

# Challenges for the Culture Sector – Financial Sustainability at the Arts Council of Wales

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This document has been prepared as part of work performed in accordance with section 15 of the Well-being of Future Generations (Wales) Act 2015.

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# Summary report

## Why we did this examination and what it is about

- 1 Under the Well-being of Future Generations (Wales) Act 2015 (the Act), the Arts Council of Wales (the Arts Council) must set well-being objectives designed to contribute to the well-being of Wales, both now and over the longer term. It must also take all reasonable steps to meet those objectives. The Auditor General must examine whether the Arts Council has applied the sustainable development principle<sup>1</sup> when setting its well-being objectives and taking steps to meet them.
- 2 The report sets out the findings from our examination of steps the Arts Council is taking to meet its well-being objectives. It has focused on the significant financial pressures the Arts Council is experiencing. Those pressures include rising costs and a reduction in its grant-in-aid (GiA) from the Welsh Government for 2024-25. They have implications for the organisation's financial sustainability and its ability to deliver on its well-being objectives<sup>2</sup>. Effective financial planning in line with the sustainable development principle can help manage these issues.
- 3 This report considers whether the Arts Council has appropriate arrangements to secure financial sustainability over the short and longer term, in support of its well-being objectives. It forms part of a wider examination covering other Welsh Government arm's length bodies in the culture sector. We applied the same overall audit questions and criteria at each body. However, our evidence gathering and analysis took account of contextual factors for each body, including differences in functions and in their financial environment. **Appendix 1** provides more information about our work and our evidence base.
- 4 We have undertaken a separate examination to assess the extent to which the Arts Council applied the sustainable development principle when setting its new well-being objectives. We have written to the Arts Council to share findings from that work. These two outputs should be considered alongside each other as they contain related findings.
- 5 We prepared this report before the Welsh Government's final budget for 2025-26. We hope our findings and recommendations will be useful to the Arts Council as it plans for the longer term.

<sup>1</sup> The Act sets out that doing something in accordance with the sustainable development principle means that the body must act in a manner which seeks to ensure that the needs of the present are met without compromising the ability of future generations to meet their own needs. To do so, a body must take account of five ways of working, summarised as long-term, integration, involvement, collaboration, and prevention.

<sup>2</sup> The Arts Council has developed a new strategy setting out updated well-being objectives for 2024-2034. It began this process in autumn 2022. At the time of our audit fieldwork, the strategy had been approved by the Arts Council but was awaiting approval from the Minister for Culture, Skills and Social Partnership. We understand that the strategy and the annual plan for 2024-25 both received Ministerial approval in November 2024.

## Overall conclusion

- 6 Overall, we found that:
- the Arts Council's overall income and expenditure fluctuated between 2019-20 and 2023-24, largely due to certain time-limited grants. However, its main GiA and lottery income had decreased in real terms before a significant cut to GiA at the start of 2024-25.
  - the Arts Council has a clear understanding of its financial position and acted swiftly to meet financial challenges while seeking to protect its investment in the arts. A greater focus on factors that may affect the Arts Council's financial sustainability and performance over the medium term would help shape future decisions.
- 7 The rest of this report provides further detail about our findings and recommendations.

## What we found: the financial position

**The Arts Council's overall income and expenditure fluctuated between 2019-20 and 2023-24, largely due to certain time-limited grants. However, its main GiA and lottery income had decreased in real terms before a significant cut to GiA at the start of 2024-25**

- 8 **Paragraphs 9 to 26** provide a general overview of key features of the Arts Council's financial position. The data reported is mainly from annual financial statements for 2019-20 to 2023-24. A series of exhibits in **Appendix 2** provide additional detail.

### Income

- 9 In 2023-24, the Arts Council's overall income was £62.3 million. Its main funding sources are the Welsh Government, principally in the form of GiA, and the National Lottery Distribution Fund (NLDF). In 2023-24, the Arts Council's GiA income was £33.7 million and its proceeds from the NLDF amounted to £17.2 million<sup>3</sup>.
- 10 These two funding streams sit in separate accounts. The GiA sits in the Arts Council's general activities account and the NLDF sits in the lottery distribution account.

<sup>3</sup> Most NLDF income is the share of proceeds from the national lottery. The additional components of NLDF funding include 'investment income on balances from the NLDF' along with certain other elements. The additional components provided income of £1.5 million in 2023-24.

- 11 Between 2019-20 and 2022-23, the Arts Council's overall general activities account income increased significantly, from £35.8 million to £61.2 million. GiA income was relatively stable and the increase was mainly due to the receipt of specific time-limited Welsh Government grants. This included Cultural Recovery Funding<sup>4</sup> of £18.3 million in 2020-21 and £12.7 million in 2021-22. In 2022-23, it included a £24.1 million Welsh Government capital grant for theatres. **Exhibit 3** sets out the total general activities account income between 2019-20 and 2023-24.
- 12 However, the Arts Council had received £9.15 million less in GiA funding between 2020-21 and 2023-24 than if it had risen in line with inflation after 2019-20<sup>5</sup>. During this time, GiA also included some time-limited elements. **Exhibit 4** sets out the actual GiA income alongside this real terms comparison<sup>6</sup>.
- 13 The exact amount of income the Arts Council receives from the NLDF is not guaranteed. Income from the NLDF fell slightly between 2020-21 and 2023-24, although this was largely offset by increased increases in investment income on balances in the NLDF and other income. This meant the overall income within the lottery distribution account remained relatively stable between 2019-20 and 2023-24.
- 14 Nonetheless, the Arts Council received £7.1 million less in proceeds from the NLDF between 2020-21 and 2023-24 than if they had risen in line with inflation after 2019-20. **Exhibit 5** sets out the proceeds from the NLDF for this period alongside this real terms comparison.

## Expenditure

- 15 The Arts Council redistributes much of its income to fund and develop the arts in Wales. In 2023-24, grant funding accounted for 80% of all general activities account expenditure. In the same year, 87% of the lottery distribution account expenditure went on the arts. The remainder of the funding includes support costs, such as staffing and management administration. **Exhibits 6 and 7** set out the total expenditure by type for each account.
- 16 The increases in general activities income referred to in **paragraph 11** were accompanied by corresponding increases in expenditure, largely due to grant funded activities in 2020-21 and 2021-22.

<sup>4</sup> The Wales Cultural Recovery Fund helped the cultural and heritage sectors with impacts from the COVID-19 pandemic. The Arts Council distributed a significant portion of this funding to other arts organisations.

<sup>5</sup> For our real terms analysis, we used HM Treasury GDP deflators at market prices for 2023-24 based on Office for National Statistics data at June 2024. We based our calculation on the total GiA that the Arts Council received each year.

<sup>6</sup> In a recent [letter to the Chair of the Culture, Communications, Welsh Language, Sport and International Relations Committee](#), the Arts Council stated that its budget is 37% lower in real terms than it was in 2010.

- 17 The Welsh Government sets a cap on running costs for the general activities account. The cap was £2.015 million for 2023-24. It limits the funding the Arts Council can spend on its own staff and functions.
- 18 Staff numbers rose from 2019-20 to 2023-24. At year end, there were 86 full time equivalent staff in 2023-24 compared with 78 in 2019-20<sup>7</sup>. A voluntary redundancy exercise and senior leadership team restructure in early 2024 identified 13 members of staff who would leave the organisation.

## Reserves

- 19 At 31 March 2024, the Arts Council had unrestricted reserves in its general activities account of £1.9 million (2023: £1.1 million) and restricted reserves of £0.8 million (2023: £1.6 million). It can carry over from one year to the next no more than 2% of its total non-lottery income.
- 20 The Arts Council can only use the restricted reserves in the general activities account for specific purposes. It can use unrestricted reserves flexibly, including for managing financial challenges such as reductions in GiA. However, given the limit on unrestricted reserves that the Arts Council can carry over, they do not play a significant role in its financial management.
- 21 At 31 March 2024, the lottery distribution account had reserves of £4.5 million (2023: £5.3 million). These reserves do not have the same restrictions as the general activities account. The Arts Council can use them to fund lottery projects that meet the lottery's overall policy directions. At the end of 2020-21, the Arts Council had a reserves balance of £12.3 million in its lottery distribution account. This was because the pandemic severely impacted its ability to grant lottery funding that year.

## Changes in GiA for 2024-25 and 2025-26

- 22 The Arts Council received a significant cut to its GiA for 2024-25. A March 2024 budget paper to Council<sup>8</sup> set out that it had received a 10.5% cut to its GiA compared to the amount set out in an indicative three-year budget the Welsh Government had previously given it for 2022-23 to 2024-25.

<sup>7</sup> In line with its pay model, the Arts Council apportions staff costs between the general activities account and the lottery account.

<sup>8</sup> Council is legally responsible for the overall governance of the Arts Council's work. Its main responsibility is to make sure that the Arts Council invests Welsh Government and lottery funding effectively.

- 23 We have calculated that the GiA awarded initially for 2024-25 was 8.6% less than the Arts Council received in 2023-24<sup>9</sup>. In 2023-24, the Arts Council received GiA of £33.7 million and in 2024-25 it was initially awarded £30.8 million.
- 24 In September 2024, the Arts Council received additional Welsh Government revenue funding of £1.5 million for specific purposes<sup>10</sup>. In December 2024, the Welsh Government confirmed that the Arts Council would receive a further £1 million to support arts bodies in 2024-25<sup>11</sup>. These in-year allocations make back some of the initial reduction in GiA funding for 2024-25 and its impact on funding for other arts bodies. However, these additional allocations were for restricted use. The Arts Council has also noted that such in-year allocations make it more difficult to plan confidently and present administrative challenges.
- 25 The Senedd's Culture, Communications, Welsh Language, Sport and International Relations Committee recently completed an inquiry on the impact of funding reductions for culture and sport in Wales<sup>12</sup>. Our examination does not draw conclusions on funding levels and instead focuses on how the Arts Council is responding to financial challenges. We note the inquiry calculated that when looking back over a ten-year period up to 2024-25, the Arts Council's revenue funding decreased by about 29% in real terms.
- 26 While finalising this report, the Welsh Government proposed revenue GiA funding to the Arts Council of £33.3 million as part of its budget for 2025-26. This would see it return to the same revenue level in cash terms as 2023-24. Given the timing of our review, we have not looked at how the Arts Council is responding to this for the year ahead.

<sup>9</sup> We based this calculation on the total GiA amounts (revenue and capital) set out in Welsh Government funding letters issued in May 2023 for 2023-24 and May 2024 for 2024-25.

<sup>10</sup> The Welsh Government provided the additional funding to enable the Arts Council to extend its Job Protection Fund for the arts sector. There is an additional component focused on what the Welsh Government refers to as 'organisational resilience support'.

<sup>11</sup> A [Welsh Government press release](#) stated that this £1 million would support 60 organisations.

<sup>12</sup> Culture, Communications, Welsh Language, Sport and International Relations Committee, [A decade of cuts: Impact of funding reductions for culture and sport](#), January 2025



## What we found: arrangements to secure financial sustainability

**The Arts Council has a clear understanding of its financial position and acted swiftly to meet financial challenges while seeking to protect its investment in the arts. A greater focus on factors that may affect the Arts Council's financial sustainability and performance over the medium term would help shape future decisions**

**The Arts Council has a clear understanding of its financial position and the risks to its financial sustainability, as well as the risks facing the wider arts sector**

- 27 A sound assessment of the financial position and outlook can help ensure a well-informed, strategic approach to financial planning. A consistent understanding of that position across senior leadership can help secure shared ownership of the approach. This is particularly important when there is significant pressure on finances and difficult decisions may be required.
- 28 We found that senior staff have a good understanding of the financial challenges and various future risks to the organisation and the wider arts sector. They reflected that any future funding cuts would likely impact on the Arts Council's ability to undertake some strategic projects, and on the amounts it will be able to pay out to the sector. This would also likely impact on the Arts Council's ability to deliver its well-being objectives.
- 29 The Arts Council captures, records, and monitors risks to its own financial sustainability, that of the bodies it funds and the wider sector. The Arts Council records such risks in the corporate risk register, in other Council papers, and in its accounts. The risks listed are not limited to changes in funding and cover those with more indirect financial implications, such as the cost-of-living crisis. Council and the Audit and Risk Assurance Committee monitor the corporate risk register. The Arts Council's arrangements enable it to identify emerging risks, which could be helpful in informing longer-term planning.
- 30 We were told that horizon scanning is conducted in different forums. The horizon scanning SWOT<sup>13</sup> analysis in the Corporate Assurance Framework evidences some of this<sup>14</sup>. The Arts Council also undertook a public consultation in 2022 to

<sup>13</sup> SWOT being Strengths, Weaknesses, Opportunities and Threats.

<sup>14</sup> The Corporate Assurance Framework is designed to provide assurance on the Arts Council's governance structures and internal management controls. It includes potential associated risks and is designed to be read in parallel with the corporate risk register.

inform its investment review<sup>15</sup>. The consultation identified various challenges facing the sector.

- 31 Council received a 'combined impact assessment' alongside its 2024-25 budget. The impact assessment covered considerations relating to the Well-being of Future Generations Act, as well as other statutory requirements such as equality impacts, though we have not reviewed the assessment in detail.
- 32 The Arts Council regularly monitors its current financial position through different mechanisms, including papers that go to Council and Executive Leadership Team meetings. Mid-year budget reviews go to Council meetings, and they include consideration of proposed changes to budget. The Arts Council also has quarterly monitoring meetings with the Welsh Government that include consideration of the Arts Council's financial position.

### **The Arts Council acted swiftly to meet the financial challenges for 2024-25, setting a balanced budget while seeking to achieve savings on internal costs and prioritising funding for arts organisations**

- 33 It is important that bodies have clear, deliverable plans to help achieve a balanced budget. Planning actions, whether income generation or savings, over multiple years can help ensure bodies are well placed to do this. It can help ensure they have sufficient time to effectively plan and implement proposals, including taking account of the sustainable development principle. This would, for example, include undertaking effective involvement and exploring opportunities to collaborate.
- 34 The Arts Council originally set an indicative 2024-25 budget in Autumn 2023. Following the Welsh Government's confirmation of the precise reduction to GiA in December 2023, the budget had to be changed. The Arts Council was able to set a balanced budget for 2024-25, but it required additional financial savings to be made in early 2024.
- 35 Council considered information on the budget position and options to help members take informed and timely decision ahead of savings being agreed. Council received several clear and concise papers discussing the approach to the budget for 2024-25 in the autumn and winter of 2023-24 before agreeing the revised budget in March 2024.
- 36 The Arts Council decided to absorb funding cuts as far as possible, to protect the arts sector. In 2023, it had committed to fund 81 arts organisations following its investment review (see **paragraph 30**), up from 67 previously. The Arts Council refers to them as Multi-Year Funded Organisations (MYFOs). It funds them largely

<sup>15</sup> The investment review process determines which organisations will receive multi-year funding. The process led up to new funding agreements with arts bodies from 1 April 2024. We have not looked at the investment review decisions and their impact in this examination.

through GiA<sup>16</sup>. Therefore, the reduction in GiA required the Arts Council to consider the proportion of savings it could achieve internally, compared to the level of cuts that it would need to pass on to these organisations.

- 37 The Arts Council modelled the financial implications of different percentage cuts and resolved to reduce MYFOs' funding by 2.5%. It also identified a programme of voluntary redundancies and a senior leadership team restructure to achieve savings within the organisation. Alongside this, it made savings by reducing spending across multiple budget lines.
- 38 The Arts Council lost a significant number of staff through the voluntary redundancy exercise and Senior Leadership Team restructure (see **paragraph 18**). It has changed its operating model, in part to reflect the reduction in capacity. It now undertakes 'lighter touch' monitoring of the activity delivered by its MYFOs (see **paragraph 51**). At the time of our fieldwork, the Arts Council remained confident that it would be able to maintain existing programmes and initiatives despite the loss of staff and the increase in MYFOs.
- 39 Having taken this action for 2024-25, the Arts Council considers that future savings on operating and running costs are likely to be limited. This means that it may need to pass on to funded bodies a greater proportion of any future cash or real terms cuts to GiA. This is a risk to the level of activity that they may be able to deliver, which in turn is a risk to the delivery of the Arts Council's well-being objectives. It is also a potential risk to the financial viability of some MYFOs.

### **The Arts Council aligns its GiA funding with its strategic objectives, but a greater focus on factors that may affect its financial sustainability, over the medium term would help shape future decisions**

- 40 A strategic approach to supporting financial sustainability is important. It provides a basis for decision making and helps bodies ensure they are well-placed to balance policy and resourcing considerations, particularly as new challenges emerge.
- 41 The Arts Council has developed a high-level ten-year strategy<sup>17</sup> that sets out six principles drawn from its investment review<sup>18</sup>. These principles will be the Arts Council's well-being objectives. The Arts Council told us that it has taken this

<sup>16</sup> The Arts Council also uses a small percentage of lottery income to make up any deficit, where permissible under lottery directions and where it considers it appropriate.

<sup>17</sup> The Arts Council of Wales, [Our Strategy 2024-2034](#)

<sup>18</sup> The six principles from the investment review are Creativity, Widening Engagement, Welsh Language, Climate Justice, Developing Talent, and Transformation. The [Arts Council's website](#) provides further description. Three headings of the six principles have slightly changed in the Arts Council's draft strategy 2024-2034 to read Equality and Engagement, Develop Talent, and Transform. The other three headings are unchanged.

longer-term view, in part, to support more effective planning in the face of funding uncertainties.

- 42 The Arts Council recognises that it relies heavily on the arts organisations it funds to deliver on its own well-being objectives. MYFOs must demonstrate their commitment to the six principles before being awarded funding.
- 43 The investment review also led to a change in the Arts Council's approach to funding. Instead of providing funding for a fixed five-year term, the new approach provides the potential for a continuous funding relationship with MYFOs, subject to targets in the funding agreement being met. The Arts Council is also seeking to offer more flexibility so that MYFOs can adapt their offer over time. This is an example of the Arts Council planning for the longer term and considering how it can use its resources to deliver its objectives.
- 44 While the Arts Council's strategy and funding to the arts sector are focused on the longer term, it undertakes its financial planning on an annual basis. It plans to fund work over several years, but the exact financing is done annually when it knows its allocations from the Welsh Government and the NLDF.
- 45 The Arts Council does not have a formalised financial strategy document to help support its future financial resilience. In the Arts Council's view, this reflects the annualised, and by extension uncertain, funding pattern of the GiA and NLDF income streams.
- 46 Currently, the Arts Council does not model the impact of likely changes to the funding it receives beyond the next financial year. In September 2023, it used certain assumptions, such as lottery income of £18 million, in September 2023 to inform its draft estimated budget for 2024-25. The Arts Council told us that it carried out additional modelling to cover other funding scenarios for 2024-25, but we have not been provided with evidence of this.
- 47 During our fieldwork, there was some recognition from officers of the merits of doing additional modelling in future. Modelling over the medium term could help identify funding risks and inform a more strategic approach to financial planning. The Arts Council could also benchmark its assumptions with other Welsh Government arm's length bodies.
- 48 There is also scope for the Arts Council to consider the factors that are likely to shape its financial sustainability and that of the wider arts sector over the medium term. This would necessarily draw on any modelling of levels of external funding, as well as cost pressures. It could also include any requirements for future investment, such as the level of investment needed to deliver on its climate justice commitment over the medium term.
- 49 Bringing these factors together, and looking at them over the medium term, could support earlier planning where financial savings may be required. It could also help the Arts Council prioritise its resources, with a view to delivering its longer-term objectives. The information could also provide a useful basis for discussions with

the Welsh Government on the likely impact of changes in funding, alongside evidence about the impact of investing in the arts<sup>19</sup>.

**The Arts Council is developing a new approach to collating information on MYFOs' contribution to the well-being objectives but has not yet identified performance measures against which to assess overall progress and any impacts of funding cuts**

- 50 Clear, regular, and transparent reporting arrangements are important to enable effective oversight of the financial position, the action bodies are taking to secure their financial sustainability and the impact on their stakeholders and well-being objectives.
- 51 As described in **paragraph 32**, the Arts Council regularly monitors its current financial position. It also monitors the financial position of the MYFOs routinely, but has reduced the frequency of full reviews from quarterly to six monthly, with a three monthly 'check in' in between. It now places greater reliance on the MYFOs reporting their own progress throughout the year. The Arts Council has made these changes, in part, to reflect changes in its capacity following the voluntary redundancy exercise (see **paragraph 18**). With the changes introduced for 2024-25, the Arts Council was not able to share any information with us about their impact at the time of our fieldwork.
- 52 The Arts Council is developing a new approach to collating information on MYFOs' performance to capture their contribution to the well-being objectives. It will need to draw that together to understand how its MYFOs are helping it deliver its strategy. It will also need to understand the impact that any changes in its funding to MYFOs might be having on their ability to deliver.
- 53 More broadly, the Arts Council's strategy does not include performance measures, nor any information on how it intends to assess the impact over the ten-year period. As the well-being objectives are 'principles', rather than 'SMART' objectives, it may be difficult for the Arts Council to assess progress towards them. The Arts Council has set out 'success measures' in its annual plan, though these generally relate to the delivery of specific activities. The Arts Council has told us that it will build on these measures in future annual plans and there will be key review points to take stock of delivery against the strategy.
- 54 We have not reviewed in detail the extent to which the lottery funding is aligned to the well-being objectives. However, given the sums involved, this will be an important consideration and an opportunity for the Arts Council to maximise the use of resources in pursuit of its strategy.

<sup>19</sup> The Arts Council has commissioned an independent report which estimates a return on investment of £2.51 for every £1 spent. See Deyton Bell and Counterculture, [Arts Council of Wales Economic Assessment](#), November 2024.

## Recommendations

55 We have raised recommendations that we expect the Arts Council to respond to.

### Exhibit 1: our recommendations

#### Medium-term planning for financial sustainability

R1 The Arts Council should explore the factors that are likely to shape its financial sustainability and that of the wider arts sector over at least the next three years and longer, where possible, including:

- modelling of levels of external funding, as well as cost pressures, and benchmarking the assumptions with other bodies;
- considering areas that may require new or additional investment;
- considering risks, both to the organisation and arts sector, that could impact resources;
- options for future savings; and
- considering how it will continue to deliver its strategy and well-being objectives in this context.

This should be established as a continuing process, rather than as a one-off exercise. (See **paragraphs 46 to 49**)

#### Measuring progress and assessing impact

R2 The Arts Council should develop appropriate performance information to enable it to assess progress and impact in delivering its new strategy and well-being objectives. It will be important to set targets that take account of reductions in funding. The performance information should cover both:

- strategic performance measures to accompany its well-being objectives that capture the long-term impact it is seeking to achieve.
- supporting performance measures to monitor progress in delivering the steps to meet well-being objectives, that are clearly aligned to the strategic performance measures. These measures are likely to relate to the performance of MYFOs and other work delivered by the Arts Council.

The Arts Council should do this as it moves forward with its strategy and develops its annual plan for 2025-26. (See **paragraphs 52 and 53**)

R3 The Arts Council should assess the impact of recent reductions in staffing and in the frequency of its monitoring of MYFOs. The Arts Council should report this assessment to senior leaders and Council. (See **paragraphs 38 and 51**)

# Appendix 1

## About our work

### Examination question, scope, and criteria

We set out to examine the extent to which the Arts Council is acting in accordance with the sustainable development principle through its arrangements to secure financial sustainability.

In relation to financial planning, we would expect application of the sustainable development principle to include consideration of the need to:

- meet immediate financial pressures, while delivering core activities and functions.
- secure the financial sustainability of the organisation, so that the necessary resources are available to deliver core activities and functions over the medium and longer term.
- deliver strategic ambitions, as described through the organisation's well-being objectives. This incorporates stakeholder and citizen perspectives and the need to achieve any longer-term, preventative benefits.

We have set out our generic examination questions and criteria below. Our examination criteria have been informed by our cumulative knowledge, CIPFA guidance, and related Audit Wales reviews in other sectors. We also drew on the 'positive indicators' that we have used in previous sustainable development principle examinations. In addition, we engaged with the office of the Future Generations Commissioner for Wales in planning this examination.

We sought to understand the financial challenges facing the Arts Council and how it is responding. However, we did not explore every factor that has impacted or may impact on its financial sustainability. Nor did we review the detail of the specific measures it is putting in place to meet those challenges or its annual budget setting processes.

Our work at the Arts Council is part of a wider examination also covering Amgueddfa Cymru, the National Library of Wales, and Sport Wales.

The questions and criteria vary in their applicability to each of the four bodies. We took this into account during our evidence gathering and reporting.

We will consider reporting separately on any common issues identified through our work across the four bodies covered by our wider examination.

### Exhibit 2: audit questions and criteria

In the context of reductions to revenue GIA for 2024-25, does the body have appropriate arrangements to secure financial sustainability over the short and longer term, in line with its well-being objectives?



<p>Does the body have a clear understanding of its current financial position and medium-term outlook and longer-term risks?</p>	<ul style="list-style-type: none"> <li>• The body has assessed its financial outlook and calculated any funding gap over the short to medium term based on reasonable assumptions.</li> <li>• The Director of Finance, senior management team and board all have a clear understanding of the body's current financial position and medium-term outlook, and how that compares with similar bodies.</li> <li>• The body has identified the key risks to its financial sustainability, drawing on a broad evidence base that goes beyond financial considerations. This could include increases in demand, new requirements, and citizen perspectives.</li> </ul>
<p>Does the body have a clear strategic approach to help secure its financial sustainability over the longer term and deliver its well-being objectives?</p>	<ul style="list-style-type: none"> <li>• The body has clearly set out its strategic approach to support its financial sustainability over the medium term, with a view to the longer term.</li> <li>• The body's strategic approach to financial sustainability has been developed in view of the wider vision, corporate strategy and well-being objectives.</li> <li>• The body's strategic approach to financial sustainability is supported by senior managers and board.</li> <li>• The body has considered a wide range of options to improve its long-term financial sustainability and deliver its well-being objectives, including comparing with other bodies.</li> <li>• The body's strategic approach includes the strategic use of reserves to manage its financial challenges over the medium term.</li> <li>• The body has modelled the anticipated impact of its strategic approach to securing its financial sustainability over the medium term (eg potential service reductions, building closures, fee increases, grant reductions) and the impact this is likely to have on the well-being objectives and citizens/stakeholders.</li> </ul>
<p>Has the body identified how it will meet its financial challenges over the short and medium term, in the context of delivering its well-being objectives?</p>	<ul style="list-style-type: none"> <li>• The body has a track record of successfully addressing financial challenges.</li> <li>• The body has identified the actions, including any savings it intends to make, to meet its financial challenges over the short and medium term, supported by well-evidenced plans based on reasonable assumptions.</li> <li>• The body has arrangements in place to develop actions (including savings proposals) to meet its</li> </ul>



	<p>financial challenges, linked to their contribution to the delivery of the well-being objectives.</p> <ul style="list-style-type: none"> <li>• The body's arrangements ensure it can take account of the sustainable development principle when developing and delivering these actions (eg savings proposals), including stakeholders' views.</li> </ul>
Is the body monitoring its financial sustainability, the delivery of savings and impact on the well-being objectives and seeking to learn and improve?	<ul style="list-style-type: none"> <li>• The body has appropriate arrangements in place to regularly monitor its financial position, including its sustainability over the medium to long term.</li> <li>• The body has arrangements to transparently report the impact/anticipated impact of its financial strategy on the achievement of its well-being objectives and its stakeholders/citizens to board, committees, and other stakeholders.</li> <li>• The body sets out timescales for delivering savings and regularly reports progress in delivering them to senior managers, board, and relevant committees to enable oversight and scrutiny.</li> <li>• The body is on track with plans to deliver savings in 2024-25 and beyond.</li> <li>• The body is aware of strengths/weaknesses in its approach and is seeking to learn and improve.</li> </ul>

## Audit methods

We undertook a high-level analysis of the Arts Council's financial statements, covering a five-year period from 2019-20 to 2023-24 to help us understand its financial position and how that has changed.

We reviewed documents including the Arts Council's strategy and well-being objectives, available financial planning information, relevant monitoring reports, and the papers and minutes of relevant Council and committee meetings. We also interviewed a selection of senior staff and a Council member.

We gathered most of our evidence during July to October 2024 and reviewed the Arts Council's final accounts for 2023-24 in November 2024.

We shared our draft report with the Arts Council in December 2024.

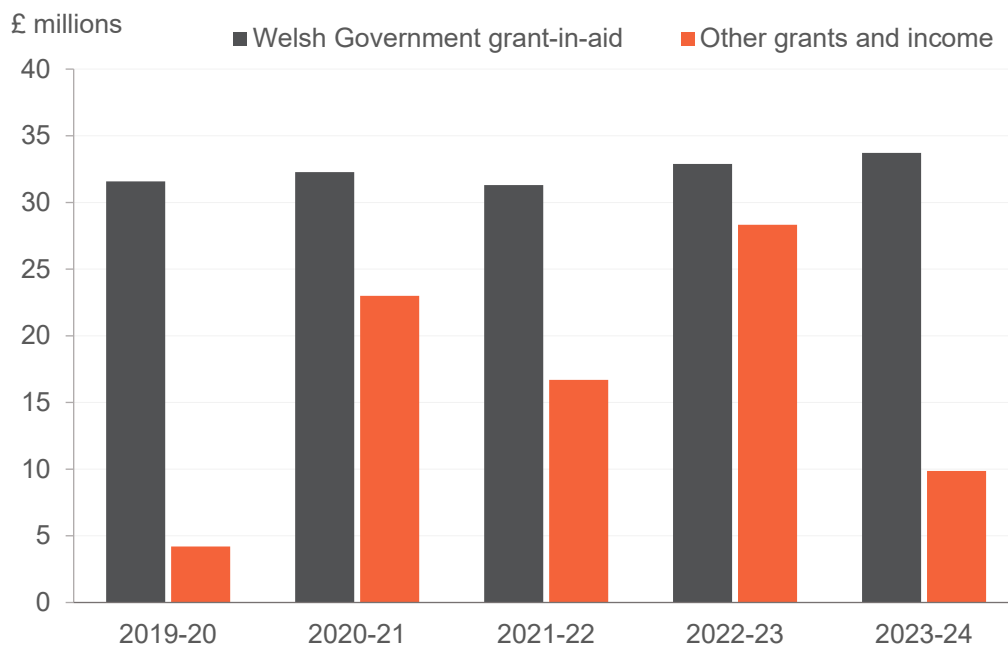
# Appendix 2

## The Arts Council's financial position

The tables and charts below set out further information on the financial position at the Arts Council. The information is not exhaustive but includes key data sets that show the changing financial position from 2019-20 to 2023-24. We based our analysis on the Arts Council's financial statements. **Paragraphs 22 to 26** provide information on funding for 2024-25 and 2025-26.

### Income

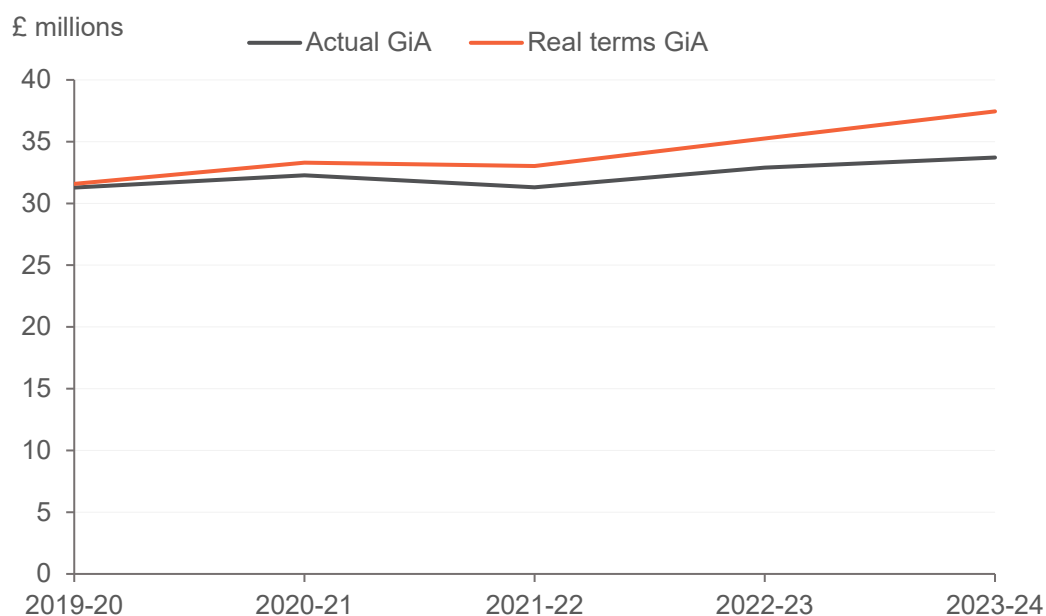
**Exhibit 3: the Arts Council's general activities account total income by source, 2019-20 to 2023-24**



Source: Audit Wales analysis of the Arts Council's financial statements

Note: The general activities account does not include lottery income. The category 'other grants and income' includes multiple sources of income. Time-limited Welsh Government Cultural Recovery Funding in 2020-21 and 2021-22 and a Welsh Government capital grant for theatres in 2022-23 accounted for the higher levels of overall income for those years.

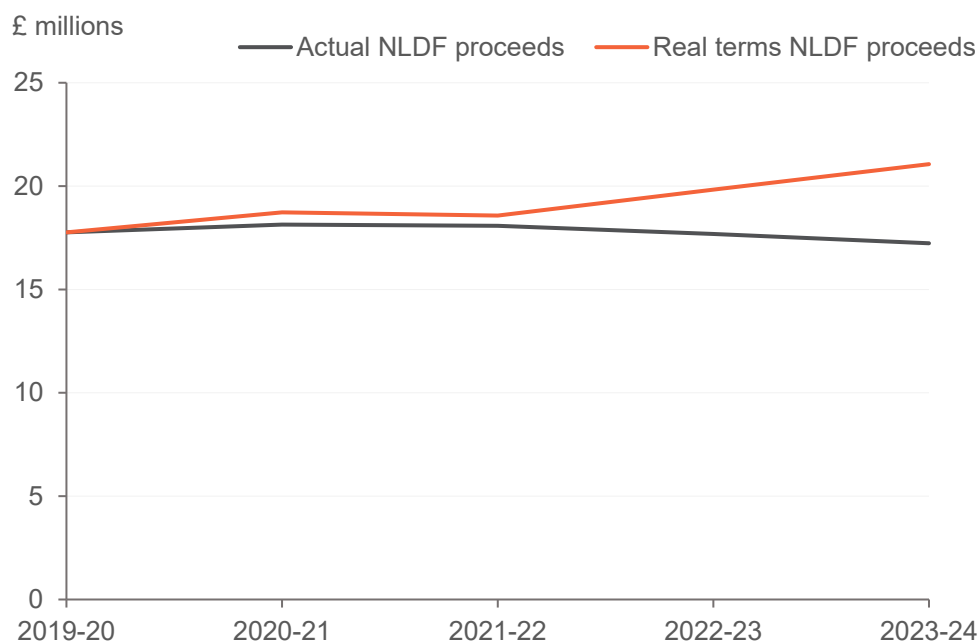
**Exhibit 3: the Arts Council's general activities account total income by source, 2019-20 to 2023-24**



Source: Audit Wales analysis of the Arts Council's financial statements

Note: For our real terms analysis, we used HM Treasury GDP deflators at market prices for 2023-24 based on Office for National Statistics data at June 2024. The real terms comparison shows what the GiA would have been from 2020-21 to 2023-24 had it risen in line with inflation after 2019-20.

**Exhibit 5: the Arts Council's proceeds from the NLDF in actual terms and against a hypothetical real terms comparison, 2019-20 to 2023-24**

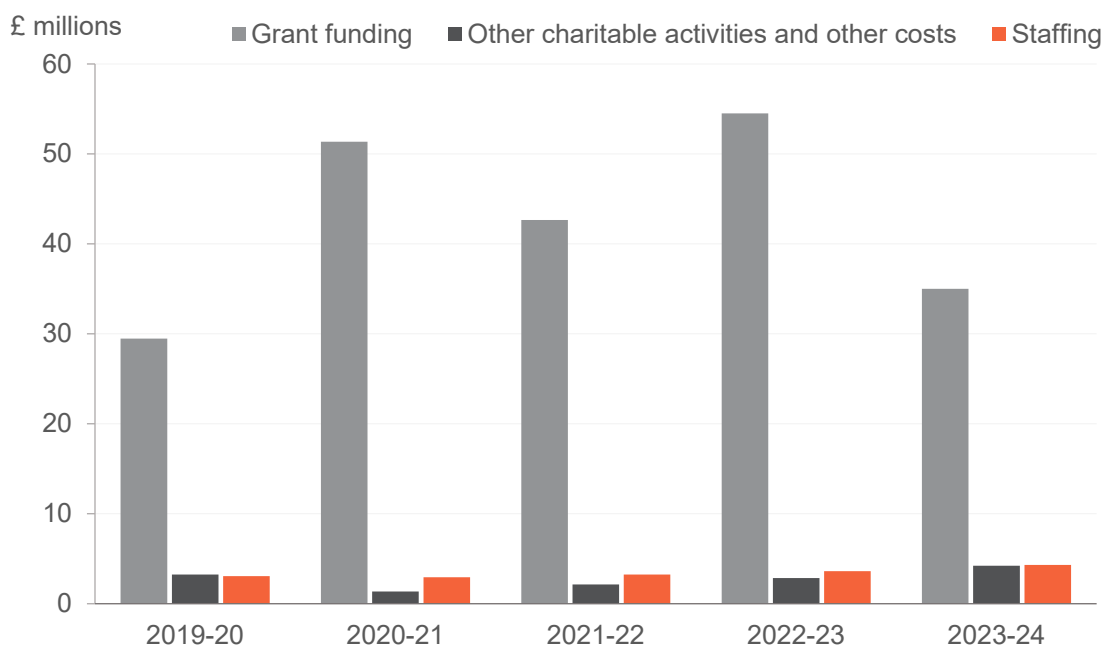


Source: Audit Wales analysis of the Arts Council's financial statements

Note: For our real terms analysis, we used HM Treasury GDP deflators at market prices for 2023-24 based on Office for National Statistics data at June 2024. The real terms comparison shows what the NLDF proceeds would have been from 2020-21 to 2023-24 had they risen in line with inflation after 2019-20. This comparison excludes the smaller components of NLDF funding, including investment income on balances from the NLDF.

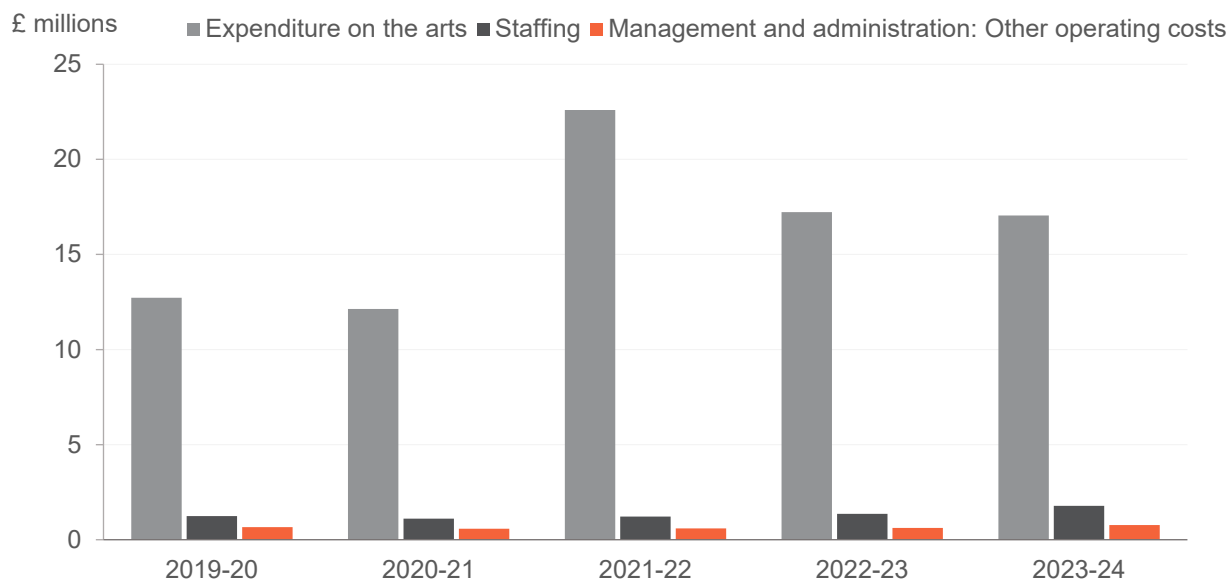
# Expenditure

Exhibit 6: the Arts Council’s general activities account expenditure by type, 2019-20 to 2023-24



Source: Audit Wales analysis of the Arts Council's financial statements

**Exhibit 7: the Arts Council’s lottery distribution account expenditure by type, 2019-20 to 2023-24**



Source: Audit Wales analysis of the Arts Council’s financial statements





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We welcome correspondence and telephone calls in Welsh and English.  
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