

# Response to the Scottish Government's consultation on the Resource Spending Review Framework

March 2022

## About the David Hume Institute

Delivering diversity of thought since 1985, the [David Hume Institute](#) (DHI) works towards a Scotland that is prosperous, sustainable, inclusive and fair.

This means the economy and society run through everything we do. Central to our work are the people of Scotland, including those who are seldom heard; from different ethnic and cultural backgrounds; different genders, ages and abilities.

We seek to apply the critical thinking which has long defined DHI to encourage action to address the contemporary issues of our time.

DHI welcomes the opportunity to respond to the Scottish Government's consultation on [Investing in Scotland's Future: resource spending review framework](#).

### Consultation questions and response:

- 1. In Chapter 1 we (Scottish Government) have identified three priorities to guide the Resource Spending Review process. Setting these as priorities helps us consider where spend should be targeted and re-directed. Do you agree that our resource spending should focus on these? We welcome your view on these priorities for the Resource Spending Review.**

**The priorities Scottish Government have identified are:**

- **To support progress towards meeting our child poverty targets**
- **To address climate change**
- **To secure a stronger, fairer, greener economy**

The David Hume Institute welcomes the Scottish Government's emphasis on a sustainable and fairer future in the spending priorities. However, **the links between these priorities and Scotland's National Performance Framework (NPF) are not made clear.**

The NPF is described by the Scottish Government as its "vehicle for delivery of the United Nations Sustainable Development Goals"<sup>1</sup> and the Scottish Government describes the overall goal of this

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<sup>1</sup> Scottish Government, 2022 Scotland's National Strategy for Economic Transformation. p13. [Online](#). Accessed 10 March 2022

framework as being to “maintain sustainable public finances that ensure we can meet the needs of future generations too”.<sup>2</sup>

Therefore, the Resource Spending Review Framework and its priorities should be much more clearly situated within the overall context of Scotland’s National Performance Framework (NPF) - essentially a framework for continuous improvement which provides a common language with partners outside the Scottish Government.

The values and themes contained in the NPF outcomes resonate with what we heard in a series of nationwide conversations for the Action Project<sup>3</sup>, where people across Scotland told us their priorities for action as we build forward from the Covid pandemic.

The NPF sets the long term direction of travel with goals which connect Scotland globally through the UN Sustainable Development Goals (SDGs) and which eclipse election cycles. Being clear about a long term direction of travel helps planning outwith government, but more work needs to be done to track progress for continuous improvement.

The **annual cycle of Programme for Government** drives pressure for new initiatives and press announcements, sometimes accompanied by short-term pots of funding rather than long term investments needed for fundamental systems change needed to tackle Scotland’s persistent challenges. Having set the direction or strategic plan in a Programme for Government at the start of a new term of office, annual reporting on progress and the annual budget statement, accompanied by the legislative programme could allow more time for delivery on long term objectives.

A recent Accounts Commission report on local government funding highlighted ring fencing and a lack of long-term certainty about council funding meaning progress is stymied.<sup>4</sup>

In an increasingly challenging economic environment, the **Resource Spending Review Framework must ensure every penny counts** and that means a **focus on long-term change** is essential.

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<sup>2</sup> Scottish Government, 2021. Investing in Scotland’s Future: Resource Spending Review Framework. p3. [Online](#). Accessed 10 March 2022

<sup>3</sup> David Hume Institute, 2020. The Action Project. [Online](#).

<sup>4</sup> Audit Scotland, 2022. Local government in Scotland: Financial overview 2020/21. [Online](#). Accessed 10 March 2022.

**2. In Chapter 2 we (Scottish Government) have identified the primary drivers of public spending over the Resource Spending Review period. We welcome your views on these and any other public spending drivers you think we should consider.**

**Drivers we have identified include:**

- **Changing demographics**
- **Demand on the health service**
- **Public sector workforce**
- **Inflation**

**Changing demographics:**

The consultation document summarises many aspects of demographic change in Scotland and the implications for spending. However, as we have seen in recent years, population projections are only a best guess taking into account past trends.

For many years, growth in Scotland’s working age population has been reliant on migration. The implications of Brexit on changing migration patterns have had a big impact on Scotland’s labour market. Past population projections have now been revised to show a future decline, however this may need to be revisited again in light of the Ukraine crisis.

Although the document focuses more on the costs of an ageing population, there are some opportunities. The overall contribution older people can and are making to society and the economy could be better recognised and planned for. For example, grandparent care is proven to help people stay active and healthier for longer.<sup>5</sup> However, long distance relationships and lack of flexible housing options mean not all families are able to live close together to benefit from support networks of relatives and intergenerational care in communities. With the benefits well-known, this challenges any further development of age segregated communities, such as retirement villages, which could increase future public spending.

Another demographic trend, which is not inevitable, and has public spending implications, is the increasing number of people living alone. In 2020, over 900,000 people were living alone; one person households are now the most common type of household in Scotland.<sup>6</sup> However, with one

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<sup>5</sup>Stannah, 2022. 5 Reasons Looking After Your Grandchildren is Good for You. [online](#). Accessed 10 March 2022.

<sup>6</sup> Scottish Public Health Observatory, 2021. Population estimates and projections. [Online](#). Accessed 11 March 2022.

person households being linked to lower levels of wellbeing and financial security,<sup>7</sup> surely this is a trend that Scotland would benefit from reversing?

Elsewhere in the world, co-living and co-housing are growing and intergenerational living is the norm. There is now one official co-living site in Edinburgh city centre (not counting traditional flatshares). However, a recent asset transfer request for co-housing at Comiston Farmhouse<sup>8</sup> was rejected by the city council. Intergenerational living and cohousing has potential to reduce climate emissions by reducing consumption.

The commitment to walkable communities and 20 minute neighbourhoods has big potential to deliver public savings in the long term. For example by increasing volunteering or social capital (a key element of the Christie Commission). Walkable neighbourhoods have higher rates of social capital as you are more likely to know people in your community and help each other out.<sup>9</sup> In terms of demographics, rates of volunteering decline with age but still 20% of over 75s continue to form part of this significant unpaid workforce.<sup>10</sup>

The importance of social capital and social cohesion to the economy should not be underestimated<sup>11</sup> and a decline could result in increased public spending.

### **Inflation:**

The Resource Spending Review Framework consultation document describes the “tight budgetary envelope” and the challenges constraining public spending. However, in the light of recent events and forecasts of growing pressures on household income, there is a need for revised modelling.

In February the Bank of England estimated that inflation would reach a high of 6% in Spring 2022<sup>12</sup>, yet more recent forecasts by the Resolution Foundation estimate that inflation could peak at 8.3% this spring,<sup>13</sup> and that inflation for the whole of 2022-2023 could be 7.6%.

Analysis by the Institute of Fiscal Studies estimates that inflation will have a big impact on public services and that “higher-than-expected inflation could wipe out one quarter of the planned

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<sup>7</sup> Office for National Statistics, 2019. The cost of living alone. [Online](#). Accessed 11 March 2022.

<sup>8</sup> Comiston Cohousing, 2022. Comiston Farmhouse. [Online](#). Accessed 11 March 2022.

<sup>9</sup> Journal of Public Health. 2003 September; 93(9): 1546–1551. [Online](#) Accessed 24 March 2022

<sup>10</sup> Scottish Government, 2020. Scottish household survey 2019: annual report. [Online](#). Accessed 11 March 2022.

<sup>11</sup> Scottish Government, 2020. Social capital in Scotland: report. [Online](#). Accessed 11 March 2022.

<sup>12</sup> Bank of England, 2022. Will inflation in the UK keep rising?. [Online](#). Accessed 11 March 2022.

<sup>13</sup> Resolution Foundation, 2022. Britain faces the biggest income squeeze in generations as Ukraine conflict pushes inflation towards 40-year highs. [Online](#). Accessed 11 March 2022.

real-term increases".<sup>14</sup> Public services with larger physical footprints will be more susceptible to rising energy costs, with a 50% increase in costs not an unreasonable estimate for public buildings such as schools and hospitals.

Workforce pressures, for example in social care, are unlikely to be eased by recent pay increases as rising inflation will result in pay cuts in real terms for workers. Increases in pay for public sector staff will have to be balanced against potential spend elsewhere. However, given the cost of child poverty was estimated to be more than £3bn in 2021<sup>15</sup> and the government's goal is to reduce levels to below 10% by 2030-31, a fall in real wages for public sector workers does not fit with this ambition.

Inflation doesn't impact everyone equally, it disproportionately hits the poorest households hardest. The Institute for Fiscal Studies' recent analysis suggests that for the poorest households inflation was expected to be more than 9%, whereas the richest households will face a lower rate of 6%.<sup>16</sup>

The impact of the pandemic was felt differently across society as well. Higher-income households were more likely to have seen their savings increase, compared to lower-income households which were more likely to have seen debts rise.<sup>17</sup>

The Scottish Government has already announced the Scottish Child Payment increasing to £25 and eight Scottish social security benefits will rise by 6% from 1st April. There is a strong case for the government using its resource budget to support those at risk of being driven into poverty by rising inflation.

Rising interest rates will have an impact on available government expenditure and any future borrowing as the cost of servicing debt increases. In 2020/21 debt and interest expenditure totalled £3.8bn.<sup>18</sup>

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<sup>14</sup> Institute for Fiscal Studies, 2022. Heightened uncertainty and the spectre of inflation hang over the Spring Statement. [Online](#). Accessed 11 March 2022.

<sup>15</sup> Fraser of Allander, 2022. Modelling packages to meet Scotland's child poverty targets: Scenarios, benefits and trade-offs [Online](#) Accessed 16 March 2022.

<sup>16</sup> Institute for Fiscal Studies, 2022. Heightened uncertainty and the spectre of inflation hang over the Spring Statement. [Online](#). Accessed 11 March 2022.

<sup>17</sup> Resolution Foundation, 2021. The Living Standards Audit 2021. [Online](#). Accessed 11 March 2022.

<sup>18</sup> Scottish Government, 2021. Government Expenditure & Revenue Scotland 2020-21. [Online](#). Accessed 17 March 2022.

### **Addition to the list of public spending drivers:**

Climate change is rightly set as a priority but it should also be included as a key driver of public spending. The 2022 UK Climate Change Risk Assessment<sup>19</sup> identified climate change as one of the greatest risks to public health in the UK, and one which will impact vulnerable people disproportionately. It identifies costly impacts of climate change including on health and productivity, affecting many households, businesses and public services.

In its 2021 climate projections summary Adaptation Scotland, a programme funded by the Scottish Government, reported that Scotland has already experienced a warming trend, shifting rainfall patterns, and rising sea levels.<sup>20</sup> The Climate Change Committee 2022 report, Is Scotland climate ready?<sup>21</sup> identifies a whole range of impacts including business continuity, supply chain resilience and water management which have public spending implications.

Adapting to these new conditions will have an impact on resource spending. For example, in 2020, a report commissioned by the Scottish Government identified challenges facing the social care sector in extreme and adverse weather. These events increased the workload of care staff and managers substantially. The report identified a need to improve the sector's preparedness through measures such as training and information sharing as well as ensuring pay and working conditions recognise the increased workload and stress associated with an increase of extreme weather events.<sup>22</sup>

Climate change is already having a wide ranging direct impact on public spending, for example increases in respiratory illness through increased damp in people's homes and increased intensity of rainfall requiring investment in waste water infrastructure and road repairs (heavier rain leads to more potholes).

The link between capital spending and the potential to reduce resource spending should not be ignored. Investment in insulation, energy efficiency and renewables to reduce costs of people living in poverty will also help reduce public spending on health and contribute to reducing child poverty. This is preventative spending across a range of budgets.

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<sup>19</sup> UK Government, 2022. UK Climate Change Risk Assessment 2022. [Online](#). Accessed 11 March 2022.

<sup>20</sup> Adaptation Scotland, 2021. New Climate Projections Summary for Scotland. [Online](#). Accessed 10 March 2022.

<sup>21</sup> The Climate Change Committee, 2022. Is Scotland climate ready? [Online](#). Accessed 16 March 2022.

<sup>22</sup> ClimateXChange, 2020. Delivering social care in a changing climate. [Online](#). Accessed 11 March 2022.

**3. In Chapter 2 we (Scottish Government) identified the growth of the public sector workforce as a key driver of public spending. How can we use policy interventions to maximise the value achieved from the public sector workforce in the effective delivery of public services, while ensuring the sector is an attractive, rewarding place to work? We welcome your views on this.**

Learning from the current piloting of a four day working week and applying that learning to the public sector may prove valuable in answering questions about effective delivery and reward. If productivity and wellbeing can be boosted by moving to a four-day week, then this can be a key policy to ensure the sector is an attractive place to work. However, for a wide range of public sector roles, it is harder to see how any productivity gains could make the four-day week cost neutral when so much of the job is dependent on certain numbers of staff being present during given working hours.

When striving for productivity gains, working hours should not be looked at in isolation as a way to reduce cost. For example the change in shift patterns for many nurses from 8 to 12 hours has reduced the number of handovers but even pre-Covid had increased requests for part-time hours and the number of experienced nurses leaving the profession due to burn out.<sup>23</sup>

Pay modelling in the face of extreme pressures on household income is essential in ensuring the sector is an attractive, rewarding place to work. Publishing modelling of the social and economic impact of different choices on public sector pay policy would support an open ongoing conversation about the resource budget.

The ability to recruit the talent needed by the public sector workforce in ways which increase the cost-effective delivery of public services will be compromised if pay falls further in real terms. ONS figures show that wage growth in the private sector is at 5.4% compared to 2.5% in the public sector.<sup>24</sup> Ensuring that the public sector remains a competitive employer alongside the private sector is crucial.

The use in recent years of recruitment freezes and a preference for using contractors rather than filling permanent roles could impact negatively in the longer term. The data shows there has been a dramatic rise in use of contractors<sup>25</sup> which can lead to higher costs and increased turnover

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<sup>23</sup> Nursing Standard (2019) [online](#) accessed 12 March 2022

<sup>24</sup> Office for National Statistics, 2022. EARN01: Average weekly earnings. [Online](#). Accessed 11th March 2022.

<sup>25</sup> Scottish Government, 2021. Scottish Government workforce information (Table 2: Head count of contingent workers). [Online](#). Accessed 11 March 2022.



resulting in a loss of expertise. It should also be considered how this relates to the Scottish Government's Fair Work commitments.

- 4. In Chapter 3 we (Scottish Government) have identified a number of ways in which we will be exploring how to get best value out of Scotland's public spending. We welcome your views on these, and other ways to maximise the positive impact of public spending.**

**The areas we have identified are:**

- **Improving cross-government collaboration**
- **Public service reform**
- **Prevention and invest to save initiatives**
- **The public sector workforce**
- **Better targeting**
- **Targeted revenue raising**

### **Improving cross-government collaboration**

Cross-government collaboration is vital. We welcome the commitment to "identify where there may be shared interest, duplication or overlap in intended policy outcomes over multiple Portfolios." However, we would also like to see more focus on tackling the tensions and contradictions between policies and between local and national governments which are likely to undermine progress in addressing priorities.

One such area is in planning. The Draft Fourth National Planning Framework (Draft NPF4) was initially framed by the intention to focus on fostering community resilience through such measures as embracing the principle of the 20 minute neighbourhood.

It is crucial the focus on creating resilient communities is not lost or undermined by lack of cross-government collaboration at national and local levels.

Scotland's National Strategy for Economic Transformation (NSET) emphasises promoting entrepreneurial culture in under-represented groups, community wealth building, and skills

investment for working age people in poverty as a means of contributing to a fairer and more equal society.<sup>26</sup> Planning decisions have an important part to play in supporting this.

Scotland currently appears to be trapped within a planning system which often directly undermines NPF outcomes and therefore impacts on resource spending. For example, campaigners in Glasgow have been challenging planning applications for “drive thru” facilities. The concern is that they encourage car use with obvious negative impacts on local health due to air pollution, on preventative health measures such as encouraging active travel and on progress towards net zero.

In Edinburgh the recent building of a Costa Coffee drive-thru at Meadowbank Shopping Centre is the fourth drive-through to go ahead in the city despite objections.<sup>27</sup> Objections focused on induced traffic, the impact on multiple small, independent cafes nearby and climate targets. Despite being built beside a cycle lane and multiple bus routes, it still has staff parking. This clearly demonstrates the need for change.

The priorities stated in question 1 alongside the NPF4 and NSET mean that short-term thinking, especially on planning decisions which bake in future emissions and unhealthy lifestyles, must stop. There are unintended costs and negative impacts which are creating unsustainable development. What is not clear from the priorities is how decisions will be made when there are tensions or trade-offs between the priorities. If, as with drive-thrus, development wins in the short term, climate and local economies will suffer long term.

Public procurement is already recognised as a strategic tool to help deliver on the national outcomes, but there is more that could be done to realise its full potential. The [sustainable procurement duty](#), in the Procurement Reform (Scotland) Act 2014 is underutilised.<sup>28</sup>

The Scottish Government’s Annual Procurement Report 2020-21<sup>29</sup> states that it manages national contracts and frameworks through which public bodies and the Scottish Government spent more than £1 billion during the year. NHS National Services Scotland<sup>30</sup> states they manage over £1.4

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<sup>26</sup> Scottish Government, 2022. Scotland’s National Strategy for Economic Transformation: summary. [Online](#). Accessed 11 March 2022.

<sup>27</sup> Edinburgh Live, 2022. New Edinburgh Costa Coffee drive-thru opens in Meadowbank despite objections. [Online](#). Accessed 11 March 2022.

<sup>28</sup> Supplier Development Programme. [Online](#). Accessed 16th March 2022

<sup>29</sup> Scottish Government (2022) Annual Procurement Report 2020-21 [Online](#). Accessed 14th March 2022

<sup>30</sup> NHS National Services Scotland [Online](#). Accessed 14th March 2022

billion worth of contracts. These are just two large examples, so the total procurement spending will be significantly higher.

The Scottish Government report shows progress is being made on including some social criteria within contracts. For example 92% of suppliers pay the living wage but given the size of the total budget, creating “146 brand-new new jobs, 27 apprenticeships, 31 work placements and 453 qualifications” seems very low. The report also states “We awarded 21 new contracts with community benefits incorporated. This brings the total number of live contracts with community benefits to 62”.<sup>31</sup> This is only 0.6% of the total contracts awarded in 2020/1.

The Scottish Government is piloting community wealth building approaches by looking at public procurement within some places but there is still much more potential for procurement as a tool to drive change. The requirements and criteria used to assess bids have a huge impact on the value from these contracts. In a similar way to organ donation now being opt out, all procurement contracts should have standard environmental and social policy criteria such as work placements or training opportunities and if an individual contract or procurement initiative opts out there should be a public duty to state the reason as a matter of public record. More could also be done to realise benefits and increase transparency throughout supply chains.

### **Public service reform; Prevention and invest to save initiatives**

“It’s now or never” was the call from the Chair of the Accounts Commission<sup>32</sup> and Stephen Boyle, from Audit Scotland has said “Christie can’t wait another decade”.<sup>33</sup>

It is over 10 years since the Christie Commission focused on the future delivery of public services in Scotland. The radical shift to spending on preventative measures called for by the Commission has yet to materialise.

The commitment to “consider options” to redirect funding towards demonstrable preventative approaches in the Resource Spending Review does not suggest a strong commitment to shifting the dial in this key area. The challenging economic environment alongside the impact of climate change will mean that business as usual is not an option. A clear framework linked to the NPF will help decision making and ensure that individual decisions are not subject to influence from

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<sup>31</sup> Scottish Government (2022) Annual Procurement Report 2020-21 [Online](#). Accessed 14th March 2022

<sup>32</sup> Audit Scotland, 2021. Blog: Christie - it really is now or never. [Online](#). Accessed 11 March 2022.

<sup>33</sup> Auditor General. Audit Scotland, 2021. Blog: Christie 10-years on. [Online](#). Accessed 11 March 2022.

lobbying to retain historic funding streams. Every penny will need to work harder to deliver on the NPF outcomes.

The measures included in the National Strategy for Economic Transformation designed to tackle in-work poverty and low wages are welcome. Applying fair work criteria to public sector contracts and grants is important to boost productivity and fairness. A further addition to the fair work criteria applied to public sector spending could be maximum pay ratios to reduce income inequality.

It is important to note the link between fair work and the fiscal framework - increasing PAYE employees will increase Scottish Income Tax receipts. “If the Scottish Government is able to grow its receipts per head faster than in the UK, the net budgetary effect will be positive, and vice versa. This outcome is heavily influenced by changes in tax policy; economic performance; differences in the composition of the tax base; and differences in the sectorial composition of the two economies.”<sup>34</sup>

Some of Scotland’s biggest challenges, including public sector reform, could progress through embracing open data, progress of which has stalled and in some places gone into reverse. Open data, which is data that can be freely used, re-used, and redistributed, has the potential to drive innovative solutions in all sectors.

An open data culture leads to improved government, economic growth, insightful data analysis, and a more participatory democracy. The economic value of open data is recognised in the 2021 Digital Strategy for Scotland but there has been no visible activity in the 12 months since its publication to address this lost potential.<sup>35</sup> Open data could be worth £2bn to GDP a year, and could reduce revenue spending and increase the tax base in the long term.

The latest Capital Spending Review commits to investing £110 million in a Digital Public Services Programme to support the transformation of key public services. It is not clear whether this will fully support the commitment made in the 2021 digital strategy to “drive the adoption of open data standards across the public sector to improve efficiency and interoperability”.

Culture and mindset are critical to shifting the dial on preventive spending and embracing the potential for further innovation and saving on costs through open data will be crucial to this.

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<sup>34</sup> Scottish Government, 2021. Scottish Income Tax: 2018-19 policy evaluation: Policy context. [Online](#). Accessed 11 March 2022.

<sup>35</sup> David Hume Institute, 2022. What is open data and why does it matter? [Online](#). Accessed 11 March 2022.

## Better targeting

Targeting to identify and better support individuals, households or communities can obviously have merits in terms of addressing priorities. However, “targeting” can also infer means-testing which can be costly in terms of time and resources and in terms of low take-up among those eligible.

Where targeting is to be considered we would urge the Scottish Government to be mindful of any unintended consequences (such as the additional costs of means testing and a lack of take-up from eligible people) as well as the loss of wider economic and social benefits.

For example, in its 2017 consultation on free bus travel, Transport Scotland reported many positive impacts of concessionary bus travel including reducing social isolation and loneliness and taking cars off the road.<sup>36</sup> Local authorities expressed concerns about the sustainability of some local bus services should the concession be withdrawn and the impact this might have on rural business and employment. In 2015, Transport Scotland published research into the social and economic benefits of community transport provision and quoted a Social Return on Investment (SROI) study in one area showing a per capita return of £9k. Another quoted study showed the value to local retail business to be between £5k to £100k a year across the schemes assessed.<sup>37</sup>

Another method for targeting resources is through geography or places. However, place-based targeting, for example through use of the Scottish index of Multiple Deprivation (SIMD) also has limitations. Individuals experiencing deprivation in areas without a critical mass risk being missed and decision makers should be mindful of the assumptions within the SIMD data and place-based analysis.

Targeting of financial education and empowerment could be used to get better value from public spending. Evidence suggests that those who make use of tax-payer funded pension advice services experience better outcomes and they feel more confident than those that don't.<sup>38</sup> Despite this, just 1 in 33 people who are eligible to use Pension Wise use its free service.<sup>39</sup>

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<sup>36</sup>Travel Scotland, 2018. Free Bus Travel for Older and Disabled People and Modern Apprentices: Analysis of Responses to the Consultation. [Online](#). Accessed 11 March 2022.

<sup>37</sup>Transport Scotland, 2015. Research into the Social and Economic Benefits of Community Transport in Scotland. [Online](#). Accessed 11 March 2022.

<sup>38</sup>Ipsos MORI, 2020. Pension Wise service evaluation: Experiences and outcomes of customers using Pension Wise in 2019/2022. [Online](#). Accessed 24 March 2022.

<sup>39</sup>TheyWorkForYou, 2020. Future of Pensions Policy: Seema Malhotra. [Online](#). Accessed 11 March 2022.

With an ageing population - over 65's are estimated to increase by 119,000 over the next five years<sup>40</sup> encouraging increased take-up of pension guidance could cut resource spending in the long term, for example in health and care, by supporting people to be more financially resilient.

### **Targeted Revenue Raising**

The broader fiscal landscape is made up of government (local and national) tax and spend (both capital and resource) and so the two must work in sync to deliver the national outcomes (NPF).

The differential impact of the pandemic and inflation will lead to increasing inequality and child poverty.<sup>41</sup> There seems to be little progress in work from the Office for Tax Simplification to remove the complicated system of UK taxes and reliefs and so the Scottish Government should be mindful of complicating the landscape further.

Once a tax relief is in place, even if it is found to drive unwanted behaviours, it is very difficult to scrap. For example the history and impact of Entrepreneurs Relief is well documented, including its link to the rise in short-term let (STL) properties (aka 'AirBnB'). The Scottish Government's own analysis shows the many impacts of STLs.<sup>42</sup> Analysis from 2019 shows four hosts with portfolios of more than 100 properties accounted for nearly 2,500 listings, approximately 8% of all listings.<sup>43</sup> STLs have long term impacts on communities, services and lost revenues to local authority, however there are still many tax reliefs available to incentivise STLs including the Small Business Bonus Scheme.<sup>44</sup> While 45% of non-domestic properties receive Small Business Bonus Scheme (SBBS) relief, over 86% of self-catering properties benefit from SBBS. This relief provided an average saving for these properties of £1,398 in 2018-19. A number of these receive 100% relief, and thus pay no local tax.<sup>45</sup> With an increasing number of landlords from outside Scotland, including London, USA, France and China, STLs are clearly impacting on resource spending across government.

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<sup>40</sup> Scottish Government, 2021. Investing in Scotland's Future: Resource Spending Review Framework. p14. [Online](#). Accessed 11th March 2022.

<sup>41</sup> Resolution Foundation 2022. Living standards Outlook. [Online](#). Accessed 14 March 2022

<sup>42</sup> Scottish Government 2019. Research into the impact of short-term lets on communities across Scotland. [Online](#). Accessed 14 March 2022

<sup>43</sup> Scottish Government 2019. Research into the impact of short-term lets on communities across Scotland. [Online](#). Accessed 14 March 2022

<sup>44</sup> Scottish Government, 2019. Short-term lets: consultation (4. Regulation of Short-Term Lets in Scotland). [Online](#). Accessed 14 March 2022

<sup>45</sup> Scottish Government (2019) Short Term lets regulatory framework. [Online](#). Accessed 17 March 2022

The link between resource spending and overall revenue generation in Scotland by all forms of government means a wider perspective should be taken. There is wide recognition that council tax needs to be reformed, and maintaining the status quo could hinder progress on NPF targets such as child poverty. However, despite the 2006 Burt Review and 2015 Commission on Local Tax Reform there has been no change. In 2019, Fraser of Allander examined the case for increasing council tax rates and the difference to rates in England and Wales.<sup>46</sup> With rising inequality, continued inaction on reforming council tax is likely to become as toxic as maintaining the status quo. Moving to an annual property tax, as proposed in the Burt Review, could be applied to STLs to ensure that landlords using local services such as refuse collection are contributing to local services.

Reforming local taxation is an opportunity for joining up different policy areas and contributing to the NPF. For example STLs increase the pressure on the housing market by reducing availability. A 2019 survey of STL hosts found that over a third of STL properties listed (36%) were previously long-term lets or owner-occupied. Tax reliefs incentivise landlords to only let property for one third of a year (available for more than 105 days but less than 140 days) which mean that local economies might be missing out on over 60% annual income by having year round residents. This issue is particularly relevant in areas of the country with high density of STLs. For example in the Isle of Skye, where AirBnb listings have been found to account for 18.6% of dwellings, and Edinburgh City Centre, where the number was 16.7%.<sup>47</sup>

**5. In Chapter 3 we (Scottish Government) have shared that we will be conducting an equality assessment of the Resource Spending Review's findings. We welcome your views on any particular equality and human rights impacts which we should consider in the context of the priorities (question 1) and primary drivers of public spending (question 2) we have set out.**

The commitment to provide targeted support to young people through the Young Person's Guarantee is positive. However, this ignores the increase in the number of people aged 16 to 64 classed as "economically inactive".<sup>48</sup> Alongside young people, the age group with the biggest

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<sup>46</sup> Fraser of Allander 2019. What is the case for increasing council tax rates in Scotland [Online](#) Accessed 14 March 2022

<sup>47</sup> Scottish Government 2019. Research into the impact of short-term lets on communities across Scotland. [Online](#) Accessed 14 March 2022

<sup>48</sup> Office for National Statistics, 2022. A01: Summary of labour market statistics. [Online](#). Accessed 15 February 2022.

percentage increase in inactivity over the pandemic were 50 to 65-year-olds.<sup>49</sup> There are increased barriers to enter the labour market or retrain over the age of 50.<sup>50</sup>

We recognise that the term “economically inactive” is an accepted one in widespread use. However the contribution made to the economy by the people in this category is unhelpfully obscured by this label, which could be considered offensive and demeaning. Many are full-time parents and/or carers, contributing value to communities and all are likely to actively participate in the economy and be tax-payers in some form, for example, through paying VAT.

Beyond the label, there is an important equality issue. Older workers may need and welcome support to re-enter the workforce. The acute challenges Scotland faces in terms of workforce size and skills are not well served by ignoring the needs of potential workers, whatever their age. Between 1998 and 2019 the percentage of people aged 65 or older in employment doubled.<sup>51</sup> Continuing this trend post pandemic will be important for Scotland’s tax base. Finding ways into employment for workers who want to re-enter the labour market is of considerable importance, particularly given staff shortages across different sectors. Age diversity should be considered part of workforce strategy.

**6. In Chapter 3 we (Scottish Government) shared that this Resource Spending Review is taking a consultative approach to ensure that we engage with people and organisations across Scotland as we develop multi-year financial plans. Our intention is to use the Resource Spending Review to continue the Scottish conversation on public spending going forwards. We welcome your views on how best to continue our engagement with people and organisations after the Resource Spending Review.**

We welcome the conversation. It is important that more people understand the relationship between tax and spending. As the baby-boom generation has aged, the role of the state and government has changed dramatically and risk has increasingly been transferred to individuals.<sup>52</sup> This means that there is a need to be transparent about choices and trade-offs. However, the Citizens Assembly showed that when provided with objective information and space to reflect on it, people with vastly different opinions came to consensus about the way ahead.

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<sup>49</sup> Office for National Statistics, 2022. INAC01: Economic inactivity: People aged 16 to 64 by reasons for inactivity (seasonally adjusted). [Online](#). Accessed 15 February 2022.

<sup>50</sup> Centre for Ageing Better, 2020. Back on track: Improving employment support for over 50s jobseekers. [Online](#). Accessed 11 March 2022.

<sup>51</sup> ONS 2019 How would you support our ageing population? [Online](#) Accessed 17 March 2022.

<sup>52</sup> Institute and Faculty of Actuaries, 2021 The Great Risk Transfer. [Online](#). Accessed 17th March 2022.



We would welcome this pragmatic approach from cross-party politicians in order to move forward intransigent issues such as local government taxation. The challenging economic conditions mean it simply won't be possible to spend money on everything that is being asked for, a mature debate will be needed to ensure that political point scoring doesn't increase polarisation in society which in turn negatively impacts on the economy.