

Culture Recovery Fund: Repayable Finance

Monitoring guidance for borrowers

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Department
for Culture,
Media & Sport



ARTS COUNCIL
ENGLAND

[artscouncil.org.uk](https://www.artscouncil.org.uk)

Contents

If you are reading this guidance online, you can click on the contents below or the chapter titles at the top of each page to go straight to where you need:

Introduction	3
Loan monitoring – overview	5
Monthly document submissions	8
Management Accounts	9
Quarterly document submissions	12
Board Papers	13
Covenant compliance certificates (if relevant)	14
Annual document submissions	15
Statutory Accounts	16
Business plans	16
Annual report	18
Cash Flow forecasts	20
Data Collection	21

Introduction

Introduction

Between 2021 and 2022 DCMS made 37 loans to arts and culture organisations, with Arts Council England (ACE) acting as agent, as part of the Culture Recovery Fund (CRF).

The aim of this document is to support borrowers with fulfilling the monitoring requirements of their loans, and in making repayments.

This guidance should be read alongside the technical guidance for using our loan management system (LMS), which can be found on our website.



Please note: there should be no conflict between anything in this note and the loan agreement but if there is, the loan agreement must take precedence.

If you have any queries about loan monitoring, please get in touch: crf.repayablefinance@artscouncil.org.uk.

For queries relating to individual monitoring reports, you can use the message option in the LMS to contact us.

Loan monitoring — overview

Loan monitoring – overview

The overall aim of the monitoring is to enable the Arts Council to check your progress against your business plan, budgets and forecasts.

We will need to understand the reasons for any major variances from your business plan. We want to confirm that you have sufficient cash to meet the loan repayments, throughout the loan term. We also need to confirm that you continue to meet all terms and conditions of the loan.

While all borrowers have bespoke loan agreements, as a minimum the following documents are required from all organisations with a CRF loan:

- Management accounts (including a balance sheet and a commentary on variances) (monthly)
- Board papers (quarterly)
- Three-year cashflow forecast (annual)
- Three-year Business plan, including budgets (annual)
- Statutory accounts (annual)
- Annual report (please see the separate guidance note on this report).

When creating these documents, please consider that the content and format of these documents will be interpreted in a way that is relevant to the size and nature of your organisation, and should be written as such.



When you upload **required** documents to the LMS, all required documents must be uploaded in the same session for you to be able to submit them.

Please refer to your loan agreement for any additional borrower-specific monitoring conditions, and the dates documents are due.



Monitoring documents should be submitted to the Arts Council in a timely manner, and in line with the dates set out in your loan agreement. In addition, you will be required to complete data collection in the form of a template and webform, (please see clause 13.1 (h) of your loan agreement).

As set out in your loan agreement, all monitoring documents must be submitted **by the first business day of the relevant month**. Whilst we understand there are some circumstances that may result in a slight delay to submission of monitoring documents, regular and/or unexpected late submission of monitoring documents may result in escalation of the issue in accordance with our duties to DCMS.

You must inform the Arts Council as soon as you are aware there may be an issue in submitting your monthly monitoring submission(s). This should be no later than the due date for the submission. This will allow the Arts Council to consider the reasons for delay and avoid escalation to DCMS where possible.



Borrowers will have different requirements for data collection and follow different timelines, so the detail in this guidance is indicative and may not be relevant for all borrowers. Please note that throughout your loan repayment period, you may be asked to provide additional monitoring information or to provide information more frequently, based on the risk level of your loan.

Monthly document submissions

Monthly document submissions

Management Accounts

Monthly management accounts are required no later than the first business day of the second month falling after the end of a reporting month, e.g. you should submit your May accounts by 1 July.



Please include any narrative explanation that you write for your board. We regard this as part of your management accounts. It would be particularly helpful if you could include a brief commentary on any major [variances from your plan and budget/forecast](#).

There are elements of management reporting that indicate robust control and oversight, and which we expect to see in management accounts.

Your management accounts should allow your board and management team to maintain oversight of your organisation's activity and finances, and support control and decision-making. Good management accounts should include the budget and actuals to date, with notes and analysis of any significant variances, alongside the annual budget and revised annual forecast. Management accounts may also include the budget and actuals for the most recent period, though this may depend on your organisation and the level of detail required to maintain oversight, monitor progress, and make planning decisions.

Without good quality management information at an appropriate level of detail to allow review of progress against plans, with budgets, actuals, notes on variances, and reforecasts, the Arts Council may need to request further information to assure itself and DCMS of your organisation's ability to make loan repayments, and to comply with the covenants and terms and conditions of your loan agreement.

Profit and loss/income and expenditure statement, or SOFA (as relevant)

Your management accounts should include a profit and loss statement, which includes revenue, cost of sales (where applicable), itemised overheads, net profit / loss (or surplus / deficit).

Balance sheet

Your management accounts should include a balance sheet, detailing fixed assets, current assets, current liabilities, non-current liabilities and show the net asset position. Where relevant, items should be broken down, for example a breakdown of Other Debtors and Other Creditors could be helpful. This demonstrates that you are regularly reviewing your financial position, and can provide assurance of your liquidity and solvency, or can demonstrate steps being taken where your financial position requires improvement.

Variances

Your management accounts would benefit from narrative discussion of any variances to the current business plan forecast year-end cash balance, and to any revised forecasts for year-end cash balance, particularly where this may result in an adverse variance.

It would be useful if you could provide as much detail as possible within the notes to your management accounts and/or board papers as appropriate, where you are forecasting an adverse variance. For example, a note which states 'this represents an x% adverse variance against the original CRF loan budget/revised budget. The variance is due to x factors, and there is/is not additional risk to CRF loan repayments as a result of x' would allow ACE to consider the variance as part of its ongoing loan monitoring. You should ensure that you are aware of and compliant with any requirements set out in your loan agreement in respect of adverse variances and reporting.



We may wish to discuss the matter further with you, to seek reassurance that this would not affect your ability to make loan repayments or continue to comply with the terms and conditions of your loan agreement.

Quarterly document submissions

Quarterly document submissions

Board papers

At the start of each financial quarter, you should submit all board papers circulated in the preceding quarter and any board papers already prepared for such quarter.

We want to see exactly what board members receive – i.e. the papers for any meetings (agenda and any documents required for individual items), and the minutes.

As the requirement to submit board papers is quarterly only, we would expect to see new board papers in line with regular board meetings and oversight. We would not expect organisations to submit duplicate board papers for multiple submissions.



If a board meeting has not taken place since the last submission, or a borrower does not hold formal board meetings, we would expect to see any management reporting that has been prepared for the next meeting and/or has been shared and reviewed since the last board meeting. If this reporting is draft, this should be made clear.

If your organisation does not have a formal board, we expect to see any management reporting that has been produced, shared, and reviewed internally, or a narrative summary of any key decisions and actions taken by senior management that could significantly impact the organisation if management reports are not produced.

Covenant compliance certificates (if relevant)

Borrowers with financial covenants will have specific clauses in their loan agreement. A template covenant compliance certificate is provided as a schedule in all relevant loan facility agreements for those borrowers. Calculations of the covenant should be included either within the covenant compliance certificate or supplied separately to accompany the covenant compliance certificate, plus a schedule setting out the applicable loan agreement clause of the relevant financial covenant being tested. For cash covenants, proof of cash balances must be provided, either in your management accounts or bank statements.

Annual document submissions

Annual document submissions

Statutory Accounts

Annually, you are required to submit your statutory accounts for the previous financial year. We require a full set of accounts, including the profit and loss account/SOFA; this should not be an abridged version such as may be filed at Companies House. They should be audited, if required for your organisation. This monitoring submission is set for the first month of your fourth quarter, but it would be helpful to receive your accounts as soon as they are available. These can be uploaded to the LMS when uploading other documents. You may also wish to upload the accounts for your parent company, subsidiary and any related production company, if you feel it is relevant.

Business plans

We require a new or refreshed business plan annually. This should cover the upcoming three-year period. We do not necessarily expect the business plan to be completely rewritten every year. As set out in your loan agreement, it should be submitted at the start of your new financial year.

Business plans should be approved and monitored by your board. It is not part of the Arts Council's role to approve your business plan. However, occasionally we will provide feedback to you if we have concerns over the plan being realistic in meeting the conditions in your loan agreement.

We expect your business plan to include:

Activity

- A description of how you will operate over the period (include any plans or options for closure, mothballing or restructuring parts of your operations or starting new activities)
- The cultural or heritage activity you expect to deliver over the period
- If relevant, clear plans for the protection of the heritage assets you are responsible for – in particular, physical estates.

Finances

- A detailed budget profit & loss account/income and expenditure account/SOFA, balance sheet and cash flow forecast. The detailed budget should be for the following 12 months, with outline budgets for the following second and third years
- The forecast should include revenue (categorised as appropriate), cost of sales (where applicable), itemised overheads, net profit / loss (or surplus / deficit).
- A forecast balance sheet should accompany the profit & loss account/income and expenditure account/SOFA. The cash item in the balance sheet should reconcile with the corresponding cash in the cashflow forecast at the relevant specified date.
- Explanation of the budget and forecast, including the assumptions used to inform them, and any planned borrowing (please note that DCMS consent would be required in advance for any additional borrowing beyond the CRF loan.
- A description of risks and mitigation actions.

Organisation

- A description of management and governance arrangements
- A clear articulation of measurable plans to meet the non-financial conditions (refer to the separate guidance note on non-financial conditions).



We have commissioned guidance to help the organisations we fund to follow best practice in developing their business plans. We would encourage all organisations to read [this guidance](#).

Annual report on the Treasury Conditions

We require an annual report signed by a director (or, if the Borrower does not have a director, a member of its senior board) confirming its compliance with clauses (a) to (g) (inclusive) of the Repayable Finance Agreement (this is in clause 13.17 in most loan agreements). Clauses (a) to (g) are set out below, though you should always refer to the Repayable Finance Agreement in the first instance when ensuring you are compliant.

The annual report should be produced using the template shared with borrowers (and available on request/on our website [link]) as part of the July submission each year, unless specifically requested sooner. Borrowers will be given advance notice if additional information is required or information is required earlier than July. The template will require narrative responses to confirm compliance or areas of non-compliance, with detailed responses required in relation to (b)-(d)

- a) the organisation will exercise pay restraint for at least 18 months from the date of the Repayable Finance Agreement, where legally possible for them to do so, including imposing a pay freeze for all senior staff (by which we mean your executive team) and 10% pay reductions to pre-Covid-19 pay for those contracted to receive above £150,000 per year
- b) the organisation will demonstrate a commitment to open up access and increase the diversity of its audiences, visitors and/or participants, as well as its organisational diversity
- c) the organisation will demonstrate a commitment to progress towards net zero greenhouse gas emissions by 2050 and reporting against it
- d) the organisation will demonstrate a commitment to increase educational/outreach work
- e) the organisation will comply with legislation relating to Subsidy Control
- f) the organisation will ensure they take reasonable steps to protect the heritage assets they are responsible for, in particular their physical estates
- g) to the extent applicable to the Borrower, it will take a proportionate approach to making or paying any dividend, charge, fee or other distribution (or interest on any unpaid dividend, charge, fee or other distribution) (whether in cash or in kind) on or in respect of its share capital (or any class of its share capital or capital), repay or distribute any dividend or share premium reserve, redeem, repurchase, defease, retire or repay any of its share capital or resolve to do so or otherwise make any payment to its investors or owners, before this loan is fully repaid (where any legal obligations allow), unless it has received a prior written exemption from the Agent.



Please note that the timeframe for clause (a) has now passed.

Cash Flow forecasts

At the beginning of your financial year, a three-year cash flow forecast is required. This should include a monthly cash flow forecast for at least one year and should include monthly opening and closing cash balances. We will be reviewing your overall liquidity and your cash position (to ensure you have sufficient cash to meet the loan repayments), as well as a review of cash transactions and timing based on our understanding of your activity.

Robust financial planning is supported by regular cash flow forecasting as part of management accounts, and you should consider whether it would be meaningful to include a cash flow forecast updated on a regular basis (monthly or quarterly) as part of your monthly management accounts. A rolling cash flow forecast as part of management accounts, covering at least a twelve-month period and updated to reflect activity to date and revised forecasts, enables organisations to anticipate and plan for any material cash variances and actions that may be required to maintain the required cash position.



Unexpected cash flow difficulties can present a significant challenge to organisations, so regular cash flow forecasting as part of management accounts is a useful management tool.

Your cash flow forecast should include: income (all cash income in a given month, from operations, grants, trading, etc); expenditure (all cash expenditure in a given month, including activity costs, salaries, overheads, creditor payments, etc); investment cash flows (itemised capital expenditure, and shareholder (or similar) funding or payments); and finance cash flows (itemised loan repayments or new loans). Details of any further capital facilities (revolving credit facility or overdrafts) should also be captured in the forecast. However, it is recognised that borrowers may use different categories and line items based on their internal reporting requirements which may be appropriate, though cash flow forecasts should represent and contain a reasonable level of detail.

Data Collection

Data Collection

Please note that the timeframes referenced in the table below relate to your individual monitoring timeline rather than calendar years.

Quarterly	Bi-annual	Annual
Your organisation (webform)	As quarterly, plus:	As quarterly and bi-annual, plus:
Financial position (webform)	KYC consent form (document upload)	Financial monitoring template (document upload)
Financial return (webform)	Ownership, management & operations (webform)	
Reportable events (webform)	Financial declarations (webform)	
Contact information (webform)	Wider challenges (webform)	
Declarations (webform)		

The financial monitoring template was designed by PwC and will be used by them to inform their work as Managed Service Provider.

If you have any queries relating the financial monitoring template, please let us know and we will pass them on to PwC for a response.



When you upload your financial monitoring document to the LMS, the system will automatically check the spreadsheet for any errors. You will not be able to upload it if there are errors in any cells, so please do not overwrite formulae or include information in the wrong format.