

Historic Environment Scotland Submission to Inquiry into Budget Scrutiny 2024:25: Funding or Culture

Summary

- Our Past, Our Future – the strategy for Scotland’s historic environment was launched in June 2023. It sets out three national priorities for the next 5 years, with associated outcomes, high-level actions, and measures: Delivering the transition to net zero; Empowering resilient and inclusive communities and places; and Building a wellbeing economy.
- The key challenges facing the historic environment currently include funding and financial resilience, the rising costs of staffing, energy, goods, and services, the costs of repair, maintenance, and retrofitting, and skills and labour shortages,
- Scottish Government can help us to meet these challenges and realise the mission and priorities of the new historic environment strategy by:
 - Providing appropriate levels of funding
 - Supporting a multi-year funding model for the sector
 - Promoting the integration of the historic environment in key government policy initiatives across the national performance framework as part of a holistic national response to national priorities
 - Recognising and promoting the ongoing need for capital maintenance of traditionally built stock across all sectors over the coming decades that is likely to expand rather than shrink
 - Increasing funding aimed at repair and retrofit of historic buildings and corresponding investment in skills pipeline to enable delivery
 - Supporting innovation, including opportunities for reform such as financial incentives and freedoms and revenue raising, and helping the sector to support itself better by enabling partnering, including dedicated practical support that provides expertise to smaller organisations.

Introduction

Historic Environment Scotland (HES) welcomes the opportunity to respond to the Constitution, Europe, External Affairs and Culture Committee’s Call for Views on ‘Budget Scrutiny 2024 – 2025: Funding for Culture’.

About Historic Environment Scotland

We are the lead body for the historic environment sector in Scotland. We are Scotland’s largest visitor attraction operator, managing over 300 culturally significant properties of national importance, including Edinburgh Castle, Skara Brae, and Fort George. HES is also responsible for an internationally significant collection of drawings, photographs, manuscripts, and aerial photographs.

We have a statutory role in the planning system, designating buildings and monuments, overseeing scheduled monument consents, advising on planning and development proposals, and undertaking environmental impact assessments. We work nationally and internationally to advance education, skills, and research in heritage. Through our Grants programme, we invest around £ 14 million a year to support building repairs, ancient monuments, archaeological work, and conservation. We also have a lead role in the delivery of Our Past, Our Future – the national strategy for the historic environment which was launched in June 2023.

HES's funding comprises grant-in-aid and a significant level of income derived from commercial and charitable activities. We employ over 1,400 people across Scotland, maintain an estate of 336 properties, spend over £ 22 million per year with Scottish SMEs, and give grants totalling £14m a year on average.

The historic environment and its contribution

The new national strategy for Scotland's historic environment, Our Past, Our Future, incorporates national data that amply demonstrates the value of the sector to the nation.

The historic environment generated £4.9 Bn for the economy in 2022, mainly in the heritage, tourism, and construction sectors.¹ This increased by 54% from 2021 providing good evidence of recovery from the financial impact of Covid-19 on HES and the sector. Pre-COVID-19 the sector sustained over 68,000 full-time equivalent jobs and was supported by the work of over 17,000 volunteers. The 2021 Scottish Household Survey reported that 93% of those surveyed in Scotland say it is important our heritage is well looked after, but only 76% think that their local heritage is well cared for.

By focusing on environmental sustainability, resilience, and wellbeing the sector will channel its energies to support people and organisations now and into the future and make a stronger and lasting contribution across economic, environmental, health, and other priority policy areas.

Our Past, Our Future – the national strategy for Scotland's historic environment (2023)

To harness this potential, the new national strategy for Scotland's historic environment was launched by Christina McKelvie MSP, Minister for Culture, Europe, and International Development, on 28 June 2023. The product of extensive engagement and consultation with people and organisations across Scotland, Our Past, Our Future (OPOF) adopts a mission-oriented approach to sustaining and enhancing the benefits the historic environment delivers for Scotland and its people. It identifies three priorities, with associated outcomes, high-level actions, and measures:

- Delivering the transition to net zero
- Empowering resilient and inclusive communities and places
- Building a wellbeing economy

The strategy calls to action the public sector, private, charitable, and third sector organisations, as well as private owners and communities across Scotland. The strategy will

¹ Estimate based on heritage share of Scotland's tourism market (based on Visit Scotland surveys on spend and heritage engagement and ONS Output in the Construction Industry on Repair & maintenance (pro-rated to the estimated volume of pre-1919 stock).

work alongside the Culture Strategy for Scotland, Scotland's Museums Strategy, and other nationwide plans such as the National Strategy for Economic Transformation, the Infrastructure Investment Plan, the National Planning Framework, the Volunteering for All Action Plan, and Scotland's Climate Change Plan and the Heat in Buildings Strategy to sustain and enhance the benefits of Scotland's historic environment, for people and communities now and into the future.

Question responses

Q1 . In our pre-budget report last year, the Committee described the operating environment of the culture sector as facing a “perfect storm” of long-term budget pressures, reduced income generation, and increased operating costs. How has this evolved over the last 12 months? What impact has the Budget for 2023- 24 had on the culture sector?

Funding and financial resilience

There have been several surveys and consultations conducted in the heritage sector over the past year that have highlighted sector concerns in relation to financial sustainability and resilience. Funding and income generation have been frequently mentioned as a concern by a cross-section of organisations. Many expressed a fear that the future – at least over the short to medium term - looked more difficult due to a combination of challenges arising from the legacy effects of Covid-19, changes in visitor habits, and the cost of living crisis. Others faced a drop in support from volunteers and trouble recruiting and upskilling staff. Local authorities are particularly affected by sector pressures, with at least 23 local authorities having museums or heritage sites currently closed. Surveys have highlighted 3 main potential consequences of this:

- Reduction in the capacity as increasing costs and/or shortfall in revenue leads to potential redundancies or restructuring as many as 1 in 6 organisations were planning this when surveyed in 2023.
- Reduction in services to cut costs: 40% of organisations had either already enacted or planned to scale back activity, including reducing their public offer, cancelling events, and delaying or cancelling much needed capital projects².
- Constraints on future planning, organisational resilience, and the ability to respond to changing pressures such as rising costs and reduced visitor spend due to lack of stable income/ unclear funding streams over the mid to long term³.

The combined impact of the above is a diminished historic environment and a reduction in the social, economic, cultural and environmental benefits that it delivers for the people and communities of Scotland. Some organisations have already taken the pragmatic but unfortunate approach of closing buildings or reducing their visitor offer during off-peak seasons. At least 17 councils in Scotland have had to close heritage or museum facilities over the past few years due to Covid-19, repair and maintenance needs, or other resourcing

² Bullets 1& 2 from a survey by the Association of Independent Museums (AIM) in summer 2022 https://aim-museums.co.uk/wp-content/uploads/2022/09/Seeking-Certainty-AIM-snap-survey-Sept-2022_opt.pdf

³ From multiple sources, AIM Summer 2022 survey, Heritage Pulse Surveys in Summer 2022 and feedback at OPOF consultation events held in late 2022/early 2023 <https://www.heritagefund.org.uk/about/insight/research/heritage-sector-concerned-about-financial-outlook-committed-environment>

issues. And temporary closures have made the headlines, including the winter shutdown of Edinburgh's Modern 2 gallery in response to escalating costs. This reflects the fact that even larger national sites are facing tough decisions and having to focus on core duties, with limited time or resources to innovate solutions to a lack of funds.

HES welcomed the GIA increase in cash terms from the Scottish Government year on year between 2021-2024 mainly to offset the dramatic reduction in self-generated income with the closure of sites due to Covid. The GIA for 2023-2024 of £68.7 million (up from £67.1 million in 2022/23) has allowed HES to continue to support the sector to the best of our ability and importantly address the high-level masonry issues that many of our historic sites are facing.

However, the sector needs more support than HES can offer. HES provided £12.5 million of support to the sector in 2022-23 via our grants programmes. Despite this support, three organisations took the highly unusual step of applying to HES for 'out of cycle' funding. These are organisations that already receive three-year grants through the HES partnership fund, but due to rising costs required additional funding from HES to remain viable. In one unusual instance, an umbrella organisation that looks after several trusts approached HES to see if we could provide core funding, which has not happened in the last ten years.

In addition, inflationary pressures for procurement and capital projects are still high: construction materials in-year inflation was 7.1% and the overall cost index is 36% above July 2021. The wider Producer Price Index for non-construction procurement fell 2% this year but is still 20% higher than in July 2021. This puts added pressure on a sector that, like the rest of Scotland, is still recovering from the financial impact of Covid-19 closures.

Heritage tourism and commercial income

After three difficult years with heritage tourism falling by 80% in 2020, the sector is seeing tourist demand returning, however, visitor numbers at HES sites are below pre-Covid levels. It should be noted that the recovery of HES visitor numbers is in part being impacted by our high-level masonry inspection programme and the associated access restrictions at certain sites.

On the positive side, 2022 and 2023 visitor performance and spend levels - driven by overseas visitors - are exceeding expectations, suggesting a resilience in the overall visitor market, rather than a direct correlation with economic conditions. Additionally, non-HES heritage sites have seen increasing footfall suggesting a robust market so this might indicate that positive visitor trends will continue.

However, we know that 65% of people in the UK are reporting reduced spend on non-essentials, including recreation and tourism, due to inflation and energy price worries. This would hit domestic footfall and commercial income: a higher risk for admission/membership than retail. This rate has fallen from its peak of 75% last year suggesting some improvement in domestic visitor sentiment.

Increasing costs: Maintenance and adaptation

In Scotland, one in five residential buildings were built before 1919 using traditional materials and building skills. A similar proportion of industrial buildings, retail units, and office stock is also traditionally constructed. The ongoing repair, maintenance, and retrofitting needs of Scotland's built environment present a significant challenge. It is estimated that £6.6bn is needed to convert Scotland's historic living accommodation to meet low carbon heating standards alone. It is also estimated that the adaptation of traditionally built buildings will need an additional 10,000 skilled jobs, but currently there is a shortfall in skilled labour and in training provision.

For organisations who own or manage historic visitor attractions, we also need to ensure they are safe for the public to visit to enjoy our rich culture – an issue exacerbated by warmer, wetter climatic conditions. This is expensive and requires a skilled workforce. It is not a Scotland specific issue. England, for example, created a £250 million cultural investment fund in 2019 to tackle critical maintenance issues in museums, libraries, and heritage assets after urgent repair needs were raised via sector leaders.

HES is currently working hard to address maintenance and compliance challenges at properties in care through our high-level masonry maintenance programme. We are committed to concluding inspections at all 70 sites identified under the high-level masonry programme where access restrictions are currently in place and to have opened or partially opened those sites where it is safe to do so. So far in 2023-24, we have reopened sites such as Caelaverock Castle, Corgarff Castle, and Castle Campbell. Altogether visitor access has been improved at over 45 sites.

However, this remains a substantial piece of work that will take years and significant investment. Much of the sector lacks HES resources and skills to enact similar plans. Increased capital funding is needed to mitigate the growing maintenance requirements as well as investment in skills needed to maintain buildings. This will be an increasing challenge for the historic environment over the next few years to come.

Skills

In addition to financial challenges, skills shortages constrain the operation and growth of the historic environment. The current and future provision of skilled labour is a priority without which national priorities such as net zero are at risk. We are currently leading a review of the 2019 historic environment Skills Investment Plan to ensure that it is fit for purpose, meets the needs of the new national strategy, Our Past, Our Future, and enables the delivery of national outcomes. We are already aware of skills gaps, including in training provision and qualifications, and have been working to try to address these with Skills Agencies and providers and by seeking support from Scottish Ministers. Stonemasonry training provision is one area of significant risk that is critical to the current and future maintenance of a quality built environment and securing the benefits that flow from it.

More broadly, the construction industry is self-reporting significant recruitment difficulties via the Business Insights and Conditions Survey. 48% of construction businesses reported a shortage of workers, particularly those with construction technical skills (82%) citing a lack of suitable applicants. This is going to constrain the heritage sector's ability to retrofit Scotland's traditional building stock at the required rate to meet national net-zero targets.

Approaches that could help the sector:

- Increasing the current HES GiA funding: HES' ability to provide the same level of grant funding or to make multi-year funding and investment commitments is contingent on the level of GA that we receive. Therefore, providing appropriate levels of GiA in addition to increased financial freedoms on revenue raising will allow HES to provide support to the sector with more certainty
- Provision of additional multi-year funding to help to address repair, maintenance, and retrofit needs across Scotland's historic building stock. This will have numerous benefits, ranging from improving energy efficient and reducing carbon emissions to improving quality of life and generating good skilled and green jobs.
- Investment in skills, jobs, and training is needed to ensure Scotland has the workforce it needs to maintain, repair, and decarbonise our historic built environment and sustain heritage tourism and the benefits that flow from them.

- A more joined-up approach across government and key agencies to ensure the required maintenance, repair, and retrofitting of Scotland's traditional buildings in public and private ownership is undertaken, and in a timeframe to enable Scotland to meet its net-zero targets.

Q2. Our report also concluded that this crisis provides an opportunity to accelerate innovative solutions to the budgetary pressures within the sector. What progress has been made on this in the last 12 months? And at a time of limited resources, what other innovative approaches could the Scottish Government take forward to support the culture sector?

The development of innovative approaches to the budgetary pressures within the sector builds on and takes place in the context of, the contribution HES has been making towards sustainable public services for several years, including:

- Public bodies landscape simplification – the Historic Environment Scotland Act (2014) created Historic Environment Scotland by bringing together Historic Scotland and the Royal Commission on the Ancient and Historic Monuments of Scotland (RCAHMS) to create a single lead body for the historic environment in Scotland.
- Commercialisation – for many years HES has at the encouragement of SG, used its heritage assets to earn a significant level of commercial income (generating greater than 50% of total funding since 2015 when HES was first founded). This commercial income grew year on year until the Covid pandemic, reducing the impact on the taxpayer.
- Fundraising – our 5-year Fundraising Strategy seeks to increase HES income raised through donations, legacies, grants, and partnerships.
- R&D – HES invests 2.4% of our budget in research and development activity every year in line with UK and Scottish Government targets for research and innovation.

Current work underway on innovative approaches to budgetary pressures includes:

- Business model - a review of HES's business model with the overarching objective of adding more public value and improving outcomes (without automatic recourse to additional GIA) is underway in discussion with the Scottish Government. This review is looking to address the need for longer term investment planning, incentivise income generation and diversification and maximise the contribution to NPF outcomes/national priorities.
- Infrastructure and alternative arrangements for properties in care - we are committed to developing a strategy for the PICs that considers how we manage and operate these assets sustainably and innovatively to maximise their contribution to national priorities and the National Outcomes now and for the generations to come.
- Workforce innovation – including Strategic Workforce Planning, Pay and Grading review, and piloting a 35-hour week to enable us to attract and retain the skilled workforce we need to deliver our outcomes and national priorities.
- Digital Transformation - HES is transforming the way we work, moving towards a digital-first approach through our strategy HES Digital, which supports the Digital Strategy for Scotland. This strategy will increase the quality of digital services, offer service users better online experiences and access to information and produce savings over time.

HES also recognises a need to drive innovation across the sector and is currently considering how to better leverage emerging technologies via different funding avenues. We

have a successful innovation hub in Stirling's Engine Shed, with cutting-edge technology that can be used for research and education and importantly as a place to train and inspire others. This included winning an AHRC funding bid in 2023 allowing HES to develop augmented reality (AR) training in a state-of-the-art 360 facility, which aims to increase the amount of people that can be trained in traditional heritage skills, with minimal impact on resources, amplifying our current sector training offer. We would be delighted to show you around this facility if you would like to understand it better.

Innovation requires a combination of boldness and necessity; however, this is not possible when external pressures mean that many organisations are focused on the essentials and cannot dedicate resources to potentially risky new approaches. This means that understanding how to offer new solutions to long-running challenges and leverage new technology is rarely at the top of organisational priorities. In terms of approaches that could support a more entrepreneurial sector, more could be done in seeking external or partnership funding to allow increased investment. Partnerships with non-traditional supporters of the heritage sector could be explored and recommended, for example, increased partnering with Scotland's technology sector, reflecting the aims of Scotland's Innovation Strategy. While the strategy does not mention heritage tourism there is nonetheless scope for innovation in business models, digital services and marketing, and other new technology to ensure the long-term sustainability of the sector.

Approaches that could help the sector further:

- Review current Scottish Government budgeting frameworks to remove barriers to government portfolios and public bodies delivering across the national outcomes where, currently, budgets are allocated to portfolios that tend to align to singular National Outcomes. This issue is likely to become increasingly important in relation to public reform under constrained financial and economic conditions.
- Increased support and encouragement for innovation in the historic environment from the Scottish Government, including incentives and dedicated funding would allow us to go further in supporting the wider sector and in allowing the sector to pursue projects and technologies that are currently viewed as risky or non-viable within current resourcing.
- Looking to create ways to offer practical expertise to smaller organisations who cannot resource their own in-house corporate service experts (e.g., in HR, IT, or marketing). Survey responses from some in the sector have suggested the creation of government-supported hubs that can offer this kind of guidance across the cultural sector, reducing the costs for small, sometimes volunteer only run, organisations in the sector.
- Volunteering is still down in the sector (e.g., for HES it was down 95% after Covid-19), but there has been some recovery with increased innovative ways for people to engage e.g., micro-volunteering and the rise of digital volunteering. Innovative ways of volunteering, and the benefits this entails, could be highlighted in relevant government policies.
- Place the consideration of culture and heritage more centrally within government strategies given it is an essential component of Scottish identity and makes a strong contribution to delivery across the range of national outcomes.
- Integration is an area where the Committee could advocate for a holistic approach from SG, considering how initiatives from everything to innovation to net zero could integrate culture within them, rather than the historic environment being an afterthought or omitted.

Q3. The Committee called for the forthcoming refreshed Culture Strategy Action Plan to provide a clear and strategic sense of how the Scottish Government is working to ensure a more sustainable future for the sector. How should the refreshed Culture Strategy Action Plan help to inform future budgetary decisions within the culture sector?

Our Past, Our Future - the strategy for Scotland's historic environment (2023) sets out a mission, priorities and outcomes to be delivered to achieve a more sustainable future for the historic environment. These priorities contribute to and underpin Scotland's national priorities, and we consider that they should be used to inform budgetary decisions in relation to the historic environment. As part of the wider culture sector, we also recommend that the refreshed Culture Strategy Action Plan draw on the priorities, outcomes and actions identified in the new historic environment strategy.

With the above in mind, we have been involved in work to refresh the Culture Strategy Action Plan (CSAP) during the development of *Our Past, Our Future*, attending workshops, and joining the CSAP Local and National Delivery Group chaired by Scottish Government. The latter comprises representatives from Scottish Government, Creative Scotland, Convention of Scottish Local Authorities (COSLA), Scottish Library and Information Council (SLIC), Historic Environment Scotland (HES), Museums Galleries Scotland (MGS), Voice of Culture and Leisure (VOCAL), Society of Local Authority Chief Executives (SOLACE), and Community Leisure UK (CLUK). As a member of the LNDG, we have been able to input directly into the process of refreshing the CSAP, making suggestions for changes that would better realise the significant contribution that the historic environment can make to national outcomes and priorities. These have included the contribution that culture can make to net zero goals through repair, maintenance, retrofit and responsible tourism approaches, the importance of taking a joined-up approach across culture and government to education and skills by, for example, partnering on development and delivery of sector skills investment plans, and the opportunities to address inequalities through culture, including through culture-focused economic development activity.

Conclusion

Our Past, Our Future, the new strategy for Scotland's historic environment (launched in June 2023) sets out three national priorities for the sector for the next 5 years, with associated outcomes, high-level actions, and measures.

The key interrelated challenges currently facing the historic environment include funding and financial resilience, rising costs of staffing, energy, goods, and services, the costs of repair, maintenance, and retrofitting, and skills and labour shortages.

We have identified ways in which the Scottish Government could act to help the sector to meet these challenges and realise the mission and priorities of the new historic environment strategy. These include provision of appropriate levels of funding, supporting a multi-year funding model for the sector, promoting the integration of the historic environment in government policy across the national performance framework, supporting reform, increasing funding aimed at the repair and retrofit of historic buildings, and investing in skills to enable delivery. We would welcome an opportunity to discuss these further with the committee.