception of 2021-22

Net income (£mn)

**Notes**

- 1 The large surplus recorded in 2021-22 resulted from the disposal of the British Council's language exams operation in India, a one-off event.
- 2 Where figures have been restated in the British Council's annual reports and accounts, the revised figures have been used.

Source: National Audit Office analysis of British Council data

Impact on reserves

1.10 The British Council held total reserves worth £426 million at the end of 2019-20. However, only £87 million (20%) of this amount was classified in the British Council's 'free' reserves, which do not have restrictions on how they can be used. They are made up of the risk reserve (funding allocated to manage economic and operating risk), limited access reserve (to cover funds such as trapped cash that are not immediately accessible), investment fund (to fund long-term programmes) and the general account. The rest of this amount (£340 million, 80%) relates to restricted reserves or other reserves that are not available until the assets are sold such as valuation gains on its property and its art collection.

1.11 The British Council accepts that this low level of free reserves was undesirable and meant it was ill-equipped to absorb large losses at the start of the pandemic. As both a charity and a non-departmental public body, the British Council believes that there is different and conflicting guidance for these two statuses. Current guidance for charities avoids specifying a level of reserves, but historically a range of three to six months' worth of operating expenditure was suggested, which would have equated to about £250 million in 2019-20. However, HM Treasury's Managing Public Money guidance sets out that organisations receiving grant-in-aid need not carry significant cash balances, as that would be an inefficient use of public money. It is this latter guidance that the British Council understood it was expected to follow. Reductions in the British Council's non-ODA funding in the years prior to the pandemic meant that it had to use £128 million of its operating surpluses from its commercial operations to support the non-ODA part of the business between 2015-16 and 2020-21.

1.12 The net losses in income that the British Council has accumulated since 2020-21 has meant that its free reserves have also dropped substantially over that period. At the end of 2024-25, whilst the British Council still held overall reserves of £304 million in its accounts, its free reserves were – £111 million (see **Figure 5**).

Impact on cash

1.13 In March 2020, the British Council assessed that cashflow difficulties were likely to be the most immediate issue resulting from the pandemic. This is because its strategy before the pandemic had been to use surpluses to support its non-ODA funded work rather than storing up cash reserves. The British Council commissioned an assessment of its solvency position, which concluded in May 2020 that it was already below its operational minimum cash requirement of £70 million. It anticipated that it would dip below that level by June 2020 and would then become insolvent without an explicit commitment of support from HM Treasury and FCDO. It forecast that a global shutdown of its teaching and exam business could require up to £50 million a month to continue trading.

The British Council's 2020 five-year business plan

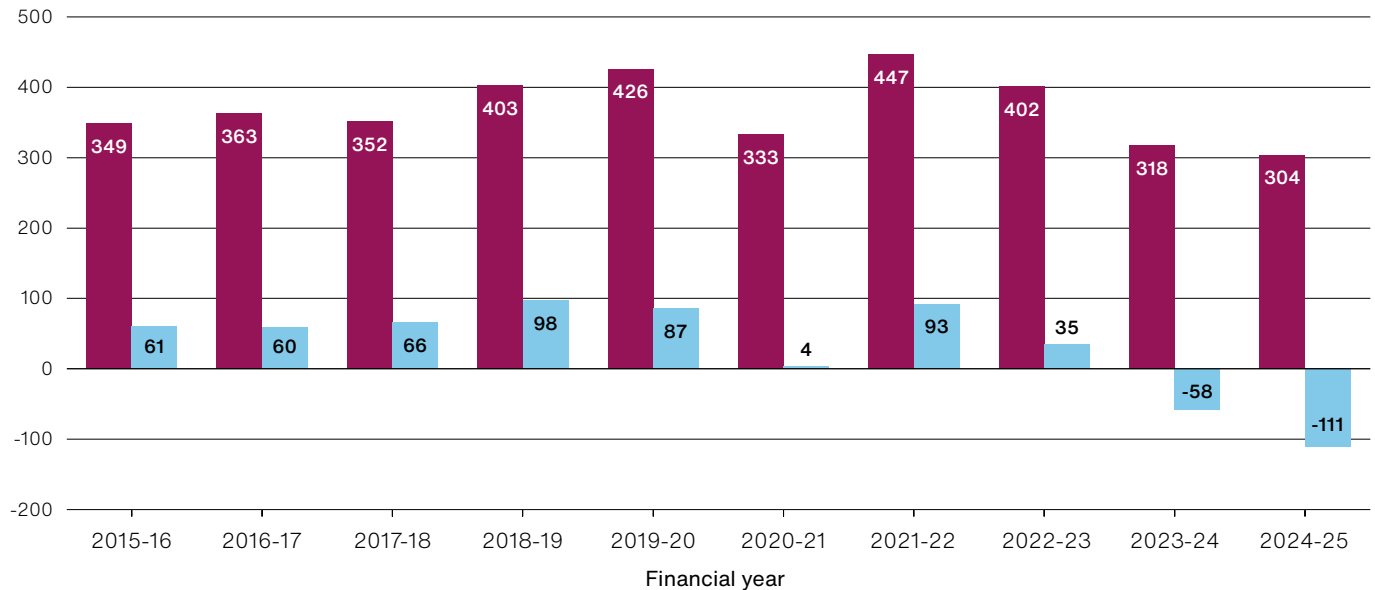
1.14 In July 2020, FCDO, with approval from HM Treasury, agreed a £60 million short-term loan to help the business recover from the pandemic (see Part Two for full details of the loan agreement). The British Council was required to deliver a five-year business plan as part of this agreement. This business plan assumed a £300 million capital injection, subsequently reduced to £245 million, supporting the delivery of a cumulative £450 million improvement in its operating surplus by 2025-26, returning the organisation to profitability (**Figure 6** on page 20). Of this, £289 million was to be achieved through investing and growing commercial activity, and a further £160 million in cost efficiency savings through restructuring and headcount cuts of about 2,000 staff by 2025-26. The British Council's plan focused on operational restructuring in its initial phases, with business growth initiatives set for the later years.

Figure 5

Total and free reserves of the British Council, 2015-16 to 2024-25

The British Council has seen a large decrease in its free reserves in recent years

Reserves (£mn)



■ Total reserves

■ Free reserves

Notes

- 1 Free reserves are those that the British Council can access readily. They comprise the risk reserve (funding allocated to manage economic and operating risk), limited access reserve (to cover funds such as trapped cash that are not immediately accessible), investment fund (to fund long-term programmes) and the general account.
- 2 Other reserves include the capital and revaluation account, and the heritage asset reserve, both of which relate to valuation or foreign exchange gains on the British Council's assets. These cannot be realised until the assets are sold. It also includes several endowment reserves, which can only be used under specific conditions attached to the donations.
- 3 Where figures have been restated in the British Council's annual reports and accounts, the revised figures have been used.

Source: National Audit Office analysis of British Council data

Figure 6

The British Council's 2020 five-year business plan to deliver £450 million in savings and increased revenue by 2025-26

The largest component of these improvements was set to come from £289 million in revenue growth, which was not achieved

Initiative	Key details	Planned total improvements to 2025-26	Achieved improvements by 2025-26
Efficiency savings projects	Outsourcing and restructuring of back-office activities, headcount reductions of about 2,000 staff	£160 million (later agreed to be £185 million by the end of 2024-25)	Estimated to be £179 million
Revenue growth	Increasing commercial revenues through growth and investing in existing and new products	£289 million, of which £177 million to be contributed by improvements to exams, teaching and schools	Not achieved
Total		£450 million	Not achieved

Notes

- 1 The British Council's 2020 business plan targets were based on the assumption that it would receive a £300 million loan facility to mitigate the impact of the pandemic on the British Council's finances. Initially, a loan of £60 million was provided.
- 2 The British Council evidenced efficiency savings of £135 million achieved by 2023-24, and estimated a further £44 million to be achieved in 2024-25.
- 3 The British Council accepts that it did not achieve its revenue growth target but was unable to provide a figure of what was achieved.

Source: National Audit Office analysis of British Council data

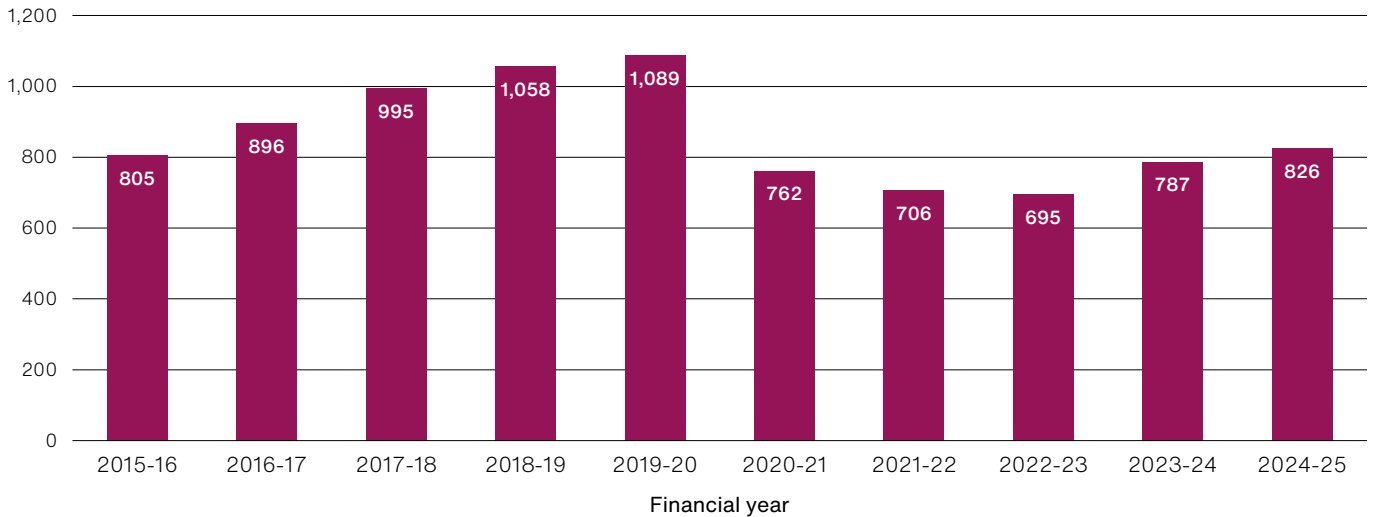
1.15 Since introducing its business plan in 2020-21, the British Council recovered some of its commercial income but in 2024-25 its overall commercial income had not recovered to pre-pandemic levels (**Figure 7**). Therefore, although it largely made the cost savings it set out in the business plan, it mostly remained loss-making through this period. The British Council accepts that the plan was too ambitious, particularly in terms of recovering its English language teaching and exams income. Competition in the sector has increased and there has been strong growth in providers of language teaching and exams, especially through online platforms. A 2019 review of the British Council noted that the British Council was falling behind its competitors in digital teaching services. Demand for English exams has also fallen as a result of more restrictive immigration policies across a number of English-speaking countries in the last couple of years.

Figure 7

The British Council's commercial income, 2015-16 to 2024-25

The British Council has been unable to recover its commercial income to pre-pandemic levels

Total commercial income (£mn)

**Notes**

- 1 Commercial income includes all income except grant-in-aid, other donations received and income from trading activities, investments, foreign exchange gains and profit on disposal of fixed assets.
- 2 The British Council restated its 2015-16 income figures in its 2016-17 accounts; we have used the revised figures.

Source: National Audit Office analysis of British Council data

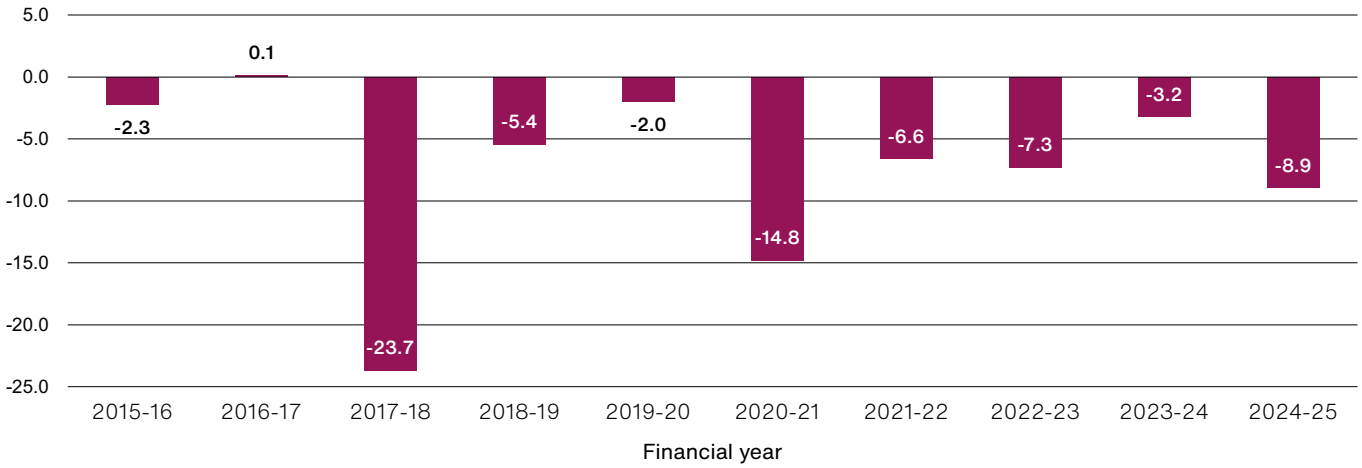
1.16 The British Council's financial position has also been impacted by other external factors. These include exchange rate losses, which are losses incurred through foreign exchange of currency. Since 2020-21, the British Council's net foreign exchange gains have been negative each year, with a total of £41 million in net exchange losses over the period of the British Council's 2020 five-year plan (**Figure 8** overleaf). The British Council attributes these foreign exchange losses to the British Pound increasing in value against core currencies for its business, and to challenges in hedging in some markets. Another external factor is the issue of trapped cash, which is the amount of cash that is held overseas and considered trapped due to the introduction of foreign exchange controls in some of the British Council's key countries. This amount has increased from £21.3 million in 2019-20 to £49.8 million in 2024-25 (**Figure 9** on page 23). The British Council has been looking for solutions to this issue but without one it is unable to utilise these funds outside of the country in which they are located.

Figure 8

The British Council’s net foreign exchange position, 2015-16 to 2024-25

Since 2015-16, the British Council has made a net foreign exchange loss in every year but one

Net foreign exchange position (£mn)



Notes

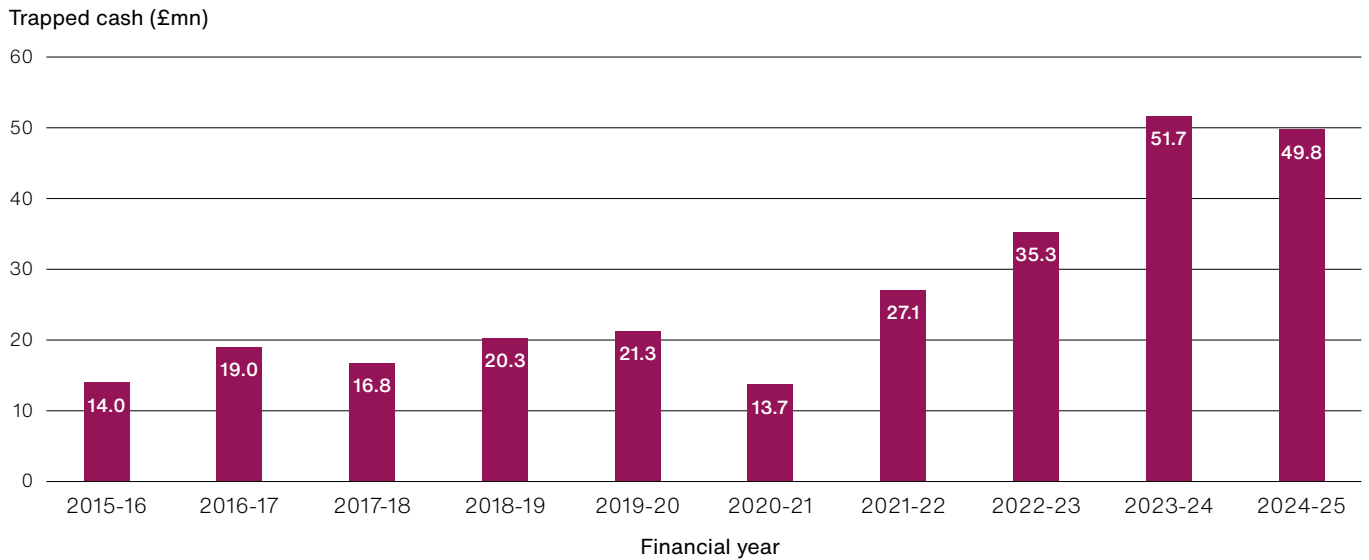
- 1 A foreign exchange position is the financial impact that arises when a transaction is recorded at one exchange rate and subsequently settled or reported at a different rate.
- 2 The British Council reported a foreign exchange net loss of £2m in 2019-20 in its financial review of its annual report and accounts. Separately, it reported foreign exchange gains of £4.4 million and foreign exchange losses of £8 million in the financial statements.

Source: National Audit Office analysis of British Council data

Figure 9

The British Council's trapped cash, 2015-16 to 2024-25

The amount held overseas and considered trapped due to foreign exchange controls has increased over time to £49.8 million in 2024-25

**Notes**

- 1 Trapped cash is cash held overseas that is considered to be trapped due to foreign exchange controls. The British Council is unable to utilise these funds outside of the country that they are located in, so is unable to use it to support its wider business.
- 2 The trapped cash position of the British Council fluctuates throughout the year. The data presented here is the trapped cash position at each year end.

Source: National Audit Office analysis of British Council data

1.17 The British Council estimates it delivered £179 million in efficiency savings overall. The target was to deliver £185 million in efficiency savings, as FCDO set a £25 million higher savings target than the expected total of £160 million included in the initial plan. As of January 2026, the British Council had a total of 7,880 full-time equivalent staff, a reduction of more than 2,000 since April 2021, in line with its 2020 business plan.

Part Two

Foreign, Commonwealth & Development Office loan support to the British Council

2.1 This part of the report covers the British Council's initial assessment of what financial assistance it required because of the COVID-19 pandemic, and the loan funding that the Foreign, Commonwealth & Development Office (FCDO) subsequently provided. It looks at the key terms, amendments and extensions of the loan funding, and how the British Council utilised it over time.

Initial assessment of financial support needed

2.2 In response to the pandemic, FCDO initially provided £26 million of non-Official Development Assistance (ODA) funding to the British Council in March 2020 to support the non-ODA network. It also provided £80 million of the British Council's ODA grant-in-aid funding for 2020-21 upfront in April 2020 to alleviate pressure. These two sources of funding were conditional on the British Council providing FCDO with clear evidence of where this funding was allocated and monthly updates as its sponsoring department.

2.3 FCDO engaged HM Treasury to find a longer-term funding solution, with HM Treasury approval being needed for any loan agreements and extensions. In early 2020, the British Council requested a loan of up to £300 million in financial assistance, repayable over 25 years. It proposed to use £200 million of the loan to prevent insolvency, and £100 million for investments to rebuild its commercial businesses. FCDO relayed to HM Treasury the British Council's request for a £300-million loan. FCDO recognised that the British Council would need additional non-ODA funding to keep paying its staff.

The initial loan

2.4 In July 2020, FCDO, with approval from HM Treasury, agreed a short-term loan of up to £60 million with the British Council. It was agreed that a further loan would be negotiated to secure the longer-term financial sustainability of the British Council once FCDO had completed a review of the organisation requested by the then Foreign Secretary. This initial loan was conditional on the British Council providing FCDO with a plan showing workforce cost savings of no less than £15 million throughout 2020-21, which was achieved, and a five-year business plan. At the same time, FCDO also reduced ODA funding to the British Council by £20 million in 2020-21, due to disruptions to the ODA programming caused by the pandemic.

2.5 The initial loan was a revolving credit facility as it minimised the government's liability, and meant that the British Council could draw down and use amounts flexibly and repay them when ready. The loan was provided to the British Council on commercial terms. The £60-million loan was intended to be used to assist with the British Council's general corporate and working purposes, and enabled it to keep operations running in the short-term. The British Council drew down £47 million in July 2020, with no further drawdowns made until December 2020, when it drew down £5 million (**Figure 10** overleaf).

Subsidy control regulations

2.6 The grant-in-aid funding that FCDO has historically provided to the British Council has been to support the delivery of the British Council's charitable objectives in line with Managing Public Money principles. FCDO concluded that any funding support for the commercial operations of the organisation would have to be a commercial loan. FCDO took legal and external advice on this issue before providing the initial loan to the British Council. It needed to ensure that any support was compliant with the state aid regime at the time (now UK's Subsidy Control Act 2022), given that the financial support was directed to the British Council's commercial business.²

2.7 Based on that advice, FCDO concluded that any financial support provided should not put the British Council at an economic advantage compared with other commercial competitors, and that grant funding would not be compliant with domestic subsidy control rules and international subsidy obligations. Therefore, it provided a loan on commercial terms, with interest at market rates, stating that this would be consistent with what a private operator would provide in similar circumstances. The British Council accepts that the Subsidy Control Act 2022 places constraints on the support it can receive but argues it is not purely a commercial entity and that this complicates the issue.

² A subsidy is where a public authority provides support to an enterprise that gives them an economic advantage, meaning equivalent support could not have been obtained on commercial terms. This could include, for example, a cash payment, a loan with interest below the market rate or the free use of equipment or office space.

Figure 10

Loan amendments and extensions, July 2020 to February 2026

The British Council and the Foreign, Commonwealth & Development Office (FCDO) have amended and extended the loan facilities multiple times since 2020, with a current £197-million loan outstanding

Loan agreement	Date signed	Type of loan facility	Maximum available loan (£mn)	Interest rate	Termination date	Total of all loan facilities (£mn)
Initial loan	2 July 2020	Revolving credit facility	60	LIBOR plus 1.2% per annum	31 March 2021	60
Increased initial loan	22 February 2021	Revolving credit facility	145	LIBOR plus 1.2% per annum	31 December 2021, extended to 31 January 2022	145
Investment loan	18 June 2021	Fixed-term loan	100	SONIA plus 1.5% per annum	31 March 2023	245
Merged loan	28 January 2022	Revolving credit facility (£100 million) and fixed-term loan (£100 million)	200	SONIA plus 1.5% per annum	Revolving credit facility final repayment date 31 March 2024, fixed-term loan termination date 31 March 2023, which was extended until the March 2024 agreement was signed	200
Current fixed-term loan	5 March 2024	Fixed-term loan	197	SONIA plus 2% per annum	31 March 2025, extended to September 2026	197

Notes

- 1 This table is not a complete list of all loan amendments and extensions that the British Council and FCDO signed over this timeframe. We only included major changes and excluded minor amendments and extensions.
- 2 In February 2026, the government committed to extending the current loan agreement to September 2027.
- 3 A revolving credit facility means that the British Council could draw down and use amounts flexibly and repay them when ready.
- 4 The investment loan signed in June 2021 was in addition to the existing revolving credit facility. The two loans were merged in January 2022.
- 5 LIBOR (London Interbank Offered Rate) and SONIA (Sterling Overnight Index Average) are base rates. The Financial Conduct Authority announced that the cessation of LIBOR would take place on 31 December 2021 and FCDO and the British Council agreed that, with effect therefrom, interest on the loan was to be calculated by reference to SONIA.

Source: National Audit Office analysis of Foreign, Commonwealth & Development Office data and British Council data

Amendments to the loan value

2.8 When the British Council received the initial £60-million loan in July 2020, it indicated to FCDO that funding beyond August 2020 would be required. The British Council assessed that it remained at risk of insolvency. The British Council stated that it had avoided £210 million in costs since the start of the pandemic to improve its cash position.

2.9 In February 2021, FCDO increased the existing loan facility to a maximum of £145 million to cover the British Council's pandemic losses (Figure 10). FCDO received a budget increase of £130 million from HM Treasury to assist this. This funding was provided on the expectation that the British Council would implement reforms set out in the Foreign Secretary's review of the British Council, which it broadly did. These included an efficiency savings target of £185 million (see Figure 6 in Part One) to be delivered by 2024-25, new performance indicators, and changes to the structure of the board of trustees giving FCDO the right to increase the number of FCDO-appointed trustees on the board up to three.

2.10 In June 2021, FCDO agreed an additional fixed-term loan of £100 million to allow the British Council to invest in its commercial business and restructure its business as required. The two loans were merged in January 2022 to one agreement which included a revolving credit facility of £100 million and a fixed-term loan for a further £100 million.

2.11 In March 2024, the loan and the revolving credit facility were replaced by a single fixed-term loan of £197 million, with a termination date of March 2025. The loan agreement specified that the loan would be repayable at the termination date, however, no repayment was made. This loan was extended in March 2025 until September 2026, to provide the British Council time to develop a turnaround plan, and in February 2026 the government committed to extend it further until September 2027 with both FCDO and the British Council committed to a longer-term renegotiation beyond that point (see Part Three). The British Council is currently using the full £197 million available.

Net loan liability and repayments

2.12 The British Council has made seven repayments against the drawdown facility since 2020, ranging from £6.5 million to £52 million (**Figure 11**). The loan agreements set out that proceeds of any asset sale above £2 million must be used to prepay the loan balance. Therefore, when the British Council generated a profit of £129 million from the disposal of its language exams operation in India (see paragraph 1.9) it used around £52 million of the proceeds to pay down the full outstanding balance of the loan at the time. Since the loan was converted into a fixed-term loan in March 2024, with no revolving credit facility, no capital repayments have been made as both FCDO and the British Council agree it has not been in a position to do so. HM Treasury, FCDO and the British Council have not agreed a repayment schedule for the current fixed-term loan.

2.13 Between 2020-21 and 2025-26, the British Council paid a total of £42 million in interest and commitment fees³ on the loan, at commercial rates. This includes £13.8 million of interest paid in 2024-25 and £11.9 million paid in 2025-26.⁴ The British Council forecasts that, based on the current loan conditions continuing, it will have to pay a further £53 million in interest up to 2029-30. The British Council has also paid nearly £1 million in arrangement, amendment, extension and legal fees for the various loan agreements since 2020.

FCDO financial oversight of the British Council

2.14 The provision of loan support since 2020 has increased the importance of FCDO having a good understanding of the British Council's financial health. The loan agreements signed between FCDO and the British Council included conditions on information that the British Council must provide to FCDO, like cost savings and investment plans, since the initial loan agreement. In addition, the British Council also had to provide FCDO with income and expenditure forecasts and internal financial reports. In 2023, FCDO commissioned a review of the key risks in the British Council's revised five-year business plan forecasts. The British Council paid around £225,000 for this review.

2.15 FCDO has commissioned regular reviews of whether its loan support to the British Council has remained compliant with subsidy control legislation, with external reviews looking at the loan extensions and amendments. The external reviewers stressed that compliance with subsidy control regulations requires FCDO to monitor the British Council's use of the loan and to take action if the British Council does not comply with the loan conditions. Across the implementation of the British Council's 2020 business plan, FCDO received reports on the British Council's investment portfolio, cashflow forecasts and management information.

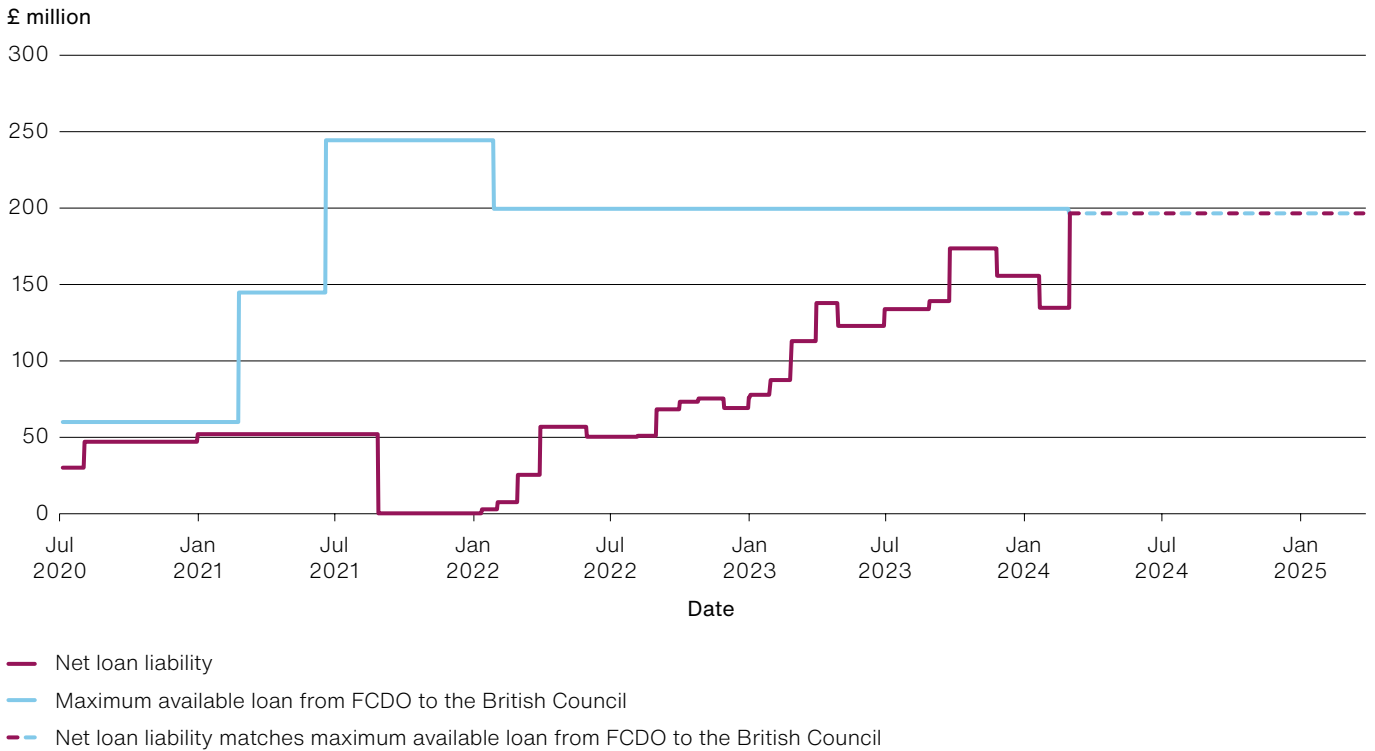
³ Commitment fees are a charge paid by a borrower to a lender for an undrawn or unused portion of a loan facility.

⁴ The British Council's accounts for 2025-26 have not yet been audited so the 2025-26 interest figure is unaudited.

Figure 11

Maximum loan available to the British Council and its net loan liability between July 2020 and March 2025

The British Council has made no capital repayments on its current £197-million fixed-term loan facility from the Foreign, Commonwealth & Development Office (FCDO)



Notes

- 1 The maximum available loan to the British Council is calculated as the sum of all loans made available to the British Council by FCDO at a given time.
- 2 The net loan liability increases when the British Council draws down from a loan facility, and it decreases when the British Council makes repayments.
- 3 In March 2024, the loan facilities were converted into a £197-million fixed-term loan, which the British Council has been utilising in full since then.

Source: National Audit Office analysis of British Council data

Part Three

The loan renegotiation

3.1 This part of the report covers the negotiations between the Foreign, Commonwealth & Development Office (FCDO) and the British Council over the extension of the current £197-million fixed-term loan. It looks at the new turnaround plan that the British Council has produced alongside those negotiations, and at what it is forecasting its financial position will look like over the next few years.

Extension to the loan in 2025

3.2 The current loan of £197 million was due to mature in March 2025, however it was agreed in March 2025 that the loan would be extended by 18 months up to September 2026. HM Treasury agreed to this extension, subject to the following conditions.

- The British Council should appoint an independent transformation advisor to help develop a turnaround plan for the organisation. FCDO had received external advice in November 2024 also recommending that such an appointment should be made.
- HM Treasury would set the British Council's repayment schedule at the 2025 Spending Review.
- If the British Council fails to start making repayments within 18 months, FCDO should implement a pre-agreed restructuring plan.

HM Treasury did not set a repayment schedule at the 2025 Spending Review but did agree to a further extension to the loan to September 2027 with further conditions attached (see paragraph 3.9).

Turnaround plan

3.3 The signed loan extension between FCDO and the British Council committed the British Council to producing a turnaround plan by August 2025. Both FCDO and the British Council confirmed to us that, while FCDO may have been consulted on elements of the plan, it was the British Council's responsibility to produce it. The purpose of the turnaround plan was that it should facilitate long-term financial sustainability so that the loan facility could ultimately be repaid.

3.4 As part of the loan extension agreed in March 2025, FCDO and the British Council agreed that a chief transformation advisor would be appointed to support the development of the turnaround plan. The agreement notes that it was the British Council that appointed this advisor, though FCDO was also involved in the appointment process. The initial chief transformation advisor left the British Council following delivery of the plan in August 2025. A new individual was appointed to the role that month, but they are only employed on a rolling one-month contract.

3.5 The British Council submitted its plan to the Foreign Secretary in August 2025 but has been unable to implement the plan in full, pending permission from FCDO to use asset disposal proceeds to fund investments in the plan. FCDO wrote back to the British Council in September 2025 acknowledging the plan and encouraging implementation except on two issues which it said needed resolving.

- The loan position and how this should be restructured going forward.
- Proposed country closures, where there was an interdependency with the British Council's future grant-in-aid allocation.

Renegotiation of the loan

3.6 The British Council's preference is that the loan is written off or, failing that, that there is an asset swap, utilising much of the British Council's art collection in lieu of cash repayment. The British Council concluded in its turnaround plan that the organisation remained at high risk of becoming insolvent unless action was taken on the loan. While it acknowledged that FCDO was considering other options, it expressed its strong preference for loan forgiveness or an asset swap as the best way forward.

3.7 FCDO commissioned an initial options analysis in August 2025 to assess how a range of options for restructuring the loan might fit with the financial assumptions in the turnaround plan. This review found, based on the information made available at that time, that the British Council was not at immediate risk of insolvency and that therefore any write-off of the loan would not be appropriate, and FCDO has discounted the option of writing off the loan on the basis of compliance with the UK Subsidy Control Act 2022. HM Treasury has also indicated to FCDO that it would not support loan forgiveness and that ministers would have to approve any decision to write off the loan. Other options considered included reprofiling of interest and amortisation on the loan; converting the loan into equity; and creating a shared purpose vehicle that would take on the debt.

3.8 In September 2025, FCDO wrote to the British Council acknowledging its preference on the loan and said that it wanted to work collaboratively with the British Council to find a solution which balanced the concerns of the British Council with the constraints of both FCDO and HM Treasury. FCDO suggested that it should be possible to agree in principle a preferred solution to the loan by the end of September 2025. While the two organisations are working towards implementing an agreed-in-principle solution, no full agreement is yet in place.

3.9 The trustees of the British Council collectively wrote to the Foreign Secretary in November 2025, reiterating the British Council's position that it viewed itself as being at high risk of insolvency. The trustees also noted that, with no commitment from FCDO to extend the loan beyond September 2026, they felt the British Council would be unable to prepare its 2024-25 accounts on a going concern basis. Following the receipt of this letter, FCDO commissioned a review from Deloitte to understand the cashflow position of the British Council. This review found that there was a potential scenario in which the British Council's projected cashflow position might improve up to March 2027. This was based on potential upside sensitivities, and deferral of certain investment decisions. The review 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. In February 2026, FCDO committed to a further one-year extension of the loan to September 2027 – 30 months after the original loan agreement would have ended – but with both sides committing to a long-term renegotiation of the loan being completed in the first quarter of 2026-27. HM Treasury agreed to this extension but on the condition that, if no agreement was in place by September 2027, it would look to reduce FCDO's departmental expenditure limit by an amount equivalent to one year's repayment of the loan, assuming a 20-year repayment plan.

3.10 Since receiving the turnaround plan, FCDO has commissioned external reviews in a phased approach looking at options for renegotiating the loan and the British Council's turnaround plan (**Figure 12**). Under the terms of the loan agreement, the cost of these reviews is to be paid by the British Council. FCDO paid for the September 2025 review, which provided a summary of potential loan restructuring options; the cost of the other reviews was paid by the British Council at a cost of £540,000 excluding VAT.

3.11 The British Council's framework agreement states that the Foreign Secretary shall meet with the British Council's chief executive and/or chair annually, although this responsibility may be delegated to an FCDO minister. The British Council told us that it believes more progress could have been made on the loan renegotiation if it had more regular, high-level engagement with ministers, as meetings with the Foreign Secretary have been infrequent. However, FCDO told us that the data shows since 2021, an FCDO minister has met the British Council's chief executive: seven times in 2021, three times in 2022, four times in 2023, twice in 2024, and five times in 2025, which it believes is in line with the framework agreement.

Figure 12

External reviews of the British Council's financial position since its August 2025 turnaround plan

The British Council has paid for three out of four reviews commissioned by the Foreign, Commonwealth & Development Office (FCDO) since August 2025, at a cost of £540,000 excluding VAT

Review	Date	Scope	Key findings	Cost
EY initial options report	September 2025	Initial options available to FCDO for restructuring the loan to the British Council	No economic case for loan forgiveness or asset swap, a solution is more likely to be rescheduling of interest and loan payments.	£60,000 paid by FCDO
Deloitte review of British Council cashflow forecast	January 2026	British Council cashflow forecast to March 2027	<p>The full cash benefits of the turnaround plan will not be seen until after 2026-27.</p> <p>The British Council's forecast surplus after 2026-27 will not be sufficient to fund investments and interest on the loan.</p> <p>There is a potential scenario in which the British Council's projected cashflow position might improve up to March 2027 if it defers certain investment decisions.</p>	£60,000 paid by the British Council
EY analysis of the British Council's revenue projections	February 2026	Revenue assumptions underlying the British Council's turnaround plan	While the British Council's market position remains positive, the turnaround plan is ambitious in its income forecast.	£325,000 paid by the British Council
Deloitte review of the British Council's turnaround plan	April 2026	The British Council's turnaround plan and its February 2026 update, underlying assumptions and cashflow and investment forecasts	<p>If the turnaround plan is implemented in full, the British Council will only generate £1 million of net movement on reserves in 2029-30 and £9 million in operating surplus after tax and investment in growth.</p> <p>The turnaround plan appears a reasonable approach to improving the financial sustainability of the British Council.</p>	£155,000 paid by the British Council

Notes

- 1 Costs for reviews are exclusive of VAT.
- 2 EY's initial options report was prepared based on the information made available to the reviewers at the time. The key findings were therefore reached without any detailed review of the financial assumptions in the turnaround plan.

Source: National Audit Office analysis of Foreign, Commonwealth & Development Office data

Country closures and asset sales

3.12 To reduce its costs, if no new funding was received at the 2025 Spending Review, the British Council proposed in its turnaround plan the closure of offices in a number of countries, split across three phases, to be completed by March 2027. The British Council assessed teaching in these countries to be loss-making after accounting for corporate overheads.

3.13 FCDO asked the British Council to pause any plans to close these offices until it had finalised the grant-in-aid allocation for future financial years. FCDO noted that ministers were keen to keep the number of country office closures required to a minimum, while being clear that ministers acknowledged that closures are necessary. FCDO also said it did not want to take country closure decisions in isolation from the broader strategic options for restructuring and the financial turnaround plan. The British Council told us it was frustrated by this position, and that FCDO needed to choose whether it wants to fund it to a level that enables it to continue to operate in countries that are loss-making, or accept that closures are necessary. FCDO told the British Council in March 2026 it would be increasing its non-Official Development Assistance grant-in-aid from £36 million in 2024-25 to £56 million in 2026-27 and £46 million in 2027-28 and 2028-29.⁵ The plan proposed the closure of British Council offices in a number of countries, and as of June 2026 the British Council's intention was to proceed with closures in 11 countries, with this position to be finalised with FCDO. The British Council intends to pare back its operations in a further 15 countries.

3.14 In April 2025, the British Council sold its school in Madrid, generating cash proceeds of approximately £49.2 million, which it wanted to use to invest as part of its turnaround plan. Under the current loan agreement, however, any proceeds from an asset sale worth more than £2 million must be used to repay the loan. The British Council asked FCDO in September 2025 whether this requirement could be waived in this instance. FCDO subsequently reviewed the British Council's turnaround plan and sought approval from HM Treasury to waive the loan repayment requirement. In April 2026, FCDO and HM Treasury agreed to waive the loan repayment requirement in this instance, permitting the British Council to utilise the funds.

⁵ The £56 million in 2026-27 includes a one-off amount of £10 million to support the British Council's restructuring of grant-in-aid funded activities. FCDO also provided an additional £15 million in restructuring support in March 2026.

Aims of the turnaround plan

3.15 The headline aim of the plan was, over a five-year period, to deliver net benefits of £306 million (see **Figure 13**). This largely comes from restructuring and efficiency savings (£172 million), the development of new online products and pricing strategies (£125 million) and asset sales (net £76 million, with £92 million in cash proceeds). Deloitte's review of the turnaround plan in April 2026 noted that successful execution of the restructuring and efficiency projects will be key to the financial sustainability of the British Council. EY's review on the revenue projections found that, while the British Council was right in the areas for growth it was focusing on, some of the projections were ambitious.

Figure 13

The British Council's turnaround plan aimed to deliver £306 million in net benefits by 2029-30

The largest component of these net benefits comes from £172 million of restructuring and efficiency savings

Initiative	Key details	Total net benefits to 2029-30 (£mn)
Restructuring and efficiency savings projects	Headcount reduction of approximately 25% (2,209 full-time equivalents (FTEs)) – this includes FTEs from the British Council planning to close some of its country offices	172
The development of new online products and pricing strategies	Growth measures include the expansion of the British Council's teaching centres in 12 countries, mainly in South-East Asia, which is its largest growing market	125
Asset disposals	The sale of several British Council assets	76
Expenditure	This includes business-as-usual investment, a new Enterprise Resource Planning system, and contingency spend	-66
Total net benefits		306

Notes

- 1 Sums may not reconcile exactly due to rounding.
- 2 The numbers in this figure are based on the British Council's February 2026 update to its August 2025 turnaround plan.
- 3 As of June 2026, the British Council and the Foreign, Commonwealth & Development Office had not made a decision on country closures of British Council offices. The £172 million net benefit calculation was based on an initial proposed number of country closures whereas the current proposal is less than that.

Source: National Audit Office analysis of British Council data

Reserve and cash forecasts in the plan

3.16 Despite the forecast net benefit improvements in the plan, the British Council's forecasts in February 2026 showed that it will be generating net operating deficits until 2029-30, and that as a result its free reserves will fall to – £184 million by 2029-30 (**Figure 14**). Its forecast available cash position across that period is also deteriorating, falling to £127 million by 2029-30 from £174 million in 2025-26. As per the loan agreement, the British Council must hold minimum cash levels of £60 million. The British Council assesses it requires £110 million minimum liquidity globally at an operational level. These projections are made assuming that the loan is not written off by FCDO, with approval from HM Treasury.

Current status of the loan renegotiation

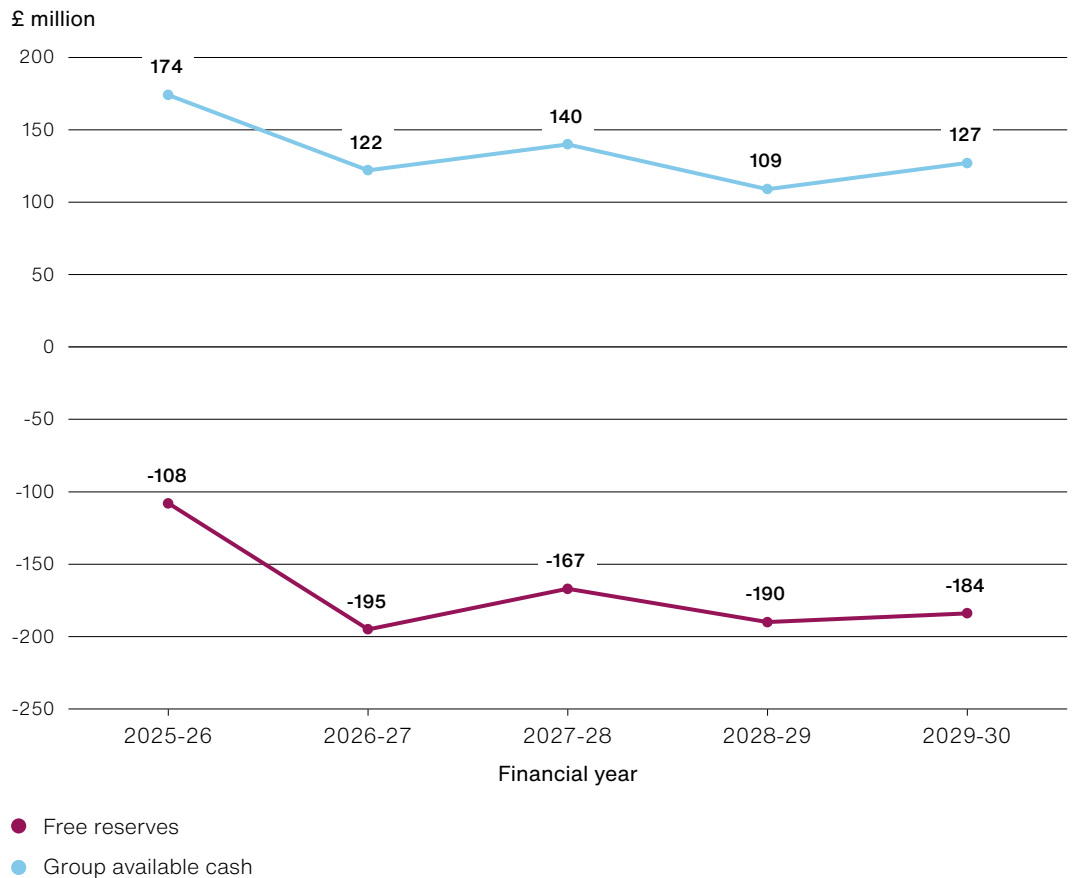
3.17 As of June 2026, the British Council and FCDO are yet to agree a revised loan structure and additional support that FCDO might provide. We understand from both parties, however, that the negotiations are in their final stages and are focusing on:

- full payback of the loan capital within 15 years;
- a potential mechanism where any British Council overperformance on its turnaround plan could lead to additional repayments on the principal of the loan;
- ensuring that the British Council can access cash from future asset sales it has identified as part of its financial turnaround plan;
- British Council identifying potential solutions to access locations where it has trapped cash while limiting further trapped cash build-up; and
- what governance processes will need to be in place to ensure FCDO and HM Treasury have good oversight of how the British Council is progressing against the plan.

Figure 14

The British Council's forecast for its free reserves and group cash position, 2025-26 to 2029-30

The British Council is forecasting that its free reserve position and available cash will continue to deteriorate up to 2029-30

**Notes**

- Free reserves are those that the British Council can access readily. They comprise the risk reserve (funding allocated to manage economic and operating risk), limited access reserve (to cover funds such as trapped cash that are not immediately accessible), investment fund (to fund long-term programmes) and the general account.
- Group available cash refers to the portion of the British Council's cash at bank that is unrestricted, uncommitted and readily deployable.

Source: National Audit Office analysis of British Council data

Appendix One

Our audit approach

Our scope

1 This report investigates the financial position of the British Council, and the progress of the renegotiation of the outstanding loan from the Foreign, Commonwealth & Development Office (FCDO). The report covers:

- the role of the British Council and the impact that the COVID-19 pandemic had on its finances;
- the initial loan support FCDO provided to the British Council; and
- current loan arrangements and negotiations over future terms of support.

2 The 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.

Methods

3 We reached our findings after analysing evidence that we collected between February and May 2026. In our work we used the study methods and evidence sources set out in the paragraphs below. We collated and analysed the evidence using our investigative criteria as a framework.

Document review

4 Between February and May 2026, we reviewed more than 250 published and unpublished documents provided to us by FCDO and the British Council, including:

- annual reports and accounts;
- business and turnaround plans;
- external consultancy reviews; and
- financial forecasting.

Interviews

5 Between February and May 2026, we conducted 12 online interviews. Our interviews were conducted over Microsoft Teams, and we took a detailed note of each.

6 We spoke to relevant officials from FCDO to explore the involvement of FCDO's sponsorship team in the set-up and extensions of the loan agreements. We spoke to three of the British Council's board of trustees, as well as the chair and deputy chair and members of the organisation's senior leadership team, including the chief executive officer, to gain an understanding of the British Council's perspective on the loan and the organisation's financial position. We also spoke to HM Treasury's FCDO and Official Development Assistance spending and strategy team.

7 We spoke to Deloitte and EY, the external consultants who carried out reviews of the British Council's turnaround plan and options for loan extensions, to understand their insights. The initial options analysis done by EY in September 2025 (referred to in Figure 12, and in paragraph 3.7) was subject to a number of limitations on scope, including that:

- it was a desktop analysis and was done in a short timeframe; and
- it was not based on a discussion with the British Council's management or on a review of the turnaround plan, and did not include any sensitivity analysis.

Financial analysis

8 We analysed the British Council's finances since before the COVID-19 pandemic, and we also tracked developments from before FCDO's loan was instated. We produced timeseries analysis of key metrics such as the British Council's income, expenditure and the loan balance. We also compared the terms of the loan arrangement over time.

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