



OFFICIAL REPORT
AITHISG OIFIGEIL

Constitution, Europe, External Affairs and Culture Committee

Thursday 11 January 2024

Session 6



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CONSTITUTION, EUROPE, EXTERNAL AFFAIRS AND CULTURE COMMITTEE

1st Meeting 2024, Session 6

CONVENER

*Clare Adamson (Motherwell and Wishaw) (SNP)

DEPUTY CONVENER

*Donald Cameron (Highlands and Islands) (Con)

COMMITTEE MEMBERS

*Neil Bibby (West Scotland) (Lab)

*Keith Brown (Clackmannanshire and Dunblane) (SNP)

*Kate Forbes (Skye, Lochaber and Badenoch) (SNP)

*Mark Ruskell (Mid Scotland and Fife) (Green)

*Alexander Stewart (Mid Scotland and Fife) (Con)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Lori Anderson (Culture Counts)

Leonie Bell (V&A Dundee)

Sam Dunkley (Musicians Union)

Alastair Evans (Creative Scotland)

Francesca Hegyi OBE (Edinburgh International Festival)

Simon Hunt (Scottish Opera)

Anne Lyden (National Galleries of Scotland)

Shona McCarthy (Edinburgh Festival Fringe Society)

Iain Munro (Creative Scotland)

Fiona Sturgeon Shea (Federation of Scottish Theatre)

CLERK TO THE COMMITTEE

James Johnston

LOCATION

The Robert Burns Room (CR1)

Scottish Parliament

Constitution, Europe, External Affairs and Culture Committee

Thursday 11 January 2024

[The Convener opened the meeting at 08:47]

Budget Scrutiny 2024-25

The Convener (Clare Adamson): I wish you a good morning and a warm welcome to the first meeting in 2024 of the Constitution, Europe, External Affairs and Culture Committee. Happy new year to everyone who is participating and watching.

Our first agenda item is to take evidence as part of our budget scrutiny of the culture spending portfolio for 2024-25. This follows the committee's pre-budget scrutiny last year, and the publication of the budget at the end of December.

Our first evidence session is a round table with culture sector stakeholders. We are joined this morning by Lori Anderson, director, Culture Counts; Shona McCarthy, chief executive, Edinburgh Festival Fringe Society; Francesca Hegyi OBE, chief executive, Edinburgh International Festival; Simon Hunt, director of finance, Scottish Opera; Anne Lyden, director general, National Galleries of Scotland; Fiona Sturgeon Shea, chief executive officer, Federation of Scottish Theatre, who we hope will join us shortly; and Leonie Bell, director, V&A Dundee, who is also slightly delayed. We are joined online by Sam Dunkley, acting regional organiser, Musicians Union.

I offer a warm welcome to you all, and thank you for your written submissions for today's evidence session. This is a round table, so discussion should be free flowing. Witnesses should indicate to the clerks if they wish to answer a particular question. We have eight witnesses around the table, so if answers could be concise and things that have already been said not repeated, that would be helpful.

I will begin with an opening question. Our pre-budget report concluded that the risks to the future of the culture sector were becoming more severe, and that there was an urgent need for the Scottish Government to restore the confidence of the sector. In your view, to what extent has the budget and the culture strategy action plan responded to the challenges that are facing the sector, and sought to restore its confidence?

Also, what are witnesses reflections on the Scottish Government's response to the

committee's recommendations on innovative funding solutions?

Lori Anderson (Culture Counts): Thank you for inviting Culture Counts to return to the committee to provide post-budget evidence. I thank the committee for its work on pre-budget scrutiny and its attention to the challenges and the evidence that has been provided. I also thank the Cabinet Secretary for the Constitution, External Affairs and Culture, Angus Robertson, for securing additional investment for culture in the 2024-25 budget. There is no lack of understanding of the challenges that the budget presented.

I will begin by reflecting on the committee's report, which we welcome. That report recognised that the perfect storm is far from over, and that sustained and significant challenges lie ahead for the sector. We agree with the report's conclusion that there has, in the past 12 months, been some limited progress towards developing new and innovative funding solutions—in particular, through multiyear funding settlements and cross-portfolio working. We support the committee's call for urgent action on that and are pleased to see a number of those things in the refreshed cultural action plan.

However, we would have liked the report to go a little further towards calling for reinstatement of the cut that we experienced, which happened almost during the previous meeting. We would also like to have seen being brought forward, to make it part of this budget, the very welcome £100 million investment over the next five years. Our on-going aspiration is that 1 per cent of the overall Scottish Government budget would be invested in culture. The committee has supported that ask in the past; we would have liked that to continue.

I turn to the budget. Any increased investment is welcome in the current climate, and is certainly a move in the right direction. However, the settlement that has been provided does not contain a huge amount to celebrate. I will comment on a couple of areas and will leave those who receive funding directly from the Government to respond and to draw their own conclusions.

I know that representatives of Creative Scotland will be here later to make their own comments, but we were pleased to see that the £6.6 million, or 10 per cent, that had been cut from its settlement has been restored. We understand that a further £6.6 million has been provided to cover what was lost from reserves, so the funding that Creative Scotland has received is not actually new investment. Also, in common with what has happened to many others in the public sector, a 5 per cent efficiency saving has been imposed. What that means for Creative Scotland, and particularly for the regularly funded organisations programme for 2024-25, is that those

organisations will continue to be on standstill funding and that the proposed investment for culture is not being passed down to those organisations.

I will let others come in in a moment, but the other area that I would like to draw attention to is the non-national museums that are not part of Creative Scotland's portfolio. They are funded by Museums Galleries Scotland and 439 of the 449 museums will experience a cut in their funding, which means that they will have significant challenges in adequately resourcing their operations in the coming year.

For the organisations that will see an increase, that is incredibly important and very welcome after many years of standstill funding, but the impact of a standstill in long-term investment, coupled with high inflation, will reduce the real-terms value of any increase. In addition, as we have said at previous meetings, the on-going recovery from the impacts of Covid, the cost of living crisis, high energy and utility bills and the requirement to meet the challenge of paying the real living wage will mean that the settlements are unlikely to adequately cover the increased costs.

To conclude, I say that we hugely welcome the increases and are happy to see the budget moving in the right direction. However, a serious amount of investment is needed now, and from within the current budget—not over a five-year period. The money is welcome, but we need it now and our reflection is that the investment does not go far enough, either in amount or pace.

The Convener: Thank you. I invite Anne Lyden to make some comments.

Anne Lyden (National Galleries of Scotland): Thank you for inviting me along this morning. This is my first week in my new role, and I am very happy to be here, representing National Galleries of Scotland.

We are custodians of the national art collection, which ranges from art from the middle ages to modern and contemporary art. Through public funding, we provide free access to that collection for the people of Scotland and hold the collection in trust for them. In other words, the budget and the settlement that has come through allow us to do the work that we do for the people of Scotland.

We continue to provide free access to the collection through our public offer at our three sites. We offer visits to our stores and loans to other museums and galleries around Scotland, the rest of the United Kingdom and internationally. We recently opened the Scottish galleries to showcase a particular strength of our collection. We have a changing programme of exhibitions here in Edinburgh, but we also tour shows domestically and internationally, and our outreach activities

extend across the country to ensure that there is access to and engagement with the national collection.

We are also committed to furthering our ongoing work in equality, diversity and inclusion with regard to the collection, our people and our offer. We, too, have seen what has already been noted in terms of visitor numbers recovering post pandemic, and our online digital offer continues to grow year on year.

That said, although we are able to do all those important activities with Government funding, the reality is that it is becoming more and more challenging to deliver the programmes and activities, because the funding situation is proving to be a challenge for us. The revenue budget increase for National Galleries of Scotland is only 1.8 per cent, once we take into account the 2023-24 spring budget revision for the first year of the pay policy, and there is the 5 per cent public sector reform efficiency reduction to take into account, too.

Moreover, although we are expected to pay the second year of the pay increases, we also have increased employer pension contributions to meet. All that is against the same backdrop as everyone is facing, of increased utility costs. Therefore, the settlement, as presented to us, makes the path to a balanced budget very challenging, and we are currently working through the impacts on and options for how we deliver services in 2024-25.

Echoing some of the sentiments that have already been shared, I would say that this is the reality of several years of underfunding of the arts and culture sector. It goes all the way back to the financial crash of 2008, which impacted on the budgets of NGS and many other organisations in a way that they have just never recovered from. If you look at the evidence from about 2011 onwards, you will see that, taking out the Government pay policy allocation and the variable elements of capital funding, we have had basically level funding since about 2011.

That is challenging, with costs continuing to go up, but we are still committed to delivering what we need to deliver for the people of Scotland, and to safeguarding the national collections. However, although we are acting on behalf of Scottish ministers to make the collection available to people into the future, the reality is that 95 per cent of our grant in aid goes on our salary bill. That leaves only 5 per cent for the rest of our activities—activities that have a positive impact on Scottish life, health and wellbeing, and the arts and culture.

We are not alone in this—indeed, I am surrounded by colleagues from other institutions and other parts of the sector—but the fact is that a

high proportion of fixed and unavoidable costs arises from securing and caring for our priceless and world-class national collections. We also have to factor in the high costs of maintaining the buildings, estate and infrastructure that go along with them, and of our desire, ambition and obligation to meet a carbon-neutral future.

Although I am representing NGS, those challenges are shared by other national collections such as the National Library of Scotland and National Museums Scotland. Those organisations are not represented at this meeting but, like NGS, they are basically facing a challenge in how to balance their budgets, going forward. There will be difficult decisions for all of us as to what that looks like.

09:00

To pick up on the earlier comments on the wider museums and galleries sector, I note that the funding situation across the board is not ideal, which is of concern for all of us, because we are all part of an ecosystem and we work together very much in collaboration and partnership. If the funding is not balanced across the board, we all bear the impact of that. We will hear more from Creative Scotland later, but we are all connected. For us to truly deliver on what the people of Scotland deserve, adequate funding is required, and we would welcome multiyear funding.

The Convener: I welcome Leonie Bell to the meeting. Our opening questions were about whether the Scottish Government's budget and the new strategy meet the committee's recommendations about improving confidence in the sector, and about the Scottish Government's response to the committee's recommendations on innovative funding solutions. Those were the opening questions, but if you want to say a little about your situation, that would be good as well.

Leonie Bell (V&A Dundee): I apologise for being slightly late. Thank you for having V&A Dundee here this morning.

As people have probably seen, V&A Dundee's budget settlement is positive. Rather than go over what the organisation does, which most of you will be familiar with—we operate as Scotland's design museum from Dundee, so we are outwith the central belt—I will reflect on what Lori Anderson and Anne Lyden have just said, and all I can do is agree with them.

We all recognise that we are all connected, and we are all experiencing very similar things, albeit in our own contexts. For V&A Dundee, part of the reason why we look different in the report is that, in effect, we are a bit like a start-up. We have had five years of operation, and it has probably taken us those five years to work out what our public

subsidy model will be. We make a lot of money from that, which is an important point that many people have made previously. We need to think through what public subsidy is. It is probably the only support that we all get that enables us to cover core activities, but it should also be a platform to enable us to do the sort of activities that Anne Lyden mentioned.

At V&A Dundee, within five years we have begun to evidence quite comfortably the significant catalytic impact that we have across economic, social and cultural factors. Therefore, the increase in budget for V&A Dundee gets us into the region of something that starts to demonstrate what our organisation warrants, if that makes sense. We have already gone through three years of really intense working. An intense revision of our programme model significantly reduced what we do on major shows, and at the same time we tried to make more money and to make more free offers.

However, the evidence that we demonstrated in our fifth birthday report, which some colleagues will be familiar with, starts to establish what an organisation, when it is funded to a level that gives it a fighting chance, is able to achieve. We are outwith the central belt—it is really important for us to be here giving a voice to organisations that are outwith Glasgow and Edinburgh.

I know that I am surrounded by national organisations, but the increase in budget that we have had enables us to look ahead with more positivity than, if I am honest, we have had in the past few years, during which we have had year on year of mitigating measures. Those range from reducing our output to not having any confidence to plan beyond a year ahead. As all organisations will recognise, for us to achieve a show of the scale, quality, impact and local and international relevance of the show "Tartan", we need four or five years.

Overall, there are three things that I think we all want. We want enactment of some of the promises that have been made and a coming together around the powerful narrative of what culture can achieve. As Anne Lyden said, that is for everybody who lives in Scotland, but it is also for everybody who visits. We want a reduction in the gap—we all want to be part of working out how we will do that—and we want to work with Government ministers and officials to look at what can be achieved on multiyear funding, as well as enactment of an increase in the budget.

As for ideas for innovation, as a young organisation we have sometimes had no choice but to be extremely entrepreneurial. As commonly happens with new capital programmes, we started with a funding model that was not enough to cover our running costs. Good things have sometimes

come from that. We have had to be incredibly entrepreneurial in setting up initiatives such as city-wide cultural recovery funds during Covid, and in establishing long-term relationships with organisations such as The Dalmore. However, we also all know that sometimes the Government then works in a way that creates an impact on that, when we think that that is what we should be doing. That point has previously been rehearsed in the Parliament's committee rooms and elsewhere.

To enable us to be in spaces where our business models can be innovative and entrepreneurial, to build fundamental connections and to spark ideas, we must remember that cultural leaders and chief executives run organisations that are complex beings. We are not just cultural voices and delivering seven-days-a-week operations; we also run catering, retail and event businesses, and more.

We need the intellectual space and the energy to produce more ideas. The more ideas we all create, the better is the chance that some will be genuinely transformative. At the moment, none of us has enough time to come together beyond our own organisations, because of the strain that everybody has been working under.

My main point is that we are really thankful for the opportunity to work with the Scottish Government over the past few years towards getting us on a much firmer footing than we have ever been on. That work has come at a time that will enable us to look to the longer term with more positivity than we have had.

However, like everybody else, we are still dealing with 40 per cent cost increases. For our fifth birthday, our approach was to supercharge the year. We deployed reserves to cover operational costs, and we considered other ways of bringing in money. That meant that we took quite a lot of risks to make V&A Dundee really work in, of and for Dundee, but also for Scotland and, of course, for the nation that Scotland wants to be within the wider European context and internationally.

However, to achieve the aims that our organisation achieved last year also takes public subsidy. We are now closer to those aims with the extra £800,000 that we received. We really welcome that, because it gives us a fighting chance of being able to complete our first decade with the same level of economic, social, civic and cultural impacts and to contribute powerfully to the cultural growth of this country.

Everyone needs such a fighting chance, though. At the moment we are running businesses and organisations that have been cut to the bone. We just need space to demonstrate what the cultural leadership and workforce of this country are

extraordinarily capable of doing, which is to innovate as well as to protect what we already have. That is the balance that we must constantly strike when money is so tight.

I am aware that I say this on behalf of a relatively new organisation, but we all want to pursue the new. However, we must also protect what 70-plus years of public investment have created.

We must also think deeply about the topography of Scotland. I do not mean that in the sense of asking whether more resource needs to go elsewhere; we need to think of it being "as well as". For Dundee to thrive, it needs Glasgow and Edinburgh to thrive. I hope that for them to thrive they need Inverness and the islands to thrive. It is not just about the cultural ecology; it is about the geographic, social and economic situation, too.

There is so much for us to welcome here. As Anne Lyden and Lori Anderson did, I recognise that people are coming from a very difficult place, having experienced years and years of flat funding and soaring costs that are beyond anything that any of us had imagined. We are in a city of 150,000 people, but we will have 340,000 people through our doors this year. That is the story of what V&A Dundee can achieve, but it could also be the story of what the sector can achieve when it is given a fighting chance.

Fiona Sturgeon Shea (Federation of Scottish Theatre): I thank the committee for inviting me here. This is my second time at a committee meeting, but the first time was during the Covid pandemic. Meeting online was a strange experience, so it is good to be here in person.

I am the chief executive of the Federation of Scottish Theatre, or FST, as we are known. We are the membership and development body for professional dance, theatre and opera in Scotland. We have recently refreshed our vision in order to better reflect the work of the work of our members. Our vision is of a thriving performing arts sector that is integral to a vibrant, diverse and equitable Scotland. Our mission in helping to achieve that is to advocate for, connect across and lead necessary change within the performing arts in Scotland.

We represent more than 200 members in the majority of local authority areas across Scotland, based on all sorts of different scales and working in all sorts of different settings. Some of our members are here giving evidence today. Our members include professional organisations and individuals from national companies, festivals, individual artists creating their own work and those independent producers who support them. We count as members all of Scotland's professional producing companies and those who provide artist

support and work in different ways to create, develop and produce live performance for audiences across Scotland, in the UK and overseas.

As I said earlier, thank you for inviting me following the evidence of my colleague Liam Sinclair from Dundee Rep and Scottish Dance Theatre, who was here in September when he was our co-chair, and following our written submission to that inquiry.

We are in pretty constant dialogue with our members. At our last members' meeting, we considered the wider economic landscape for the performing arts and tried to predict the direction in which the budget might go. This week, in another session with our members, we gathered a bit more information to add to the knowledge that we currently have. I will not cover the richness of those discussions verbally today, but I will follow up with a written submission, because there was so much detail that deserves to be shared.

To echo what other speakers have said already, our members acknowledge and welcome the £100 million commitment. Given the mood music, it was a surprising announcement and it brought some long-overdue hope to a particularly stark and challenging situation. Everyone acknowledges the hard work that must have been done on negotiating and achieving any increase in budget, given the budgetary pressure across the board. It feels like an excellent start, and we hope that there will be further recognition of the value of and investment in culture in Scotland. Everything points towards a real understanding of the value and benefits of culture at the heart of a progressive and fair Scotland, with sustainability being key. However, as has been said already, how we get there is still a bit grey.

At the risk of introducing another phrase that will soon get worn out, the devil is in the detail. That is something that has come up time and again in our conversations, and we see it when reading the analysis from the Scottish Parliament information centre, colleagues such as Culture Counts and others. Our members, the majority of whom are included in the Creative Scotland and other culture budget, are anxious to know exactly what the budget announcement will mean for them in real terms. Having said that, there is a huge appetite for collaboration, and our members have contributed and will continue to contribute in whatever way they can to support a shared vision and actions towards all of that.

Your other questions were about improving confidence and responding to challenges. I apologise for jumping to challenges quite so quickly. I guess there is a real concern that we will not see enough new funding in time for it to make the impact that is needed. I do not think that

anyone will be surprised to hear that. Again, I do not need to repeat in detail the evidence from the earlier session and what we have been saying during the past three years about the deep and damaging challenges that the sector is facing. When I read our previous submission, the phrase that jumped out was

"There is no space closer to the edge to move to."

One of the things that has definitely always been talked about, but has come very much to the fore now, is opportunities for self-employed and freelance artists and practitioners and how they are shrinking drastically and so quickly. People are really struggling to survive.

I want to say something about poverty here but I am not sure how well I will express it. It might be a very naive thing for me to say, but I think that it is important not to think about culture as one issue over here and poverty and need as a separate issue over there. The people who work in our industry are experiencing the same economic and social challenges as everyone else. We are not talking about a few less shows here and there, we are talking about the decimation of a workforce in an industry that is at risk, and those who are around this table all understand that.

Daily I hear from members and others about another failed funding bid due to extreme competition. That could be the last failed bid that a company can withstand, because it is made up of one or two people working tirelessly, often to deliver highly participative activity in vulnerable communities, when they themselves are in a precarious position.

09:15

On a more positive note, the last conversation that we had with members focused a lot on ambition and the cycle of opportunity. There are examples throughout the submissions that you have received for this meeting—from the Edinburgh Festival Fringe Society, the National Galleries of Scotland and others—of how it is a missed opportunity to limit ambition when it could be really transformative. More work being produced at different scales in Scotland would increase employment and improve skills development. It would train and retrain our employed and freelance workforce, lead to higher wages and fairer work and, crucially, secure the ability to stay relevant on the international stage.

I have lots more notes, but I will finish there. We can come back on other opportunities in relation to your question about the culture strategy refresh and those kinds of things.

The Convener: Thank you very much, Fiona. I will move to Sam, who joins us online.

Sam Dunkley (Musicians Union): Good morning. Thanks for the invitation to join you today.

Reflecting on the budget that was announced, the feeling among our members and colleagues is that it is not as bad as it could have been, but it is not as good as we had hoped.

The First Minister's commitment of an extra £100 million over the next five years was welcomed across the sector, as we have heard from colleagues already today. However, as soon as that was announced, voices across the sector said that it was really important that that be front-loaded. The crisis in funding is now, and organisations and individuals need access to that money so that they can keep doing what they are doing in the face of a cost of living crisis that is having real impacts on organisations, but also on individuals who make their living as professional musicians and artists. Unfortunately, I am not sure that the additional funding announced in the budget—as welcome as it is—will have the impact that we need it to have.

The refloating of Creative Scotland reserves, which may be to cover the £6.6 million that was withdrawn in the current financial year, is welcome, but if that is put back into reserves, which might be a prudent thing for an organisation to do, it will not have an impact immediately on artists and organisations. The other £6.6 million, as I understand it, has been put into Creative Scotland's budget to fill the national lottery funding shortfall for the last five years, so I do not know that that will feel like new money to Creative Scotland and to those applying.

Having spoken to our members who have applied to Creative Scotland and to colleagues at Creative Scotland, I understand that at the moment, fewer than half of the music applications that are recommended for funding are able to be funded due to constraints in the budget. That means that musicians and those working with them are writing strong applications that could have a really positive impact on musicians in our communities, but Creative Scotland does not have the resource to support them, and I am sure that that situation will be reflected across other art forms.

The other thing that rankles slightly is the cabinet secretary's letter describing a 3 per cent uplift for national performing companies as an “inflationary increase”. Given how long the funding for national performing companies has been static, I do not think it will feel like an inflationary increase. I am sure that my colleague from Scottish Opera will touch on this later, but national performing companies' budgets from Government funding are in real terms 40 per cent lower now

than they were, and that is reflected in the fees that our musicians are paid.

I did some quick sums yesterday, catching up with myself after Christmas. In 2011, a Scottish Ballet Orchestra tutti player—a starting-rate player and rank-and-file member of the orchestra—was paid £67.97 per session. In 2022-23, their fee was £76.22 per session. Using a very technological inflation calculator on the internet, I note that, if the fee had kept pace with inflation, it would now be more than £95 per session.

Musicians might play eight sessions a week, so they are around £160 a week down what they could have been earning had their fees kept pace with inflation. I am not sure, therefore, that 3 per cent feels like an inflationary increase to companies or to individuals. However, when I compare the settlement that has been offered in Scotland with the situation in other nations in the United Kingdom, I think that it is not as bad as it could have been.

We can look to Northern Ballet Sinfonia as a cautionary tale, in many ways. Given its funding constraints, Northern Ballet is now proposing that all, or the majority, of its touring work will be done without its orchestra and with recorded music. That is not something that any of us want. It will have a real impact on those musicians, who are losing a vast amount of their work. It will deprive audiences in touring venues of the full experience of seeing and hearing a live orchestra doing fantastic work, which is completely different from listening to a recording of music. Even with the best public address system in the world, it is different when you know that the music is being played, and when you hear it played, live.

We need to ensure that we do not end up going down the same road anywhere else. The Musicians' Union is campaigning against that decision at Northern Ballet and we will continue to do so, but it is a cautionary tale for us all.

That said—I feel that I am being negative so early in the morning, so I apologise for that—any uplift is welcome, and we will continue to watch with interest how the rest of the £100 million over the next five years comes to fruition. However, as colleagues have said already, the detail is important, and if too much of it comes too late, it will be too late for some organisations.

The Convener: Shona McCarthy, would you like to come in next?

Shona McCarthy (Edinburgh Festival Fringe Society): I thank the committee for having the Edinburgh Festival Fringe Society here this morning—it is great to be here. I promised myself that I would approach this year with joy and positivity, so I come at this from a positive angle. So many of my colleagues have already covered

many of the things that I had noted down to say, so I will not repeat that; I will jump quite quickly to the specifics of the fringe.

Like everybody else, we welcome and celebrate the efforts that have gone in. Everybody is aware of just how acutely challenging it is, in the current environment, to create a budget that is fair to all the different needs. We therefore welcome the budget announcement and the cabinet secretary's hard work to secure the investment, and we welcome in particular the pledges from the First Minister to increase the funding. There are real positives in there for Creative Scotland, for the national portfolio organisations and for our colleagues at V&A Dundee—I was absolutely delighted to hear that news.

In truth, however, we have absolutely no idea how the budget is going to impact the Edinburgh fringe. We need a specific and bespoke response. The fringe is a global brand for Scotland, but we fall between the cracks of all the existing funding mechanisms; I still find it quite astounding to say that out loud.

We get support through the expo and place-based investment funds, but those are restricted—funding from the first is to support the Made in Scotland Showcase at the fringe and the onward touring of shows from Scotland, and funding from the second is to support our extensive community engagement and our access and learning programmes.

We do not receive core support. We suffer from not being a regularly funded organisation, and not fitting within the major events portfolio as we are not a mobile or one-off event. We are not a start-up, so we do not fit with the enterprise route. We are not right for Creative Scotland, EventScotland or Scottish Enterprise, although occasionally we have secured one-off small pots of funding.

However, we are the biggest performing arts festival in the world, which happens every single year in the Scottish capital, including some 900 shows from across Scotland: from the isles and from every single other part of Scotland. There is also the reputational impact and reach; the benefit for the performing arts across the UK; and the 63 countries around the world that participate on the stages of the fringe.

To put starkly our current position, we go into 2024 with no reserves, carrying a huge deficit and carrying a loan from the Scottish Government to survive Covid. We are the only cultural organisation in receipt of a loan as opposed to a grant, and we continue to suffer from the historic wrong of having been removed as an RFO by Creative Scotland back in 2016, which is why we had to get a loan. In 2020, we said that it would take us five to six years to recover from the

wreckage of the pandemic. 2024 is the fourth year of that, and it is crucial that we at the very least break even this year.

We very much hope that much of the funding announced will go to supporting those Scottish artists, companies and venues that are at the heart of the fringe, but the fringe society and those producing venues outwith the RFO portfolio need a bespoke understanding and approach, because we have no idea how the budget announcements will impact us.

On the bigger picture, I think that Scotland needs to decide whether it wants to retain Edinburgh's status as a festival city. Edinburgh's festivals are not like festivals in other cities. Edinburgh has been an inspirational festival city to Europe and the world. I know this because I was on the outside of it looking in with massive envy until I got on the inside of it and realised just how jeopardised it is. If we value and want to retain the global reputation that that status brings, there needs to be a new approach. The festivals know that, and we are working more collaboratively and more creatively than ever, but we need a new approach and a new response from the Scottish Government and the City of Edinburgh Council.

We are very effective at attracting commercial partnerships, but we have to invest in people to be able to do that. We need core investment to support the people, and we need to look like we are an attractive sector to work in. Everybody would agree that the attractiveness of our sector as a place of employment and a place for people to want to work has been severely damaged over the past few years. We have some philanthropic support and could attract more, but only if we can show that we also have Government investment, because we look less attractive to philanthropic giving if we do not have the support of our own Government.

As Leonie Bell said, we want to be ambitious, world leading, competitive and excellent in all that we do. We have made major public commitments and targets around fair employment, sustainability, access, inclusion and Scotland's international reputation, but it is hard to be ambitious and to achieve all the things that we want to as creative, entrepreneurial people when we cannot even get out of the deficit that we have been carrying since 2020.

I will make a final couple of points that I do not think anybody has addressed yet. We appreciate how hard times are for everyone, but when there is money available, it is important that the right choices are made. I welcomed the shifting of the events budget into the portfolio of the Deputy First Minister, because it pained us last year to see such a level of investment in the UCI cycling world championships. I have nothing against cycling—

cycling is great—but it was hard to see tens of millions of pounds going into a one-off event when there is a locally rooted, 76-year-old, long-term, high-value and low-cost event that has a sustained cultural, social and economic impact in every possible way. Making the right choices about locally rooted events over high-cost, low-value events is important.

I am also greatly concerned by the tourism levy, because, when it comes into play, there seems to be a shopping list against it that will dilute its impact on everything. If there are no other routes for us to get support, we need, at the very least, to be written strongly into the approach.

The fringe society wants to work collaboratively with the Scottish Government. We see ourselves as a major player in the nation's cultural ecology, and we want to look forward and be positive. We support the Culture Counts ambition for Scotland as a nation to spend 1 per cent of Government expenditure on culture. That would still be below the European average, but it is a worthy ambition.

09:30

Simon Hunt (Scottish Opera): Thank you for inviting us. My colleagues around the table have made a lot of the points that I wanted to make, so I will focus on the issues that are specific to us as much as I can.

We very much welcome the increase in funding. It is the first increase in cash terms that the national performing companies have had since 2010-11, so it is already a step forward. In our submission, I set out in a graph the cumulative impact of below-inflation settlements over many years, as Sam Dunkley alluded to. For the past seven or eight years, there has been standstill funding while inflation has increased.

I echo what has been said. We have all, in different ways, addressed those challenges. We have made efficiency savings year on year for the past 14 or 15 years as we have tried to find ways to deliver the impact that we want to deliver more cheaply. That has resulted in reductions in activities. When we set out as a national performing company, we performed, for the first few years, six big main-scale operas a year in Glasgow, Edinburgh, Aberdeen and Inverness, but we are now down to three. That means that there is less work not just for musicians and singers but for the many people who work behind the scenes, as Leonie Bell said, including those who work in our workshop, costume makers and other people who provide the infrastructure around the industry.

We have done our best to be innovative with our funding. All of the national performing companies have done amazing things to grow audiences, particularly among demographics that you might

not expect. We will very shortly produce a report on the social impact of the national performing companies.

One thing that has not been mentioned so far is the impact of the UK Government's creative tax reliefs, which have become hugely important to us in filling a gap that our core grant funding has not been able to fill. The reliefs are an immensely valuable contribution to what we can do, particularly at the moment, when we have enhanced rates following Covid. According to the current plans, the rates will taper back over the next couple of years, which will have a dilatory impact on what we can do.

Sam Dunkley alluded to the impact on musicians. That impact applies across the board to other types of specialists whom we employ. One of our efficiency savings has been to hold down pay rates, but that has an impact on the livelihoods of freelancers and on our ability to attract and recruit staff.

All of these are on-going challenges. We absolutely understand the challenges facing the national finances, we understand and appreciate the battle that is being fought for culture and, as I have said, we welcome the increase. What we would love to see is longer-term certainty. The £100 million was fantastic and really did increase confidence, particularly after the events of last March, which shook us all—we had thought that we were going to get standstill funding and then we were asked to model cuts. However, although the announcement of the £100 million was fantastic, we would love to know the timescale for it. As we have heard around the table, it is important for that investment to be brought forward as much as possible.

I ask those around the table to forgive me, but I noted that one of the submissions—I cannot remember whose it was—talked about culture not as a problem to be solved but as an asset to be invested in. It was a great line, and it leapt off the page at me. The fact is that, if you invest in us, we will give you a return, and that return goes across the board in the kinds of economic and social impacts that everyone around the table has very articulately described.

The issue of multiyear grant agreements has been on the table for a long, long time. We would love to see them, as they would make a big difference to us. After all, we have to plan a long way in advance. If we want the best directors and artists to come and perform to audiences in Scotland, we have to book them two or three years in advance—and even longer for the very best. Doing that without absolute financial certainty is a risk that we sometimes cannot take, and it means that we compromise on the quality of what we can provide to audiences in Scotland.

Perhaps I can bring some of these themes to life with a wee case study. We have an opera highlights programme that we take on the road with four singers and an accompanist; in four weeks' time, the spring tour will start, and we will be going from Largs to Duns to Blairgowrie, Stornoway, Peterhead and many, many points in between. The programme is not just some greatest hits or "Your favourite arias" thing; we innovate within it. This year, for example, the programme that audiences will get includes a commission that we have put in; in other words, a world premiere will be delivered around Scotland.

Historically, we have gone out to 35 different venues over two tours, and our audience feedback and numbers have been amazing. For many folk, it is their only exposure to the art form or, indeed, any of the art forms. For 2024-25, in the expectation of standstill funding, which is all that we could budget on at the time, we thought, "Well, we can't really do 35 venues any more. How are we going to do this?" We halved it; we pushed and pushed and pushed the envelope; and instead of two tours, we ended up with a single tour going to 24 venues. In other words, there was a cut from 35 to 24. That might not sound like a lot, but it means that 11 communities, all of which have quite a big hinterland of people coming in, will not be getting that tour in 2024-25.

The increase that has been announced could, in theory, fund us back up to 35 venues, but it is too late now. Contracts have been signed, venues have been booked et cetera. What the money will do is, I hope, enable us to reinstate things for 2025-26 and put the number of venues back up to the 35 that we were doing before. That is why it is not just some academic exercise when we say that we would love to know these things in advance; it has very practical implications for what we can deliver.

That is probably the end of what I have to say. We need clarity on how and when the £25 million for 2025-26 that was announced in the budget speech will be allocated, and the same goes for the rest of the £100 million. It would be fantastic to have that knowledge as soon as we can, although we understand the constraints that ministers are under in delivering that.

The Convener: Thank you very much. I now call Francesca Hegyi.

Francesca Hegyi OBE (Edinburgh International Festival): Thank you for inviting me back. Because I have the privilege of speaking last, you can almost guarantee that everything that I was going to say has already been said, so I will be brief and perhaps focus on your questions around confidence and the strategy.

First, we welcome the budget announcement of increased funding and the First Minister's commitment to an additional £100 million. That went some way to restoring some of the loss of confidence over recent months.

However, as Lori Anderson set out clearly, although there is an additional uplift for the national collections, national performing companies and the V&A, which we really welcome, it looks like there is nothing similar for Creative Scotland. The implications of that for the RFO network of very small organisations around the country is serious. For the Edinburgh International Festival, it means that we are looking at a 16th year of flat funding. You can imagine the impact of inflationary increases on our cost base over that period. It is extraordinarily difficult for any organisation to manage 16 years of flat funding, irrespective of how well it is run or of other sources of income that it might have. I have worked in the industry for coming up to 30 years and I have never known it to be as difficult as that. That is the backdrop.

Although the movement in the Government's narrative is extremely welcome—and we must commend the cabinet secretary for securing any increase in the culture budget at this point—as others have said, it is not yet finding its way through to the places that it needs to get to. As Simon Hunt said clearly, that means that we have to reduce activity. For us, that means that we cannot do the closing event, which was a free event for the people of Edinburgh to come and look at the fireworks. We physically cannot afford to do that any more. We have to row back from providing activities that do not generate revenue, because there is no headroom in the budget. The people who suffer are the people in communities across Scotland who most need and benefit from cultural activity. As yet, the relief that was promised by the statements in the budget, the cabinet secretary's letter and the First Minister's words is not yet working its way through.

Simon Hunt also mentioned the UK Government tax reliefs. They are incredibly welcome and they are what is keeping a lot of the sector afloat right now. Without UK Government support, I am not sure where lots of us would be, and we have to acknowledge that.

As has been said previously, over the next 18 months, we have an opportunity to figure that out. For the international festival, from 2025 onwards, unless there is a significant step change in income—all sources of income, not just public—we will have a seven-figure deficit and that is not sustainable, so something significant needs to change. We—and colleagues around the table—are keen to work with Government to figure out what that change could be.

That brings us on to the strategy. I welcome the fact that it has arrived but, for me, it does not yet provide a clear route to delivering that transformation and step change, and it does not yet match the level of ambition that we are starting to hear from the Government in the words of the cabinet secretary and the First Minister. There is yet to be more alignment between that ambition and the tangible outcomes and actions.

Quite a lot of what is in the strategy is internal to the Government. It talks about exploring and scoping things, and more strategies. It does not yet provide those bold, ambitious steps that will really change the fortunes of the sector. That is not in there yet. Again, I would be very happy to work with Government on that.

09:45

The essential question is this: there is limited resource and there is excess demand on that resource, so how do we square that? That is what the strategy needs to address. If there is limited resource at the moment, how do we grow the pot? What examples can we look at around the world? What innovative things can we do? How do we, as an entrepreneurial sector, use our brains to think about how we grow that pot? If we cannot do that, what is the strategy for making cuts? That is not in the strategy. What is there is about growth and delivering outcomes for the country, but it dodges the difficult questions. It must address those for us, so that we can at least have the clarity that we do not have yet.

I would say that it is a mixed bag. There is confidence that Government has heard and listened, and it has made some positive statements about additional investment in the sector. There is less confidence about its ability to deliver on some of the difficult questions that need tangible and bold steps.

The Convener: Thank you all for your opening contributions. I am now going to move to questions from members. We do not have a lot of time this morning, as we have a second session with Creative Scotland, so I ask you to be succinct and not to repeat points that have already been made.

Neil Bibby (West Scotland) (Lab): Good morning to the panel. We have heard a lot about the on-going crisis in funding and we have previously discussed the perfect storm that is affecting funding for the culture sector. We like to talk about outcomes and what Government spending achieves. The 2022 Scottish household survey showed that 74 per cent of adults attended a culture event or place of culture, which was a decrease from 81 per cent in 2019. If we exclude cinema, it was 65 per cent in 2022, which is down

from 74 per cent in 2019. Access to culture opportunities has therefore declined.

The pandemic undoubtedly had an impact, and there were some light restrictions at the start of 2022. We have heard from Francesca Hegyi about reducing shows and capacity, so to what extent can we put that decline down to a depletion of cultural resource and infrastructure? Given the current levels of funding, do you expect us to go back to pre-Covid levels any time soon? Will we see that decline in cultural opportunities and reduction in activity being reversed?

Francesca Hegyi: It is sad to see those levels of participation drop off. There are probably two main reasons for that, and you have alighted on the first one, which is that audience behaviour since Covid has been affected. People are coming less frequently than they did before, and their behaviour has changed.

As we have described, some of the decline is also because of a retraction of services. We have talked today about how that affects some of the larger organisations and national companies, but we have not talked about local authority services, which is where the majority of local provision is provided. We have seen what is happening right across the UK, with local authorities being unable to continue to support culture as it is not a statutory function. I can only see that getting worse in the coming months and years, unless there is a step change in available resource. At the moment, it is very difficult to see how those figures will recover.

Simon Hunt: We certainly experienced a big drop-off as a result of Covid. There has been a change to audience behaviour and, quite markedly, the quickest to return was our audience in the central belt. Among our main venues, Aberdeen's audience was next to return and that of Inverness was much slower. In some of the more rural communities, there is still a reluctance to return. It is too early to say whether it is just down to activity or just down to Covid or to say what the balance is, certainly from the 2022 figures, because Covid still figured so much. We have all said that our activity has had to diminish for financial reasons. It is definitely having an impact. We are seeing the return of audiences now, and we have seen a changed demographic in our audiences. That has been down to some great social media work that is bringing in new people, which is great.

Fiona Sturgeon Shea: I want to feed back from the conversations that we have been having recently. The majority of members are saying that there is no doubt that they are having to cut back on activity. We all know that audience development cannot be done with inconsistent programming and provision. There is the issue of

having to scale down ambition because the situation is so precarious. There is what Francesca Hegyi was saying about lead-in times and how long planning takes, which is two years minimum. With all those things taken together, and without some sort of intervention, we might well see a decline, unfortunately.

Leonie Bell: We have to analyse it beyond just the culture funding levels and what the culture sector does. We operate in and are deeply attuned to the wider local, national and international contexts.

At the V&A Dundee, we are certainly experiencing a return of audiences, but they have far less money to spend. They are much pickier about what they will go for, because television is utterly brilliant. There is growth in international television and in technology, which is moving at a pace that we often cannot, so a lot of us are pivoting quickly to think about whether our programmes are relevant. That is healthy for us; we have to remain attuned to society as it changes.

The other things from which we see really clear patterns are climate change, train strikes and growing inequality, especially in the city that we are in. Dundee is so ambitious, with a deep and soulful commitment to creativity, but the climate there has changed remarkably in the past three years. We have storm after storm through the winter, which impacts immediately on our visitor numbers as well as our building's resilience.

There were train strikes throughout last year, and we could really see the connection with the provision of public transport across Scotland and the UK; the strikes immediately affected us. Free bus travel for under-22s across Scotland is brilliant, and we see growth in the number of young people coming in, but the number of people travelling to us by train is probably reducing.

That is the challenge of the strategy: we are not working and operating in isolation; we are completely connected and, somehow, the strategy has to cohere around those complicated interacting elements and enable us to see the road map through, as Francesca Hegyi and other witnesses have said. We would do ourselves and our potential a disservice if we just analysed the reduction in activity in binary terms.

There is another thing. We opened with a programme model of three major shows a year. Perhaps we would like to get back to something closer to two a year—we are currently at one a year—but, for me, three shows a year is a waste of our energy, and it produces stuff that impacts negatively on the planet.

There is a whole set of things that we need to be concerned about as we try to analyse the

figures. We all want to achieve the greatest access for opportunity but, as a sector, we need to think hard about what we are offering, as well as about the wider context. Being audience led in that and learning what audiences want is critical for us all.

Shona McCarthy: I was going to say pretty much what Leonie Bell has said. It is about people's disposable income. The impact of the cost of living crisis makes people much clearer about what they will and will not pay for.

Another impact of that is that we have been keeping ticket costs frozen for years now, because we appreciate that there is a much bigger challenge for our potential audiences. Given the climate issue, we now focus much more on local audiences and audiences from across Scotland, who make up the majority of our ticket-buying public—our mantra is, "One more show, not two more feet."

We have all those competing things to consider, so it is not just a binary—it is not simply that there is less activity, so there are fewer people.

Neil Bibby: Thank you for those answers. A number of you mentioned the local context and local government funding. We have talked about the national budget, and Culture Counts talked in its submission about the crisis in funding for local councils.

From the national organisations, we have heard that one of the main concerns is standstill funding and the lack of resource that is needed to meet the current challenges. Is there a danger of a double whammy, with national funding not what it should be and local council funding also being cut? That would mean that cultural provision would be affected by both national and local funding decisions.

A related question, which is not for this year's budget, concerns the proposed visitor levy. The Visitor Levy (Scotland) Bill is going through Parliament; the stage 1 debate takes place next Tuesday. Are there any thoughts on that?

I appreciate that a number of you made the point that private investment will not plug the funding gap. Your organisations are accessing as much private investment as they can, and there is a lot of wishful thinking about how the gap can be plugged by alternative means, but any thoughts on the use of the visitor levy in that regard would be welcome.

The Convener: Shona McCarthy mentioned the visitor levy. Do you want to expand on your thoughts on that?

Shona McCarthy: We welcome the visitor levy, as a concept. However, so far, I have mostly seen an ever-growing list of what gaps the levy income

might be used to plug. That concerns me. If we, as cultural organisations, are part of the whole attractive proposition that brings visitors to our cities in the first place, it needs to be guaranteed that part of the income that is generated through the visitor levy supports everything that we have identified as the challenges; it should not be used simply for potholes and so on.

It would be great if the levy was used to support city infrastructure—things such as technology and access to effective wi-fi, which are also challenges for us—but I am not seeing anything that would guarantee that some of that income will go back into supporting the cultural sector that makes Scotland an attractive proposition for tourists in the first place.

Lori Anderson: To pick up on Neil Bibby's point about local authorities, they are another important backbone of the investment in local and regional cultural services and venues, and they are currently under enormous pressure.

Since the committee conducted its pre-budget scrutiny, Community Leisure UK has conducted a survey of its membership. It reported that 60 per cent of Scottish members are facing a budget deficit, and another third anticipate losing reserves by the end of the current financial year. It also reported that 29 per cent of members are preparing for closures, and that the lack of capital investment is a huge issue. I know that the Convention of Scottish Local Authorities has raised that issue; a huge estate is in serious need of investment. Investment is also needed to meet the net zero targets and requirements. Community Leisure UK has also reported that at least 108 facilities are identified as being at the end of their lifespan over the next 10 years and needing urgent capital investment.

There is a big issue at the local level, and we need to think about that in parallel with how budgets are allocated and where need is most pressing.

Simon Hunt: I note that this week, south of the border—I have not heard of anything quite so alarming in Scotland—Suffolk County Council announced a 100 per cent reduction in its culture budget, which means zero funding for any organisation that is in any way dependent on that funding.

10:00

Sam Dunkley: I have a couple of points. We have had contact from our members to say that they are starting to see local councils revisiting the idea of cutting or vastly reducing their music and instrumental tuition services. That is a real danger, because learning a musical instrument should not be about whether you can afford it—it is a valuable

thing for children and young people to experience. We are concerned that we are again starting to read reports about councils considering that.

There is a particular challenge for councils with the council tax freeze, which restricts the funding that they can raise through that method. It is worth considering, as part of the broader budget picture, the report that the Scottish Trades Union Congress produced last year on options for the tax system. The report, which was called "Raising taxes to deliver for Scotland", set out progressive tax options that could raise £1.1 billion in the short term and £3.7 billion a year in the longer term.

When we talk about what we as a sector might like to see, there is a danger that, if we are not careful and do not address the size of the pot that the Scottish Government has to consider, we are discussing crumbs off the table. We need to look more broadly at how we can raise income for the Scottish Government in a progressive way to invest in the public services that the people of Scotland deserve, and in the arts and culture that people should be able to access.

Donald Cameron (Highlands and Islands) (Con): I thank all the panel members for their candid evidence. I have two questions. The first is about salary costs, and particularly public sector pay awards, which I think several of you note in your written submissions as one item that has to be provided for. Is there a tension between the money to pay for that and the application of a 5 per cent efficiency saving? Are the increases in funding in effect being cancelled out by that saving?

My second question is about the First Minister's £100 million funding pledge for arts and culture last October, the first tranche of which—£25 million—is promised to come in the next few years. Several of you have said, quite reasonably, that clarity is needed on the figures and what the money is for. Will the funding be required to, metaphorically speaking, fix the leaking roof, or is there an argument that, given that the funding is longer term in nature, it should be directed to more longer-term plans or strategies to build a more resilient and sustainable culture sector?

I will start with Anne Lyden, because she mentioned the topic of my first question in her written submission.

Anne Lyden: To answer that point, yes, the efficiency saving in effect cancels out that money. It feels as though we are being handed a perceived uplift with one hand and then it is being taken away with the other hand. That is why it is challenging to arrive at a balanced budget. That does not take into account the second year of the pay policy award and, as I mentioned, it does not include the increase in pension contributions.

Salaries are a real challenge. Various processes are in place—one of which is non-compulsory redundancy—and we are being asked about efficiency savings and reductions, but we are not able to control how we might manage the rising salary costs without getting the adequate funding to support them. We find ourselves stuck between a rock and a hard place.

As I mentioned, we look to support what is, in effect, left over—the 5 per cent for all the other activity—through philanthropic gifting and self-generated income, but that cannot go towards salary or the sustainable costs that are needed to operate. That situation will only escalate, and the issue of how we arrive at a solution needs to be addressed.

With regard to your question about the £100 million pledge, as I think was already mentioned, longer-term plans, which many of us are engaged in, start now. We are working on a public programme that is already two, three, four or five years out, so we need to know what budget is available for then. The situation is similar to what Simon Hunt said. If you want to get the best artists to come to Scotland, you have to be able to go forward with confidence and to secure that. It is the same for the display of art and our exhibitions programme.

The £100 million is very much needed now. Clarity is absolutely needed. It sounds like a lot of money, but when you divide it up over five years, you are basically talking about £20 million each year, which then spreads thinly. Innovative solutions need to be found now for how that money is applied and shared. I know that the public sector reform clusters are doing on-going work on that, but that is happening almost out of sync with the budget allocation.

Francesca Hegyi: On the question about salaries, we are not governed by the same public sector salary requirements. In practice, that means that we often do not pay at the same level and have not been able to keep salary apace with inflation. Consequently, as many of us are seeing, we have a workforce drain. Really good people are leaving our industry because they are going to different industries where they can get better-paid jobs with more security and better pension provision. That is happening as a consequence of years of underinvestment.

The £100 million pledge goes some way to making up for what has happened over the past 15 years, but it does not plug the gap. We are still operating with less resource than we had in 2008. Although it is incredibly welcome that more money is coming into the system, as I said before, it is not yet finding its way into the places where it needs to go. The answer is yes, the £100 million is going on fixing the immediate problems, but if and when

it comes through and we get a multiyear long-term funding settlement that represents an increase—like Shona McCarthy, I am trying to be optimistic this year—we will be able to have longer-term conversations and include that in our future plans.

The impact of the situation in which we find ourselves is that we are in stasis. We are not able to be confident and plan in advance. I have with me our draft brochure for this year's festival. It goes to print next week, but I simply do not know what our budget is this year. We talked about this the last time that I was at the committee. That situation means that all the financial risk sits on very small organisations and that cannot be a way to operate. Therefore, I am hopeful that, if and when the £100 million comes through, we will be able to, as Anne Lyden says, engage with leading international artists and commit. At the moment, there is not international confidence in the festival because we cannot commit. That is another knock-on effect.

Leonie Bell: I will come in on the second part of the question because, like Fran Hegyi's organisation, we are not a non-departmental public body. We have a great five-year track record of overasking of our staff and underinvesting in them. We now have a tiny chance of addressing that a little bit—although not to the extent that we would like.

The fundamental point about what the long-term plan and the strategic thinking are for when that increased money arrives must be the main action of the culture strategy. We must make the culture strategy cohere with how we understand the resource and assets that we have. There is still a gap, in practical terms, between what the strategy is doing and what the funding is doing at a Scottish global level, if that makes sense—everything that the Scottish Government has directly for culture to the agencies and the NDPBs but also local authorities and others. Those must cohere or we will just create an on-going separation between the rhetoric and values that we as a nation are so good at talking about and where the money goes. Those aspects need to come together.

Donald Cameron also mentioned fixing leaking roofs and so on. Some of the national organisations rightly have access to small pots of capital to maintain the estate and, occasionally, there are moments to make improvements. However, capital is also a really good issue for us to think about, because the rest of the cultural estate has not really had much capital spent on it since the inception of the lottery in the 1990s, and we now have a very ageing lottery-funded estate as well. I am thinking about grant in aid and capital together. I am hoping that the funding of £25 million to £100 million is grant in aid, not capital,

because getting more capital would be great. I totally support Lori Anderson and all her amazing work to try to get investment up to 1 per cent of the overall Scottish Government budget, but we should be thinking about how we get that up to 1.5 per cent through grant in aid and capital.

There are other models. Earlier, I mentioned that we established, at city level a Dundee culture recovery fund during the Covid pandemic. I recognise that Dundee is a small city, which means that, sometimes, we can do things quite quickly. However, we worked with some of our philanthropic funders to create money that we shared between five of Dundee's organisations by match funding through a trust. I often wonder whether there are other place-based or national approaches to bringing the private and the public funders together around something that has a galvanising focus. We all operate independently in those things but, for us in Dundee, bringing those different types of funders together enabled us, as one organisation, to create something that benefited five organisations during Covid.

I am trying to answer your point about the ideas that we can generate to make more of that money. We probably have those ideas in our organisations, but are any of them appropriate to scale up? We need a bit of time to think about those.

Fiona Sturgeon Shea: I have a small point, which goes back to my colleague Liam Sinclair's contribution at committee last September about cross-portfolio contributions and the concept of prototyping some of those ideas. It would be great if that could be progressed and not buried away in the committee papers.

Simon Hunt: Anne Lyden made the point that £100 million for the entire sector will be thinly spread. I have the numbers at my fingertips: if the national performing companies had their annual grants reinstated to where they would have been from the beginning, that would be an extra £14.5 million per year. There are just five national performing companies so that illustrates Anne's point, given that we are talking about £20 million per year in total. The funding is great, but it will not go the whole way.

Keith Brown (Clackmannanshire and Dunblane) (SNP): I am glad that we got the joyous, optimistic and positive version of things from Shona McCarthy—I am not sure that I could have withstood a negative one.

There are a couple of things that I—as a new member of the committee, perhaps—do not have a grasp of but which have not yet been mentioned. First of all, I understand the point that what we are really talking about is the country's long-term cultural impoverishment, given the changes that

have been made and the reductions in choice and diversity that have been going on for some time. As has been pointed out, the Government understands where the sector is coming from and the pressures that it faces, and that is really important. However, apart from Anne Lyden's contribution, I do not get any sense that the sector understands where the Government itself is coming from. Anne mentioned the financial crash in 2008 and 2011 as the key years when things changed—that is, when austerity came in.

In our last evidence session on this issue, I mentioned that we had no comparison with other devolved Administrations—the comparisons that we were given were not relevant. The dialogue has to be genuine, because if you do not know where the other side is coming from, you will not be as effective as you might be.

Maybe I am getting this wrong, though—perhaps there is a recognition of where the Government is in the discussions that people have with it. Energy costs, staff costs and inflation—most of which the Scottish Government cannot control—have been mentioned, but I am looking for a bit of reassurance that those things are acknowledged when you have discussions.

10:15

I would also note something that has happened a few times in my experience as a committee member. I think that the convener mentioned innovation and entrepreneurialism, but there has been virtually no other mention of them. I appreciate that they will apply to different extents in different parts of the sector, but surely, given the gravity of the public finances, they should be focused on much more eagerly. I think that somebody said that they had been tried, and I think that Mr Bibby mentioned wishful thinking, but to be honest, I do not know where we can get to if we do not have wishful thinking. Are entrepreneurialism, innovation and new sources of funding for those who are able to pursue such things being taken more seriously? We have not heard a great deal about that. Does anybody want to have a go at that question?

Leonie Bell: I would love to come back on that.

It is great to get your reflections, but I feel sad when I hear what you are saying, because I think that we are all really connected to the state of the public finances and work really closely with elected members at the local level. We work across services—across education, social care and justice—and we also work with business, economic development and entrepreneurialism.

I certainly came here today to try to present evidence that our workforce is deeply entrepreneurial and has a deep commitment to

innovation and creativity and to understanding that the traditions of the past were the innovations of their time, so that we have a long-term view of that. I am really sorry if we have given you the impression that we are not connected to that and that we are not deeply respectful of local authorities that are just keeping basic services going. We feel that we can help provide the answer to some of that and that we add value to areas where those services are really strained. Indeed, we are part of the reason why we can even consider a tourism levy, as we are one of the key drivers for people coming to the country. We are one of the key drivers for people having aspirations, getting skills, enjoying places and making them great.

I really hope, then, that we can convince you in the most compelling and deepest terms that we operate as public servants and that we see ourselves as entirely accountable to the public for the money that we get. However, we also really love the fact that we can work with business, innovators and technologists to think about how to improve things. I also really hope that, even if we cannot do it in this session, we can all collectively convince you that what you have in Scotland is a sector that, for decades now and in the hardest of times, has addressed some of the truths behind it and ameliorated the hardships that it has experienced, as Fiona Sturgeon Shea has said.

We really understand the choices that the Government is making, and I think that we have all tried to welcome them. We also work within local authorities, where we see the challenges with delivering basic services. However, we are here to be an asset—as a resource that helps us to get through these things.

This is all about dreaming, hope and the power of human imagination; they are one of the biggest assets that we have, and we are part of how you get them. However, times have been so tough for us that we have had to look at, for example, how we can keep people paid and in positions.

I really hope that we can change the view that you have expressed, which I hope that you will not carry for too long.

Keith Brown: I am happy to hear from others. If anyone wants to submit any written evidence on the efforts that individual sectors are making in respect of innovative and entrepreneurial funding, it would be really helpful. I do not know whether anyone else wants to come in on those points.

Fiona Sturgeon Shea: I will be brief.

Last night, I was thinking about when I was starting my career in the early 1990s and the difference between what subsidy does now and what it did then. It is really important to understand the leverage that it brings.

The budget is the starting point of today's conversation. However, things have really flipped. Public subsidy is, of course, absolutely essential, but, as everyone has said, it is part of a much bigger cycle of sustainability and funding. In some cases, it makes up quite a small—though essential—percentage of what we need to grow budgets. I hope that that makes sense.

When I worked for a touring company in the early 1990s, we were pretty much 100 per cent subsidised. We made a bit of money from touring, which was really important. However, the opposite is the case now.

Anne Lyden: I again echo Leonie Bell's sentiments. Although we might not be saying something outwardly, it should not be assumed that what you have asked about is not happening and that we are not pursuing it. At National Galleries of Scotland, our new Scottish galleries were very much achieved through an innovative way of funding that used Government support and private philanthropy. We had a successful campaign during a difficult period in which we had the pandemic and various other unforeseen issues to deal with. There is evidence that, day in, day out, organisations are stepping up and trying to fill that gap and void.

The critical message that we are trying to impress on you all today is that, to unlock that potential and entrepreneurial spirit, there needs to be a base level of funding. I think that Culture Count's written submission referred to reporting from the Fruitmarket Gallery that it is hard to get support, grants and sponsorship without that confidence and that underpinning at Government level. It is about getting the equation right so that, perhaps with the resource of a development team, we can go out into the world and raise funds to ease the financial challenge that we face.

We are all trying to do that, but I go back to what has been said at previous meetings: if we shift the dial forward from the current negative position to a more positive one, the impacts will yield manifold positive results. It is about trying to get to that sweet spot.

Francesca Hegyi: Likewise, I would hate the committee to feel that we do not appreciate how difficult things are for everybody, including the Government. That is why we all, I think, welcomed the budget and the moves that have been made. What we are experiencing is unprecedented. As I have said, I have worked in the sector for 30 years and I have never known things to be so difficult. That is the case not just in culture but in society more generally, and we are reflective of that.

If Mr Brown is picking up any negativity or frustration, it is because it was not always thus. We are in a particularly difficult situation at the

moment, post-Covid and after what has happened in the UK economy over the past couple of years, but it has not always been thus. We have had 15 years of underinvestment in arts and culture. If, 10 years ago, there had been even a little inflationary increase or funding had kept up with inflation, I do not think that the situation would be as acute as it is now. As others have said, we are just cut to the bone—there is nothing left. The space in which to be entrepreneurial is really challenged, because we are literally trying to keep the lights on and pay the salary bill.

As Leonie Bell has said, there is a whole diversion in our intellectual capacity to do anything other than keep the show on the road. We would love to have that capacity. As an example of where space has been created for innovative thinking, I again come back to UK tax credits and exhibition tax relief, orchestra tax relief, theatre tax relief and so on. To access those reliefs, you have to look at research and innovation in order to create new product. That has been revelatory. If there was something similar in the strategy that required us to innovate to access funds, that is what you would get. That approach has lifted the lid. That sort of joint working between Government and the sector will enable us to innovate and be positive and forward looking. However, I completely take Keith Brown's point that it is all about partnership.

The Convener: I will come to Shona McCarthy, but that will have to be the last response to the question, as we are right up against time.

Mr Stewart, do you still have a new line of questioning?

Alexander Stewart (Mid Scotland and Fife) (Con): It is not new—in fact, it is very similar to what has already been asked, convener.

Today, we have heard that there is confidence, but there is fragility, too. You have all intimated that the problem is the cost of running your organisations. It is about attracting performers or staff, rewarding them and maintaining them. At the moment, that is where you are all finding it really difficult to manage the process for the future. You have all done a lot more for less—we have seen that over the years—and you have touched on what the strategy should try to do to maintain and sustain the process.

If you do not maintain and sustain it, the sector will be decimated. There is no question about that—the writing is on the wall. You have talked about being cut to the bone and keeping the show on the road. I am not sure whether some of your organisations will be sustainable even with the £100 million, in the timescale that you have been given.

The Convener: I will let people reflect on whether they want to come in on that. First, though, I will bring in Shona McCarthy and then Fiona Sturgeon Shea.

Shona McCarthy: That was a great summary, Mr Stewart.

On Keith Brown's point, my answer is: challenge accepted, Keith. You are going to be inundated with examples of the entrepreneurialism and innovation that we have all unquestionably had to show, particularly over the past five years.

To give you one simple example, I would point out that the Fringe, which is the biggest performing arts festival in the world and is in Edinburgh, has a global marketing budget of £200,000, yet we were able to reach 20.6 million people through social media alone. That is because of our entrepreneurial and innovative spirit and a partnership with TikTok that really worked for us. We do that across everything that we deliver.

There are philanthropic givers out there, and we have the potential to really grow our support, particularly in the US. This year, we had 353 shows from the US, which made up a tenth of our programme; it is massive, and it presents a huge opportunity for philanthropy. However, as people have said, the challenge is that we need the staff to manage and build those relationships and the money to go out and be in the US and go to events such as tartan week. We went to that last year, but that was at our own risk and at a cost that built on our deficit. Of course we can be entrepreneurial and innovative—we already are—but the core problem is that, if we do not have that basic foundation of people and if we do not look attractive as a sector, it is really bloody hard to be as innovative and entrepreneurial as we can be.

My final point—I do not think that anybody has mentioned this yet—is about commercial partnerships. What has been really well documented, particularly over the past year, is just what scrutiny there is now on the arts sector, in particular, around its choices of commercial partnerships. Again, we need an empathetic, understanding and communicative relationship with the Scottish Government on things such as alcohol sponsorship. We know that conversations on that are still going on and that something is coming down the tracks, but I would just say that we could not have raised the £50,000 from Phoebe Waller-Bridge and matched it with £50,000 from Edinburgh Gin and Johnnie Walker Princes Street had there been a restriction on alcohol advertising or alcohol sponsorship. There are many other examples of that kind of scrutiny of ethical and appropriate commercial partners—the squeeze seems to be coming from everywhere.

I will send the committee a good dossier on the entrepreneurial spirit that we have shown.

The Convener: I will bring in Fiona Sturgeon Shea for a final small contribution.

I would just say to anyone who still wants to add to the discussion that you have had an open invitation from a committee member for further submissions, so please provide them.

Fiona Sturgeon Shea: This is a bit cheeky of me but, while I have you all here, I want to mention the theatre tax relief issue. As a cross-party committee, you have a real opportunity to help us by encouraging the Scottish Government to act and helping us elevate that ask so that the relief can be maintained at the higher rate and for a longer period of time—or, indeed, in perpetuity, which would be the ultimate ask. Obviously, we would encourage parity for museums and galleries colleagues in any work that you do.

If you need any more information on that, I can provide it, but it would be extraordinary if you could add your voice to our calls for that relief to be extended.

The Convener: On that note, I suspend the meeting to allow the witnesses to change and to give members a very short comfort break of three minutes or so.

10:30

Meeting suspended.

10:34

On resuming—

The Convener: We continue our budget scrutiny with our second panel of witnesses, who are from Creative Scotland. With us are Iain Munro, chief executive, and Alastair Evans, director of strategy and planning.

I do not know how much of our session with the previous panel you were able to see, but people are interested in the restoration of the £6.6 million and the reserves. I am a bit unclear about how that will enable you to continue to work towards a programme of multiyear funding. Will you expand on what your plans are given the settlement that you have?

Iain Munro (Creative Scotland): Yes. I am sorry, but we did not manage to see the previous evidence session, bar the last few minutes.

Good morning, and thank you for inviting us to give evidence again. Let me set out the broad context and then answer that question directly. There are inevitably subtleties and complexities in the budget settlement and the way that that dynamic works, especially as we have national

lottery funds as well as the Scottish Government grant in aid funds.

We welcome the 2024-25 budget, which is a single-year budget, and we are pleased that the Scottish Government has honoured the commitment that it gave last year, when the £6.6 million in-year reduction was applied. In the settlement that is planned for 2024-25, we have £13.2 million. That is two tranches of £6.6 million. One tranche of £6.6 million is what we would ordinarily expect to see in our budget—it is part of what makes the funding contribution to support the regularly funded organisations. The other tranche of £6.6 million is the recompense, in effect, of the £6.6 million reduction in the current year's budget.

However—this is part of the subtlety and complexity—the second tranche of £6.6 million, which relates to the national lottery reserves position, is grant in aid funding. Our reserves are built from national lottery funds and we cannot mix the funding streams. We also need to spend the grant in aid in the year in which it is given. What has happened is that, last year, we used our national lottery reserves to offset the budget reduction, and they will remain at a lower level—reduced by £6.6 million—because of that. We cannot return the £6.6 million that we are due to receive in the coming year into that space.

The Scottish Government has indicated that it wants to have a conversation about the intended purpose and use of that second tranche of £6.6 million. We have not had that conversation yet, so I do not know what the thinking is, or will be, on that. We will want to get into that conversation quickly to enable us to understand the position. However, the net effect overall, on a year-on-year or like-for-like basis before the in-year reduction was applied, is essentially a flatline position.

Having said that, there is a small margin of 5 per cent efficiency savings against our overheads—that is just over £300,000—as part of the settlement. We will have to accommodate that, but it is not in the front-line-facing grants budget.

The Convener: Thank you for that. Mr Cameron has a supplementary question. I will then bring in Ms Forbes.

Donald Cameron: Thank you for explaining that, because I was going to ask you about two positions that we have heard from the Scottish Government. First, when the Deputy First Minister made her budget statement, she said that the budget would be

“restoring £6.6m to Creative Scotland for their utilisation of reserves and providing a further £6.6 million to offset their shortfall in National Lottery funding.”

The Cabinet Secretary for Constitution, External Affairs and Culture then wrote to the committee on 19 December—the same day—and said:

"I am very pleased to confirm that in 2024-2025 the Scottish Government will reimburse Creative Scotland this £6.6m and go further by providing an additional £6.6m. Scottish Government officials will work with CS to target this funding to ensure it is best directed to support the culture sector."

So, that explains those two statements. Is that correct?

Iain Munro: That is correct, yes. We are yet to have that conversation.

Donald Cameron: Where would Creative Scotland like to target that funding?

Iain Munro: There is a range of options. The committee has seen the evidence that has come before you. It is reflected in your report, and I am sure that you have just heard more of the same. We have reflected that in our submissions.

The settlement is welcome, and we acknowledge the wider extreme pressures on public finances. In that context, that is why the settlement is welcome, but the sector is still facing on-going severe and high-risk challenges. There are options to put that £6.6 million in that direction, but some of it should also be borne in mind for individuals as well as organisations. There are pressures on both fronts, which we can get into through other questions.

Of course, there are developmental spaces. I caught the very end of the earlier session when the previous panel was talking about developmental funding to unlock wider entrepreneurial and innovation in the sector.

I have talked about three areas so far, and there is a fourth, which is other policy priorities in the programme for government policy agenda, such as inclusion, child poverty or children and young people. There is a range of options.

At the moment, however, we are concerned that the short-term or immediate challenges facing the sector are very urgent. We will stretch that £6.6 million as far as reasonably possible, but it could legitimately go into every one of those four spaces and deliver incredible results. Nonetheless, it is time-limited and challenging.

The announcement of the £100 million is also welcome in the current context. We all know, however, that we could spend it several times over. We have some indications of how that will play out, but it is not clear which organisations will get how much and when. We are keen to see the Scottish Government go further and faster, even beyond what has been set out already, on the commitments that have been indicated and on the £100 million. Our ambition is still to see arts, culture and heritage spend in Scotland at at least 1 per cent of overall Scottish Government expenditure.

Kate Forbes (Skye, Lochaber and Badenoch) (SNP): After the budget was announced, you said that you were able to maintain funding for the current cohort of regularly funded organisations and that the contracting process would take place in the new year. I assume that that is well under way and continuing. Was there any discussion at the time about whether that funding could be expanded or reduced, or was it just agreed that you would maintain it at the same level?

My second question is about the intention that was announced to add a further £25 million to the culture budget in 2025-26. Forgive me if I have missed something, misunderstood it, or if you have already alluded to it, but is there any clarity on how that funding is to be given to the culture sector? Are there any caveats? Is it subject to anything?

Iain Munro: I will answer the second question first, because it is a short one. We do not have an indication from the Scottish Government or an understanding of how it intends to distribute that £25 million. It should be clear that the £25 million, as part of the £100 million overall, is for arts, culture and heritage. It is not for Creative Scotland, but we will be advocating for as big a contribution to our budgets as possible from it, because we would then immediately translate it into third-party funding and put it in the hands of the sector. We do not have the detail on that yet, I am afraid, but we need it sooner rather than later. We might also come to multiple-year budgets to make the most informed decisions about our multiyear programme, which is up and running. We have shared the demand figures for that in the evidence that we have already given.

We will want to have a conversation with the Scottish Government about that £25 million commitment as soon as possible.

10:45

Kate Forbes: Just for absolute clarity, are you saying that, because that money is not in the budget currently, you are expecting it to be additional to what is in the budget over the next financial year?

Iain Munro: It is for 2025-26 onwards.

Kate Forbes: Got you.

Iain Munro: My understanding is that the £100 million is not a total package to be spent over the course of five years. Just for absolute clarity, my understanding is that it represents a cumulative building of the baseline year on year so that, come year 5, it will be a total of £100 million a year above the current baseline.

Kate Forbes: Thanks.

Iain Munro: On your first question with regard to conversations on RFO funding, we gave a commitment some time ago that our intention would be to sustain, subject to available resources, that funding at current levels. We do not have the financial wherewithal to increase it.

There are two things that you might have in mind. The first is the £6.6 million, which I have touched on already; that might be an avenue that some might advocate and, indeed, might form part of the discussion with Government. The second is our national lottery reserves position. However, those reserves are now depleted, and they are being protected and allocated by the board according to their original intended purpose of supporting the transition arrangements for organisations that prove to be unsuccessful in their multiyear applications, once those decisions are taken from later on this year. We are protecting those reserves, because they are now at a de minimis level, and we cannot move into that space, because the money has been allocated.

We are pleased to be able to give a degree of stability to the RFOs based on flatline funding and the current settlement. However, I also want you to be aware of the fact that, although the processes are up and running and even with the budget commitments, all the expenditure, especially at higher levels, still needs to go through an internal Scottish Government process—the accountable officer template, as it is called—to unlock the actual cash and allow it to flow into the hands of our organisations. That additional piece of administration takes a bit of time, but we have a year or two of experience of supporting the Scottish Government in rolling that out to avoid any delays. In the past, we have gone right up to the wire and have potentially been unable to honour our commitments.

Kate Forbes: Again, these are just points for clarification. I appreciate that you wrote as recently as 4 January and that it is therefore unlikely that there have been any big changes since then, but at the time you said that the national lottery budget had not yet been approved by the board. How do you expect it to compare with the £32.4 million in last year's budget?

Iain Munro: Perhaps I can remind you again of how the national lottery income stream works. Unlike the Scottish Government budget, where there is an identified budget commitment at the start of the year, the national lottery itself is very largely born out of ticket and scratchcard sales, which means that it is very dynamic. At the start of the year, therefore, we have a planning figure; we get reliable insights from the operators and the Department for Culture, Media and Sport on the forecasting as we go through the year; and it is

only when we close the books at the end of the year that we know the actual return or budget level. Sometimes there might be an uptick from the planning figure, which allows us to build reserves. A very direct answer to your question, though, is that the planning figure assumption is, broadly, that it will flatline.

It is also worth being aware of the fact that, for the first time since the national lottery came into existence, its operator has changed. In November, the lottery will be 30 years old, and it has been an enormous contributor to the arts, screen, communities, sport and so on over that period. The change in operator is happening as we speak, with the new operator being in place from February, and what we will see over the next licence period is that new operator bringing new innovations to the running of the national lottery in order to strengthen, under the terms of the licence, its income over time and thereby delivering more benefits back to the public with those returns.

Kate Forbes: Thank you.

The Convener: Mr Munro, we heard from some of the organisations that time is of the essence and that they are already having to commit to commercial contracts without knowing what their budget is for this year. You said that you have to have discussions with the Government. Are those already diarised, or do you have an indicative timeline as to when that process might be finished?

Iain Munro: We have regular contact, as you might imagine, including formal sponsorship meetings with Scottish Government officials and direct conversations regularly with the cabinet secretary and the minister. A single specific sit-down meeting on the topic is not yet scheduled, but that is in hand so that we can reach a conclusion as soon as possible. There is still time.

To be absolutely clear, the contractual arrangements are moving forward now on the basis of the commitment that we have given to the regularly funded organisations that will enable us to be up and running with them and their contracts and to unlock the cash—that goes back to the accountable officer point that I made earlier—to make those payments from April.

Mark Ruskell (Mid Scotland and Fife) (Green): I want to continue to discuss with you what your priorities might be in that discussion with Government. The committee has heard today, as we hear a lot, about the power of the creative sector and its ability to innovate and to tackle many societal issues, such as inclusion and placemaking. Some of the work of the creative sector during Covid, through culture camps and so on, has shown what that power is, yet many cultural organisations struggle to get funding from

Creative Scotland. For example, Creative Stirling, which perhaps does not easily fit into any of your boxes for regularly funded organisations, is now in a very vulnerable funding position. It is clear that it could contribute towards a wide range of local and national government objectives if it could find an appropriate funding stream through Creative Scotland to enable it to continue.

I am therefore interested in what that conversation with Government now looks like. It is clear that you have an on-going difficult situation with the RFOs and their need for core funding, but there is also a potential that we need to unleash. As was demonstrated through our committee inquiry into culture in communities, we are waiting to change that model. We are waiting to see the cultural sector—the creative sector—bring in the changes that we need. However, it feels as though we are always on the cusp of something. Is this a point at which we need to start to fund some new models and to lean in to the innovation that is in our communities? Without such funding, is there a risk that that will disappear?

Iain Munro: Much is at risk, but in the light of the indications from the Scottish Government about the £100 million—as I said, we could spend that several times over, and we want the Government to go further and faster; that is my point about the 1 per cent—it feels as though we are on the cusp of being able to turn a corner if there is more urgency in how that money is deployed.

You are right to point out the growth potential of the creative economy. It currently employs 155,000 people through at least 13,500 creative businesses, and it already generates £4.5 billion net in gross value added for the Scottish economy. It is a growth sector, as is reflected in the national strategy for economic transformation. That is not just the case in Scotland; the sector is recognised as a growth sector across the UK. It is an innovative sector. If we get the conditions right, we can unlock all that potential—not just culturally, not just socially and not just economically. There is much potential there.

The issue at the moment is that, as the committee heard at the end of the previous session, there is so much effort and emphasis on trying to—literally—keep the show on the road and keep the lights on. If we can liberate people by nudging that dial through what that £100 million at least could unlock, we will liberate cultural, social and economic benefits. You are absolutely right.

Having said all that, we are seeing the contraction of the other parts of the funding landscape that are so vital and important for the health of those organisations. In the range of data sources that we have, we are seeing the displacement effect of the contraction of earned

income, philanthropic giving and key local government or other public funding. It is displacing into Creative Scotland, so our demand is at the highest levels that we have ever seen. We are already on course this year to experience the highest number of funding applications and the highest value of ask that we have ever seen.

I have been talking about my concerns about the untenable nature of that increase in volumes, and what that means, for nearly two years now. The volume of applications and the value of ask have gone up by more than 50 per cent. Compared with pre-pandemic levels, earned income has dropped by half and local government funding is down at least 20 per cent. There is no financial resilience left in the unrestricted reserves of the sector. Compared with the pre-pandemic situation, where those reserves even exist, they have fallen to below 20 per cent for organisations.

That means that there is even more pressure on Creative Scotland; because the volumes have gone up, our success rates have gone down, and we are having to handle even more unhappiness about our increasingly limited ability to support people positively. When people get funding, they are doing great things. Really good things are still happening and there is still money in the system, but there is not enough. It is not an issue of process; it is one of pressure on resources.

We, too, would want to get to a position where we can see the budgets recalibrated into higher levels of expenditure in support of organisations. I cannot talk about individual organisations in this forum, but the situation that I have described illustrates the depth of the challenge that we face. It is not a happy position for any of us—none of us wants to be having to do that.

Mark Ruskell: I recognise that it is a hugely challenging position for you to be in, because you are, in effect, a funder of last resort for many organisations, such as Creative Stirling.

It feels as though we are potentially at a pivot point, and that a way forward would be to see much more cross-portfolio funding for culture and a recognition of the wider benefits that it can bring in relation to health and other objectives that the Government has.

However, it is very difficult to make the case for wider cross-portfolio funding without the projects being funded by somebody right now in order to prove the benefits that they can bring to wider society. I put to you the point that, unless there is funding of these organisations so that they can prove that value, it is very difficult to build the case for wider cross-governmental funding. That is a very difficult situation to get out of, but we have to show that it works before we can build the case further.

Iain Munro: I hear you. The bottom line is that we cannot give people what we do not have. That is my point about the resourcing.

Having said that, we have an enormous amount of evidence at our disposal, which we deploy. We have academic research as well as practical longitudinal research that demonstrates all the benefits and models. It is simply a resourcing equation. The more we can invest in these organisations, the more they will be able to deliver those tangible benefits. That is why we are at a crossroads, in a way. We need to see as much funding flowing as soon as possible in order to reverse the equation and the trajectory that we are currently on.

We are acting as flexibly as we can with the resources that we have available, but we are having to make tougher choices. We always have to make tough choices and there is always more demand, but we are in an extreme situation at the moment. It is the worst we have ever seen it and we are having to make very unpalatable decisions, not because there is anything wrong with the organisation, what it proposes to do or what we would want to support it to do, but very simply because the resourcing is not there.

That illustrates the depth of the challenge that we currently face, but if the resource equation can be turned around sooner rather than later, we will be able to turn that situation around more comfortably. We are concerned about the fragility in the sector as much as anything, because organisations need to survive in order to be able to get into a position to thrive.

11:00

I also want to pick up on the point about cross-portfolio work. We are talking about two aspects of budgets here. One is the confidence that comes from having dedicated budgets for culture, with resourcing levels that are as high as possible. We also have evidence of the benefits of our being in partnership with other policy areas such as health, education or the environment. That enables dialogue on preventative spend agendas and the greater public sector benefits that can flow on finances as well as the material benefits to society and the country at large. There are twin tracks there: the culture budgets themselves, and also the cross-portfolio work that we will continue to do. However, the latter often happens with a longer, slower burn.

I appreciate that other public policy areas are under extreme pressure and are having to make tough choices, too. Nonetheless, more than ever, there needs to be a coming together in collaboration that enables us to see what will be relatively modest but meaningful amounts of

money for the cultural sector such that it can intervene in those other public policy areas and start to turn the equation around so that we can all feel the benefits.

Mark Ruskell: That feels like a space in which we could genuinely have synergy, if there were the will and the co-ordination to do that.

Neil Bibby: You have talked about the importance of multiyear funding—you have been consistent in highlighting the need for that. The cabinet secretary's indication of £25 million of funding for 2025-26 is significant in that regard. I appreciate that you are looking for more detail on this year, never mind next year. However, it is significant that the Government has previously said that it cannot make multiyear funding announcements but has then gone on to indicate what we can expect to see in 2025-26. We have seen a pledge to provide £100 million over the next five years. Would you agree that it is significant that the Government has said that? Should the cabinet secretary go further and, as a minimum, give an indication for 2026-27, to allow for further planning, to give the clarity that we have heard is needed and to provide an envelope for the multiyear funding that you have previously called for?

Iain Munro: Yes, it is significant, but we will be pressing for detail on that. From what I have seen of the wording, the figure will be at least £25 million. As I have said, following the commitment for £100 million over five years, we would be keen for that process to go further and faster, including in that year.

I agree absolutely with your point about multiyear budgets. Our multiyear process is up and running. It was predicated on an assumption that such budgets would be available. Clearly, that has not played out, because we are still on annual budgets, but we will work our way through that process. We currently have 361 applications requesting £96.4 million, which is three times the currently available equivalent. As we work our way through that process, we will have a dialogue with the Scottish Government to understand how much more clarity we can obtain, not just on what the proportionate part of the £25 million announcement will be for Creative Scotland, but on whether we can go further than that both for 2025-26 and for other years. That conversation is yet to be had, but it will be important for us to get as much clarity on that as is reasonably possible, while, of course, still respecting the parliamentary processes.

Indicative budgets would give us a series of planning figures and a planning horizon to enable us to make the most confident multiyear decisions, which will conclude in the autumn of this year and start from April 2025 onwards. If nothing

changes—if there were to be no £25 million, or Creative Scotland's share of it, and there were to be no £100 million, so that we were on flatline budgets—it would be the toughest environment. We would be making fundamental decisions that would, in effect, lead to the collapse of parts of the sector. That is not a position that any of us wants to find ourselves in.

With the prospect of new resources coming on stream, we want to see as much as possible as soon as possible, and we certainly want clarity to enable us to make decisions in the autumn.

Keith Brown: I am interested in Creative Scotland's relationship with the Scottish Government. First, I endorse the points that Mark Russell made about Creative Stirling, which has also contacted me, as a local MSP.

Just before Christmas, I attended an event at which the person who was there from Creative Scotland felt able to launch an attack on the Scottish Government about funding. That was given added spice for me, as I was sitting next to the culture minister at the time. In addition, the cut of £6.6 million was referred to—you might remember the apocalyptic press release about that which went out just before the committee's previous round-table meeting.

In contrast, we hear now, and we heard in the earlier session this morning, that the fact that that money has been reinstated is pretty meaningless. In fact, someone in the earlier session said that it will not feel like "new money", although I think that it probably will do to those parts of the Scottish budget that are being cut. I highlight the downplaying of that, and the playing up of the potential cut.

In relation to the Scottish Government, I have two questions. In response to Mr Bibby just now, you talked about the detail of the budget. It would be interesting to know what details you fear you might not get before the budget. Obviously there is a lot of discussion before the budget, and I would imagine that it will fill in most of the blanks, but maybe not. Maybe you fear that some parts of it will not be laid out for you.

Secondly, I still cannot get my head around the national lottery stuff. I have seen it referred to as a shortfall in reserves. I would like a wee explainer of the Scottish Government's responsibilities in reinstating any shortfall, or whether the shortfall has been caused by the Scottish Government—perhaps that is the point that is being made. Perhaps you can tell me, in a way that I will understand, what is going on there regarding the relationship between national lottery funding and the Scottish Government's obligations in that regard. In addition, I would like to hear what detail you fear that you might not get prior to the budget.

Iain Munro: On the budget, as I just said to Mr Bibby, we will be pressing for as much clarity as possible on the resources that are likely to be available to Creative Scotland. We need indicative planning figures to enable us to make the most confident decisions, based on multiyear funding support for the years ahead. It is critical for us to get as much clarity as possible on that, to enable us to make those decisions. Without that clarity, we will have to make our own planning assumptions, and that might lead to unintended consequences for the number of applications that we are able to support and the ramifications that flow from that.

Keith Brown: It is not really about this year's budget, therefore, but how it is going to play out in the next few years.

Iain Munro: Indeed. The 2024-25 budget has no material bearing on the multiyear funding as such, but we will need clarity for 2025-26 onwards. That is what I am suggesting. Unless we get that clarity, we will have to make a very challenging set of decisions, which means more controversy and higher risks for the sector.

As I said earlier, however, there is positive recognition of the statements of intent from the Scottish Government, and our relationships with the Scottish Government are very positive. We have a direct, open dialogue with the cabinet secretary, the minister and officials. That enables us to set out, echoed by evidence and reports from this committee among others, the realities of what is happening, and what could be achieved with the unlocking of that £100 million as soon as possible. That dialogue will continue. That is all contextual, but the realities are there, and we are setting those out for the committee today.

On the dynamic relationship and interplay between the national lottery and the Scottish Government, two thirds of Creative Scotland's budget comes from the Scottish Government and one third from the national lottery. We are part of a family of 12 distributor organisations for national lottery funding across the UK. We have a relationship that goes back to the UK Parliament and the Department for Culture, Media and Sport.

Ultimately, national lottery funding is an income stream that complements Scottish Government grant-in-aid income, but we have to account for it in an absolute way, so we have separate accounts for it, which are laid before the Westminster Parliament as well as the Scottish Parliament. The Scottish Government can give us letters of guidance, but it is limited in the extent to which it can direct us on national lottery funding per se because of the extent to which lottery funding is at one remove from Scottish Government funding. We receive directions by virtue of the fact that we

are one of the distributors across the UK, as much as anything.

In accounting terms, we have flexibility over national lottery funding year on year. In other words, unlike the situation with Government funding, there is no annuity. Over the years, that has enabled us to flex and build up national lottery reserves as we need them. Sometimes there is nothing, and sometimes there are sizeable amounts for specific purposes.

Although, as a public body aligned with the Scottish Government, our choices on the expenditure of national lottery funding are framed within the Government's policy context, the detail of the choices for that spending is in the hands of the Creative Scotland board, rather than directly with the Scottish Government. Nonetheless, we see it holistically.

At the heart of national lottery funding is what is called the principle of additionality, which means that such funding is there to add value, rather than to act as a substitute for what should otherwise be Government funding. Over time, that principle has been eroded as the pressures and limitations on Government funding have increased. We have relied heavily on national lottery funding to enable us to do some of the things that we are currently not able to do using Scottish Government funding. For example, beyond those who are indirectly supported by the support that we provide to organisations, all our direct funding for individual artists is supported solely by national lottery funding.

We can see that if, we can do this as a result of our conversations with the Scottish Government, some of the £100 million that might flow into Creative Scotland could be used to support individual artists directly. We would then have a choice about whether to redeploy to other areas of activity the national lottery resources that we currently use to support individual artists. However, the added value from the interplay between the two income streams is predicated on a confident core grant-in-aid settlement from the Scottish Government.

Keith Brown: I see that an increase of about £12 million in the funding for "Other Arts" is proposed for this year.

Could you explain the point about the national lottery shortfall?

Iain Munro: Yes. Many years ago, national lottery income reached a high-water mark of about £35 million to £36 million. In 2017-18, there were signals that that income was starting to fall quite dramatically. That was the point at which we were about to make decisions on what is currently called the RFO programme—the programme for

regularly funded organisations—which was commencing in 2018.

In light of that drop, the Scottish Government stepped forward to address the situation and enable us to make confident decisions for the RFO programme. The equivalent drop in national lottery income was £6.6 million, but the Scottish Government stepped forward to address that, and it has enabled us to maintain that budget to this day. That budget has never been consolidated in the books, as it were. In other words, it has always sat at £6.6 million to address that shortfall.

Going forward, we need to understand how that can become consolidated as our baseline increases, which we hope that it will do as a result of the way in which the £100 million will move through.

I hope that explains the background. That is why it is categorised in that way. We continue to use that £6.6 million to add to the unrestricted grant-in-aid funding that we get from the Scottish Government. Together, it totals just over £33 million, and supports the RFO programme.

The Convener: You said that the programme depends on national lottery income sales, which is understandable, but is there a formula for its distribution? Is it a proportionate cut or does a shortfall go to Creative Scotland or to all the organisations? You mentioned that six or seven organisations are funded by the process.

Iain Munro: There are 12 distributor bodies across the UK that cover communities, sports, heritage, film and the arts. The allocation is determined by a formula. Broadly speaking, everybody feels the benefits and the ups and downs of ticket sales, and it is proportionate.

Our overall percentage is 1.78 per cent of the overall income. The detail of all that is set out in legislation. Forty per cent of support goes to communities and 20 per cent goes to each of the other areas. It is broadly set out, and it then gets divvied up across the four nations. More information can be provided on that, but it is set out through a formula that is determined by UK Parliament legislation.

The Convener: You said it is divvied up across the four nations. Is that done geographically, or is it distributed by population?

Iain Munro: The formula has remained the same since the beginning, as far as I can recall. Percentage allocations across the good causes, as they are called, have not remained the same, but the 1.78 percentage of shares has not changed.

Alexander Stewart: There is no question that the proposed budget has given us some sense of stability, but it has not alleviated any of the

concerns about increased running costs, falling income and the implications of fair work, and such things, that might have to be added to the process.

During the earlier evidence session, there was some discussion of UK tax support. That has been welcomed by some organisations. It would be useful to take a view from Creative Scotland about what it thinks of that situation and how it affects the current running of many organisations. What would you like to see in future? Should it be included in the strategy that was discussed in the earlier evidence session about the implications?

Iain Munro: I will say a few words, and then I will invite Alastair Evans to add to them.

It is an important avenue of income for organisations that is key to their core stability, but it is temporary, and there have been extensions. Although these are political decisions, we are keen to understand and see how far the commitment can go beyond what already exists. To be clear, this UK tax support is for screen, the exhibition sector, theatre and gaming, for example.

That funding is very important. Although there is a heavy reliance on core subsidy from public sector funding—including, importantly, from Creative Scotland—we would want that to be as high as possible. However, the plurality of funding for organisations from other income streams is important, because it gives them more autonomy over their own business affairs, as well as more resilience for their business models, which are currently fragile. It is very important for that funding to continue.

Alastair Evans: There are eight programmes now, and we are doing some work with Arts Council England to quantify its worth across those programmes. Some of the earlier programmes for film and high-end TV have happened at the UK level. Film is estimated to be worth between £1.2 billion and £1.7 billion annually. Importantly, one third of the projects that are supported report that they would not have gone ahead without that support.

We want to understand the picture across arts and culture more broadly. I suspect that it will be the same story. That work is beginning, and we will continue to advocate for the continuation of those programmes. Whether they go ahead is a political decision, much like decision on the transient visitor levy and others, but if that revenue is going to be there, it is a hugely important part of the mix for the sector.

Alexander Stewart: I know that time is tight, so I am quite content.

The Convener: As there are no further questions from the committee this morning, I thank

Iain Munro and Alastair Evans for your attendance.

Meeting closed at 11:20.

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