Beyond Holyrood: Why Scotland's economic future depends on local power

reform scotland

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About Reform Scotland

Reform Scotland, a charity registered in Scotland, is a public policy institute which works to promote increased economic prosperity and more effective public services based on the principles of limited government, diversity and personal responsibility. Reform Scotland is independent of political parties and any other organisations. It is funded by donations from private individuals, charitable trusts and corporate organisations. Its Director is Chris Deerin and Alison Payne is the Research Director. Both work closely with the Advisory Board, chaired by Alan McFarlane, which meets regularly to review the research and policy programme.

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Contents

i. Foreword

The 2021 devolved election now looms on the horizon, and Scotland's political parties have begun the process of constructing the policy manifestos that will be put before voters. The constitution is never far from the debate, of course, but in Reform Scotland's view it is the economy that should be the dominant issue for our politicians and society over the next few years.

Scotland faces significant economic challenges – and opportunities. Some, such as the rise of Artificial Intelligence and other aspects of the technological revolution, shifting international power structures, and the backlash against globalisation, are shared with developed countries around the world. Others, like Brexit, are specific to the UK. And still others, such as an ageing and therefore increasingly expensive population, potential new restrictions on immigration, and stubbornly disappointing data around productivity and the small business and entrepreneurial environment, are particularly relevant to Scotland.

Regardless of their origin, these issues need to be thought about and addressed by Scots in Scotland. Over the coming months and years, Reform Scotland will seek to play a key part in this process, through regular research papers, essays and events. Sustained economic prosperity is, after all, the key to everything else – to well-funded public services, good jobs and a rising standard of living, the opening up of opportunity to all, and the provision of a safety net for those who fall through the cracks.

Support for innovation and entrepreneurship, a willingness to challenge conservative vested interests, and the courage to take risks – and, yes, occasionally fail – are required from our policymakers in this fast-changing, hyper-demanding, ultra-competitive era.

At Reform Scotland we want to help identify the policies that will allow our nation to thrive in the brave new world that is the 21st century, and hold to account those with the power to make the difference.

Chris Deerin
Director

ii. Executive Summary

Objective

While Reform Scotland has published a wide range of reports over our 11-year history, two key themes have come up time and time again - the need to grow Scotland's economy and the need for greater localisation. But what is often overlooked is that the latter is a key route to achieving the former.

We often hear discussions about the Scottish economy - how it is performing and how to improve it, and often that performance is measured in comparison to the UK's economy. In our 2017 report, The State of Scotland's Economy, Reform Scotland demonstrated that such a narrative can paint a false picture. London and the South-East dominate the UK economy, and in many categories Scotland may struggle to compete with that dominance. Yet, when compared with all regions and countries of the UK, Scotland often outperforms every area outside London and the South East. Of course, we can and should do better, but it is important also to recognise the strengths we do have.

But it is also important that the Scottish economy is not taken as a single entity. Scotland is a diverse country, with differing needs and priorities. This report seeks to highlight these differences, the relative strengths and weaknesses, and demonstrate that if we want to successfully grow our economy we need to understand and embrace that diversity, and recognise that solutions will not be found through a centralised one-size-fits-all approach.

At the Finance Committee in the Scottish Parliament on 6 February the Finance Secretary Derek Mackay commented, with reference to the proposed work-place parking levy:

"*The important point is that this is not about a Scottish Government scheme; it is about empowerment of local government. It was a necessary budget concession because, if there had been no agreement on the budget, the consequence would have been that a £42.5 billion budget for Scotland would have gone down. Ultimately, this is about empowering local authorities.*

"I wonder why some members who were previously—apparently—for local government empowerment and letting local councils make decisions in consultation with local people and businesses according to local circumstances, and who accused the Government of being a big, bad, centralising Government, are now against localism when it is supported by a majority in the Scottish Parliament?"

Reform Scotland agrees with empowering local authorities and supports the proposals set out in the budget agreement. However, if the Scottish Government is to truly embrace localism, then we hope these recent developments are only the first small steps towards true local government empowerment.

Findings

- The constant comparison between the Scottish and UK economies is unhelpful and doesn't do a great deal to inform policy-makers. The UK economy is dominated by London and the south-east. A simple Scotland v UK picture is far too simplistic. For example, although the GVA per head UK figure in 2017 was £27,555 and Scotland's figure was below that at £25,485, only two regions within the UK performed above the UK average – London and the South East. On GVA per head Scotland was actually ranked as the third highest-performing region.

- By looking at a wider set of economic indicators and comparing them across all regions of the UK it is possible to more clearly identify Scotland's strengths and weaknesses. For example, Scotland remains strong when it comes to GVA per head and the proportion of taxpayers that pay higher rates. However, it falls down on the level of private sector employment as a proportion of all employment, and on the number of businesses per 10,000 adults.

- Just as simply focusing on a Scotland v UK narrative can both obscure success as well as identify areas in need of improving, concentrating on the "Scottish economy" can be equally misleading. There are huge variations within the UK economy as a whole, and the same is true of Scotland. For example, Edinburgh is one of the top ten performing NUTS3[1] regions across the whole of the UK and already outperforms the UK average considerably.

- There are a number of differing needs and circumstances facing different local areas. For example:
  - Over the next ten years Aberdeenshire is expected to face a 40% increase in the number of over-75s, compared with 20% for Inverclyde.
  - While some areas are facing an increase in population, others are facing a reduction over the next ten years.
  - Mainland private-sector employment ranged from 80.4% in Aberdeenshire to 67.4% in West Dunbartonshire. Yet even the Aberdeenshire figure was lower than all English regions highlighted in Table 2.

[1] Nomenclature of Territorial Units for Statistics

- Business births per 10,000 people range from 100 in Aberdeen City to 28 in Dumfries & Galloway.

These statistics highlight that different and diverse solutions will be required to help struggling areas improve their standing, as well as to encourage successful areas to flourish further.

- The Accounts Commission's Local Government in Scotland Financial Review 2017/18 noted that from a sample of 16 local government charges, 11 had been increased by more than the rate of inflation. These charges are fully in the control of local authorities which can mean that there is significant variation across the county. However, Reform Scotland does not believe that this constitutes a "postcode lottery" because the decisions are being made by directly-elected politicians. Further centralisation is not the answer as this would simply constrain councils even further and remove what little financial control they have. Not to mention it would ignore the fact that Scotland is a hugely diverse country.

- A lot of the debate around the announcement of the Budget agreement between the Scottish Government and Scottish Greens suggested that it will impose new taxes on the electorate. However, that is not what the Budget agreement does. It will not introduce any new taxes on people in Scotland, but will rather pass power to local authorities to make those decisions for themselves. To claim the Scottish Government is responsible for imposing new taxes is simply incorrect. It will be up to individual councils to decide whether such levies are appropriate for their area. For example, on 7 February 2019 Edinburgh City Council voted 43 to 15 in favour of adopting a tourism tax in the city. The merits of the individual charges are matters for individual councils to discuss and debate. It is perfectly possible to be against any of the proposed new levies, and still believe that it should be up to local authorities to decide on their merits as opposed to judgement being made centrally by the Scottish Government.

Policy recommendations

Local Data

We have sought to demonstrate in this report that Scotland has a highly varied economy, with each local authority facing differing needs and circumstances. Sometimes the data produced is too focused on the overall Scottish picture. For example, the remit of the Scottish Fiscal Commission is to look at revenue and on-shore GDP for Scotland as a whole.

As we have illustrated, this can obscure both problems and successes.

Leading on from the need for regional broad economic data, there is a need for local government finance to better fit in with Scottish economic data. The latest edition of Scottish Local Government Finance Statistics was published in February 2019 and covers 2017/18. Customer and Client Receipts (CCR) in 2017/18 amounted to £2.5 billion. According to the report, this funding stream (which covers the income local authorities receive from sales, rents, fees and charges as a result of providing a range of services) raised more money than the £2.3bn raised in council tax, and not much less than the £2.7bn in distributable business rate income. In other words, CCR is a substantial income stream. To put it in a wider context, it raises more than Air Passenger Duty, Landfill Tax and Land and Buildings Transaction Tax combined, yet does not feature in the Scottish revenue tables in GERS. Council tax is collected and spent by local authorities and does feature, so there is no reason not to include CCR. As a result, Reform Scotland believes work needs to be done to make GERS and Scottish Local Government Finance Statistics more compatible.

Changing the shape of local government in Scotland

On 10 August 2018 the Scottish Government launched its 'Democracy Matters' consultation. The consultation noted there was a "*growing recognition that it is often better for decisions about the issues that affect different communities in Scotland to be taken with more active involvement of those communities*" and that this could help enable "*public services to work in ways which meet local circumstances and reflect the priorities of different communities*".

Reform Scotland agrees. For many years we have been arguing that Scotland is a diverse country, in terms of geography, population and need, and as a result one-size-fits-all policy solutions do not work. More decision making needs to be devolved away from Holyrood and towards local government and beyond. The statistics highlighted in this report add weight to this argument. Despite this, centralisation and one-size-fits-all policy making have too often been the direction of travel. This situation has been worsened by a policy of virtually removing local authorities' role in raising revenue, leaving many without means to address their differences.

Reform Scotland believes local government in Scotland requires renewal. Councils should have greater powers to introduce policies which are right for each individual area – whether that is introducing a tourism tax in one council area or increasing second-home charges in another.

Too often, the debate about how to reform local government becomes bogged down in arguments about the exact number of councils, where to draw particular boundaries and how many people councils should serve. However, these are less important issues than giving councils greater freedom and making them more accountable to their local communities. The following policy recommendations set out how Reform Scotland thinks greater fiscal powers should be devolved, as well as structural changes which we believe can improve accountability and give local authorities the bigger voice that deserve.

Fiscal Powers

Council Tax:

Reform Scotland believes that local authorities should have complete control over their local tax - including the rates and bands. This would allow individual councils - should they choose - to retain, reform or replace council tax with another form of local taxation. Crucially, this would be a decision about a local tax made by a local authority for its local area, taking into account local circumstances and priorities. As a result, we see no problem with some local authorities maintaining a council tax system, while others may opt to choose from a range of different forms of taxation, including a land value tax. The most important element is that the tax is fully devolved to the local authority and, therefore, local councillors making decisions on local taxation are fully accountable to the local people affected by those decisions. At present, it is far from clear who is accountable for spending decisions made by local authorities - is it the councillors making those decisions, or ministers for removing their ability to raise additional income?

The recent Budget agreement between the Scottish Government and the Scottish Greens gave a commitment to convene cross-party talks on a replacement for council tax. Reform Scotland would hope these talks take account of the very different nature of local authorities across Scotland and appreciate that different solutions are likely to be required for different areas. Local authorities need far more control over their own revenue and, as a result, this must extend beyond simply Council Tax, or a replacement for Council Tax.

Non-Domestic rates:

Reform Scotland believes that Non-Domestic Rates should be devolved to local authorities in full. This would allow councils to vary how and to whom the tax applies, based on their own circumstances. It would also ensure that Non-Domestic Rates are the genuinely local tax they are supposed to be. When a tax is devolved in full it also improves transparency and accountability as the electorate can clearly see where decision-making power resides. If the local community dislikes a decision, just as with Holyrood or Westminster, it has the ability to vote the decision-maker out of office.

Each council would then have to decide whether to retain the business rates inherited or to seek to increase or reduce them for their area. Councils would have an incentive to provide an attractive economic environment, but the decision would be up to them. For example, a council could seek to increase business rates which might have the effect of increasing income in the short term but lead to poorer economic performance and lower income in the longer term.

However, the increase in local financial autonomy and accountability is likely to give councils an incentive to design business taxation policies and broader local economic development strategies to support the growth of local businesses, encourage new start-ups and attract investment, since this will benefit the council directly by increasing its income from business taxes.

Reform Scotland welcomes the decision in the recent Scottish Budget to devolve Non-Domestic Rates empty property relief to local authorities in time for the next revaluation. However, we hope this is simply a step towards giving local authorities far greater control over Non-Domestic Rates.

Additional taxes:

Reform Scotland believes that local authorities should be able to introduce such taxes if they feel they are appropriate for their area. If the electorate disagrees, it can vote the local politicians responsible out of office. Such small schemes also increase diversity and allow councils to learn from the experiences of other local authorities. Importantly, it also makes councils less dependent on central government grants.

Reform Scotland welcomed the Scottish Government's decision to devolve to local authorities the power over tourism and work-place parking levies. However, we were disappointed that political parties that had previously argued in favour of greater localisation were so critical of the policy. It is perfectly possible to be against either one of those charges but believe the decision over whether it is introduced is one that on principle should be made at a local level.

To claim the Scottish Government is responsible for imposing new taxes is simply incorrect. It will be up to individual councils to decide whether such levies are appropriate for their area. While Edinburgh may have voted in favour of adopting a tourism tax in the city, other areas may not.

The merits of the individual charges are matters for individual councils to discuss and debate. The policy of devolving the ability to local authorities to have these discussions and develop individual solutions for their individual areas is a good one. However, if the Scottish Government truly believes in local empowerment, it must move towards greater localisation and devolution in full of local taxes.

Directly-elected mayors

Effective councils providing a wide range of services come in all shapes and sizes.

Sometimes it will make sense for councils to come together to deliver services. However, it should be for each local authority to decide - a voluntary, bottom-up approach based on shared interest is likely to be more effective in encouraging the provision of shared services than efforts to engineer this from above. Equally, there is plenty of room in Scotland for power to be devolved further, potentially to community councils.

However, there is also space for another structural reform, specifically directly-elected mayors.

One of the problems of local government is that often the electorate doesn't know who is in charge. Most councils in Scotland are now run by coalitions and there isn't always a great deal of voter recognition for council leaders. Occasionally an issue will result in a council leader becoming more prominent - for example Edinburgh Council leader Adam McVey has gained greater prominence due to the tourism tax debate. However, too often a council leader is viewed not as an important individual running a city, but as a lower-level politician. Backbench MSPs have higher salaries than the council leaders running Edinburgh and Glasgow, so it is perhaps unsurprising that many see a move from town halls to Holyrood as a step-up.[2]

The advantage of having a directly-elected leader is that it provides a clear figurehead and so can strengthen dynamism and accountability. As seen in Mayoral elections in England in areas like London, the West Midlands and

[2] MSP salary is £62,000 (https://www.gov.scot/policies/local-government/councillors-roles-conduct-pay/) Edinburgh and Glasgow are highest earning council leaders at £50,000 https://www.gov.scot/policies/local-government/councillors-roles-conduct-pay/

Greater Manchester, as well as giving those areas a greater voice, they can also stimulate local interest in a local government.

A directly-elected Mayor could well prove a popular and effective form of local government, particularly in the main Scottish cities. Mayors could provide strong and effective leadership. This is particularly important for cities which, as centres of innovation, are vital drivers of economic development and progress. Mayors are also elected by the public across their whole council area, not just one ward, giving them a stronger democratic mandate.

1. The Scottish economy

There is general cross-party agreement about the need to grow the Scottish economy. Some may talk of "inclusive" growth, but it is broadly accepted from most political stances that an improvement in the Scottish economy is a good thing – it can strengthen our tax base; it can free up resources; and it can lead to more taxes being collected to spend on different priorities.

The Scottish Government had a Purpose Target to raise Scottish GDP growth to the UK level as part of its older National Performance Framework.[3] The latest statistics published on Scottish GDP growth are from December 2018 and look at the third quarter of 2018. The publication notes:[4]

- *Scotland's Gross Domestic Product (GDP) grew by 0.3% in real terms during the third quarter of 2018, following growth of 0.5% in the second quarter of 2018. The equivalent growth rate for the UK as a whole during the third quarter was 0.6%.*
- *Compared to the same quarter last year, Scotland's GDP has grown by 1.5%, the same as equivalent UK growth over the same period.*

As ever with statistics releases, particularly economic ones, the figures were portrayed as both positive and negative. Finance Secretary Derek Mackay highlighted the increased growth over last year:[5]
"*GDP has increased for the fifth consecutive quarter and, when compared to the same period last year, has increased by 1.5%."*

Dean Lockhart, the Scottish Conservatives' Shadow Economy Secretary, commented on the quarter results and the difference with the UK:
"It's quite clear that Scotland's economy is trailing the rest of the UK, despite the fact that we are facing the same challenges at present. The SNP is far more concerned with raising taxes than energising the Scottish economy. It is no coincidence that the UK economy is performing better than the Scottish economy, given the widening tax gap."[6]

In other words, depending on the timescale or measure, Scotland is performing the same as, or worse than the UK. But the constant comparison with UK levels is unhelpful and doesn't do a great deal to inform policy-makers. The UK economy is dominated by London and the south-east. If Scotland can outperform other areas of the UK, then it means the Conservative line of attack used above is weaker. However, if Scotland is falling further behind other areas, then that opposition line is stronger. A simple Scotland v UK picture is far too simplistic.

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[3] https://www2.gov.scot/About/Performance/scotPerforms/purposetargets/economicgrowth There is a new National Indicator Performance which details different indicators available here: https://nationalperformance.gov.scot/measuring-progress/national-indicator-performance
[4] Scotland's GDP 2018, Q3 First Estimate https://www2.gov.scot/Topics/Statistics/Browse/Economy/PubGDP/GDP2018Q3
[5] https://www.gov.scot/news/scottish-economy-continues-to-grow/
[6] http://www.scottishconservatives.com/2018/12/scottish-economic-growth-half-of-uks-over-the-last-quarter/

While GDP is used at a national level, GVA, which is GDP excluding taxes and subsidies on products, is used at a regional/country level. For the balanced measure, GVA(B), it is measured at current basic prices (value in £ million), which include the effect of inflation, and in "real" terms in chained volume measures (CVM), with the effect of inflation removed. The Office for National Statistics compiled the following GVA on a workplace basis so comparisons can be affected by commuting flows into or out of the region.

Table 1 below, from the Office for National Statistics, compares Scotland not just with the UK, but other regions and countries within the UK.

Table 1: GVA 2017[7]

	Total GVA (£ million)	Annual growth in total GVA (%)[1]	Annual growth in 'real' GVA (%)[2]	GVA per head (£)	Annual growth in GVA per head (%)
UK	1,819,754	3.6	1.9	27,555	3
London	431,161	4.2	3	48,857	3.8
South East	267,126	3	1.4	29,415	2.3
North West	173,607	3.8	2.1	23,918	3.3
East of England	152,799	4	2.5	24,772	3.4
Scotland	**138,231**	**3.2**	**1.6**	**25,485**	**2.8**
West Midlands	133,128	3.7	1.9	22,713	2.6
South West	130,635	2.6	1.1	23,499	1.8
Yorkshire & The Humber	116,772	2.5	0.7	21,426	2
East Midlands	104,243	3.4	1.5	21,845	2.4
Wales	62,190	3.1	1.4	19,899	2.7
North East	53,235	3.1	1.6	20,129	2.8
Northern Ireland	39,613	3.6	1.7	21,172	3.1
Extra-Regio	17,012	19.5	-1.8	n/a	n/a

1. GVA(B) in current prices.
2. GVA(B) in chained volume measures.

The GVA per head UK figure in 2017 was £27,555. Scotland's figure was below that at £25,485. However, there is much more to the story than simply Scotland falling behind the UK.

As Table 1 illustrates, only two regions within the UK performed above the UK average – London and the South East. London's figure was nearly double the UK's. Scotland's GVA per head actually made it the third highest-performing region. So although it was below the UK average, it was higher than most other regions of the UK, something which should be welcomed.

However, if you choose to focus on the growth in GVA per head, Scotland's performance is less impressive. The North West was one of a number of regions with a higher growth rate.

[7] https://www.ons.gov.uk/economy/grossvalueaddedgva/bulletins/regionalgrossvalueaddedbalanceduk/1998to2017

Yet, Scotland's growth rate outpaced the South East, which has a higher GVA per head. In other words, this is another set of statistics that arguably causes confusion rather than pointing policy makers in the right direction.

Economic indicators at a glance

Table 1 shows how simply looking at one statistic, even when comparing it with a broad range of places, can be misleading. In Reform Scotland's 2017 report "The State of Scotland's Economy" we looked at how Scotland compared with other regions and countries of the UK across a number of different economic indicators.

By comparing Scotland in this way, the data showed that while the Scottish figure often fell behind the UK, as a whole it performed better than the majority of other regions in a number of areas. But it was also easier to identify issues that were of more concern. For example, the report highlighted that Scotland performed poorly in terms of the number of small businesses per 10,000 adults, with only the North East of England ranking lower. It also identified that Scotland's general fertility rate was the lowest in the UK.

By looking at a wider set of economic indicators and comparing them across all regions of the UK it is possible to more clearly identify Scotland's strengths and weaknesses.

Table 2 below updates that data and highlights Scotland's relative strengths and weaknesses. The figures demonstrate again that Scotland remains strong when it comes to GVA per head and the proportion of taxpayers that pay higher rates. However, Scotland falls down when it comes to the level of private sector employment as a proportion of all employment. At 79.7%, only Wales and Northern Ireland have a lower proportion. For the number of businesses per 10,000 adults, at 771, Scotland is only ahead of the North East, with every other region having considerably more.

In one category Scotland is at the foot of the table, and that is the general fertility rate. At 51.3 live births per 1,000 women aged 15-44, Scotland falls considerably behind every other region and country, with the UK rate sitting at 60.3.

Table 2: NUTS1 economic comparators

	Annual growth in total GVA 2017[8]	GVA per head 2017[9]	% of tax payers that are higher/additional rate payers 2018/19[10]	2016 to 17 annual population growth[11]	General fertility rate (all live births per 1,000 women 15-44) 2017[12]	businesses per 10,000 adults, 2017[13]	Private sector employment % (excluding effects of major reclassifciations) Dec 17[14]	16-64 employment rate Sept-Nov 2018[15]	Unemployment rate 16+ Sept-Nov 18[16]	GVA per hour worked, 2017[17]	Median Full-time gross weekly earnings (£) Apr 18[18]
England	3.5%	£28,096	15.52%	0.6%	61	1,119		76	4.1		
North East	3.1%	£20,129	10.43%		56.7	657	80.8	71.7	5.5	89.2	506.8
North West	3.8%	£23,918	11.63%		61.9	905	82.8	75.2	4	92.2	529.6
Yorkshire & Humber	2.5%	£21,426	10.79%		60.6	953	82.6	74.1	5	85.2	520.8
East Midlands	3.4%	£21,845	12.19%		59.3	962	84.3	75.4	4.6	84.8	515.9
West Midlands	3.7%	£22,713	11.80%		63.1	964	83.9	73.2	5.2	88.1	536.6
East of England	4.0%	£24,772	17.01%		63.5	1,155	85.2	78.6	3.1	93.4	558.1
London	4.2%	£48,857	23.20%		62.9	1,519	86.7	74.9	4.5	133	713.2
South East	3.0%	£29,415	19.46%		60	1,272	85.8	78.8	3.2	108.2	589.2
South West	2.6%	£23,499	12.79%		58.1	1,170	84.6	79.1	3.1	89.5	531.2
Wales	3.1%	£19,899	9.63%	0.4%	57.8	818	78.6	75.8	3.9	84.2	509.0
Scotland	**3.2%**	**£25,485**	**15.23%**	**0.4%**	**51.3**	**771**	**79.7**	**75.3**	**3.6**	**97.5**	**563.2**
Northern Ireland	3.6%	£21,172	9.23%	0.5%	64	894	75.4	69.6	3.4	83.5	521.2
UK	3.6%	£27,555		0.6%	60.3	1,069		75.8	4	100	569.0

[8] https://www.ons.gov.uk/economy/grossvalueaddedgva/bulletins/regionalgrossvalueaddedbalanceduk/1998to2017
[9] https://www.ons.gov.uk/economy/grossvalueaddedgva/bulletins/regionalgrossvalueaddedbalanceduk/1998to2017
[10] https://www.gov.uk/government/statistics/number-of-individual-income-taxpayers-by-marginal-rate-gender-and-age-by-country
From 2017-18, individuals who are classified as resident in Scotland and have total taxable income above the Scottish basic rate limit (BRL) but below the UK government's BRL have their marginal rate classified based on their income within this notional band. For these taxpayers, non-savings non-dividend (NSND) income within this band is taxed at the higher rate, whereas savings and dividends income is taxed at the basic rate. A Scottish taxpayer with any taxable NSND income within this band (but no total taxable income above the UK BRL) is classified as a higher rate taxpayer, as this is the top rate they are paying. A Scottish taxpayer with only savings and/or dividend income within this band (and no total taxable income above the UK BRL) is classified as a basic rate taxpayer.
[11] https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/populationestimates/articles/overviewoftheukpopulation/november2018#toc
[12] https://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/livebirths/datasets/birthcharacteristicsinenglandandwales
[13] https://smallbusinessprices.co.uk/regional-business-density/
[14] https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/datasets/regionalpublicandprivateemployment
[15] https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/regionallabourmarket/january2019
[16] https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/regionallabourmarket/january2019
[17] https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/labourproductivity/articles/regionalandsubregionalproductivityintheuk/february2019
[18] https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/bulletins/annualsurveyofhoursandearnings/2018

Tables 3 and 4 look at disposable income and expenditure figures produced by the Office for National Statistics.

Table 3: Gross disposable household income (GDHI), 2016[19]

	GDHI per head (£)	GDHI per head growth on 2015 (percentage)	GDHI per head index (UK=100)	Total GDHI (£ million)	Total GDHI growth on 2015 (percentage)	Share of the UK population (percentage)	Share of UK total GDHI (percentage)
United Kingdom	19,432	0.7	100.0	1,275,698	1.5	100.0	100.0
North East	15,595	-0.6	80.3	41,117	-0.1	4.0	3.2
North West	16,761	-0.2	86.3	121,079	0.5	11.0	9.5
Yorkshire and The Humber	16,365	1.0	84.2	88,788	1.7	8.3	7.0
East Midlands	17,042	0.4	87.7	80,528	1.4	7.2	6.3
West Midlands	16,766	0.9	86.3	97,423	1.9	8.9	7.6
East of England	20,275	1.3	104.3	124,263	2.2	9.3	9.7
London	27,151	1.1	139.7	238,102	2.3	13.4	18.7
South East	22,375	0.3	115.1	202,056	1.2	13.8	15.8
South West	19,077	0.0	98.2	105,245	0.9	8.4	8.2
Wales	15,835	0.7	81.5	49,296	1.2	4.7	3.9
Scotland	**18,231**	**1.2**	**93.8**	**98,532**	**1.8**	**8.2**	**7.7**
Northern Ireland	15,719	1.0	80.9	29,271	1.6	2.8	2.3

Table 4: National expenditure per head by broad category, 2016[20]

Annual spending in £ pounds per person	01: Food and soft drinks	02: Alcohol, tobacco and narcotics	03: Clothing and footwear	04: Housing	05: Household goods and services	06: Health	07: Trans-port	08: Commun-ication	09: Recreation and culture	10: Education	11: Restaurants and hotels	12: Miscellaneous goods and services
UK	1,523	716	1,027	5,074	894	345	2,523	364	1,853	279	1,797	2,392
England	1,517	691	1,020	5,254	909	366	2,564	365	1,837	288	1,819	2,445
North East	1,507	769	1,107	3,177	966	221	2,052	352	1,875	198	1,618	1,885
North West	1,513	785	1,031	3,744	860	256	2,255	350	1,700	166	1,708	2,179
Yorkshire and The Humber	1,335	768	861	3,535	841	277	2,088	323	1,942	314	1,662	2,006
East Midlands	1,570	765	996	3,498	921	319	2,414	372	2,003	158	1,710	2,353
West Midlands	1,418	683	979	3,555	742	248	1,988	346	1,710	117	1,558	1,932
East of England	1,571	671	1,014	4,503	900	423	2,923	366	1,895	279	1,725	2,602
London	1,494	554	1,115	10,289	898	436	2,496	383	1,490	505	2,129	2,755
South East	1,642	706	1,092	6,032	1,132	497	3,353	404	1,964	350	2,112	2,923
South West	1,541	610	919	4,766	846	441	2,834	348	2,168	320	1,712	2,659
Wales	1,451	779	1,014	3,300	950	229	2,167	357	2,163	132	1,508	1,914
Scotland	**1,599**	**835**	**1,018**	**4,873**	**758**	**224**	**2,460**	**368**	**1,883**	**255**	**1,788**	**2,300**
Northern Ireland	1,593	1,028	1,296	3,279	737	257	2,090	342	1,699	335	1,665	1,883

[19] https://www.ons.gov.uk/economy/regionalaccounts/grossdisposablehouseholdincome/bulletins/regionalgrossdisposablehouseholdincomegdhi/1997to2016
[20] https://www.ons.gov.uk/economy/regionalaccounts/grossdisposablehouseholdincome/articles/developmentofregionalhouseholdexpendituremeasures/2018-09-26

Although Table 3 suggests that Scotland's Gross Disposable Household Income per head looks to be relatively strong, with just four regions ahead, its share of the UK's total GDHI is below its population share.

The ONS notes that in 2016 the CPIH rate, (consumer price inflation including a measure of owner occupiers' housing costs) was 1%. As Table 3 shows, this means that only the East of England, Scotland, London, Yorkshire & the Humber, and Northern Ireland kept pace or exceeded the rate of inflation.[21]

When it comes to expenditure, Table 4 illustrates that Scotland is the top area for expenditure per head for food and soft drinks and the second top for alcohol, tobacco and narcotics. Scotland is third for housing costs per head, behind London and the South East.

At the other end of the scale, Scotland has the second-lowest expenditure per head on health, just behind the North East.

The full data set covering the breakdown of consumption by individual regions and countries of the UK is too detailed to include in the report but can be viewed on the Office for National Statistics website.[22] The Scottish consumption expenditure per head figures are set out in greater detail in Table 5 below along with the change between 2009 and 2006, providing more of a breakdown on the figures highlighted in Table 4.

Table 5: Expenditure per head in Scotland by detailed category[23]

Commodity	2009	2010	2011	2012	2013	2014	2015	2016	change 2009-16
Total national expenditure	**16,107**	**16,314**	**16,207**	**16,939**	**17,930**	**18,123**	**17,923**	**18,362**	**14.00%**
Food and soft drinks	**1,361**	**1,454**	**1,420**	**1,537**	**1,625**	**1,605**	**1,542**	**1,599**	**17.49%**
Food	1,188	1,264	1,233	1,337	1,418	1,402	1,345	1,388	16.84%
Bread and cereals	203	222	218	223	241	241	238	243	19.70%
Meat	276	283	283	323	340	341	320	320	15.94%
Fish	43	54	49	48	54	55	55	61	41.86%
Milk, cheese and eggs	180	184	174	181	188	181	172	176	-2.22%
Oils and fats	24	26	28	33	35	33	30	30	25.00%
Fruit	111	117	109	116	118	119	115	123	10.81%
Vegetables	170	189	178	189	211	190	180	186	9.41%
Sugar and sweet products	143	148	152	183	189	202	198	214	49.65%
Other food products	39	41	41	40	43	39	37	36	-7.69%
Non-alcoholic beverages	172	189	186	199	207	203	197	212	23.26%
Alcohol, tobacco and narcotics	**773**	**796**	**873**	**921**	**962**	**932**	**906**	**835**	**8.02%**
Alcoholic beverages	317	340	337	360	381	395	390	392	23.66%
Tobacco	345	373	420	469	499	466	445	376	8.99%
Narcotics	111	84	117	92	82	71	71	67	-39.64%
Clothing and footwear	**858**	**889**	**921**	**949**	**984**	**951**	**965**	**1,018**	**18.65%**
Clothing	737	766	801	820	861	820	828	876	18.86%
Footwear	121	122	120	129	123	131	136	141	16.53%

[21] https://www.ons.gov.uk/economy/regionalaccounts/grossdisposablehouseholdincome/bulletins/regionalgrossdisposablehouseholdincomegdhi/1997to2016
[22] https://www.ons.gov.uk/economy/regionalaccounts/grossdisposablehouseholdincome/datasets/regionalhouseholdfinalconsumptionexpenditure
[23] https://www.ons.gov.uk/economy/regionalaccounts/grossdisposablehouseholdincome/datasets/regionalhouseholdfinalconsumptionexpenditure

Commodity	2009	2010	2011	2012	2013	2014	2015	2016	Change '09-16
Housing	**4,195**	**4,275**	**4,410**	**4,519**	**4,757**	**4,740**	**4,785**	**4,873**	**16.16%**
Actual rentals for housing	516	524	584	657	698	716	729	754	46.12%
Imputed rentals for housing	2,268	2,294	2,374	2,323	2,438	2,453	2,489	2,522	11.20%
Maintenance & repair of the dwelling	33	33	37	39	41	45	50	52	57.58%
Water and miscellaneous services	847	880	890	917	963	981	977	1,017	20.07%
Electricity, gas and other fuels	531	544	525	583	616	545	540	528	-0.56%
Electricity	272	259	259	278	292	271	271	263	-3.31%
Gas	227	247	227	265	285	245	243	242	6.61%
Liquid fuels	25	32	34	35	33	25	20	17	-32.00%
Solid fuels	6	6	6	6	6	5	6	7	16.67%
Household goods and services	**648**	**689**	**687**	**686**	**721**	**725**	**740**	**758**	**16.98%**
Furniture&furnishings, carpets & other coverings	244	259	278	255	255	262	311	314	28.69%
Household textiles	104	122	88	97	111	117	109	117	12.50%
Household appliances	69	73	89	96	88	101	71	66	-4.35%
Glassware, tableware & household utensils	48	51	61	65	69	64	62	65	35.42%
Tools & equipment for house & garden	39	42	46	52	58	52	59	67	71.79%
Goods & services for routine maintenance	144	143	125	121	141	129	126	129	-10.42%
Health	**172**	**176**	**176**	**180**	**209**	**231**	**239**	**224**	**30.23%**
Medical products, appliances & equipment	111	109	106	107	132	153	138	123	10.81%
Out-patient services	28	32	38	40	45	46	63	64	128.57%
Hospital services	32	34	31	33	32	32	37	36	12.50%
Transport	**2,492**	**2,488**	**2,412**	**2,507**	**2,625**	**2,597**	**2,461**	**2,460**	**-1.28%**
Purchase of vehicles	770	659	608	745	822	858	806	718	-6.75%
Motor cars	724	626	580	715	789	819	765	672	-7.18%
Motorcycles	22	15	10	8	9	13	11	9	-59.09%
Bicycles	24	18	18	22	24	26	29	37	54.17%
Operation of personal transport equipment	822	908	903	1,013	1,097	1,025	914	872	6.08%
Vehicle parts and accessories	50	52	54	64	78	82	72	75	50.00%
Vehicle fuels and lubricants	415	509	508	602	633	552	447	408	-1.69%
Vehicle maintenance and repair	237	228	247	262	285	279	288	274	15.61%
Other vehicle services	120	119	93	85	101	112	107	116	-3.33%
Transport services	900	920	901	750	706	713	741	870	-3.33%
Communication	**306**	**301**	**288**	**309**	**356**	**329**	**346**	**368**	**20.26%**
Postal services	15	15	11	9	13	11	11	18	20.00%
Telephone & telefax equipment	19	16	14	18	17	12	10	12	-36.84%
Telephone, telefax & internet services	272	271	262	282	326	306	325	339	24.63%
Recreation and culture	**1,664**	**1,723**	**1,617**	**1,681**	**1,741**	**1,825**	**1,856**	**1,883**	**13.16%**
Audio-visual, photographic and information processing equipment	326	343	305	303	286	285	295	339	3.99%
Other major durables for recreation & culture	76	77	75	97	114	138	140	141	85.53%
Other recreational items & equipment, gardens & pets	460	503	449	443	481	539	549	565	22.83%
Recreational and cultural services	597	611	609	642	656	676	696	655	9.72%
Recreational and sporting services	93	83	83	102	105	116	123	121	30.11%
Cultural services	293	314	316	317	328	321	335	320	9.22%
Games of chance	211	214	210	223	223	238	238	214	1.42%
Newspapers, books and stationery	205	190	180	197	204	187	175	183	-10.73%
Package holidays	-	-	-	-	-	-	-	-	
Education	**149**	**126**	**116**	**125**	**157**	**175**	**182**	**255**	**71.14%**
Restaurants and hotels	**1,397**	**1,393**	**1,386**	**1,502**	**1,640**	**1,746**	**1,697**	**1,788**	**27.99%**
Catering services	1,138	1,128	1,111	1,173	1,306	1,357	1,303	1,335	17.31%
Accommodation services	259	266	275	330	333	389	394	453	74.90%
Miscellaneous goods and services	**2,093**	**2,005**	**1,901**	**2,024**	**2,153**	**2,268**	**2,206**	**2,300**	**9.89%**
Personal care	374	407	386	412	447	438	423	470	25.67%
Prostitution	69	70	72	73	75	77	79	75	8.70%
Personal effects	125	158	189	198	217	237	253	257	105.60%
Social protection	241	197	168	197	231	237	246	296	22.82%
Insurance	391	357	337	399	428	455	324	305	-21.99%
Financial services	721	682	645	617	631	698	723	698	-3.19%
Other services	172	132	105	127	124	127	157	200	16.28%

Table 6 illustrates the variations in the household savings ratio across the UK. This is the percentage of total resources left after all spending has occurred. There is considerably variation across the UK from 14.5% in London to 1.5% in the South West. At 3% the household savings ratio in Scotland is at the lower end of the scale.

Table 6: Regional household savings ration, 2016[24]

	Gross saving £m	Households' saving ratio
UK	92,045	6.9%
England	86,889	7.6%
North East	1,276	3.0%
North West	6,291	5.0%
Yorkshire and The Humber	5,979	6.5%
East Midlands	3,205	3.8%
West Midlands	13,028	12.8%
East of England	12,989	10.1%
London	36,380	14.5%
South East	6,136	3.0%
South West	1,608	1.5%
Wales	1,310	2.6%
Scotland	**3,077**	**3.0%**
Northern Ireland	769	2.5%

24 https://www.ons.gov.uk/economy/regionalaccounts/grossdisposablehouseholdincome/articles/developmentofregionalhouseholdexpendituremeasures/2018-09-26

2. Regional economies

The tables in the previous chapter illustrate that simply focusing on a Scotland v UK narrative can both obscure success as well as identify areas in need of improvement. However, focusing on the "Scottish economy" can be equally misleading. Just as there are huge variations within the UK economy as a whole, the same is true within Scotland.

For example, Edinburgh is one of the top ten performing NUTS3[25] regions across the whole of the UK. It already outperforms the UK average considerably. East Ayrshire & North Ayrshire Mainland is in the bottom 10, as illustrated in Table 7 below, demonstrating that the variation in the Scottish economy is as broad as that across the UK as a whole.

Table 7: Top 10 and bottom 10 NUTS3 local areas by gross value added (GVA) per head[26]

NUTS3 local areas	GVA per head (£)[2]	Annual growth in GVA per head (%)	Total GVA (£ million)[1]	Annual growth in total GVA (%)[1]	Annual growth in "real" GVA (%)[3]
United Kingdom	27,555	3.0	1,819,754	3.6	1.9
Top ten GVA per head					
Camden and City of London	342,183	1.3	89,315	3.1	2.0
Westminster	258,214	3.7	63,210	4.9	3.8
Tower Hamlets	97,735	4.1	30,099	6.6	5.1
Kensington & Chelsea and Hammersmith & Fulham	74,598	5.5	25,269	5.6	4.5
Milton Keynes	49,516	4.5	13,246	5.0	3.5
Haringey and Islington	48,251	2.8	24,426	3.2	1.7
Belfast	47,893	2.8	16,294	3.0	1.5
Hounslow and Richmond upon Thames	44,466	3.1	20,667	3.4	2.6
City of Edinburgh	**44,228**	**3.5**	**22,698**	**4.7**	**3.7**
Berkshire	41,727	1.4	37,797	1.9	0.3
Bottom ten GVA per head					
Wirral	15,590	5.2	5,033	5.4	3.3
Torbay	15,512	3.6	2,098	4.2	2.5
Mid and East Antrim	15,197	-2.7	2,099	-2.4	-7.0
Gwent Valleys	14,831	3.6	5,082	3.8	2.1
Isle of Anglesey	14,309	2.4	999	2.6	1.1
Newry, Mourne and Down	13,766	3.9	2,464	4.6	2.8
East Ayrshire and North Ayrshire mainland	**13,703**	**8.0**	**3,451**	**7.9**	**5.3**
Fermanagh and Omagh	13,410	5.7	1,559	6.1	4.2
Causeway Coast and Glens	13,129	10.4	1,890	10.7	8.9
Ards and North Down	10,064	3.8	1,611	4.1	2.3
Notes:					
1. GVA at current basic prices on workplace basis.					
2. Per head figures exclude Extra Regio: the off-shore contribution to GVA that cannot be assigned to any region.					
3. GVA in chained volume measures.					

[25] Nomenclature of Territorial Units for Statistics – this is a is a geocode standard for referencing the subdivisions of countries for statistical purposes

[26] https://www.ons.gov.uk/file?uri=/economy/grossvalueaddedgva/bulletins/regionalgrossvalueaddedbalanceduk/1998to2017/d0f0437e.xls

Table 8 below sets out the GVA per head for each NUTS3 region in Scotland. As previously mentioned, it is important to remember that commuter flows will impact on different areas as the data was compiled on a workplace basis. For example many within East and Mid Lothian may commute and work in Edinburgh, contributing to the GVA of Edinburgh and not the area of their residence.

Table 8: GVA per head by Scottish NUTS3 regions 2012-2017[27]

£	2012	2013	2014	2015	2016	2017	Annual growth in GVA per head 2016-17	Growth GVA per head 2012-17
City of Edinburgh	38,033	39,176	40,120	40,933	42,729	44,228	3.51%	16.29%
Aberdeen City and Aberdeenshire	38,033	39,428	40,856	39,028	37,539	37,924	1.03%	-0.29%
Shetland Islands	28,656	31,156	31,698	32,865	33,161	33,865	2.12%	18.18%
Glasgow City	27,786	29,031	30,383	30,131	30,609	31,490	2.88%	13.33%
Perth and Kinross and Stirling	23,163	24,491	24,972	26,006	27,309	28,014	2.58%	20.94%
United Kingdom	**23,402**	**24,170**	**25,165**	**25,735**	**26,532**	**27,298**	**2.89%**	**16.65%**
Inverness and Nairn and Moray, Badenoch and Strathspey	24,060	25,320	25,123	25,468	25,856	25,326	-2.05%	5.26%
Lochaber, Skye and Lochalsh, Arran and Cumbrae and Argyll & Bute	21,111	22,620	23,722	23,882	25,139	25,025	-0.45%	18.54%
Orkney Islands	20,916	21,679	22,326	22,871	23,936	23,752	-0.77%	13.56%
Angus and Dundee City	20,036	20,647	21,574	21,904	23,005	23,690	2.98%	18.24%
West Lothian	21,161	20,225	22,052	22,171	22,425	22,909	2.16%	8.26%
Falkirk	19,060	20,023	20,854	20,939	21,879	22,208	1.50%	16.52%
Clackmannanshire and Fife	17,114	18,570	19,308	19,965	20,749	21,165	2.00%	23.67%
Caithness and Sutherland and Ross and Cromarty	17,990	18,805	20,041	20,354	20,888	20,537	-1.68%	14.16%
South Ayrshire	15,742	16,320	17,921	17,797	18,720	19,799	5.76%	25.77%
Na h-Eileanan Siar	18,159	18,308	18,547	19,257	19,134	19,694	2.93%	8.45%
Inverclyde, East Renfrewshire and Renfrewshire	15,579	16,492	17,572	17,963	18,758	19,082	1.73%	22.49%
North Lanarkshire	15,202	16,110	17,825	17,620	17,859	18,802	5.28%	23.68%
Dumfries and Galloway	14,129	15,364	16,174	16,194	17,406	18,604	6.88%	31.67%
East Lothian and Midlothian	14,919	15,848	16,310	16,917	17,563	18,064	2.85%	21.08%
South Lanarkshire	14,392	15,481	16,131	15,704	16,439	17,486	6.37%	21.50%
Scottish Borders	13,779	14,624	15,355	15,280	15,623	16,756	7.25%	21.61%
East Dunbartonshire, West Dunbartonshire and Helensburgh and Lomond	14,481	14,663	15,318	15,531	15,680	16,092	2.63%	11.12%
East Ayrshire and North Ayrshire mainland	11,127	11,474	12,340	12,054	12,683	13,703	8.04%	23.15%

Looking at the regional figures also raises interesting questions. For example, some northerly rural areas appear to be performing better than more southerly rural areas, perhaps highlighting the importance of the whisky industry.

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[27] https://www.ons.gov.uk/visualisations/dvc572/data.csv

These statistics highlight that aiming to have Scotland's GVA or GDP at the UK's level ignores the fact that many areas are already performing better than this average. Different and diverse solutions will be required to help less successful areas improve their standing, as well as helping successful areas to flourish further.

Table 9 below highlights some of the other differences in economic indicators by local authority area in Scotland.

Table 9: Economic indicators by local authority area

	Population change 2016-17[28]	Projected population change 2016-2026[29]	Projected increase in over 75s 2016-2026[30]	Business births per 10,000 adults[31]	3 year business survival rates, 2017[32]	Economic inactivity rate Oct17 - Sept 18[33]	Private sector employment 2017[34]
Aberdeen City	-0.5	3.2	15.5	100	58.6	19.5	76.8
Aberdeenshire	-0.1	7.1	40.5	53	65.6	16.5	80.4
Angus	-0.2	1.8	33.3	38	66.3	21	75.5
Argyll and Bute	-0.4	-3.4	30	37	64.4	21.2	71.6
City of Edinburgh	1.2	7.7	22.3	61	59.3	19.7	74.1
Clackmannanshire	0.2	0.3	48	35	57.6	23.9	76.5
Dumfries & Galloway	-0.2	-1.5	28.2	28	57.6	25.6	78.4
Dundee City	0.3	0.7	10.4	37	57	29.5	72.2
East Ayrshire	-0.2	-0.1	27.4	42	57.7	25.7	73.8
East Dunbartonshire	0.5	4.7	30.5	42	64.6	21	72.1
East Lothian	0.7	8.6	34.6	42	63.5	17.7	74.9
East Renfrewshire	1	7.6	27.1	44	60.3	24	70.8
Falkirk	0.5	4.4	33.2	36	62.5	21.8	74.8
Fife	0.3	1.9	35.1	44	62	21.2	72.3
Glasgow City	1	4	24.4	59	54.9	30	75.2
Highland	0.2	1.7	37.9	46	65.1	15.9	73.1
Inverclyde	-0.5	-3.8	20.8	33	60.5	24.3	74.6
Midlothian	1.7	13.3	40.6	38	68.5	18.3	73.2
Moray	-0.3	4.4	34.2	40	63.5	22.8	78
Na h-Eileanan Siar	0.2	-4.8	22.6	40	52.4	19.7	63.4
North Ayrshire	-0.1	-2.1	30.6	36	62.4	25.9	75.7
North Lanarkshire	0.2	1	25.5	40	57.6	22.2	74.1
Orkney Islands	0.7	0.5	40.4	41	64.3	-	72.1
Perth and Kinross	0.3	4.5	33.1	43	65.6	20.2	79.5
Renfrewshire	0.5	2.1	23.1	44	58.7	19.7	75.6
Scottish Borders	0.4	2	33.5	34	62.2	22.7	77.7
Shetland Islands	-0.5	0.2	39.7	48	75	-	65.4
South Ayrshire	0.2	-0.9	31.5	42	55.3	27.4	68.9
South Lanarkshire	0.3	2.4	26.5	44	62.5	20.7	72.6
Stirling	0.3	4.5	28.1	48	61.6	26.6	74.9
West Dunbartonshire	-0.3	-0.7	18.8	35	52.8	24	67.4
West Lothian	0.7	6.6	46	43	63.6	21	78.1
Scotland	0.4	3.2	27.3	48	60.4	22.4	74.7

[28] https://www.nrscotland.gov.uk/statistics-and-data/statistics/stats-at-a-glance/council-area-profiles
[29] https://www.nrscotland.gov.uk/statistics-and-data/statistics/stats-at-a-glance/council-area-profiles
[30] https://www.nrscotland.gov.uk/statistics-and-data/statistics/stats-at-a-glance/council-area-profiles
[31] https://www2.gov.scot/Topics/Statistics/Browse/Business/Publications/7Cities
[32] https://www2.gov.scot/Topics/Statistics/Browse/Business/Publications/7Cities
[33] https://www2.gov.scot/Topics/Statistics/Browse/Labour-Market/Publications/APSOctSep17Sum
[34] https://www2.gov.scot/Topics/Statistics/Browse/Labour-Market/Local-Authority-Tables

Table 9 shows that there are a number of differing needs and circumstances facing different local areas. For example:

- Over the next ten years Aberdeenshire is expected to face a 40% increase in the number of over 75s, compared with 20% for Inverclyde.
- While some areas are facing an increase in population, others are facing a reduction over the next ten years.
- Mainland private sector employment ranged from 80.4% in Aberdeenshire to 67.4% in West Dunbartonshire. Yet even the Aberdeenshire figure was lower than all English regions highlighted in Table 2.
- Business births per 10,000 people range from 100 in Aberdeen City to 28 in Dumfries & Galloway.

In other words, a variety of situations, all requiring different solutions. However, local authorities' ability to react to the different priorities and circumstances they face are currently severely restricted due to the lack of fiscal powers.

3. Local Government structure and powers

Scotland's current unitary system of local government dates back to the Local Government (Scotland) Act 1994, which abolished the previous 9 regional and 53 district councils, replacing them with our existing 32 local authorities. The councils vary greatly in terms of geography and population as illustrated in the table below.

Council	Political Control[35]	Number of councillors[36]	Population[37] (2017)	Area sq km[38]	Life expectancy at birth 2010-2017[39]	
					Male	Female
Aberdeen City Council	CON & IND Coalition	45	228,800	186	76.9	81.1
Aberdeenshire Council	CON, SLD, IND Coalition	70	261,800	6,313	79.1	82.6
Angus Council	IND, CON, SLD Coalition	28	116,280	2,182	78.2	81.6
Argyll and Bute Council	CON, SLD, IND Coalition	36	86,810	6,909	77.4	82.2
City of Edinburgh Council	SNP, LAB Coalition	63	513,210	264	78	82.3
Clackmannanshire Council	SNP Minority	18	51,450	159	76.7	80.2
Comhairle nan Eilean Siar	IND	31	26,950	3,071	76.8	82.8
Dumfries & Galloway Council	LAB, SNP Coalition	43	149,200	6,426	77.9	81.8
Dundee City Council	SNP, IND Coalition	29	148,710	60	73.9	79.4
East Ayrshire Council	SNP Minority	32	121,940	1,262	76.4	80
East Dunbartonshire Council	CON & SLD Coalition	22	108,130	175	80.1	83.3
East Lothian Council	LAB Minority	22	104,840	679	78.3	82.5
East Renfrewshire Council	SNP, IND, LAB Coalition	18	94,760	174	80.5	83.7
Falkirk Council	SNP Minority	30	160,130	297	77.2	80.5
Fife Council	SNP, LAB Joint Leadership	75	371,410	1,325	77.2	80.8
Glasgow City Council	SNP Minority	84	621,020	175	73.3	78.7
Highland Council	IND, SLD, LAB Coalition	74	235,180	25,659	77.8	82.6
Inverclyde Council	LAB minority	22	78,760	160	75.2	79.7
Midlothian Council	LAB Minority	18	90,090	354	77.9	81.6
Moray Council	SNP Minority	26	95,780	2,238	78.7	81.9
North Ayrshire Council	LAB Minority	33	135,790	885	76.1	80.2
North Lanarkshire Council	LAB Minority	77	339,960	470	75.3	79.4
Orkney Islands Council	IND	21	22,000	990	79.5	81.7
Perth and Kinross Council	CON, SLD, IND Coalition	40	151,100	5,286	79.3	82.5
Renfrewshire Council	SNP Minority	13	176,830	261	76.2	80.2
Scottish Borders Council	CON, IND Coalition	34	115,020	4,732	79	82.4
Shetland Islands Council	IND	22	23,080	1,466	78.3	83.2
South Ayrshire Council	SNP, LAB, IND Partnership Working Arrangement	28	112,680	1,222	77.2	81.1
South Lanarkshire Council	SNP Minority	63	318,170	1,772	76.8	80.7
Stirling Council	SNP, LAB Coalition	25	94,000	2,187	76.8	82.6
West Dunbartonshire Council	SNP, IND Coalition	22	89,610	159	75	79.1
West Lothian Council	LAB Minority	33	181,310	427	78.1	81

[35] http://www.cosla.gov.uk/councils/political-control
[36] http://www.cosla.gov.uk/councils/council-information/current-council-political-breakdown
[37] https://www.nrscotland.gov.uk/statistics-and-data/statistics/statistics-by-theme/population/population-estimates/mid-year-population-estimates/mid-2017
[38] https://www2.gov.scot/publications/2009/03/24121531/1
[39] https://www.nrscotland.gov.uk/statistics-and-data/statistics/statistics-by-theme/life-expectancy/life-expectancy-in-scottish-areas/life-expectancy-for-administrative-areas-within-scotland-2015-2017

One of the unforeseen consequences of devolution in Scotland has been the reduction in the powers held by local authorities - police centralisation and council tax freezes and subsequent caps being the most obvious examples.

As a result, we now have a situation where local authorities in Scotland have arguably control over 0% of tax revenue, but are responsible for huge spending areas.

According to the Scottish Local Government Financial Statistics, in 2017/18 local authorities in Scotland had £17.5bn of revenue income, of which customer and client receipts accounted for £2.5bn, or just 14%.[40]

3.1 Council Tax

Although the structure of council tax is set centrally, full control of the actual amount to be paid used to be set locally and was the only form of taxation local authorities could use to directly raise and retain income. If a council wanted to undertake major investment projects, or invest in services, council tax was one of the few ways it could effectively raise income.

However, following the election of the SNP in May 2007, the Scottish Government announced that it was seeking a new relationship with local authorities in Scotland, which would give greater freedom to councils over spending through the removal of ring-fencing in return for a freeze in council tax. In November 2007, the then Cabinet Secretary for Finance and Sustainable Growth, John Swinney, and the then President of the Convention of Scottish Local Authorities (COSLA), Pat Watters, signed a concordat introducing that new relationship. As a result, the level of grant to local authorities which was ring-fenced for specific purposes was cut significantly. Councils were also to be allowed to retain any efficiency savings, rather than their being diverted to Holyrood. In return, individual local authorities had to agree to freeze their level of council tax, effectively removing control over the one tax they had at their disposal. This council tax freeze remained in place for the length of the 2007-2011 parliament. In December 2011, agreement was reached between local authorities and the Scottish Government to continue to freeze council tax. The freeze lasted until the end of the 2011-2016 parliament.

Although the council tax freeze has been lifted, increases were then capped by the Scottish Government at 3%[41], just as they were in the past by Conservative governments led by Margaret Thatcher. This has hugely tied the hands of local authorities. The cap was increased to 4.79% as part of the Scottish

[40] https://www.gov.scot/publications/scottish-local-government-financial-statistics-2017-18/pages/3/
[41] https://www.gov.scot/policies/local-government/council-tax/

Government's agreement with the Scottish Greens for the Scottish Budget 2019/20.[42]

It is worth noting the Chartered Institute of Public Finance and Accountancy's (CIPFA) submission to the Scottish Parliament's Local Government and Regeneration Committee from March 2014, which highlighted the problem of a lack of local control over, and accountability for, local taxation:

"*We recommend: That as part of a revised system of funding, there should also be a review of the proportion of resources which can be raised locally; as part of this:*

- *Responsibility for, and control of local taxation should sit clearly at the local level; and*
- *The level of resources raised from local taxation should promote accountability to local citizens for local choices and incentivise growth of the local economy, attract investment and deliver positive outcomes for the local area*."

3.2 Non-domestic Rates

Although non-domestic rates, or business rates, are a local tax and collected by councils, they are set and controlled by Holyrood. This means that not only the rate, but to whom it applies and discount schemes are decided centrally in Edinburgh.

The tax is due on property-payable by businesses. Bills are calculated by multiplying an assessed value for a business property by a non-domestic poundage rate. The rates normally apply to premises which are not classed as domestic properties. If a property is used for domestic and non-domestic use, such as a guesthouse, both council tax and business rates need to be paid.

There are arguments, including those advanced by the Barclay Review, that efficiency, convenience for bigger businesses, and ensuring differing rates do not affect investment decisions, require consistency of rates and administration.

Annex C of the Review commented "*The argument in favour of consistency for ratepayers across Scotland is based around efficiency – ease of administration, payment, and ensuring that rates don't affect investment decisions between different areas. These concepts are very important for larger ratepayers with multiple properties and the potential to move operations around, whether in Scotland or in the UK*."

[42] https://cdn.prgloo.com/media/4fd04f6ed7554428ac0c5217601e8efa

However, larger companies already work within a system of different business rates because there are differences across the UK. For example, the Scottish standard poundage for 2018/19 is 48p, expected to rise to 49p for 2019/20[43], while the rate in England and Wales is 49.3p.[44] Following the Barclay Review argument to its logical conclusion would mean no variation in taxes at all across the UK.

Therefore, although business rates and council tax are local taxes, they are not controlled by local authorities. Relief schemes, discounts, multipliers and structure are all set centrally. This means that the very different priorities faced across different council areas cannot be properly taken into account. One size does not and cannot fit all, yet that is the design of existing local taxation.

3.3 Sales, rents, fees and charges

Local authorities receive income from sales, rents, fees and charges as a result of providing a range of services. In 2017/18 £2.5bn was raised by local authorities in this way. This is a significant income stream, raising more than council tax. The majority of this money comes from house rents and grants from government and other bodies such as the DWP. The rest comes from a wide range of charges such as parking charges and music tuition fees.

As councils find that they are increasingly limited in their ability to raise money from taxes, this revenue stream has become the only one which they generally have full control over. It is, therefore, unfortunately unsurprising that there have been a variety of new or increasing charges.

For example: a new 'Garden tax' in Edinburgh for the collection of garden waste; music tuition doubling in cost in Clackmannanshire[45]; burial fees increasing by 25% over the next two years in Aberdeenshire[46]; a 10% increase in car parking charges in Perth & Kinross[47].

Stories on local authority charges seem to be hitting the headlines with increasing frequency. The Accounts Commission's Local Government in Scotland Financial Review 2017/18, published in November 2018, noted that from a sample of 16 local government charges, 11 had been increased by more than the rate of inflation. Such increases are often felt more sharply by less well-off residents. The report also noted that there had been a real-terms reduction in Scottish Government funding to local authorities of 6.9% since 2013/14. In the face of falling grants, if councils can't use tax powers, there are only two options available – cut services and/or find the money from elsewhere.

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[43] https://www.mygov.scot/business-rates-guidance/
[44] https://www.gov.uk/calculate-your-business-rates
[45] https://www.scotsman.com/news/education/union-launches-fight-to-save-school-music-tuition-1-4748433
[46] https://www.pressandjournal.co.uk/fp/news/aberdeenshire/1395258/average-burial-fees-could-soar-by-more-than-200-in-aberdeenshire/
[47] https://www.thecourier.co.uk/fp/news/local/perth-kinross/621387/claim-that-increased-parking-charges-could-damage-perth-and-kinross-economy/

These charges are fully in the control of local authorities, which can mean that there is significant variation across the country. However, Reform Scotland does not believe that this constitutes a "postcode lottery" because the decisions are being made by directly-elected politicians. Just as Scottish politicians have chosen not to introduce university tuition fees while politicians in England have done so, councillors across Scotland are making different decisions based on local priorities and needs.

Further centralisation is not the answer as this would simply constrain councils even further and remove what little financial control they have. Not to mention it would ignore the fact that Scotland is a hugely diverse country.

3.4 Scottish Budget 2019

The Budget agreement between the Scottish Government and the Scottish Greens to ensure the passing of the Budget at Stage 1 was reached on 31 January 2019. The agreement saw the Greens secure a number of concessions towards giving local authorities some more fiscal powers. These included[48]:

- To consult, in 2019, on the principles of a locally determined tourist tax, prior to introducing legislation to permit local authorities to introduce a transient visitor levy;
- To support an agreed Scottish Green Party amendment to the Transport (Scotland) Bill that would enable those local authorities who wish to use such a power, to introduce a workplace parking levy. Scottish Government support will be contingent on the exclusion of hospitals and NHS properties;
- To devolve Non-Domestic Rates empty property relief to local authorities in time for the next revaluation;
- To bring forward a three-year funding settlement for local government from 2020-21 budget onwards
- The Scottish Government will convene cross-party talks on a replacement for council tax with a view to publishing legislation – should cross-party agreement on a replacement be reached - by the end of this parliament, with that legislation taken forward in the following parliament.
- Consideration of whether revenue from any charge that may be imposed on single use drinking cups following the publication of the recommendations of the expert panel, can be placed under the control of local authorities.

[48] https://www.gov.scot/news/budget-agreement/

The agreement also saw the cap on council tax increases loosened, increased to 3% in real terms, or 4.79%.[49]

A lot of the discussion around the announcement of these concessions has been that the Scottish Government will impose new taxes on the electorate.

For example, the Scottish Tories' press release in response to the budget stated: "*Taxing people hundreds of pounds to park at their place of work is part of an SNP triple-tax bombshell outlined in today's budget*."[50]

However, that is not what the Budget does. Those Budget concessions will not introduce any new taxes on people in Scotland, rather they will pass power to local authorities to make those decisions for themselves. To claim the Scottish Government is responsible for imposing new taxes is simply incorrect. It will be up to individual councils to decide whether such levies are appropriate for their area. For example, on 7 February 2019 Edinburgh City Council voted 43 to 15 in favour of adopting a tourism tax in the city, though the tax will not come into effect until the Scottish Parliament has passed enabling legislation.[51]

The merits of the individual charges are matters for individual councils to discuss and debate just as they do at present with street parking charges. It is perfectly possible to be against any of the proposed new levies but believe that it should be up to local authorities to decide on their merits as opposed to the decisions being taken centrally by the Scottish Government. It is likely that each council will have different ideas about whether and how such a policy could operate in their area. But how individual schemes operate are different discussions for another time.

The proposal at present is about devolving more power to local authorities to allow them to develop individual solutions for their individual areas and that must be a good thing.

Just as the UK Government is not responsible for the increase in income tax in Scotland because it devolved the power to Holyrood, neither would the Scottish Government be responsible for introducing a workplace parking charge by devolving the power to local authorities.

[49] Scottish Parliament Official Report, 31/1/19, http://www.parliament.scot/parliamentarybusiness/report.aspx?r=11921&i=107792
[50] http://www.scottishconservatives.com/2019/01/now-snp-wants-to-tax-parking-at-work/
[51] https://www.bbc.co.uk/news/uk-scotland-47157011

4. Policy Recommendations

Local Data

We have sought to demonstrate in this report that Scotland has a highly varied economy, with each local authority facing differing needs and circumstances. Sometimes the data produced is too focused on the overall Scottish picture. For example, the remit of the Scottish Fiscal Commission is to look at revenue and on-shore GDP for Scotland as a whole.

As we have illustrated, this can obscure both problems and successes.

Leading on from the need for regional broad economic data, there is a need for local government finance to better fit in with Scottish economic data. The latest edition of Scottish Local Government Finance Statistics was published in February 2019 and covers 2017/18. Customer and Client Receipts (CCR) in 2017/18 amounted to £2.5 billion. According to the report, this funding stream (which covers the income local authorities receive from sales, rents, fees and charges as a result of providing a range of services) raised more money than the £2.3bn raised in council tax, and not much less than the £2.7bn in distributable business rate income. In other words, CCR is a substantial income stream. To put it in a wider context, it raises more than Air Passenger Duty, Landfill Tax and Land and Buildings Transaction Tax combined, yet does not feature in the Scottish revenue tables in GERS. Council tax is collected and spent by local authorities and does feature, so there is no reason not to include CCR. As a result, Reform Scotland believes work needs to be done to make GERS and Scottish Local Government Finance Statistics more compatible.

Changing the shape of local government in Scotland

On 10 August 2018 the Scottish Government launched its 'Democracy Matters' consultation. The consultation noted there was a "*growing recognition that it is often better for decisions about the issues that affect different communities in Scotland to be taken with more active involvement of those communities*" and that this could help enable "*public services to work in ways which meet local circumstances and reflect the priorities of different communities*".

Reform Scotland agrees. For many years we have been arguing that Scotland is a diverse country, in terms of geography, population and need, and as a result one-size-fits-all policy solutions do not work. More decision making needs to be devolved away from Holyrood and towards local government and beyond. The statistics highlighted in this report add weight to this argument. Despite this, centralisation and one-size-fits-all policy making have too often been the direction of travel. This situation has been worsened by a policy of virtually removing local authorities' role in raising revenue, leaving many without means to address their differences.

Reform Scotland believes local government in Scotland requires renewal. It should have the ability to introduce policies which are right for each individual area, whether that is introducing a tourism tax in one council area or increasing second-home charges in another.

Too often, the debate about how to reform local government becomes bogged down in arguments about the exact number of councils, where to draw particular boundaries and how many people councils should serve. However, these are less important issues than giving councils greater freedom and making them more accountable to their local communities. The following policy recommendations set out how Reform Scotland believes greater fiscal powers should be devolved as well as structural changes which we believe can improve accountability and give local authorities the bigger voice that deserve.

Fiscal Powers

Council Tax:

Reform Scotland believes that local authorities should have complete control over their local tax - including the rates and bands. This would allow individual councils - should they choose - to retain, reform or replace council tax with another form of local taxation. Crucially, this would be a decision about a local tax made by a local authority for its local area, taking into account local circumstances and priorities. As a result, we see no problem with some local authorities maintaining a council tax system, while others may opt to choose from a range of different forms of taxation, including a land value tax. The most important element is that the tax is fully devolved to the local authority and, therefore, local councillors making decisions on local taxation are fully accountable to the local people affected by those decisions. At present, it is far from clear who is accountable for spending decisions made by local authorities - is it the councillors making those decisions, or ministers for removing their ability to raise additional income?

The recent Budget agreement between the Scottish Government and the Scottish Greens gave a commitment to convene cross-party talks on a replacement for council tax. Reform Scotland would hope these talks take account of the very different nature of local authorities across Scotland and appreciate that different solutions are likely to be required for different areas. Local authorities need far more control over their own revenue and, as a result, this must extend beyond simply Council Tax, or a replacement for Council Tax.

Non-Domestic rates:

Reform Scotland believes that Non-Domestic Rates should be devolved to local authorities in full. This would allow councils to vary how and to whom the tax applies based on their own circumstances. It would also ensure that Non-Domestic Rates are the genuinely local tax they are supposed to be. When a tax is devolved in full it also improves transparency and accountability as the electorate can clearly see where decision-making power resides. If the local community dislikes a decision, just as with Holyrood or Westminster, it has the ability to vote the decision-maker out of office.

Each council would then have to decide whether to retain the business rates inherited or to seek to increase or reduce them for their area. Councils would have an incentive to provide an attractive economic environment, but the decision would be up to them. For example, a council could seek to increase business rates which might have the effect of increasing income in the short term but lead to poorer economic performance and lower income in the longer term.

However, the increase in local financial autonomy and accountability is likely to give councils an incentive to design business taxation policies and broader local economic development strategies to support the growth of local businesses, encourage new start-ups and attract investment, since this will benefit the council directly by increasing its income from business taxes.

Reform Scotland welcomes the decision in the recent Scottish Budget to devolve Non-Domestic Rates empty property relief to local authorities in time for the next revaluation. However, we hope this is simply a step towards giving local authorities far greater control over Non-Domestic Rates.

Additional taxes:

Reform Scotland believes that local authorities should be able to introduce such taxes if they feel they are appropriate for their area. If the electorate disagrees, it can vote the councillors out. Such small schemes also increase diversity and allow councils to learn from the experiences of other local authorities. Importantly, it also makes councils less dependent on central government grants.

Reform Scotland welcomes the Scottish Government's decision to devolve to local authorities the power over tourism and work-place parking levies. However, we are disappointed that political parties that have previously argued in favour of greater localisation are so critical of the policy. It is perfectly possible to be against either one of those charges but believe the decision over whether it is introduced is one that should be made at a local level.

To claim the Scottish Government is responsible for imposing new taxes is simply incorrect. It will be up to individual councils to decide whether such levies are appropriate for their area. While Edinburgh may have voted in favour of adopting a tourism tax in the city, other areas may not.

The merits of the individual charges are matters for individual councils to discuss and debate. The policy of devolving the ability to local authorities to have these discussions and develop individual solutions for their individual areas is a good one. However, if the Scottish Government truly believes in local empowerment, it must move towards greater localisation and devolution in full of local taxes.

Directly-elected mayors

Effective councils providing a wide range of services come in all shapes and sizes.

Sometimes it will make sense for councils to come together to deliver services. However, it should be for each local authority to decide - a voluntary, bottom-up approach based on shared interest is likely to be more effective in encouraging the provision of shared services than efforts to engineer this from above. Equally, there is plenty of room in Scotland for power to be devolved further, potentially to community councils.

However, there is also space for another structural reform, specifically directly-elected mayors.

One of the problems of local government is that often the electorate doesn't know who is in charge. Most councils in Scotland are now run by coalitions and there isn't always a great deal of voter recognition for council leaders. Occasionally an issue will result in a council leader becoming more prominent - for example Edinburgh Council leader Adam McVey has gained greater prominence due to the tourism tax debate. However, too often a council leader is viewed not as an important individual running a city, but as a lower-level politician. Back-bench MSPs have higher salaries than the council leaders running Edinburgh and Glasgow, so it is perhaps unsurprising that many see a move from town halls to Holyrood as a step-up.[52]

The advantage of having a directly-elected leader is that it provides a clear figurehead and so can strengthen accountability. As seen in Mayoral elections in England in places like London, the West Midlands and Greater Manchester, as

[52] MSP salary is £62,000 (https://www.gov.scot/policies/local-government/councillors-roles-conduct-pay/) Edinburgh and Glasgow are highest earning council leaders at £50,000 https://www.gov.scot/policies/local-government/councillors-roles-conduct-pay/

well as giving those areas a greater voice, they can also stimulate local interest in a local government.

A directly-elected Mayor could well prove a popular and effective form of local government, particularly in the main Scottish cities. Mayors could provide strong and effective leadership. This is particularly important for cities which, as centres of innovation, are vital drivers of economic development and progress. Mayors are also elected by the public across their whole council area, not just one ward, giving them a stronger democratic mandate.

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