



Department
for Culture,
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Sir Geoffrey Clifton-Brown MP
Chair, Public Accounts Committee

3 March 2026

Via email: pubaccom@parliament.uk

Dear Sir Geoffrey,

**DCMS management of COVID-19 loans – updates regarding PAC
recommendations 1 and 4a**

As the Principal Accounting Officer for the Department for Culture, Media and Sport (DCMS), I am writing to provide an update to you and your Committee as promised in the December 2025 [Treasury Minute Progress Report](#).

Recommendation 1

As set out in our December 2025 Treasury Minute Progress Report, following a strategic review of loan book management, the Department decided to implement a more streamlined in-house loan book management model to become smaller, cheaper and more efficient, including removing the ongoing Managed Service Provider (MSP) role. This reflected the work undertaken to build internal capability, systems and processes since the start of the programme and as the Loan Book has now reached a steady state.

We have subsequently worked with Arts Council England and Sport England, as our Loan Agents, to in-house the current MSP role. This was with the aim of minimising the need for any transitional extension of the contract, which expires on 31 March 2026. We are pleased to confirm that the Department and its Loan Agents will be able to take on the majority of MSP activities before 31 March 2026. This includes data analysis, risk ratings and Know Your Customer checks, alongside wider improvements to the operating model. We will therefore no longer require an MSP for these services from April 2026, representing a significant cost saving to the Department.

The final MSP responsibility remaining is in relation to technology support for the Loan Management System (LMS). As expected, changes required to in-house LMS have a longer lead in time than the other workstreams and we are working closely with DCMS internal Digital, Data and Technology expertise to support that. We have therefore determined that a short-term (up to six months) extension of the MSP contract is necessary for this element of activity only. This will support a stable

transition to new commercial arrangements without significant operational risk. This short extension represents a much reduced MSP scope, with a reduction of over 80% in the monthly cost compared to the current contract, and will help ensure that borrowers do not experience any disruption in their interface with the system. This will be subject to a signed variation between the parties and spend control approval.

I am pleased that the knowledge and expertise built by the Department has allowed us to streamline the model and remove the need for an MSP, rather than to reprocore these services as had previously been envisaged for the end of this financial year. The Department has committed to reviewing its operating model at least every 3 years.

Recommendation 4a

Following the Committee's recommendation, the Department has undertaken new estimates for insolvency rates and the subsequent effect on expected repayment levels. The Department has been able to undertake more detailed analysis based on our increased loan book management experience and following the end of the final repayment holiday periods for all borrowers in September 2025.

As with any loan book, there are significant challenges in predicting insolvencies and repayments, especially into the medium or long term. There are many factors that affect the future financial viability of borrowers which sit outside of the Department's control, including the wider macroeconomic environment.

The outputs of this analysis represent a point in time estimate, based on current macroeconomic conditions, and should be viewed as an aggregated position on expected insolvencies and repayments on this basis. It should be noted that the Department may still expect a financial return from an insolvency process, including through security realisation or novation of the loan to any purchaser of the business.

DCMS estimates the total payment value of principal and interest to be repaid across the whole life of the loan book to be between £499 million and £529 million (86.3 - 91.6%), this allows for payment value lost from: existing insolvencies, future insolvencies by March 2030 as projected by this analysis (taking into account relevant security), and contingency to reflect the wider financial risk from solvent borrowers. The modelling suggests insolvency is more likely in the smaller borrowers so aligns to an estimated 16.7 - 20.8% of borrowers entering insolvency by March 2030, including 8.3% of borrowers that are already insolvent¹. The overall expected financial return – at 86.3 - 91.6% – remains strong.

Whilst the DCMS Loan Book has no direct comparators given its unique combination of characteristics, as confirmed by the National Audit Office, these updated estimates are broadly in line with or below the [latest estimates for other government pandemic support measures](#) such as the Bounce Back Loan Scheme (BLS), Coronavirus Business Interruption Loan Scheme (CBILS), and Coronavirus Large Business

¹ Whilst the number of estimated insolvencies may appear higher than previous estimates, the updated methodology means that these are not directly comparable.

Interruption Loan Scheme (CLBILS).

The Department will update this analysis regularly, incorporating our ongoing insights from borrowers and portfolio performance, and utilise its findings as part of our ongoing management of the loan book.

Yours sincerely,

A handwritten signature in black ink, appearing to be 'S. Storey', with a stylized, cursive script.

Susannah Storey CB

DCMS Permanent Secretary