

Public Accounts Committee

Oral evidence: Financial Sustainability of the British Council, HC 100

Thursday 2 July 2026

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Members present: Sir Geoffrey Clifton-Brown (Chair); Mr Clive Betts; Anna Dixon; Rachel Gilmour; Catherine McKinnell; Sarah Olney; and Tristan Osborne.

Foreign Affairs Committee member present: Sir John Whittingdale.

Gareth Davies, Comptroller and Auditor General; Lee Summerfield, NAO Director; Tom Tyson, NAO Senior Audit Manager; Adrian Jenner, NAO Director of Parliamentary Relations; and Marnya Jain, Alternate Treasury Officer of Accounts, were in attendance.

Questions 1 to 66

Witnesses

I: Nick Dyer, Interim Permanent Secretary, Foreign, Commonwealth and Development Office; Scott McDonald, Chief Executive, British Council; Vicki Olby, Chief Finance Officer, British Council; and Helena Vega-Lozano, Chief Operating Officer, Foreign, Commonwealth and Development Office.

Report by the Comptroller and Auditor General
Investigation into the financial sustainability of the British
Council (HC 30)

Examination of witnesses

Witnesses: Nick Dyer, Scott McDonald, Vicki Olby and Helena Vega-Lozano.

Chair: Welcome to this session of the Public Accounts Committee on Thursday 2 July 2026. Today we are examining the finances of the British Council, which continues to play an important role in promoting the UK's soft power influence through our culture and language around the world. It operates across dozens of countries and reaches millions of people each year. However, its financial position has come under sustained pressure from the covid-19 pandemic, which significantly reduced its commercial income from teaching and examinations.

The organisation is now supported by a substantial Government loan, currently worth £197 million, which it has yet to begin repaying in full, raising serious questions about its long-term financial resilience. Despite cost reductions and restructuring, the British Council remains loss-making and faces uncertainty over its future, operating model and global footprint.

Today, the Committee will examine how the British Council can achieve financial sustainability, how the Government intend to resolve the current loan arrangements and whether there is a long-term strategy for the role of the organisation. Without further ado, I extend a warm welcome to all the witnesses. I cannot remember: is this the first time for any of you before the Committee?

Helena Vega-Lozano and **Vicki Olby** indicated assent.

Chair: An especially warm welcome to you. I hope you will find the session interesting. Interim permanent secretary, could you introduce yourself first, please?

Nick Dyer: Good morning. My name is Nick Dyer; I have been a permanent secretary at the Foreign, Commonwealth and Development Office for the last three years and the interim permanent under-secretary for the last three months.

Scott McDonald: Good morning. I am Scott McDonald; I am the chief executive of the British Council. I have been there since September 2021, just at the end of the covid pandemic. Before that, I spent most of my life in the private sector, most of it running one of the big consulting firms.

Vicki Olby: I am Vicki Olby. I am the chief financial officer at the British Council. I was appointed to that role on 1 May. Previously, I was the deputy CFO at the British Council. I have been at the British Council for 10



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years; before joining, I held roles at the BBC and its commercial arm, BBC Worldwide.

Chair: Welcome. Finally, but by no means least, we have Helena Vega-Lozano—I hope I have pronounced that correctly.

Helena Vega-Lozano: Very close. I am the DG-COO at the FCDO; I have been in the role for about nine months, having joined from the private sector.

Q1 **Chair:** Thank you all very much. I will use Christian names, if that is all right; it is so much simpler.

Nick, can I start with you? We have received a copy of the letter from the Minister to the Chair of the Foreign Affairs Committee outlining the proposed new deal. For the record, it would be really helpful if you could outline the terms of it.

Nick Dyer: We have agreed in principle with the British Council the broad outline of two things. We have agreed the turnaround plan with the British Council, which I am sure we will come to, and we have agreed the core principles of the restructuring of the loan.

I do not want to get ahead of the Treasury on this, because ultimately the Treasury has yet to agree the restructuring of the loan, so we have to give it the time and space to do so. But broadly, as the Report lays out, this restructuring will be over a period of time; the Report says 15 years. We have been discussing options in terms of grace periods. We are clear on what the interest rate should be, as well as the repayment of the capital and the interest over that period.

That is broadly the outline. Once we get agreement from the Treasury, I will write to you, Sir Geoffrey, and to the Chairs of the Foreign Affairs Committee and of the IDC to lay out the details.

Q2 **Chair:** Roughly how long is that process likely to take?

Nick Dyer: We have agreed at official level between the two organisations what the core principles will be, and this is now for the Treasury. I cannot commit the Treasury in terms of timing, but we hope to get this completed and over the line with the Treasury as soon as we can.

Q3 **Mr Betts:** Do the changes to the loan arrangements that you are looking to achieve mean that there will be less need to make the cuts in staff and services that you were otherwise planning to make?

Nick Dyer: I am sure that Scott will be able to speak for himself and for the British Council, but underpinning the restructuring of the loan is the turnaround plan, and the turnaround plan—

Mr Betts: We can come on the details, but I just wanted to know whether it will influence that.

Nick Dyer: It supports the turnaround plan. The details in the NAO Report reflect well the details of the turnaround plan. That restructuring supports

that turnaround plan, and the good news is that the combination of the turnaround plan and the restructuring puts the British Council, ultimately, on a path to long-term financial sustainability.

Chair: Thank you. I call Sir John Whittingdale.

Sir John Whittingdale: May I thank you, Chair, and the PAC for allowing me to guest this morning?

Chair: Sorry: I should have introduced you as our guest from the Foreign Affairs Committee. You are very welcome.

Q4 Sir John Whittingdale: I will start with a broader question, perhaps to both the FCDO and the British Council. Do you see the British Council as essentially a vehicle for British soft power to extend British influence in contested areas of the world, which is supported by the Foreign Office and also by commercial income raised through its teaching activities, or do you see the British Council as largely a commercial operation generating profit, which can then be put to British soft power objectives supported by the Foreign Office?

Nick Dyer: I will start and then hand over to Scott. The Foreign Office sees the British Council as a soft power asset, promoting greater trust and understanding of Britain around the world, and that underpins and supports British diplomacy. We track that through a whole range of KPIs that we look at on a regular basis. The reality is that the British Council has, over the years, built a £1 billion commercial business; that business did support those grant in aid activities, but given the changes in the market and the impact of covid, it is now facing the most serious financial crisis in its history.

The provision of the loan has changed the FCDO's relationship with the British Council. We are not only a sponsor, in terms of the delivery of the grant in aid that we are looking to the British Council to deliver and, as the accounting officer, the value for money of that grant in aid; we are also now a lender to the British Council, so we have commercial responsibilities to ensure repayment of that loan. Our relationship has changed, but the grant in aid relationship is still at the heart of it.

The SR outcome that was agreed recently for the three-year period did two things. It increased, compared with the baseline, the grant in aid that we are giving the British Council, which is a signal of our intent and our seriousness in supporting the British Council and the grant in aid activities, not least because we were facing a 40% cut in our ODA budget at the same time. It has also sustained that over a three-year period.

Scott McDonald: Thanks for the question, Sir John. We see ourselves as a soft power entity. We have 8,000 people around the world operating in 200 countries, touching about 700 million people each year. The purpose of that is to build connections, understanding and trust between the people of the UK and the rest of the world, to support UK growth and to support UK security, ultimately. We do that on a Government grant budget that is a fraction of the size that every other country like us receives.



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Despite that small grant, we are the best known and, I think, most effective cultural relations soft power organisation in the world. The magic of that has been that we have combined that small grant with a significant ability to earn other income—from teaching English, doing exams, running development contracts, bringing in money from corporate partners or philanthropy—to really amplify it. It is the combination of all that that has made the British Council so famous and effective.

As Nick points out, a significant portion of the British Council generates other income because we have to, because the grant is so small. But we do not have shareholders: all the money we generate from that income is put towards the purpose of UK soft power.

- Q5 **Sir John Whittingdale:** But essentially there are two competing objectives. You say that the combination strengthens the British Council, but does it not create a tension? The parts of the world or the countries where you are most likely to generate significant returns are probably not those in which it is most important that we exert influence against the other countries that you have suggested are pouring huge amounts of money into their own soft power.

Nick Dyer: Given the shifting geopolitics that we face—as you know, Sir John—shoring up soft power across a whole range of countries, not only the poorest and those most in need of grant aid, is benefiting the UK. Look at a country like India, which has a whole range of geopolitical interests. We want to build trusted relationships with India, and the British Council has a role to play in that. It is not only a grant in aid relationship; the business relationship can also help.

In the past, given the profits that the British Council has made and has put back into the grant in aid business, it has clearly benefited from the commercial operation. But the market has changed and the commercial operation is facing a crisis, as I say. That now presents a complex relationship and a complex challenge. We have to fix the financial sustainability of the British Council to put it back on a path where it can do both parts of its work, and do them well.

- Q6 **Sir John Whittingdale:** Could you draw up two different columns? In one, you would have countries such as France and Italy: well-developed, active democracies where the British Council is active and, I hope, generating lots of money, but where it is probably not a huge priority to have British influence.

Against that, you would have countries such as Moldova and Armenia, where I suspect the return is less but where it is important to have a British presence and to present an alternative narrative to that which the Russians are clearly spewing out. Could you separate the two activities of the British Council into clear soft power targets and clear commercial operations generating revenue?

Scott McDonald: I agree with the point that Nick was making. The soft power that we provide and the trust-building around the world is relevant everywhere. It is relevant for us to build strong partnerships and

commercial relationships in France and make sure that it remains a strong ally; it is also relevant in places like Armenia, Ethiopia or Venezuela.

You are right that there is always a bit of a tension between where we are generating income and where we use our grant to support activities, but the magic of the British Council, in a way, is that we can put that all together and provide this big, powerful, effective cultural relations organisation that almost no one else in the world has.

One thing we often run into is that people look at the British Council and say, "This is complex and it creates tensions and issues, so we should just split it. We should have the commercial arm over here, and we should have the—effectively—soft power arm over here." The problem with that is that we would have a tiny soft power arm compared with the rest of the world, and a commercial business on the other side.

It is the combination of the two that enables us to be so effective. Because of that, we have to live with some tension and ambiguity.

Nick Dyer: To add to that, how you have soft power effect is going to change because the market is changing. A lot of the market is moving digitally, and one mistake I think we can make is to conflate physical presence with effect.

We need to focus on the output that we are looking to achieve, which is improved trust in Britain. Can we achieve that through a digital presence as much as through a physical presence? That is the challenge that we are now facing, as a lot of the market is moving online. We have to test that and keep on top of it as we go forward with this turnaround plan.

Q7 Chair: I have been mulling this question over in my mind, so I am going to come out with it. After the post-war settlement, Britain was regarded as one of the best nations in the world for soft power. Now, we seem to be dumbing down the World Service and dumbing down the British Council, all for the sake of money.

Surely it is not just about money, is it? It is about promoting British values, democracy and a whole range of other things that the British Council does. I really wonder whether we are penny-pinching against British interests around the world. As soon as the British Council or the World Service gives up a spot, we know that it is immediately taken by the Chinese, the Russians or somebody else with completely different interests from our own.

Nick Dyer: That point deserves a much longer conversation around information, misinformation and how you develop and promote soft power. Soft power comes from the British Council, the BBC World Service, the Premier League, arts and culture and Britain's fashion industry. That is what the Soft Power Council was all about: it was designed to bring world-leading thinkers and representatives of Britain's great cultural and art industries together to ask ourselves how we can use those networks and improve our effect globally.



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I accept that there is a challenge in ensuring that we sustain the impact of the World Service and the British Council when we are facing financial constraints. I do not think that it is impossible; I think that what we are doing in changing the business model in the British Council is part of that, moving digitally and online. But soft power is a much broader concept. We need to make sure that we have our eye on, and are supporting, all those elements of soft power.

Chair: I am sure that we or others will come back to this problem. Let us start getting into the specifics. To enable us to do that, Clive will ask about business recovery after the pandemic.

Q8 Mr Betts: We have heard about all the conflicts and difficulties in squaring the various objectives of the British Council. But the letter from the Minister to the Foreign Affairs Committee says very clearly, about the withdrawal from the countries that you announced withdrawal from, that it is not “any reflection of the importance of our outreach work in the countries...but primarily on the basis of where the greatest savings can be realised”. In other words, in the end, commercial considerations trump the issue of soft power, do they not?

Helena Vega-Lozano: Can I jump in on this one? I have been in the role for about nine months, so I have a sort of outside-in perspective. I think that any organisation, whether it is purely charitable, Government or private sector, is ultimately going to operate within a financial element, no matter whether the money raised for it to operate is grant in aid, or from fundraising or purely commercial activities.

For me, what that communication reflects is that ultimately, the British Council—like any organisation—has to operate within a financial envelope. That is partly grant in aid, which is just short of £200 million—that is about as high as it has ever been, despite the wider cuts we are facing within the FCDO. That signals our support of the British Council. The financial envelope is also substantially driven by the commercial business, which provides multifaceted benefits, not least promoting the brand and values of British culture through teaching and education.

What the communication is referring to is that no matter what lens the British Council has, there will always be a financial envelope. Within that, in the current environment where there are always going to be constraints, there are efficiencies that need to be made to make sure that the British Council, which has generated a loss of between £40 million to £90 million over the last five years, becomes profit making again. It is not about huge profits, just stability and getting on an even footing.

Q9 Mr Betts: I think that was a “yes” in answer to my question. Let us look at the situation in the last few years. Of course, covid hit the British Council like it did many other organisations, but the British Council was not in a great situation before covid, was it? It had not really adapted to the changing world, including the lower growth and forecast in the India exams business, which, as has already been reported, was a major driver of revenue in the past. The British Council went into covid in a vulnerable



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position, about which it probably should have done more beforehand. Is that fair?

Scott McDonald: That is one for me. In the 10 years before covid, we had had a really good run in terms of other income at the British Council—it grew through those years at about 10% a year. I think we went into covid with a relatively robust, well-run business. Overnight, our business dropped by 28%, because a lot of it was face-to-face teaching and face-to-face exams.

There is a case for saying, “You should have been much further ahead on digital provision at the time,” but if you compare us to all our competitors—the purely commercial competitors out there—they were all hit as badly or worse than the British Council. I do not think we were particularly unprepared.

Q10 **Mr Betts:** Nevertheless, you were not prepared.

Scott McDonald: I do not think many companies were prepared for covid or the drop in business we saw.

Q11 **Mr Betts:** The issue was that you had changes to your business going on, particularly with the exam situation in India, and you had not really adapted, had you?

Scott McDonald: I do not think that is fair. I think our business was robust at the time, but all of a sudden, the world shut down. The teaching and exams we did around the world stopped; that affected everyone else as well as us.

Q12 **Mr Betts:** Right. When that happened, you were also in a situation where you basically had no reserves. If a business is looking ahead, it always has to have some contingency to take account of unexpected shocks and changes. The British Council did not, did it?

Scott McDonald: That is one of the core questions we will get into today, because that is accurate and part of what caused the problem. But the important thing is the reason why we did not have reserves. The reason we did not have them is that we were using all that money to do UK Government business.

Q13 **Mr Betts:** That is not the best answer I have ever heard, quite frankly.

Scott McDonald: It is an accurate answer. In the five years before covid, because our non-ODA grant had been cut so much, we used £128 million to do those operations.

Q14 **Mr Betts:** The Foreign Office was asking you to do things and withdrawing the money for you to do them. Therefore, the Foreign Office was presumably quite comfortable with those reserves being cut. Is that right?

Nick Dyer: The fact that the British Council was using some of the profits from its commercial business to support the grant in aid was a good thing from the FCDO side. But the reality is that the grant in aid revenue is only 15% of the British Council’s overall revenue, so it was a smaller part of the

business. The British Council is operationally independent and responsible for day-to-day operations.

If we all look back in retrospect, we would all be saying that the commercial size of the business would have pointed to looking to build up more of a buffer that would be needed and could be used in times of difficulty. At the same time that the British Council went into the pandemic with its reserves position, another charity, the National Trust, had, I think, three months' reserves at that time. There was an alternative option. You could argue that the commercial need was to have built up reserves. But the reality was that the pandemic basically upended the business model.

- Q15 **Mr Betts:** Scott McDonald just said that the reserves were there but were cut because the Foreign Office made a cut in grant, so the Foreign Office did that and must have been comfortable with how the British Council responded. Is that correct?

Nick Dyer: Ultimately, the British Council is responsible for the day-to-day management of its operations.

- Q16 **Mr Betts:** But the Foreign Office oversees it, doesn't it?

Nick Dyer: We are the sponsor of the British Council, but the day-to-day management of the British Council is the responsibility of the British Council.

- Q17 **Mr Betts:** Day-to-day management of the details is one thing, but in terms of using all the reserves to substitute for a cut in grant, is that not something that the Foreign Office should have overseen?

Helena Vega-Lozano: Can I make an interjection? If we are going back in time, this is well pre covid. Up until 2020, I think, the British Council's reserves policy was £50 million, which was about a two-week reserve for its cash requirements to support the overall business model. That is all well and good when the business model is great, but, of course, it is going to be a problem when the business model gets into trouble. Part of that was compensated for by a very steady level of grant in aid funding and support.

The British Council changed their funding policy to what I would regard as a much more normal policy of three months. That is what it is now; it changed that just after covid struck around 2020. One question is, "Was the reserves policy the right policy?" I would say there are some reflections to be made and lessons to be learned there.

There is another question, which is, "Was it right for the British Council to draw down on the reserves at a time of need?" For me, the answer is, "Absolutely. That's what reserves are for." When that ran out, we supported with a loan and the two in tandem kept the British Council going. Right underneath it was a reserves policy that was probably too low and is now better. That is a reflection of a lesson learned.

- Q18 **Mr Betts:** Okay. Let us move on to what happened subsequently. A recovery plan has been in place, but it has not achieved its objectives, has

it?

Scott McDonald: I will talk through that. In 2020, we came up with what I am going to call restructuring plan 1. That was then, and then we came up with the new restructuring plan last year.

In 2020, we realised we were in a deep hole. We had taken the loan from the Government, and we came up with a restructuring plan to make the British Council profitable again. With that restructuring plan, we wanted to drive about £450 million in surplus improvements over the period: a third from cost savings; two thirds from growth.

We did a whole series of things to help to support that. We sold our business in India to generate cash, so we could invest in the restructuring; we closed in 18 countries around the world to save money; we outsourced our back office to TCS to save money and become more efficient; we made organisational changes; we focused the business down; and we stopped doing activity in areas like social enterprise or justice. We attempted to deliver that plan.

In the end, we delivered 100% of the cost cuts that we planned to make. We sold the assets that we planned to sell. We did not deliver the growth we predicted at that time. We had predicted a real bounce back from covid and then strong growth through the period. That did not materialise and that is what has created the hole, which is why we have had to go back again now with a second restructuring plan to cut costs further.

Q19 **Mr Betts:** So it was purely about failure to grow?

Scott McDonald: It was the failure to grow. That failure to grow was driven by—you can look at many things—the fact that it has been an incredibly tough market over that period for the businesses that we are talking about. Our biggest business is in English assessment exams and that is basically based on migration around the world. When migration slows, that business slows enormously.

If you look at our main partner-competitor, IDP, which shares the IELTS business with us, over that period its share price has gone from \$40 to \$2. This has been a tough period. I am not trying to make excuses—we need to run that income generation and do the best we can—but that is what has driven it.

Q20 **Mr Betts:** Are there things that you should have done better during that period?

Scott McDonald: We are having to come back now and do much more substantial—

Q21 **Mr Betts:** We will come on to the current turnaround plan in further questions—

Scott McDonald: We are having to do much more substantial cost-cutting. With the benefit of hindsight, we probably should have cut costs far more at the beginning.

Q22 Mr Betts: Right. When you have looked at cost-cutting in the past, have cut costs at the senior management level as much as at the lower levels?

Scott McDonald: I think the cost-cutting has been across the whole British Council.

Q23 Mr Betts: Have you reduced your senior management team at all?

Scott McDonald: It depends which level you look at, but the answer is yes. Lots of senior managers have left the British Council.

Q24 Mr Betts: At the executive level?

Scott McDonald: If you are talking about my specific team of 10 or so, that team is still 10, but there have been changes in it.

Q25 Mr Betts: At the very top level, you have not made reductions.

Scott McDonald: At the top of an organisation, you usually have someone who's running each unit and each function. It's hard to run that with a much, much smaller group.

Q26 Mr Betts: Okay. Nevertheless, organisations tend to reduce at the top as well as at the bottom, otherwise you get a completely top-heavy organisation, don't you?

Scott McDonald: Yes, but I think we have reduced at the top. It's just that the size of my specific team is no different. I mean, from the peak in March 2020 to a few months ago, we have reduced the size of the British Council—the number of people there—by 34%, and that is at all levels.

Q27 Mr Betts: It isn't at all levels. You just said that you have not reduced the size at the very top.

Scott McDonald: I don't know if you have ever been involved in a restructuring where suddenly they say, "You only need five people at the top, versus eight or 10."

Mr Betts: Yes—I have seen those done.

Sir John Whittingdale: Arguably, that is exactly what is happening next door to you in the Foreign Office.

Q28 Mr Betts: Are you actually reducing the number of permanent staff and employing consultancy staff and agency staff to a higher degree?

Scott McDonald: Are we reducing the number of permanent staff?

Mr Betts: And employing more consultancy and agency staff?

Scott McDonald: No, I don't think so. I mean, we are reducing the number of permanent staff. There will be temporary use of consulting staff to do things, but we have also been reducing any agency or consulting staff as well.

Q29 Mr Betts: How far do you use Tata Consultancy Services to provide staff for you?

Scott McDonald: Not significantly.

Mr Betts: Could you give us some figures on that, because presumably agency staff cost an awful lot more than directly employed staff for the same job?

Scott McDonald: I can happily send you some numbers on that. But when you do a restructuring like this, you generally start with all the agency staff, because they are more expensive.

Mr Betts: I understand that that is not what has happened, but perhaps you could let us have some information about that.

Q30 Chair: Nick, I question whether the Foreign Office has given the British Council enough financial support since the pandemic. Bear in mind the fact that a lot of the organisations that were supported by the Government during the pandemic—sporting organisations and others—received grants, rather than loans. It seems to me that, although there may be some fault in what the British Council did—perhaps it did not react quickly enough to the commercial situation—you rather left it dangling on a string.

You started with a loan of £60 million, and that is now £197 million; you made it go through all sorts of very expensive reviews with the top accountancy firms, which cost £1 million; and you made it pay a full commercial rate of interest.

All that culminated in someone in the British Council—I do not know who the letter came from—saying last year that they doubted whether the British Council could continue as a going concern. In other words, it was about to go bust. I ask you in all sincerity: has the Foreign Office financially supported the British Council enough over the last five years since the pandemic?

Nick Dyer: I think we have, and I say that for a number of reasons. First, the British Council is a complex commercial business akin to a FTSE 250 company—it is of that size.

The British Council faced a real commercial upheaval during covid. At the time, it asked for a loan of £300 million, and we provided a loan starting at £60 million, but that was based on a commitment to do a turnaround or transformation plan. The British Council then produced that plan, and as the Report shows, the loan was increased, restructured and ultimately combined into the £197 million.

We have sustained our grant in aid support. It did go down during the covid period, but that was as much to do with the fact that the British Council could not actually deliver on its grant in aid activities, so the grant in aid funding was reduced.

Q31 Chair: Presumably, it still had overheads during the covid period.

Nick Dyer: So we front-loaded it; we allowed £80 million of that grant in aid to be front-loaded right at the beginning of the period. Normally, it

would be over a 12-month period, but we front-loaded it to right at the beginning of the pandemic.

Subsequently, during the last grant in aid period of this SR, we increased the ODA to the British Council by £15 million to help with this restructuring of the grant in aid business. This year, we have given it an additional £10 million to help with its restructuring. We have also allowed the British Council to use the sale of its Spanish and Portuguese business to reinvest in its restructuring.

Ultimately, at the heart of this is a question about whether the loan is commercial or not. As accounting officer—the Committee knows this better than most—I have a responsibility to ensure that the support we give to the British Council is regular.

The legal advice that I have taken is that this loan is subject to the Subsidy Control Act, and therefore we have to treat it as a commercial loan. What we have been doing over the last five years is trying to find a solution that can underpin both the turnaround and restructuring that is required and the terms of the loan, which, together, can put the British Council on to a long-term, sustainable footing. The good news is that I think we have got there.

Scott McDonald: Our relationship with the FCDO is a good and productive one, and there has been significant support since the pandemic. I will make some further comments, but I want to highlight that the loan during the pandemic saved us, and we appreciate and remember that. The support through grant in aid in the most recent round has also enabled us.

This is a really good news story. When I was at the Foreign Affairs Committee in October, I was talking about possibly having to shut down 30 or 40 countries to make the numbers work. We had more money in the spending review settlement in an environment where the Foreign Office is under enormous pressure, so we again appreciate that. That is good, and they are providing support where they can.

The nub of the question is what Nick referred to at the end. Are we a commercial entity, or are we an entity providing soft power for the UK? If the decision is that we are a commercial entity, Nick and his colleagues have no choice but to structure a loan in the way that he described. This is our only point of disagreement, really. We do not see ourselves as a commercial entity, and we have never operated like one.

I want to give you an example. We have a teaching business, and you could say that it is a commercial teaching business so we should maximise the money we make from it, but because we are the British Council, we have some constraints. We also support the English teaching sector, so we do not teach English in the UK, which would be an obvious thing to do, but we do not do that.

We also do not teach other languages around the world—that is the most obvious thing to do as a language school. If you are Duolingo, you teach

all languages; we should be teaching Mandarin, French, German and Russian all around the world to make money, but we do not do that because we are the British Council.

We also teach English in places that have huge security costs, so it is almost impossible to make money—Ukraine, Myanmar and Venezuela. We have not developed a big partnership with a technology or private equity firm because we value the integrity and trust in the British Council brand so much around the world that we want it to be solely from us. We have high overhead costs because we are the British Council. We need to be the gold standard on things like safeguarding around the world, and we cannot be running an operation that cuts any corners.

I am trying to make the point that we are not really a commercial organisation, but let me finish by saying that the Government's judgment now is that we are. Those are the constraints that Nick and Helena have, and within that context, I think we have structured a good deal for now.

Q32 Chair: Let us stop you there and return to Nick. You are presiding with the FCDO over a contracting organisation. The Minister's letter makes it clear that you are closing all these offices. The British Council, as part of its restructuring plan, has cut 2,000 staff, and you want it to cut another 2,000 staff. That is not the way to run a successful organisation, because it must have a very depressing effect on the staff. If we are simply contracting the organisation, whether on its commercial side or its soft power side, is this really the right way to proceed?

Nick Dyer: From our internal experience of living within financial constraints and the restructuring that the FCDO is going through, I know how difficult this is and I know how it impacts individual staff members on a personal basis, but ultimately we have to look at and rethink our business model to be able to deliver our objectives in the best way possible within the constraints that we are living under.

It is exactly the same for the British Council; it is living within a financial constraint—it is facing the worst financial crisis in its history. We want the British Council to survive and to provide soft power for Britain, and we consider that this is the best way of securing its long-term future. The alternative is that it will go out of business, and we do not want it to go out of business.

As I said previously, we need to conceptualise how you produce and deliver soft power in a digital world. The British Council entered the pandemic with a business model that had high fixed costs, delivering in-person teaching and exams. It now has to move to a model, and is moving to a model, where it provides more of that digitally and online, and the in-country and in-person teaching and exams are shifting to where the people are as well. That is just the reality of a changing market.

I keep going back to how this is about how you have operational effect when delivering soft power in a changing market. How do you shift your operating model? That is what the transformation plan and the loan



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restructuring will allow us to do. Ultimately, do we want the British Council to survive? We absolutely do, but in the world that we live in, it has to do it in a different way.

- Q33 **Chair:** I hear that, but it is not going to return to profitability until 2030, and it is going to take it another 15 years to pay off this loan. Is that really a sensible way to proceed?

Nick Dyer: What it does is underpin the financial sustainability of the British Council. It provides it with a cash flow so that it can operate, repay the loan and deliver soft power. I think that is quite a good deal.

- Q34 **Chair:** Presumably, it will contract further over the next 15 years.

Nick Dyer: The turnaround plan is clear on what it has to do in terms of efficiency savings, which includes cutting staff, but it also includes changes to the operating model, investing in its digital footprint, changing the fee structure for its exams—

Chair: We've heard all this.

- Q35 **Rachel Gilmour:** I have to say that I am very saddened to hear about the state of the British Council. I came across it as a teenager, and I know just how important the soft power element is. I have a degree of sympathy, but that is not to say that there are no problems. Nick, what assurances did you take from the external reviews of the turnaround plan?

Nick Dyer: As Scott laid out, the heart of the problem with the original transformation plan between 2020 and 2025 was a failure to grow revenue. We have had three recent external reviews—Helena may come in on this. One was to look at the cash flow and see whether the British Council would be insolvent and go out of business, one was to look at the revenue side and another was to look at the cost side.

To me, the revenue review was particularly important because the learning from the previous transformation plan was that we did not hit our revenue targets. The EY review on the revenue side still pointed to over-optimistic targets on revenue and suggested that we brought those down, and that has been reflected in the turnaround plan. That gives me reassurance that the revenue is better underpinned by good, sound analytical judgment.

Similarly, the Deloitte cost structuring review gives us reassurance. That is the point of these independent reviews. We have transformation experience within the FCDO, but we do not have it readily available, which is why we turn to independent studies to give us that assessment.

- Q36 **Rachel Gilmour:** I would like to hear from Helena, because I think she has been very impressive so far. Going back to the financial side of things, given its financial position, how useful was it to charge the British Council more than half a million pounds for external consultancy reviews?

Helena Vega-Lozano: I will add a little addendum to Nick's answer, and then I will answer the question directly.



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There are a couple of things I want to highlight from the reviews. It is absolutely right that the independent review pressed down particularly on the original revenue model. That is the most sensitive thing in all this restructuring; it is the most unknown and most uncertain. It is where you need teaching and exam expertise, which is very specialised.

The revenue review done by EY recommended that revenue was reduced on teaching, which is the bit of the business that is loss-making—exams has bounced back and is now on a very clear path forward to profitability. The recommendation was to reduce face-to-face teaching by 30% and digital teaching by 55%.

Those were quite material, and the restructuring plan was adjusted on the back of it, which gives us confidence. I thought it would be helpful to have that window into which bits of the plan are particularly sensitive and which bits the reviews provided advice on. It was quite tangible and practical.

The other thing the reviews really helped with was the grey zone of insolvency, which was referred to in the letter sent from the trustees to the Foreign Secretary at the end of last year—it was really concerning. The review was really helpful. In the letter, it was suggested that insolvency might kick in this year, and the review said that, with some very practical interventions that would not have any material negative impact on the business, the organisation could keep going until '27, even before executing the restructuring plan. That does not mean it is home and dry, but it does give more breathing space, and that was really valuable. I just wanted to point to the real specificity and value there.

To your point about the amount of money spent on consultancies, there were a number of different reviews. There was one on the turnaround plan itself that looked at what our options were with the turnaround plan and what that means in terms of loan financing. That was about £60,000. There was another review on the cash flow, which I have talked about.

There were two further reviews: one on revenue and one on cost. The most significant one was on revenue, which is where the bulk of the money, £300,000 or so, was spent, for the exact reason of being able to stand behind the revenue expectations going forward.

Standing back from all that, in the covid and post-covid era when the British Council missed its revenue targets, it had targeted growth of 16% year on year, which is reasonably punchy for any organisation. Now, the targeted growth is 6% year on year. It is much more pragmatic and balanced, which is in large part due to the reviews.

Q37 Rachel Gilmour: You are talking about a much more measured, pragmatic and therefore realistic approach. That has a positive impact for staff, morale and things like that, because you are not over-promising and under-delivering.

Helena Vega-Lozano: Yes, and we are homing in on the most uncertain part of the business, which is the teaching. The teaching business is what



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is not making money. The exams business is world class, and that bounced back within a couple of years after covid.

- Q38 **Rachel Gilmour:** How realistic are the plans to repay the loan capital in full within 15 years? I do not want to go back to where we have been in other PAC meetings, where people come here and overblow what they are going to achieve, which inevitably means that they return in a year and we get rather irritated. I would like an honest and frank assessment: what is the current status of the capital loan, and how realistic are the plans to repay it in full over the next 15 years?

Scott McDonald: We have a restructuring plan, which is more prudent than the last plan—we can get into the detail of that, if you want. If we deliver that plan perfectly, with no missteps whatsoever—

Rachel Gilmour: Which is unlikely.

Scott McDonald: If we do that, we will be in a position to start repaying the loan with all the profits we have in the first year. One of the challenges is that we have negative reserves now and will still have negative reserves at the end of the period, which means that if there is any crisis—either a big crisis like covid or a mini-crisis—there is no flex in this plan. If everything goes perfectly, we will be in a good position to deliver it, but there is significant risk because of the level of the reserves.

Nick Dyer: It is credible. I would not say that it is fragile, but there is risk. The question is how we are managing the risk. Are we putting in place the commercial capability—the British Council is appointing, or has appointed, a chief revenue officer—and commercial expertise inside the British Council?

We are putting in place a governance structure that allows us to see, on a monthly basis, the progress against the restructuring plan, with quarterly reviews between Helena and Scott, so that we can catch early if things are going off track. One of the lessons from the transformation plan is that, given that we had repeated reassurances about returns to profitability that did not turn out to be correct, we need to be in a much better position to interrogate what is actually happening and get beneath the bonnet.

- Q39 **Rachel Gilmour:** On risk, what is the likelihood that the mechanism that triggers additional repayments will be triggered in the next five years? That is a risk.

Helena Vega-Lozano: Can I make sure that I understand the question. What is the mechanism that will trigger additional repayments?

- Q40 **Rachel Gilmour:** It is about the likelihood that the mechanism that would trigger additional payments will be triggered in the next five years. Sorry about the double “trigger”, which is not good.

Helena Vega-Lozano: Without wanting to front-run wider conversations with the Treasury, there is a grace period in our anticipated restructuring of the loan, during which the British Council will pay interest only. That interest will largely come from trapped cash—I know that has previously



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been a topic of questions—in countries like Pakistan, where it is really difficult to get money out because of foreign exchange controls. That money, which is quite a sizeable balance—it is well over £50 million at the moment—just sits there, and it is subject to foreign exchange movements, which are often negative, resulting in devaluation and the money being worth less year on year.

Going forward, the interest payments on the loan will largely be covered by trapped cash, which gives the British Council a significant holiday in the cost of the loan, for a period, until it is back to profit. The plan is that the British Council will not make any capital repayments on the loan until it is back in profit and on a stable footing.

Rachel Gilmour: You might have just stolen Tris's thunder on trapped cash.

Chair: Let us bring in Tris now.

Q41 **Tristan Osborne:** I am going to ask a series of questions on the business plan going forward, using some examples from the past. I will start with trapped cash.

One of the solutions might be a revenue offset position where perhaps the Foreign Office is funding its embassies less and this money is used. The Report highlights that there is a lack of clarity and there are ongoing conversations. Do we have a much firmer position on what that looks like? You are relying on that as a loan offset solution, so I guess there must be something more substantive going on behind the scenes.

Helena Vega-Lozano: There is. There has been quite a lot of work, partly from a broader Government perspective and also within the FCDO, on how much money we can usefully use in each of the countries where the British Council has trapped cash year on year, so that we are using local currency to pay what we call country-based staff and we are not having to convert currency back to sterling, which is the problem.

We think we can spend about £8 million to £9 million a year in local currency where the British Council has trapped cash. We stand shoulder to shoulder with the British Council in saying that we will absolutely use that money to pay interest, to pay down the loan in capital or for any other financial exposure between the two organisations, but the current plan is to use it to pay interest. I think we have more clarity on the specifics and the numbers now.

Q42 **Tristan Osborne:** I have one question on income and a couple on the scale of the organisation. Clearly, over the last few years, the proportion of income from exams and teaching has reduced. Had we seen that trend over the previous 10 years? For instance, it was 65% in 2020 and it has gone down to 53% now. Was there a medium-term trend of a decline in percentage share? In other words, was there more competition from other countries or from English courses? I am trying to understand whether we saw it coming or whether it was genuinely a covid issue.



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Scott McDonald: Let me talk historically about the two pieces of the British Council—the grant and the commercial income. The grant for the British Council was £200 million in 2010. If you run that through inflation until today, it would be about £320 million. Our grant last year was £160 million. The grant for the British Council has consistently gone down over time, which is why we have had to invest in continuing to grow the commercial income.

In the decade before covid, specifically the last five years, that commercial income was growing pretty consistently at about 10% a year, with exams being the fastest grower and teaching a little slower. The business looked healthy in that period, which makes sense, because structurally there was more and more demand for the English language around the world.

When covid hit, it immediately went down—it dropped nearly 30% in one year. Since then, it has been growing much slower. As I said earlier, we missed our revenue growth targets in the period after covid, but the overall commercial businesses still grew at 6% a year. We just didn't grow them at anywhere near the high numbers of the plan we had created.

Q43 **Tristan Osborne:** Lastly, I have a question on the scale and scope. I understand from your website that you currently have offices across the UK—in Cardiff, Scotland and Northern Ireland. I understand that you are a soft power, but have there been questions about whether your headcount is best deployed? Having a soft power within the UK seems counterintuitive when we are cutting services in other countries around the world.

In terms of your management plan, will you do something similar to 2009-10 and reduce headcount? Headcount in the organisation has gone up significantly in the last 15 years. I know the Report talks about FTEs, but the rest of your headcount is significantly higher than in 2010 to 2020. When you rationalise, will you rationalise in the right places? Having four offices in the UK does not necessarily seem to be logical to me, because who are we influencing in this country?

Scott McDonald: It is a good question. The short answer is that yes, we will be rationalising in the UK. We have four offices here, but there are four offices for a reason. We are not doing traditional soft power work. We represent the four nations of the UK at the British Council, so we work very closely with the Scottish Government, the Welsh Government and the Northern Ireland Government.

We have very small offices in each of those places to make sure that we are engaging with the Government and delivering the desires of those nations as well. That is why we have them there. But they have shrunk: the footprint has shrunk and they have gotten smaller. We used to have a significant operation in Manchester, which we closed last year. We closed the office there.

On your broader headcount question, from the peak of covid we had 11,800 people; if we manage to deliver this plan, by the end of 2029-30 we will have 6,400. We will have reduced the British Council by 46%. So



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there are severe and pretty harsh headcount cuts that will be coming everywhere, including the UK. In a way, it is similar to what Nick is having to do in the FCDO: as you cut, our strength is out there in the world, on the ground in the countries, so we want the centre to be as small as possible.

- Q44 **Sir John Whittingdale:** I have a couple of questions about the loan. During covid, I was a Minister in the DCMS, which handed out grants to a huge range of commercial organisations through the cultural recovery fund. You are very clear that there was no way in which that could not be a repayable loan rather than a grant.

Nick Dyer: We have taken legal advice on this, and the Treasury is also clear on its position and understanding, which is that this loan is subject to the Subsidy Control Act.

- Q45 **Sir John Whittingdale:** From looking at the repayment that has already taken place, I see that none of the capital has been repaid but considerable sums have been given back in interest. That is going to continue throughout the remaining term of the loan—

Scott McDonald: John, may I interrupt to you for one second? The loan was up to £250 million at one point, and we sold the Indian business and paid back just over £50 million, so we did make one big repayment.

Sir John Whittingdale: Was that through the sale of the—

Scott McDonald: That was through the sale of the Indian exams business.

Sir John Whittingdale: Right, and otherwise the loan is not going to be repaid for some time but the interest is going to go on clocking up.

Helena Vega-Lozano: The interest payment, depending on interest rates, is roughly £12 million a year, and £8 million or £9 million will be paid from trapped cash, so the sterling payment of it is about £3 million a year, give or take. In the grand scheme of the restructuring of the British Council and the return to profit, it is not the biggest challenge that they are going to face. I do not want to be light on any amount of money in this context, because it is all really important, but it is a few million pounds in sterling and £8 million or £9 in trapped cash that is otherwise just sitting there.

- Q46 **Sir John Whittingdale:** When you and I have spoken previously, with me wearing my other hat in the FAC, there was talk about the trapped cash being utilised for other Foreign Office expenditure in country. Is that still a possibility?

Helena Vega-Lozano: Yes, absolutely, and that has now been agreed. We have to agree this with the Treasury, on a very broad basis, and, of course, with the British Council. It has been agreed with all parties that trapped cash will be used in country for FCDO purposes.

- Q47 **Sir John Whittingdale:** How much trapped cash does that release?

Helena Vega-Lozano: About £8 million to £9 million a year.

Rachel Gilmour: That is a significant percentage of what we are talking about, every year.

Sir John Whittingdale: It would help, yes.

Helena Vega-Lozano: It largely covers the interest payments—not completely, but largely.

Chair: Our having uncovered that bit of good news, it is this Committee's habit to have a break in the middle. The clock is almost at 11; if we could be back here by about five past, that would be really good. Thank you all very much; you can hear the Committee's frustration, but at least we are hopefully adding a little clarity to the situation.

Sitting suspended.

On resuming—

Q48 **Mr Betts:** Why has it taken so long to agree to a restructuring of the loan? It has been pretty obvious from the very beginning that the way it was formulated was not viable, hasn't it?

Nick Dyer: The way I would characterise it is that we have taken the time to get it right. The lesson from the previous turnaround plan—the transformation plan—was a failure to deliver on the revenue. As I said before, we have a commercial responsibility to apply the Subsidy Control Act to ensure that there is a sound turnaround plan. We wanted to take the time to get the reviews on the revenue and the cost side to give us real, independent assurance that the turnaround plan was a sound basis on which to go forward.

We lost a little bit of time—not a huge amount of time—when we got the letter from the trustees to say that they were facing insolvency, so we had to sort that out. We wanted to make sure that we did that cash-flow review as well. The time it has taken has given me reassurance, as the accounting officer, that we do have a plan and a restructuring deal that will get us on to a sustainable footing.

Q49 **Mr Betts:** Wouldn't we have had that deal more quickly if the loan had been renegotiated more quickly?

Helena Vega-Lozano: Perhaps I can step in. In my view, you can only renegotiate the loan up to a point without knowing that the underlying financial information is robust. In fact, as we have talked about, there were some changes and flex in the underlying restructuring plan as a result of the reviews.

You can talk about the restructuring of the loan in principle, but you have to link the restructuring to the performance of the organisation, which has to have a strong plan underneath it. The two have to be in tandem, and the final loan terms can be sorted only after the underlying performance is locked down. You cannot front-run it—you cannot do the loan restructuring

before having the financial performance—and that is why it has taken this amount of time.

Q50 Mr Betts: To what extent was the Treasury a constraining factor on getting an earlier settlement?

Helena Vega-Lozano: There have been really frequent conversations with the Treasury—certainly every few weeks since my tenure, which has been nine months or so—on a whole range of issues, but absolutely including the British Council. I do not want to speak on behalf of the Treasury, but I can say that everyone is aligned on wanting to get the British Council back up on its feet, and to sort things out and make sure that any restructuring of the loan is not a penalty, and is not going to be overly burdensome to the British Council, but gives it the breathing space to get back on its feet before paying down capital.

So no, the Treasury has not been a constraint. They have been very supportive in terms of moving forward with a long-term restructuring that includes the payment of capital, while having a pause while the British Council gets back on its feet.

Q51 Mr Betts: How far has the British Council's ability to do an effective restructuring in a timely manner been constrained by the fact that the loan negotiations have still not been finalised?

Scott McDonald: Since I arrived in the role in 2021, it has become apparent to me that we would need to do something on the loans. I have been frustrated with the changing Administration over that period. It has been very hard to get something done.

Over the last six or eight months—essentially since Helena arrived—we have made good, solid progress. Even that has constrained us, because we cannot act until we actually know what the result is, but we have been working fast and productively since then.

Q52 Mr Betts: You could have been a lot more productive and effective if the negotiations had happened three years ago.

Scott McDonald: Yes.

Nick Dyer: Mr Betts, can I add something to that? If you look back at the history of this, when the pandemic hit, the Foreign Secretary at the time initiated a review, which reported in February 2021 and set out the basis for the transformation plan.

It took until about September 2024 for all sides to really understand that the transformation plan was off track, because the revenues were not materialising, which meant the British Council would continue to make a loss and not be able to repay the loan. That triggered a whole series of new reviews to try to reset. It was not as if we did not have a plan; it is just that that plan went off track. We now have the basis of a new plan that we think is more credible.

Q53 Mr Betts: The fact that the loan was set up as it was, without any



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changes and renegotiation, which is now finally happening, has made the development of a new plan much harder. If it had happened earlier, the whole approach to the transformation could have been different and more effective.

Nick Dyer: There was a repeat game of everybody thinking that the British Council would return to surplus quicker than it would have done. We were all reassuring ourselves that we thought it would get back to surplus and therefore the loan could be repaid, but that turned out to be unrealistic.

Q54 **Mr Betts:** But it was becoming unrealistic quite a long time ago, wasn't it? It is not something that suddenly happened—"Dear oh dear! We're suddenly not generating the revenue we thought we would." That has been pretty apparent for the last three or four years.

Nick Dyer: Scott may have a view on this, but it became absolutely apparent in September 2024 that the British Council was saying they were increasing their forecast of the loss they were going to make in 2024. They also forecast that the return to surplus in the next year wasn't going to happen.

Q55 **Mr Betts:** That is September '24; we are now at July '26. That is not quite, but nearly, two years later. This is what I am saying. It was apparent at that time that the British Council was not in a realistic position in terms of the loan. It is not even concluded yet, and it has taken two years to come to the near conclusion you have reached.

Nick Dyer: Yes. The first six months of those two years was the British Council taking on a chief transformation adviser, who joined the business to design a new turnaround plan. That took six months until August 2025. There was then a whole series of reviews, conversations and appeals to Foreign Secretaries in terms of running out of cash, which we then reviewed.

There was a whole bunch of things that I admit took time, but I think it is right to take the time, with a complex business, to really reassure ourselves, because at the same time we were extending the loan, and we extended it again to September 2027. We all understand that the loan needs to be restructured, and getting to that restructuring is what has taken the time.

Mr Betts: I think we will draw our conclusions about the length of time it has taken.

Q56 **Tristan Osborne:** Before I pick up on the turnaround questions, I will touch quickly on cash element that I asked about earlier. When did the Foreign Office become aware of the challenge around trapped cash, and when did conversations about that begin? It seems to me that this has been going on for three to four years.

We are now having conversations about trapped cash going forward with any new loan offer. How long have we known about the trapped cash issue? It has potentially had a material impact in getting us to this

position. That is my first question; my second is—

Chair: Let us ask one question at a time.

Tristan Osborne: Okay.

Helena Vega-Lozano: Trapped cash has been a challenge for the British Council for some time. However, the amount of trapped cash used to be significantly lower than it is today—that increase is the problem. Trapped cash used to be £14 million or so a number of years ago, and it has now increased substantially to over £50 million. That has caused the problem. When it is in the low 10s, it is not a hugely material part of the business, but when it gets to over £50 million, it becomes much more of a problem. That was the difference.

Scott McDonald: It is probably important to anchor exactly what that is. We operate in most of the most volatile countries around the world, which have volatile currencies, and when they run into financial problems, they impose capital constraints, so the money you generate there is very difficult to get out. In part of our portfolio, where we have operations, money gets trapped around the world, and that has been growing over time because more countries have been running into financial difficulty.

We have a whole plan to manage that. There are various ways to deal with trapped cash; you can do a variety of things to get your money out or ensure that it does not build up in the first place. We are having good success with that. What the Foreign Office has offered—support for broader UK Government cash needs in the country—is valuable to us, because we cannot use that money to do anything in the short term.

Q57 **Tristan Osborne:** You say that you are now seeing success in reducing that figure, but it did increase significantly from 2021 to 2024. In that three-year period, there was a significant increase in trapped cash. My question was about whether that was that identified then or picked up later. I suppose that is a moot point.

My next point is about the turnaround plan. You have done a series of consultancy analyses—Deloitte has looked at this recently, and EY. Paragraph 3.15 of the Report states that, according to EY, your projections are “ambitious”. To me, that is code to suggest that they do not expect you to meet them, or perhaps they have concerns that you might not reach them. Have you stress-tested those projections?

Scott McDonald: Although I am a former consultant myself, I think you have to take consulting reports with a grain of salt. We had reports from EY saying that some things may be too ambitious; we had a report from Deloitte saying that they are not ambitious enough and we should have bigger numbers in there.

On the back of those reports, we have taken all the information and analysis and played with it on our own. As Helena said, we took some of their points on revenue growth and moderated some of what we had said. Our final revenue growth in the plan is 5% a year for the period. That is



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no doubt ambitious in a tough market, but you have to have a plan with some revenue growth if you are to make the business come back to life. We think it is prudent—there is lots of analysis behind it.

This is not like running a Government Department, getting your budget and spending it precisely; this is predicting the future and what we are going to do. We are putting in all the pieces we need to raise the probability of that happening.

We have made a number of new hires in the commercial business. We hired one of the very senior people at Amazon to come in and really shake us up on the digital side to drive the business. We hired someone from the food retail sector—a notoriously difficult sector—to come in and really focus hard on revenue growth, pricing, marketing and customer service.

We have restructured those businesses entirely in the last year so that, instead of being product-line businesses, they are all focused on and designed around the customer. That has also enabled us to take out a huge portion of the costs in the businesses. We are doing all the things that we should be doing. The forecasts are reasonable and prudent, but we have a ton of work to do to deliver those.

Q58 Tristan Osborne: I do not want to put words into your mouth, but you suggested that it took until 2024 to see that that the previous transformation plan, from February 2021, was not working. That is quite a long time to work out that the direction of travel isn't right. There might be a lot of different reasons for that, but my forward question is: how do we make sure we see this earlier and whether there are yellow flags or red flags?

What are you doing differently this time with this transformation plan so that you don't have to come back here in three years' time and say, "We didn't notice anything going wrong for three years and now we have picked that up"? Has the transformation team changed? Have you got more headcount in the transformation team? Are people being held to account? Are there clear definable six-month tangibles or 12-month tangibles? As a consultant, you will know that the three-year gap between when it started to realising when it went wrong might be a bit of a yellow flag to me.

Scott McDonald: It is a good question. On the challenge we had there, first of all we did recognise it. We have good governance in the British Council on the board and between the British Council and the Foreign Office. It wasn't that this stuff was not noticed.

This was an unusual period in history. You take a massive hit during covid, and then businesses all around the world are deciding, "Is it going to bounce back to what it was before? Are we in a new world now where it is far lower?" This is why, over those two and a half years, we were all wrestling with, "It has not come back yet, but is there still a big bounce back coming?" We had those open discussions. The view was that we just needed a little more time, but in retrospect we got that wrong and some

businesses never bounced back and might never bounce back from covid now.

On this plan going ahead, who knows what will happen in the world in the next few years? But we are in a slightly more stable, understandable business environment now. There are lots of things happening on the technology front, and it is a little easier to predict now than it was in 2021.

Helena Vega-Lozano: Perhaps to provide an additional perspective, I would say a number of things are different. One is that the previous restructuring plan had a 16% year-on-year revenue growth target, which is ambitious for any organisation unless it is a hyper-growth organisation. It is quite a punchy target. Our target now is much more modest at around 5% to 6% growth year on year, so that is more realistic.

Another thing is that we did not look as closely at cash as we should have done, and we will going forwards. That is a learning that we are taking into account.

The third thing from a governance perspective is that FCDO will be more embedded at what I would call a sub-committee level of the board. There is a finance sub-committee and a steering committee for the commercial business. To be a little closer and have sight of that is something we will do going forward. In fact, there was an open invite from Scott, so we will be able to see and be a little closer to what has been happening.

Tristan Osborne: Thank you.

Q59 **Chair:** Thank you very much, Tris—well done. You asked several of my questions, which is great—I won't have to ask them.

Vicki, I am going to give you your moment in the sun. You are chief financial officer at the British Council. Can I take you to page 21 and paragraph 1.16 on exchange losses? A loss of £41 million over several years does seem as though this matter was not properly handled. If you were a business, you might make exchange losses in one year, but on the balance of probability, if you followed a sensible policy of hedging and so on, you would regain some of that another year. Can you explain why that figure is so high?

Vicki Olby: First, we operate in 87 different currencies. It is a fairly broad and structural issue for the British Council that we have to manage this broad range of foreign currency. I think the most profound reason why we have seen the losses is as a result of the trapped cash, which we have already discussed, and the build-up of cash in those particular countries. We have suffered a number of devaluations over the period in Nigeria, Egypt and Pakistan, which has hit the value of that cash significantly, and that is the main driver for some of the foreign exchange losses we have seen.

We do operate a hedging approach. However, hedging in those particular jurisdictions is very difficult. There tend not to be the right tools available,

and where they are available they are very expensive, so it does not necessarily make economic sense to pursue that.

- Q60 **Chair:** Bearing in mind Nick's comment, which I really took on board, that you are equivalent to a FTSE 250 company, the excuse a few lines down is that the pound has strengthened. Surely you are operating with a number of major currencies—the dollar, the yen or whatever—so you have a safer policy against exchange rate losses.

Vicki Olby: We do hedge where we can. For example, with China, we have hedging policies in place, and that is where we move a lot of our currency. We have natural hedges in most countries, because we earn revenue and then we spend grant money that we earn in the UK. There is a natural hedge in place, so there is no need to put in additional hedging policies. As I said, the main risk is around jurisdictions where we suffer from trapped or slow-moving cash, and cash balances build up.

Scott McDonald: Given the currencies that we are talking about, even if you ran a FTSE 100 company you could not hedge in these countries effectively.

- Q61 **Chair:** No, but over a period of time you would expect to be making losses and gains. The fact that you keep making losses over a period of time tells me that perhaps the management of your foreign exchange function is not run as well as it should be.

Scott McDonald: Or you had a consistent movement in sterling against all these currencies over a long period.

- Q62 **Chair:** One of the most disturbing things I have heard today is Scott saying that there is really no contingency in this turnaround plan; it is completely dependent on everything going well. It worries me that there is no contingency in it. That is coupled with a question that you started to get into with Tris just now.

If I were sitting here as the CEO of a FTSE 250 company, I would not be planning on retrenchment; I would be seeing how I could expand my commercial operation and my soft power operation. Are you so constrained in that ambition because you are running faster and faster to stand still to pay this loan off? Is that the situation, or is there any chance that you will be able to expand any of your operations?

Scott McDonald: In my presentation to the Foreign Affairs Committee in October, I highlighted the severe cash and solvency constraints that we are operating under.

The deal that we have been working with the FCDO on will address those in the short term and will give us breathing space to restructure the business, and if all goes well we will be in a position to pay off the loan. I really want to get that deal over the line. It is important to us, and the FCDO has worked hard to get something that makes sense in the context that Nick described, where we are treated as a commercial business.



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One of my hopes today is to open your eyes to whether we are a commercial business or not. I hope that, over the next three to five years, we can have a different resolution on that. That will mean that we do not have to spend the next five or 10 years paying interest and paying off the loan, rather than using that to support the UK's interests.

The work that we can do through soft power to support UK growth and security is many, many more times more important than us paying £12 million in interest every year on a loan that I believe should have been a grant in the first place, but we have different views on that.

Q63 Chair: What would be the difficulties of separating the organisation into two—a commercial organisation and a soft power organisation?

Scott McDonald: For as long as the British Council has existed, the commercial organisation has subsidised the soft power organisation. Sometimes directly, as it did before covid, but always indirectly.

If you go to Athens, there is a big British Council building in the middle of town advertising the UK and reminding everyone that the UK is there, doing good things. The amount of money that we get from the grant enables us to have a small office in the suburbs of Athens, not a headquarters in the centre. If you separate them out, that subsidy goes away, and the soft power delivery capability is way too small.

I take Nick's and Helena's points. The settlement that we got in the current context was generous and appreciated, but compare our £160 million or £170 million with what the Germans get, which is somewhere between £500 million and £1 billion. It is the same with France. For the Spanish, it is £250 million. The Chinese get probably 10 times what we get. That is why I don't want them separated, because it is only the power of the two that enables us to deliver for the UK in the way that we do.

Q64 Chair: Helena, you have given us some very clear financial answers today. As a former senior partner at Deloitte, do you think there is any way we can clarify what is going on in this organisation so that it is absolutely clear what the commercial organisation is making and what element of subsidy goes into soft power?

Helena Vega-Lozano: I think there is, and Scott and I have had this discussion many times. It is ongoing. There is something in between what has been described here. It is not unusual for charities, particularly large charities—British Council is an independent charity—to have subsidiary entities that are commercial and profit-making. The National Trust would be one. It is a huge charity, not far off the size of the British Council, and it has a very large commercial entity underneath, renting properties, running cafés and making the National Trust available to the public. The British Heart Foundation is another, and I could go on.

Most of those organisations ringfence the commercial activity in a trading business under the umbrella of the charity. That is an option. It is not spinning it out as a completely separate organisation but creating an entity within the overall umbrella of the charity that is purely commercial.

That would have its own ecosystem, visibility and transparency, to your point.

- Q65 **Chair:** I am sorry to hammer this next question home, but I am still very concerned about what Scott said. There is really no contingency in this turnaround plan. If there is no contingency, what are the Government's arrangements so that the Foreign Office—you, presumably—know very quickly if the turnaround plan is going awry?

Helena Vega-Lozano: I will answer that in two parts, if that is okay. I have a slightly different view on the contingency. There are always options for organisations. We have a turnaround plan that we are talking about, which we have got our arms around, but there are always choices. There are choices to exit more teaching business, accelerate the move to digital, and potentially do more on the exams business, which is highly profitable.

It is always a balance. We have talked today about the balance of workforce reductions versus growth for the business. Everything is a balance. I think we have ended up with a sensible balance, but that is not the same as saying there are no choices. For me, those choices are the contingency. If the going gets tough and the key metrics associated with the turnaround plan are not met, there are choices that could be made to restructure the plan underneath. I just wanted to make that point.

To answer the direct question about the governance arrangements, we will have much closer synchronicity and governance with British Council going forward. Part of that is my working relationship with Scott. Scott and I are in touch, often several times a week—including when he is on holiday. We have very regular conversations. It is about the informal as well as the formal, which is very important.

On a more formal basis, we have monthly information on cash flow forecasts, P&L, the balance sheet, trapped cash, FX impact and all the financial information you would expect. We have deep quarterly discussions where we lift the lid and really get into the nuts and bolts. All of that will flag issues early, much earlier than it ever did in the past.

- Q66 **Chair:** Nick, this has been a slightly depressing hearing, in a way. Can we at least agree at the end of it that you, on behalf of the Foreign Office, actually want this organisation to succeed? You want it to expand and thrive, and therefore you will do all you can in the financial arrangements.

I know your Department has had some of the biggest cuts in Government and that constrains what you can do, but I would like an assurance, on behalf of the Foreign Office, that we really want to see this organisation thrive and expand.

Nick Dyer: Let me be absolutely clear: we see The British Council as a key part of Britain's soft power asset base, which comes from a whole range of soft power sources, and this is one of them. The British Council is facing a complex and very difficult financial situation, and we, as the FCDO, want to get it into the best shape possible, within the constraints

we have, including the Subsidy Control Act, to ensure it has a future. That is what we are trying to do.

The fact that we kept—in fact, increased—our grant in aid to the British Council, despite the fact that we have 40% cuts in our aid budget at the same time, is the clearest signal that you can get that Ministers want the British Council to continue and want the British Council to continue delivering soft power. So we will do everything that we can.

We have got somebody who has experience from the private sector of turnarounds into our business, for a whole range of reasons. But we have within the FCDO a whole bunch of people who understand the British Council much more deeply. We will continue to work with the British Council on a regular basis in terms of the financial turnaround plan. We will continue to have, and I as the accounting officer will continue to have, conversations about tracking the soft power benefits and the value for money for the British Council. So in short, yes.

Chair: Thank you for that reply. We have at least ended on a positive note. We will continue to monitor this matter, for sure. We wish Scott well in a very difficult task: restructuring, staff reductions and so on. We wish you well with that. We hope we will come back in the next few years and you will have overcome all that and you will be expanding, because that is, I think, what we want to see.

Thank you all very much for your time today. It has been very helpful. We have certainly learned a lot and we will continue to monitor the matter. We will have the transcript up and running in the next few days, if you have given us any factual information that you want to amend. In due course, we will produce a Report with recommendations, which we hope you will consider carefully. Again, you are all busy people; thank you very much for appearing before us today.