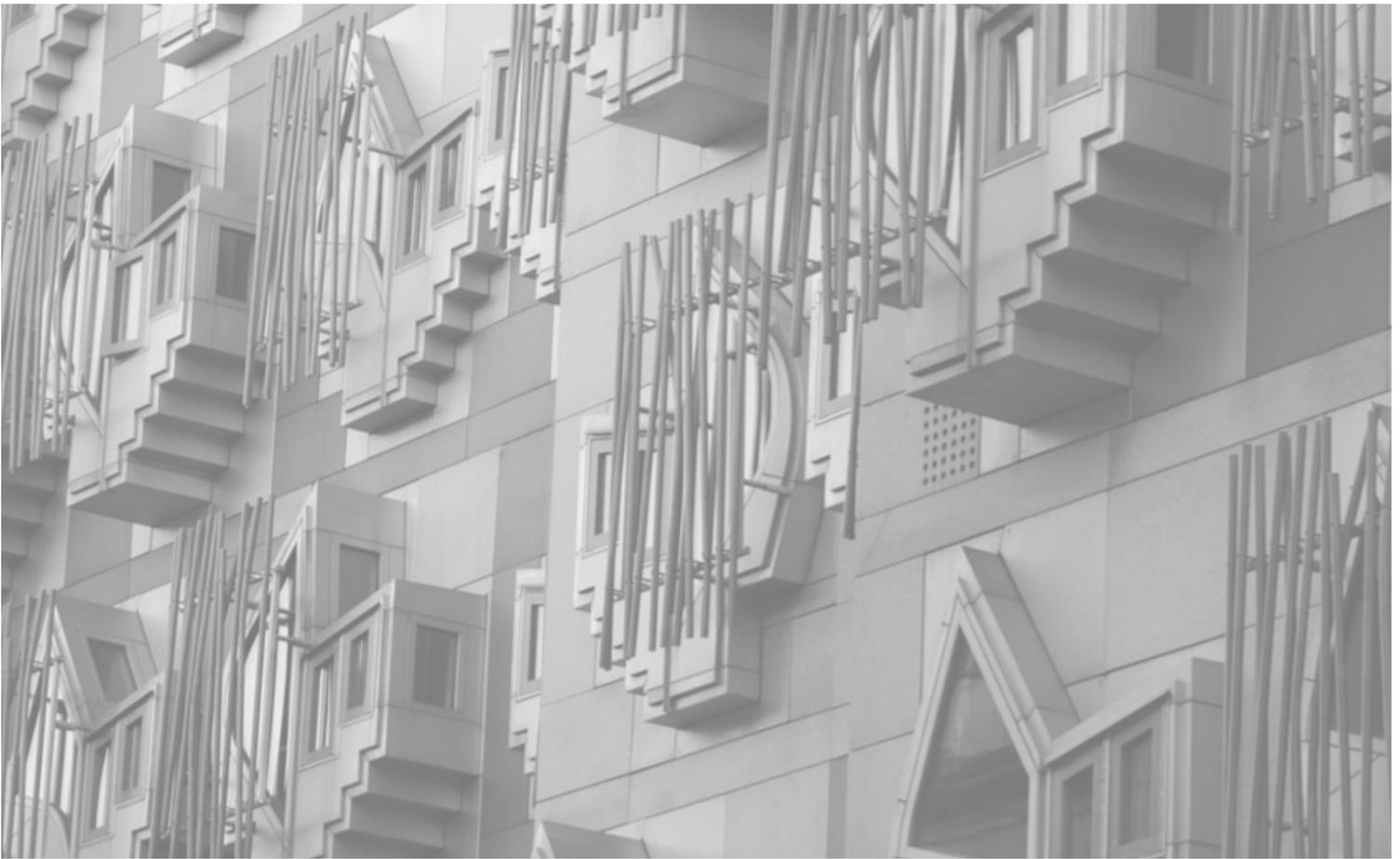


# Charting a Just & Sustainable Recovery for Scotland

A Plan for Scotland's Programme for Government 



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**COMMON  
WEALTH**

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# Executive Summary

The public health crisis has exposed fractures in our economy that long predate the pandemic. While the virus itself may not discriminate, our economy does, and those who were already vulnerable are disproportionately shouldering its cost. Even prior to the crisis, after a decade of austerity across the UK, we faced years of lost wages for workers, stagnating living standards, declining investment, soaring levels of hunger, and rising child poverty. These challenges have mounted while Brexit poses a wave of fresh economic anxieties for Scotland's economy.

The climate emergency changes everything. While Covid-19 is the immediate focus, climate breakdown and biodiversity loss remains the single biggest threat facing our future. Inherently linked to soaring inequality, the causes and distributional impacts of the climate crisis are unevenly felt, with those contributing the least to the crisis disproportionately paying the price for it.

Moving forward on Scotland's path to recovery will prove challenging and require bold action, as we navigate this multitude of intertwined crises. Out of this crisis, a new economic vision is needed to build a more equitable, sustainable, and democratic system. As the Scottish Government prepares to set out its Programme for Government, how it chooses to respond to this crisis at this critical juncture will not only shape the nature of the economic recovery – it will also be a key indicator of Scotland's willingness to chart a different course. In the absence of a large fiscal stimulus package at Westminster, which we recommend, and without greater borrowing powers, we recognise there are limitations on the ability to introduce all of these policies at once. While our aim is to set out proposals for a bold recovery strategy as part of the upcoming Programme for Government, transforming Scotland's economy is an ongoing process and in practice such a policy agenda would need to be phased in over time. As well as identifying some key priorities for public spending, the paper also sets out a range of policies that would not require any upfront investment, and could therefore be introduced without any budget implications.

To that end, in this report we identify key policies that could be introduced under the present devolved settlement to democratise our economy, build community wealth, create decent jobs, and support the just transition for a sustainable future for all as the first step in building a new economic consensus. Our recommendations are summarised as follows:

## — **A Green and Just Recovery**

To secure a sustainable future, Scotland needs a raft of well paid, secure, green employment opportunities. We recommend that the Scottish Job Guarantee is designed to provide well paid employment opportunities in the public sector to anyone who needs it to create good quality jobs that are paid at least the real Living Wage rate. These jobs could focus on priorities such as decarbonising the housing stock, building a new generation of social housing, supporting afforestation and restoring peatlands.

The Scottish Government has recently taken the step of joining the Wellbeing Economy Governments partnership. To transform our economy to deliver wellbeing, a Green New Deal needs to break from a model of unsustainable forms of production and consumption. The Scottish Parliament does not currently have the power to oversee a managed phase out oil and gas extraction, but should support this and back a just transition for workers and communities; rapidly expand renewable energy generation, prioritise local job creation; give the Publicly Owned Energy Company a mandate to invest in renewable generation as well as energy supply; expand Scotland's housing retrofitting programme; and introduce a series of tax changes aimed at supporting climate and economic justice, such as a Frequent Flyer Levy.

### — **Expanding Community Wealth Building**

The concentrated ownership of wealth and power designed into our economy strips workers and communities of the wealth they create in common. We therefore recommend a Community Wealth Building Act to support an economic strategy that transfers financial and physical assets to local communities and redirects wealth, control and benefits to local economies. This Act should be built on the following key pillars to secure a democratic economy: Pluralist models of business ownership, making financial power work for local places, fair employment and just labour markets, progressive procurement of goods and services, and socially just use of land and property.

### — **Banking for the Public Good: The Scottish National Investment Bank**

The establishment of the Scottish National Investment Bank (SNIB) is a considerable achievement. In order to meet its potential, it must be structured and governed effectively. We therefore recommend that the composition of its Board is reviewed to include at least one Minister, one trade union representative, one local authority representative and two representatives from civil society – and that the number of Board members from the private sector is capped at one-third. We also recommend that the proposed Advisory Group is replaced with three 'Mission Boards' corresponding to each of the SNIB's missions. Investing in the development of in-house capacity to invest directly in the economy, rather than relying on consultants or private sector intermediaries, will be key.

Further, we recommend that a new holding company arm of the SNIB is established and tasked with purchasing equity stakes in distressed but otherwise viable Scottish businesses that meet defined criteria, helping them to stay solvent throughout the Covid-19 crisis.

### — **Tenant Protection and Social Housing**

In recent years the Scottish Parliament has made significant progress towards enhancing security of tenure in the private rented sector. However, rents in Scotland remain high and continue to increase faster than many households can afford, constraining living standards. We recommend that the Scottish Government introduces an immediate rent freeze to ensure that tenants will not face rent increases during a time of profound uncertainty and hardship; introduces a system of rent controls to commence after the rent freeze period ends; supports an increase in social house building to secure homes for all and create jobs; and encourages local authorities to explore opportunities to purchase properties made vacant by Covid-19 to repurpose them as part of the social housing stock.

## — **Securing Democratic Public Ownership**

Over the last four decades, privatisation has been a prominent component of the UK's unequal and extractive economic model. Scotland has taken important steps to break with privatisation, but there remains a need to harness this by shifting our understanding of this approach, from a patchwork of decent individual policies and towards a strategy to integrate democratic public ownership at the heart of a comprehensive, planned transition to a new economy with wellbeing at its core.

## — **Stewarding Land**

Land reform has been one of the crowning achievements of the Scottish Parliament. However, land reform should not be viewed as a one-off event but rather an ongoing process. We recommend the establishment of a new, democratically accountable 'Scottish Land Development Agency' with the power to purchase, develop and sell land and ensure that this key resource is being managed strategically in the public interest. Furthermore, while Community Right to Buy continues to be an important mechanism for diversifying landownership in Scotland, high land prices remain a barrier. We therefore recommend that the Scottish Government introduces an upper limit on the total amount of land in Scotland that can be held by a private landowner or beneficial interest; strengthens Community Right to Buy powers to enable communities to acquire land at below market values; and grants local authorities the legal power to issue Compulsory Sale Orders. We also recommend that a new Common Good (Scotland) Act is introduced to provide a new statutory framework to modernise Scotland's unique system of Common Good property.

# Introduction

The unique nature of the Covid-19 public health emergency has led to a dramatic departure from conventional responses to crisis management. Instead of seeking to intensify flagging economic activity, public policy triggered a prolonged demobilisation of economic activity. As with so many crises before it, the impact of Covid-19 has fallen unevenly along gender<sup>1</sup>, race, and class lines, with working class<sup>2</sup> and Black, Asian and Minority Ethnic<sup>3</sup> people, for example, hit particularly hard by the crisis. While the virus itself may not discriminate, our economy does, and those who were already vulnerable are disproportionately shouldering its cost.

While government intervention remains vital, much of the sorely needed state support provided to help workers, households and communities navigate this challenging terrain has flowed to rentiers – those who do not profit from productive work but instead profit from ownership of resources – meaning that intervention has, in many instances, insulated and shielded the wealth of the already wealthy. A recent report from the Institute for Public Policy Research (IPPR) estimated<sup>4</sup> that 45 percent of the net cost of the UK Government’s furlough scheme over the first three months was spent on rent and debt repayments, amounting to “an implicit bail-out for banks and landlords.”

Moreover, the lockdown has affected household budgets in dramatically different ways. While spending on essential goods and services such as household bills has been maintained, discretionary spending on restaurants, bars and holidays has collapsed. Because higher income households spend proportionally far more on discretionary spending than low income households, this has served to reinforce existing inequalities. Research by IPPR<sup>5</sup> estimated that households in the second highest income decile could be saving an extra £189 per week if earners continued to work from home, while households in the second lowest income decile could be in debt by an extra £12 a week if earners are furloughed on 80 percent of salary. This was recently confirmed by Bank of England analysis, which found that those in the lower 60% of the income distribution have been more likely to report that their savings have fallen as a result of Covid-19, while those with higher incomes, with larger cuts in consumption, are more likely to have built up savings.<sup>6</sup> Moving forward on our path to recovery will prove challenging and require bold action, as we navigate a multitude of intertwined crises beyond that of the current public health emergency.

The inequality crisis continues to scar our communities. Prior to the public health emergency and the economic fallout that followed, the UK had undergone a decade of austerity, which caused a decade of lost wages for workers<sup>7</sup>, stagnating living standards<sup>8</sup>, low rates of investment, soaring levels of hunger<sup>9</sup>, and rising child poverty<sup>10</sup>. As we cautiously ease our way out of economic hibernation, public policy must ensure that the distributional impacts of this crisis alleviate the gross inequities in wealth and power in our society.

The climate crisis changes everything and - despite the immediate threat to life of Covid-19 - remains the single biggest danger facing our future. Five years on from the Paris Agreement, the world is perilously off-track<sup>11</sup> to meet the ‘well below’ 2-degree limit set by the accord. Even if states were on track to meet their current Paris Agreement obligations, we would remain on course for 3.2 degrees of warming relative to pre-industrial levels by 2100.<sup>12</sup>

Inherently linked to the inequality crisis, the causes and distributional impacts of the climate crisis are unevenly felt<sup>13</sup>, with the wealthiest tenth of people consuming around 20

times more energy overall than the bottom tenth globally.<sup>14</sup> This is amplified when we look at the role of companies, with 100 firms<sup>15</sup> having been the source of more than 70 percent of the world's greenhouse gas emissions since 1988.

The Bank of England has predicted<sup>16</sup> that the economic fallout from Covid-19 will plunge the UK economy into its deepest recession in three centuries – the fastest recession since the 'great frost' in 1709. How we choose to respond to this crisis will be a test as to whether lessons have been learned from the last economic crash, which – with its no strings attached bailouts, austerity, tax cuts for the rich and deregulation that followed – should act as a template for how not to respond to any future crises. As the latest recession takes hold, the impacts will again be felt hardest by those already struggling unless action is taken to protect them. At the same time, Brexit poses a fresh wave of economic anxieties for Scotland's future.

Already, around five million<sup>17</sup> households in the UK live in private rented accommodation and many of these are starting to struggle to pay the bills after seeing their wages slashed – a figure due to worsen as the crisis deepens. The Bank of England has warned that unemployment could reach 2.5 million<sup>18</sup> people by the end of this year, and the OECD has warned<sup>19</sup> that Britain could see unemployment rise to 15 percent if a second wave of Covid-19 emerges unless action is taken. Despite this, the UK Government is proceeding with its plan to end the furlough scheme, which has led many firms to start laying off workers<sup>20</sup>. As households and workers are struggling, many businesses have been left on the brink, following decades of decline in our highstreets.

As we begin to reconstruct our economy, a return to 'normal' cannot and should not be considered an option. Restoring the status quo would not be a neutral act – it would be an active decision to deepen our multiple crises. Crucially, the public do not want to go back to business as usual either, with only 6 percent of people in the UK supporting a return to a pre pandemic economy<sup>21</sup>, signifying a strong appetite for change in how our economy operates and in whose interests.

### — **Programme for Government: Building Back Better**

The Scottish Government has stressed its commitment to creating a "greener, fairer and more equal society" and is part of the Wellbeing Government Partnership.<sup>2223</sup> Turning this vision into reality and decoupling the traditional approach to growth from perceptions of economic success will require a radical departure from the economic orthodoxy of recent decades. Doing so will necessitate tackling some of the key challenges facing Scotland's economy, which, like the rest of the UK economy, has suffered from reliance on consumption-led growth; household and private debt; low levels of investment; waning productivity; a large trade deficit; high levels of inequality; a weakened industrial base and high levels of overseas and offshore ownership.

It is clear that this growth model is not fit for purpose in the context of the challenges of the 21st century, and while there are limitations to how far the Scottish Government can alone transform the economy under the current devolution settlement, measures can be taken to support this transformation. As Cabinet Secretary Fiona Hyslop says<sup>24</sup> "The time for a wellbeing economy has well and truly arrived." Now is the time to put it into action.

Just as the current paradigm centres on a particular form of economic model, a new consensus must lay the foundations for a more equitable, sustainable, and democratic system based on a pluralistic landscape of common and democratic ownership. As the Financial Times says<sup>25</sup>: "Radical reforms — reversing the prevailing policy direction of the last four decades — will need to be put on the table. Governments will have to accept a more active role in the

economy. They must see public services as investments rather than liabilities and look for ways to make labour markets less insecure. Redistribution will again be on the agenda.”

As the Scottish Government prepares to set out its Programme for Government, how it chooses to respond to this crisis at this critical juncture will not only shape the nature of the economic recovery – it will also be a key indicator of Scotland’s willingness to chart a different course.

To that end, we have identified a range of key policies that can be introduced in the Programme for Government to democratise our economy, build community wealth, create decent jobs, and support the just transition for a sustainable future for all as the first step in building a new economic consensus. This paper does not set out to provide an all-encompassing list of the policies that will be needed for our economy and our society to recover from the array of crises confronting us. Rather, it aims to identify some of the key challenges facing our economy, climate and society, and open up constructive dialogue on bold and transformative policy direction, rising to the challenges we face towards new models of ownership that are democratic and sustainable by design.

# 1 A Green and Just Recovery

The UK is currently in the deepest recession since records began as a result of the economic turmoil triggered by Covid-19, leaving millions concerned for their futures, with 750,000 jobs already lost.<sup>26</sup> In Scotland, unemployment has already increased to 4.5%.<sup>27</sup> While the furlough scheme provided a life raft for many, sheltering around 700,000<sup>28</sup> workers in Scotland, the decision to abruptly wind it down is likely to create a fresh wave of anxieties for workers and communities. A central pillar of our recovery must be that of job creation, with a focus on sectors and social groups hit particularly hard by the crisis. It is estimated<sup>29</sup>, for example, that UK youth unemployment could rise by 640,000 this year. But equally important to the need for job retention and creation is the quality of those jobs. To secure a sustainable future, Scotland needs a raft of well-paid, secure, green employment opportunities.

The Scottish Government is constrained<sup>30</sup> in its ability to deliver an economic stimulus package due to its limited borrowing powers, restricting its overall borrowing to up to £450m per annum for capital investment (a cap of £3bn) and up to £600m per annum (a cap of £1.75bn) resource spending for ‘forecast error’ and ‘cash management’. The ability to create the type of economy needed for a sustainable economic transition needed will thus be largely shaped by Westminster’s willingness to generate the biggest green fiscal stimulus package possible, taking advantage of historically low borrowing costs to stimulate the economy with the investment to flourish. But action can be taken under the current devolution settlement, and the Scottish Government must ensure that its existing spending plans in areas such as procurement, transport, and health are aligned with an ambitious programme to achieve, enhance and fast-track Scotland’s new Climate Act.<sup>31</sup>

## — Job Guarantee

The Scottish Government's Advisory Group on Economic Recovery recommended the introduction of a 'Scottish Job Guarantee' that would offer "secure employment, for a period of at least 2 years, to 16-25 year olds, paid at the Living Wage."<sup>32</sup> The Scottish Government has welcomed this proposal and recently appointed Tesco Bank's Sandy Begbie to develop an implementation plan for the scheme.<sup>33</sup>

The version proposed by the Advisory Group recommends that this Job Guarantee should be "business-led", with public money being used to subsidise jobs predominantly in the private sector. While this approach is certainly better than not acting, there are a number of issues with this approach that could prevent the scheme from reaching its full potential.

Given that businesses still need to contribute towards the wage costs of subsidised jobs, the ability of firms to create new jobs will still be determined by market demand. If the prospects for revenue generation remain weak, businesses will be reluctant to take on new staff, even if they are subsidised. As demand is likely to remain depressed for some time in many sectors of Scotland's economy, it is unlikely that such a scheme will be able to create sustainable jobs at the scale required to prevent unemployment from rising. Furthermore, such an approach runs the risk that businesses will lay off their regular full-time workers and replace them with subsidised workers in order to cut costs and bolster profits. Finally, if public funds are being used to support job creation, there is a strong case for saying that these jobs should provide a clear public benefit rather than supporting private profits and propping up low paid and often insecure work.

We therefore recommend that the Job Guarantee is designed instead to provide well paid employment opportunities in the public sector to anyone who needs it – an approach supported by many leading Job Guarantee scholars.<sup>34</sup> In line with the TUC's recommendations,<sup>35</sup> the scheme should aim to create good quality jobs that are paid at least the real living wage rate; ensure that workers get the skills they need to move into permanent work; offer a secure contract lasting no less than six months; support dignity and equality at work free from discrimination; adhere to health and safety law; and ensure access to trade unions. To qualify for funding, employers must be able to demonstrate that the jobs are genuinely additional; provide a public benefit and/or help to decarbonise the economy; meet local labour market needs; and promote equality.

Structured and governed effectively, this form of Job Guarantee can help prevent a harmful spike in unemployment, and also presents an opportunity to facilitate a structural shift in the labour market away from low-paid, insecure work and towards activities that are necessary to tackle key challenges such as climate change. As will be discussed further below, there is no shortage of work that the Job Guarantee could support – from decarbonising the housing stock and building a new generation of social housing, to supporting afforestation and restoring peatlands.

## — A Green New Deal

A Green New Deal, which the Scottish Government has said it supports<sup>36</sup>, offers a crucial framework: joining climate justice and social justice together in a public-directed programme of rapid decarbonisation that builds the foundations for a post-carbon future of shared prosperity. The drive to generate sustainable jobs goes much further than creating employment in clean energy sectors, which, while vital, are only part of a bigger picture in a Green New Deal. Creating a sustainable future necessitates questioning how our economy operates and in whose interest. There are high levels of support for a sustainable economic transition - a recent poll found that

only 7 percent of people in Scotland do not think climate change should be a priority. There is also a growing acknowledgement of the profound risks of inaction on climate change from business communities and financial institutions throughout the world.

An economy geared towards accelerating growth at the expense of everything else, as well as extraction and profit maximisation for a few, is incompatible with a Green New Deal. The Scottish Government has taken important steps to acknowledge this, not least by joining the network of Wellbeing Economy Governments<sup>37</sup>. To build on this, a Green New Deal needs to stretch to every aspect of our economy to break from a model of unsustainable forms of production and consumption, from enhancing cycling infrastructure, the phasing out of non-essential car travel in our cities and investing in the caring economy, to reforming our tax system to support a just transition and the redistribution of wealth, and the building and retrofitting sustainable, affordable homes for all. Moreover, assessing how green and just Scotland's recovery is will need measures of progress that prioritise these goals - not GDP, which is blind to distribution and counts as a positive destruction of the natural environment.

Oil and gas extraction still makes up a significant proportion of Scotland's economic output and employment, particularly in the North East. However, it is clear that a policy of maximum extraction is not consistent with a zero-carbon future. The Scottish Parliament does not currently have the power to phase out oil and gas extraction, however setting out a clear position on the future of oil and gas is crucial in the context of giving credibility to a Green New Deal agenda. We therefore recommend that the Scottish Government commits to supporting a managed phase-out of UK oil and gas extraction with a just transition<sup>38</sup> for workers and communities through job creation, pressuring the UK government to redirect subsidies for oil and gas extraction, including tax breaks, to fund a just transition.

At the same time, given its abundance of renewable resources, Scotland is well placed to offset the inevitable decline in oil and gas with a rapid expansion in the production of renewable electricity. A recent report by Platform, Oil Change International and Friends of the Earth Scotland estimated that a rapid expansion of wind, tidal and wave power could more than replace jobs in the offshore oil industry.<sup>39</sup> Scaling up renewable energy generation in this way could also provide significant export opportunities for Scotland, as it will enable Scotland to export surplus clean energy to the rest of the UK and beyond.

Although Scotland's renewable energy sector has seen significant growth in recent years, there remains a need to scale up to ensure that this translates into significant Scottish job creation. As the STUC have highlighted, much of the offshore wind development to date has been carried out by overseas companies, from across Europe and beyond, often at lower workplace standards than would be available for workers in Scotland.<sup>40</sup> We therefore recommend that the Scottish Government only provides consent to renewable energy developments that demonstrate significant potential for local job creation, and that the proposed Publicly Owned Energy Company is given a mandate to invest in renewable generation as well as energy supply – as has been proposed by the STUC.<sup>41</sup>

One of the areas that has the potential to bring about job retention and creation as well as safeguarding environmental credentials is through a national retrofitting programme to upgrade Scotland's homes. At a UK level, the New Economics Foundation found<sup>42</sup> that in a scenario where around 9 million homes receive whole house retrofit measures over the remaining course of this parliament, around 15% of total domestic energy demand would be saved, it would average out to 294,527 new jobs between 2020-2023/24 - a 22% increase in total construction employment and rises to an average of 515,157 when factoring in indirect jobs - as well as average annual energy bill savings of £418 for each home retrofitted and

emissions savings of approximately 19.23MtCO<sub>2</sub>/year by 2023/24, or 21% of 2019 emissions from the UK's homes. By scaling up the Home Energy Efficiency Programmes for Scotland<sup>43</sup>, the Scottish Government's flagship delivery vehicle for tackling fuel poverty and improving the energy efficiency of the domestic housing stock, we can integrate new building fabric measures, roll out the widespread use of solar panels on rooftops, and bring about new heating systems.

According to research by WWF Scotland, a plausible pathway to net zero will require all homes in Scotland to reach at least EPC C standard by 2030 – up from 42% today.<sup>44</sup> This will require significant investment in energy efficiency measures such as loft insulation, double glazing, wall insulation, boiler replacement and improved heating efficiency schemes. To achieve this, at least 80,000 homes need to be renovated annually until 2030 – more than double the current rate. The Scottish Government is currently investing £0.5 billion in energy efficiency between 2018-2021<sup>45</sup>, but to meet the target of renovating 80,000 homes a year until 2030 this funding will have to more than double throughout the 2020s.

### — **Case Study: Scaling up low carbon bus services**

Transport is now the highest-emitting sector in Scotland, therefore a key priority for the Scottish Government must be to accelerate the decarbonisation of existing transport networks, and invest in the roll out of low carbon alternatives.

Expanding bus services across Scotland could have a major and immediate impact on carbon emissions by reducing the use of petrol and diesel cars. In its advice to the Scottish Government on a green recovery, the Just Transition Commission recently recommended that the Scottish Government procure a fleet of new electric buses for use at COP26. As well as aiding the economic recovery, this would also provide an opportunity to showcase Scotland's low and zero emission bus manufacture and stimulate greater international demand.<sup>46</sup> In addition, local authorities also now have the power to establish and local publicly owned bus companies. Scaling up the roll out of low carbon buses across Scotland would have the dual benefit of aiding the economic recovery and reducing carbon emissions.

However, Scotland's largest bus manufacturer, Alexander Dennis, recently announced that it will be cutting up to 650 jobs due to the economic impact of the coronavirus pandemic.<sup>47</sup> This is a clear example of where coordinated state intervention could deliver major benefits. A large order of electric buses from the public sector could provide a lifeline to Alexander Dennis, while the Scottish National Investment Bank could be called upon to provide the company with debt and equity to ramp up production to meet this new demand.

### — **Reforming Scotland's tax system**

The levels of inequality seen in our society are replicated in the consumption patterns of carbon, with inequality between and within countries strongly correlated with higher rates of consumption and waste. The climate crisis is thus a crisis of inequality where the poor have both done the least to drive it, and yet are the most vulnerable to its impacts. For a plan to tackle<sup>48</sup> the climate crisis to be effective, it must recognise that our environmental and economic problems share a common cause: an extractive and unequal economic model. Alongside creating clean jobs, a key component of a green and just recovery strategy is the need to rebalance our economy by redistributing wealth. One way this can be achieved is by reimagining our tax system.

Over the past two decades, revenues from taxes categorised by the ONS as 'environmental' have declined, as a fraction of GDP and total tax revenues, and several of the UK's current environmental taxes disproportionately impact those on lower incomes.<sup>49</sup>

Scotland has recently received further devolution of powers overseeing some areas of taxation, raising fresh discussion around how these powers could be utilised for change to deepen Scotland's tax base, lower carbon emissions, and redistribute income and wealth.

As well as attaching tax conditions to public bailouts, the Scottish Government could take a series of additional steps. The top 10 percent of households own 41.5 percent of net wealth in Scotland<sup>50</sup>. Important steps have already been taken to rebalance levels of inequality through tax changes in Scotland, such as the recent increase<sup>51</sup> in the tax rates for top earners. To complement this, the Scottish Government should look to bring about changes which can generate revenue and rebalance Scotland's economy, such as the introduction of a Land Value Tax to replace business rates. The reform or replacement of Council Tax should also be considered as part of a broader rethink of Scotland's tax system. As a minimum, this should ensure that tax liabilities are based on up-to-date property values are progressive, with wealthier households facing a higher rate of tax; and are paid by the owner rather than the occupier. Moreover, as set out by IPPR Scotland<sup>52</sup>, a host of measures could be brought in at a local level, such as a local inheritance tax in which revenue funds local government expenditure; a local employers' payroll tax, acting as a low pay levy and fair work bonus; and using local taxation powers to assist a just transition to a net-zero economy.

Taxing carbon emissions should be a core aim of tax reform. Today people in the UK take more international flights than anyone else in the world. However, these emissions are not spread equally among the population. Across the UK, 70% of flights are taken by 15% of the population, while 57% do not fly abroad at all.<sup>53</sup> The devolution of aviation taxes to the Scottish Parliament presents an opportunity to implement an alternative to Air Passenger Duty. The Committee on Climate Change recently endorsed the idea of a frequent flyer levy, which would mean that everyone would get one tax free flight, and then subsequent flights would be taxed at an incrementally higher rate.<sup>54</sup> A Frequent Flyer Levy would help tackle the twin goals of climate and economic justice by sharing the "environmental impacts of flying in an equitable way"<sup>55</sup>, while at the same time distributing flights more equally across the income spectrum, with considerations taken for services in the Highlands and Islands.

## 2 Community Wealth Building

The conventional wisdom around economic development so often fails to address the crises facing our communities. The concentrated ownership of wealth and power designed into our economy strips workers and communities of the wealth they create in common, which is often extracted by shareholders and excessive executive pay, hollowing out local economies. This matters, because levels of inequality here are extreme. The highest earning fifth of households in Scotland account for 42 percent of all income, whereas the lowest earning fifth account for just 7 percent.<sup>56</sup> And wealth inequality is even more acute. 41.5 percent of Scotland's wealth is owned by just 10 percent of the population – amounting to five times the

total wealth held by the poorest half of the population.<sup>57</sup> 25 percent of Scottish people have less than £500 of net savings, and 7 per cent have zero savings or are in debt.<sup>58</sup> Moreover, the last three decades have witnessed a detachment between workers' wages and economic growth.

There is a real danger amid this crisis that businesses operating in local communities will fold, resulting in intensified market concentration of large shareholder driven companies, as has been demonstrated by the immense growth of the extractive platform economy during the pandemic. During the crisis, as small businesses went bankrupt and workers were made redundant, Amazon – a company that last made headlines<sup>59</sup> in Scotland for paying “slave wages” to workers forced to live in tents outside its warehouse – announced<sup>60</sup> it was hiring an additional 100,000 workers, as its founder is on course to become the world's first trillionaire. The consequences of this trend could be catastrophic for workers and communities.

In place of an extractive model, Community Wealth Building<sup>61</sup> can set out a bottom-up approach; one that builds collaborative, inclusive, and locally-controlled economies. Such a strategy will become even more important in the context of Covid-19, as local economic activity feels the strain of economic hibernation and the current economic downturn. Crucially, Community Wealth Building is more than a phrase or slogan. It requires a practical strategy and demonstrable action to transfer financial and physical assets and redirect wealth, control and benefits away from corporations to local economies and local communities, by, for example, advancing pluralistic business ownership models, local financing initiatives, bottom-up economic development strategies and leveraging anchor institutions. Such institutions are rooted in place, large scale employers, NHS trusts and housing associations.

In its response to the Advisory Group on Economic Recovery, the Scottish Government reiterated its support for Community Wealth Building. Scotland therefore has an opportunity to become a leading international practitioner of Community Wealth Building, learning from best practice around the world.

Community Wealth Building should never be viewed as a form of replacement for the state and vital public services; rather, it can complement their achievements by helping to tackle inequalities that scar our communities, and redistribute the wealth we create in common. As CLES sets out<sup>62</sup>, Community Wealth Building is predicated on five key principles:

— **Pluralist models of business ownership**

Financial wealth is currently held by a small minority. At a local level<sup>63</sup>, “this means that the wealth generated by workers, local people, communities, local enterprise and business in our towns and cities does not flow back to them, but instead is extracted by distant shareholders as profits and dividends.” At the heart of Community Wealth Building rests a drive to restore our social fabric by connecting people to places that create wealth, and contributing to local economic development by scaling pluralist models of business ownership, such as social enterprises, worker-owned businesses, and cooperatives: businesses that are socially-minded and more likely to employ, invest and buy locally.

— **Making financial power work for local places**

Access to credit is a driving force behind the ability of local businesses to prosper, enabling them to operate, grow, expand, and invest. But our current economic model is geared towards international markets, which, while important, have detracted focus from local-level investment. In place of this, we need to rapidly increase flows of investment within and to local economies.

This could be achieved in Scotland by, for example, reorienting local authority pension funds to local schemes and creating and harnessing mutually owned banks to grow local markets, so that investment can be channelled towards local communities. To help alleviate the financing gap for pluralistic business models, the Scottish National Investment Bank should steer financing to public and private bodies that serve a social and environmental purpose and provide patient risk capital to safeguard long term funding, shifting the traditional investment focus of maximising returns to tackling the key challenges we face today.

### — **Fair employment and just labour markets**

Scotland's labour market remains highly imbalanced and insecure. The pandemic has demonstrated this in an acute manner, with workers across Scotland left struggling with widespread redundancies as well as battling with health and safety violations from employers. These issues, while highlighted by the virus, long predate it. In spite of high employment rates in the UK, the working-age poverty rate has remained high<sup>64</sup>, with more than a fifth of working-age adults in poverty. Following the fresh crisis, we face the daunting prospect of mass unemployment. Sustaining and creating jobs in this turbulent period should of course be a priority, but the quality of those jobs matters. While employment law is reserved to Westminster, and so there are limitations as to what can be achieved to fundamentally transform Scotland's labour market, some action can and should be taken in Scotland to support best practices. Community Wealth Building sets out to not only support employment opportunities but to dramatically enhance workers' rights by, for example<sup>65</sup>, "promoting recruitment from lower income areas, inclusive employment practices, committing employers to the paying living wage and building progression routes for employees", and encouraging anchor institutions to bring about progressive employment practises to transform local labour market activities.

Since the rollout of Community Wealth Building in Preston - following engagement with anchor institutions of Preston City Council, Lancashire County Council, the Office of the Police and Crime Commissioner for Lancashire, the Community Gateway housing association, Preston's College, Cardinal Newman College and the University of Central Lancashire - 4000<sup>66</sup> extra employees in Preston are now receiving the Real Living Wage (2018 initial ONS outrun).



## — Progressive procurement of goods and services

The procurement process is too often oriented around a narrow definition of financial cost, leaving important factors, from environmental consequences to workers' rights and social value, as secondary priorities. Community Wealth Building instead advocates progressive procurement practises to harness spending power and channel it to benefit sustainable, resilient communities.

This can be done by integrating new approaches to procurement into the operation of a network of anchor institutions to create<sup>67</sup> “dense local supply chains and ecosystems of local enterprises”, with a particular focus on supporting plural forms of business ownership, such as cooperatives, social enterprises, and employee owned businesses. One option would be to look at mandatory social licensing for providers of public goods and services, meaning that providers can only enter that market if they have business practices guaranteeing the provision of social benefits to communities and stakeholders.<sup>68</sup> Such businesses are often rooted in local economies, and so in harnessing their potential, we can redistribute wealth locally. In Preston, by transforming procurement practises, procurement spend retained within Preston was £112.3m<sup>69</sup> - a sharp increase from the £74 million witnessed in 2012-2013.

## — Socially just use of land and property

While the subject of land in Scotland will be explored further in the final section of this report, the ownership of land and property assets - how they are managed and in whose interest - are of vital importance to Community Wealth Building. Scotland's land ownership is highly concentrated<sup>70</sup>: 57 percent of Scotland's rural land is in private hands, with around 12.5 percent owned by public bodies, 3 percent under community ownership and about 2.5% is owned by charities and other third sector organisations. Land ownership is a key expression of power in our society. Too few are set to see immense profits off the back of it, and its concentration continues to be a source of inequality, fuelling an extractive system of rentier capitalism.

At a local level, economic pressure and the drive to enclose land ownership for private interests has resulted in local authorities selling off land and property assets. This approach needs to be turned around; instead, building local wealth via equitable forms of land ownership, management and development to utilise the potential of these assets for social and environmental good. The goal here is not simply for local authorities to increase their stake in land ownership, but to reshape how land is owned and in whose interests to expand the public commons to build shared buildings and green spaces. This is particularly critical as we struggle through the economic downturn, not least because of the heightened need to regenerate and repurpose high streets. As Mark Blyth recently suggested<sup>71</sup>, areas like commercial properties are likely to experience acute distress. The question of how the future liability of these properties are then put to use, and their carbon output, is of vital importance.

In order to achieve a more collaborative and participatory approach to public land ownership, the management and governance of assets needs to be reimagined. One way in which this can be achieved is through identifying under-utilised assets, or assets left vacant from the Covid-19 fallout, and transferring them to community land trusts to deepen citizen participation in municipal assets and retain and advance community benefits. Another option to explore is the use of Public Commons Partnerships<sup>72</sup>. As Keir Milburn and Bertie Russell note<sup>73</sup>, while “the era of new public-private partnerships in the UK has apparently come to an end, more than £199 billion of Public Private Partnership (PPP) payments from the public to the private sphere are due into the 2040s.” Public Commons Partnerships involve “co-ownership between appropriate state authorities and a Commoners Association, alongside co-combined

governance with a third association of project specific relevant parties such as trade unions and relevant experts.”

Community Wealth Building is already in action in Scotland. North Ayrshire Council this year launched<sup>74</sup> Scotland’s first Community Wealth Building strategy - a comprehensive agenda to create resilience and reduce inequality by encouraging businesses to use local supply chains; ensure that public land and assets can meet the needs of the community and local businesses as well as tackling climate change; foster community banking to support the local economy; and broaden the scale and diversity of business ownership. The initiative is grounded in successful examples elsewhere, from Ohio to Lancashire. Between 2012/13 and 2016/17, Preston’s unemployment rate halved<sup>75</sup> and the city moved out of the top 20 percent most deprived local authority areas in the UK - an outcome that is particularly needed amid the scale of the current crisis we face.

While Community Wealth Building must be coordinated at a local level with those invested in communities driving change, measures can be taken at a national level to facilitate its rollout. The Scottish Government has already taken encouraging steps<sup>76</sup> to “exploring the potential for CWB as an approach to delivering inclusive growth across Scotland, with six key projects in development across a range of contexts in Scotland starting with Ayrshire.” To support this, we need to codify a path forward to identify structural barriers to Community Wealth Building and foster its aims going forward.

To that end, we recommend that the Scottish Government introduces a Community Wealth Building Act as part of the Programme for Government, which draws on the experiences of local authorities that have already initiated such a programme, bringing together best practices to integrate the five pillars set out by CLES to develop a national, integrated strategy to retain and grow local wealth and reduce inequality. Such a strategy would be used to codify the advancement of pluralist forms of business ownership, level out the advantages of traditional business models; integrate best practices of land ownership and management to steward areas such as housing, energy, and secure work; and leverage the progressive procurement practises of anchor institutions to increase local economic activity and the community stake in public land. The role of Community Wealth Building should also be formalised in future Growth Deals.

## 3 Banking for the Public Good:

### — the Scottish National Investment Bank

The SNIB will become operational this year, and will serve as Scotland’s primary public sector debt and equity investment institution.<sup>77</sup> From its inception the SNIB has been designed to promote a mission-oriented approach to investment, which aims to catalyse transformational change across a number of socio-economic challenges.<sup>78</sup> The SNIB’s missions remain subject to finalisation, but at the time of writing they are expected to be:

- Achieving a just transition to net-zero carbon emissions by 2045: Invest in rebalancing our economy towards leadership in sustainable technology, services and industries.
- Extending equality of opportunity through improving places by 2040: Invest in the built environment and regeneration to reduce disadvantage and improve opportunities and outcomes for people and communities.
- Harnessing innovation to enable our people to flourish by 2040: Invest in innovation and industries of the future for a healthier, more productive and prosperous population.

The Scottish Government has also stated that the SNIB will play a key role in Scotland's emerging economy post Covid-19. The establishment of the SNIB is a considerable achievement of the Scottish Parliament, and has the potential to become a cornerstone of Scotland's economic landscape. However, in order to meet this potential, it is essential that it is structured and governed effectively.

### — **Governance and investment capacity**

Governance arrangements are particularly important for public investment banks, as it is their distinct governance that enables them to play a fundamentally different role in the economy compared to that of private financial institutions. However, many of the problems that have commonly been associated with public banks, such as capture by private interests and corruption, can be attributed to poor governance. At the same time, historically many public sector bodies across the UK have had top-down governance models that have been largely unaccountable to the public. As noted by Andrew Cumbers and Thomas M Hanna, "Whether through older forms of state ownership, or recent forms of privatisation, public services have conventionally been managed and run by elite groups who are often far removed from the circumstances and consequences of their decisions."<sup>79</sup> It is therefore important that the SNIB's governance structure is designed with accountability and engagement in mind.

At the time of writing the individual members of the SNIB Board have yet to be appointed, but its composition will initially comprise of the Chair and up to eight Non-Executive Directors as well as the Chief Executive and Chief Finance Officer.<sup>80</sup> While the structure of this Board – without any positions reserved for democratically elected representatives, public servants or civil society and union leaders – may be common among private financial institutions, it is relatively unusual for a public investment bank.<sup>81</sup>

While it is crucial that the SNIB is able to make long-term investment decisions, free of day-to-day political interference, the presence of democratically elected representatives and relevant public servants on the Board can help to maintain alignment with policy objectives and maintain a path of democratic accountability. In addition, many of the most successful public investment banks such as Germany's KfW and Finland's Finnvera also include a diverse range of stakeholders from across civil society – such as trade bodies, trade unions and regional representatives – on the Board as well as representatives from the financial sector.<sup>82</sup> This form of stakeholder governance ensures that a wide range of relevant perspectives are represented, and helps to avoid the emergence of 'groupthink' and capture that can occur when the Board is dominated by one particular interest group (from either the public, private or third sector).

In addition to the SNIB Board, the Scottish Government is planning to establish an Advisory Group consisting of up to 20 members to provide the Scottish Ministers with "advice on the Bank's objectives, conduct and performance". The Advisory Group will be resourced by the Scottish Government and is expected to meet 1-2 times a year. While the creation of a

stakeholder body is a welcome development, in its present form it is unlikely that the Advisory Group will be able to have a meaningful impact on the SNIB's activities.

We therefore recommend that:

- The composition of the SNIB Board is reviewed to include at least one Minister, one trade union representative, two representatives from civil society and one representative from local authorities – and that the number of Board members from the private sector is capped at one-third.
- The Advisory Board is replaced with three 'Mission Boards' corresponding to each of the SNIB's missions, with each consisting of mission-specific experts and representatives from industry, academia, relevant public sector bodies, charities, civil society etc. Each Mission Board should be provided with the resources and powers necessary to scrutinise the alignment of the SNIB's investments with its missions; review progress towards achieving the missions; and periodically assess whether each mission is still fit for purpose.

The type of staff that are recruited to work within the SNIB will also be key. A key difference between mission-oriented public investment banks and private financial institutions is the breadth of expertise and capacities and strong public service ethos of the staff.<sup>83</sup> Investing to serve the public interest naturally requires a different set of skills and capabilities than investing to maximise shareholder returns. In many cases, this includes not only financial expertise but significant in-house engineering and scientific knowledge about the sectors the bank is active in and the nature of the investments being made. This enables investment decisions to be based on a wider set of criteria than relying on market signals alone, and means that social and environmental considerations can be appraised more effectively.

Given Scotland's relative inexperience in public banking, a key priority must be to invest in the development of in-house capabilities. This will require significant training, which could potentially involve establishing a skills sharing partnership with European public investment banks that have a strong track record of success. Crucially, the temptation to rely on management consultancies and/or secondments from the private sector should be avoided at all costs, as this ultimately undermines the core goal of building a hub of investment expertise in the public sector, and is far more expensive in the long-run.

It is also critical that the SNIB rapidly develops the capacity to invest directly in the economy, rather than relying on private sector intermediaries. Some public investment banks use the 'on-lending' model, which is where they do not lend to end customers directly but instead provide discounted funding to private financial sector intermediaries, such as commercial banks (and in the case of equity investments, to private equity funds), who in turn on-lend money to customers. This model works by transferring low public financing costs to private financial institutions in order to make lending to certain types of activities more attractive. The main benefit of using the on-lending model is that it enables the public investment bank to utilise the existing branch networks and capacity of private sector intermediaries.

However, the on-lending model is subject to a number of limitations which may constrain the ability of the SNIB to play a transformational role if adopted in Scotland. Because money is fungible, the on-lending model means that it is difficult to demonstrate that intermediaries have used the money in the intended manner, and that additionality has been generated. The intermediary may simply declare certain investments to be 'funded' by the SNIB, even if it would have still made these investments without SNIB funding (and even if the SNIB support was actually used for other purposes). Given that the on-lending model effectively provides a subsidy to private sector intermediaries in the hope that they will use this to support certain

desired activities, this is potentially problematic. In practice, there is a risk that SNIB funding is used to support undesirable activities, for example supporting other types of lending or increasing shareholder dividends. Using the on-lending model also adds additional costs, as intermediaries charge fees to cover administration costs and profit margins. Finally, adopting an on-lending model may also make it more difficult for the SNIB to lend counter-cyclically, as private financial institutions tend to cut back on lending during downturns, and may not be willing to on-lend during times when it is needed most.<sup>84</sup>

Many of these problems are less problematic in countries like Germany, where the KfW uses the on-lending model for SME lending, because the retail banking sector is largely made up of public and cooperative banks. These banks have a public interest mandate; are designed to lend countercyclically; and tend to focus more of their lending on the real economy rather than mortgage lending and financial market activity. In addition, because they are not shareholder owned, the funding cannot be used to support shareholder dividends. This is in contrast to the Scottish context, where the retail banking sector and the fund management landscape is dominated by a small number of large shareholder-owned firms.

While co-investing with third party investors should be an option that the SNIB should remain open to and examine on a case-by-case basis, relying on financial intermediaries for all investments may significantly limit the ability of the SNIB to play a transformational role in the economy. It is therefore recommended that priority is given to developing in-house capacity to engage with, and lend directly to, end customers – which should include businesses, social and publicly owned enterprises, local authorities, housing associations and third sector organisations.

Finally, as discussed in the Community Wealth Building section, the SNIB should also support place-based community initiatives, with a focus on an inclusive and green economic recovery. Such investments should not focus solely on picking ‘winners’, but in creating the conditions for local communities to flourish. This could involve, for example, investing in the creation of new local supply chains and providing seed funding for local green investment funds.

#### — **A state holding arm to aid the Covid-19 recovery**

As noted above, the SNIB is also expected to play a key role in Scotland’s emerging economy post Covid-19. The pandemic has placed an enormous strain on many Scottish businesses, particularly smaller businesses lacking large cash reserves. Although the UK and Scottish Governments have provided some bespoke cash support to businesses, the main pillar of the response has been to make it easier for businesses to take on new debt to see them through the crisis period. This has primarily been delivered through the Coronavirus Business Interruption Loan Scheme (CBILS); the Coronavirus Large Business Interruption Loan Scheme (CLBILS); the Covid Corporate Financing Facility (CCFF); and the Bounce Back Loan Scheme (BBLs).

However, it has been estimated that around a third of these businesses could struggle to repay these government-backed loans, and absent further intervention many Scottish businesses could be at risk of becoming insolvent in the months ahead.<sup>85</sup> The consequences of this could be severe: a major increase in unemployment, a sharp contraction in Scotland’s productive capacity, and the destruction of many otherwise viable businesses, with dangerous knock-on effects for the wider financial system as businesses default on financial obligations.

In addition, as noted above the difficulties faced by small businesses are likely to lead to market consolidation – whether directly, as distressed small and medium sized businesses are bought out by larger competitors or by various forms of predatory capital, or indirectly, as

the surviving players absorb their market share.<sup>86</sup> In turn, this will exacerbate Scotland's already concentrated business landscape. Additional measures are therefore needed to ensure that viable businesses are not forced to close down, and that wealth and power does not consolidate in the hands of large incumbents.

One way to provide a financial lifeline to Scottish SMEs is to establish a state holding company that would purchase equity stakes in distressed but otherwise viable businesses that qualify for support. This would provide an emergency injection of capital to businesses that cannot access capital elsewhere in exchange for ownership rights, thus sheltering firms from insolvency and ensuring that they can continue to trade until market conditions improve.

State holding companies have been used successfully elsewhere in the past, including during the Great Depression in the US and Europe. Examples that exist today include Singapore's Temasek, France's Agence des Participations de L'Etat, Finland's Solidium and Italy's Cassa Depositati e Prestiti. In recent months a diverse range of organisations have called for similar vehicles to be established to tackle the economic downturn caused by the Covid crisis including IPPR,<sup>87</sup> The Democracy Collaborative,<sup>88</sup> the International Monetary Fund<sup>89</sup> and the Institute for Government.<sup>90</sup> The Scottish Government's Advisory Group on Economic Recovery also recommended that the Scottish Government should "build its professional capability to manage ownership stakes in private businesses, which are likely to arise out of the crisis".<sup>91</sup>

At a UK level, HM Treasury is already in the process of creating a new state holding company to take equity stakes in major companies affected by Covid-19 (which has been referred to as 'Project Birch').<sup>92</sup> However, evidence so far suggests that this is likely to focus on bailing out large corporations in 'strategically important' sectors for the UK as a whole. There is a risk that many SMEs in sectors that are crucial to Scotland's economy will be left without support and as a result will struggle to survive.

In Scotland, this function could be carried out by a new arm of the SNIB. As noted above, the Scottish Government has already stated that the SNIB will play a key role in Scotland's emerging economy post Covid-19, and it is one of the few institutions that has in-house investment expertise and capital to deploy.

We therefore recommend that a new holding company arm of the SNIB is created and tasked with purchasing equity stakes in distressed but otherwise viable businesses that meet certain criteria, helping them to stay solvent throughout the crisis. Priority should be given to firms in vulnerable sectors that are crucial to Scotland's economy (such 'foundational economy' sectors, hospitality, and arts and culture) and those that are willing to align with strategic policy goals (such as moving to a net zero economy). Any public support should focus on sustaining the business rather than its shareholders, retaining its workforce and productive capacity for post-crisis. Crucially, support should only be provided to businesses that were healthy prior to the COVID crisis and can be expected to fully recover – the intention is not to bailout failing firms, but rather to help healthy firms survive the duration of the Covid-19 crisis.

Investments could take the form of direct equity investments into businesses, debt-to-equity swaps, or a combination of both. The intention of the state holding company model is not necessarily to hold on to assets it acquired during the Covid-19 crisis on a permanent basis. While there may be a case for developing the state holding arm over time into a more permanent fixture in Scotland's economy, a sizable proportion of the firms the state holding arm of the SNIB acquires will require eventual divestment and transition to a new permanent ownership structure. Here a wide range of possibilities exist, such as selling shares back to the original owner is just one option. Alternatively, the shares could be sold to workers to improve

rates of employee ownership; to the firm's customers to create customer-owned mutuals; to local authorities to promote municipal ownership; or to local private investors where the firm was previously owned overseas to promote domestic ownership.<sup>93</sup>

In taking equity stakes in firms, the Scottish Government can learn the lessons from the global financial crisis, when public money rescued the banking industry without addressing well-documented problems in the sector. Lessons should also be learnt from the behaviour of banks in the aftermath of the crisis, many of whom deliberately pushed SMEs towards insolvency in order to shore up their own capital position and buy up their assets cheaply (the most notorious of which was RBS's Global Restructuring Group).<sup>94</sup>

To avoid repeating these mistakes, the holding arm of the SNIB should invest strategically in line with the Bank's missions, and financing must come with conditions attached on issues such as remuneration, tax, and commitments around carbon footprint reduction. This should be conditional<sup>95</sup> on, for example, safeguarding job security, recognising trade unions, securing equity stakes to grow public wealth, banning dividends and share buybacks during a crisis, climate commitments, fair pay and maximum pay ratios, and ensuring tax justice by, for example, requiring Fair Tax Mark<sup>96</sup> accreditation for companies.

## — Funding

The Scottish Government has committed to capitalising the SNIB with £2 billion over the next 10 years. However, given the unprecedented challenges brought about by Covid-19, there is a strong case for rapidly accelerating this capitalisation and increasing it further to a total of £3 billion or more to support the state holding arm function described above.

At the same time, the Scottish Government should continue to press the UK government to grant the SNIB borrowing powers as a matter of urgency, as the ability to leverage relatively small amounts of public capital into a much larger source of long-term finance is critical for public investment banks to succeed.<sup>97</sup>



# 4 Tenant Protection and Social Housing

In recent years the Scottish Parliament has made significant progress towards enhancing security of tenure in the private rented sector (PRS), in particular by ending short-term tenancies. However, rents in Scotland remain high and continue to increase faster than many households can afford. This acts as a major constraint on living standards, reducing the amount of money that people have to spend on other goods and services. The effects of high rents are disproportionately felt amongst already disadvantaged groups – including women, young people, and migrant communities – who typically earn less than the average. High rents also have an enormous public cost; directly through housing benefit and discretionary housing payments; and indirectly through the costs associated with homelessness.

The Covid-19 pandemic has only served to increase the precarity and financial pressures faced by renters. While homeowners have benefitted from mortgage holidays and landlords have benefitted from the Scottish Government's Private Rent Sector Landlord COVID-19 Loan Scheme, we need bespoke financial support for tenants. According to the Joseph Rowntree Foundation, almost half of tenants (45%) in the private rented sector have seen a drop in their incomes since March 2020 and of those, seven in 10 (71%) have cut back on spending, and nearly six in 10 (58%) have had to borrow or use up savings, the highest proportion of any tenure.<sup>98</sup> While the UK government has made some changes to Local Housing Allowance, these will inevitably still leave large shortfalls between actual rents and housing support for many low-income tenants. The Scottish Government has made it clear that rent must still be paid under the terms of the tenancy agreement, meaning that many tenants have fallen into arrears that they may never be able to pay back.

There is therefore an urgent need for the Scottish Government to take further action on private rents. The Private Housing (Tenancies) (Scotland) Act 2016 granted the Scottish Government the power to introduce localised rent controls or rent pressure zones (RPZs) if local authorities could convince them that rents were too high in specific areas. The Act did not introduce rent controls — instead, it gave local authorities powers to request that specific RPZs. However, as Living Rent,<sup>99</sup> Shelter Scotland,<sup>100</sup> Edinburgh City Council<sup>101</sup> and the Highland Council<sup>102</sup> have noted, because there is currently no comprehensive survey of rent level data available in Scotland, it is currently impossible for local authorities to provide the evidence they are being asked for. The result is that despite the new legislation, rent controls are yet to be implemented anywhere in Scotland.

It is clear that the powers of the 2016 Act are insufficient to tackle the problem of unaffordable rents, therefore additional legislative measures are required. We recommend that the Scottish Government:

- Freezes rents for 12 months, ensuring that tenants will not face rent increases during a time of profound uncertainty and hardship.
- Introduces a points-based system of rent controls to commence after the rent freeze period ends, linked to the quality and amenities of the property, not simply market rates, as has been proposed by Living Rent.<sup>103</sup>

While reforming the private rented sector is essential, evidence from around the world indicates that the best way to deliver high quality affordable housing at scale is for the state to build and rent out homes directly. While social house building has increased in Scotland in recent years, this is relative to a low starting point. We therefore recommend that the Scottish Government commits to building 10,000 council homes each year between 2021 and 2026, with regular reviews based on need assessments. A large-scale public house building programme would also be a major source of job creation that could aid the post-Covid economic recovery. According to research by the housing charity Shelter Scotland, every £100 million invested in affordable housing supply can sustain up to 1,270 jobs.<sup>104</sup>

In addition to building new houses, local authorities should be encouraged to explore possible opportunities to purchase properties that have become vacant as a result of Covid-19, such as former short-term holiday lets and offices, and repurpose them as part of the social housing stock.

## 5 Democratic Public Ownership

Over the last four decades, privatisation has been a prominent component of the UK's economic consensus. By 2009, 132 of the world's 500 most valuable corporations were privatised<sup>105</sup> former state enterprises, but seldom did countries go as far as the UK, which remains – alongside the US – an outlier when compared to many other wealthy economies. Between 1980 and 1996, Britain was responsible for 40 per cent<sup>106</sup> of the total value of all assets privatised across the OECD.

The harms<sup>107</sup> caused by the unequal and extractive dominant economic model of the past 40 years are evident. Privatisation has reduced public control over key parts of the economy and privatised the economic interest behind them; concentrated shareholdings among an increasingly narrow set of institutional investors; financialised the behaviours and motives of foundational parts of economy; and externalised social and environmental considerations.

Scotland's place in this is more complex. Because of the timing of devolution and the nature of the devolved settlement, elements of our economic framework are, to a certain extent, predisposed by our place in the UK. In that sense, our economy and communities have been shaped by the market society values that have dominated the wider landscape for decades, hammered home by the recent sale of the Green Investment Bank and the Royal Mail.

Important steps have been taken in Scotland to break from this model. The decision to abolish the Right to Buy marked a milestone in this, as privatising the public housing stock was a key pillar of Thatcherism. Between 1979-80 and 2014-15, 494,580<sup>108</sup> council and housing association homes were sold under Right to Buy in Scotland. It is estimated that abolishing it protected 15,000 social homes. More recently, we have seen steps taken to increase the public stake in our economy through the creation of the Scottish National Investment Bank and the announcement of a publicly-owned not-for-profit energy company. And steps have been taken

to intervene in cases of market failure, as was seen in the case of Ferguson shipyard and Bifab.

While each of these interventions is welcome, there remains a need to harness this ethos by shifting our understanding of democratic public ownership, away from a patchwork of good individual policies and towards a broader strategy to integrate it at the heart of an economic transition. This should centre on ensuring that the role of the state is not one reduced to intervening in cases of market failure – stepping in to manage firms until they are commercially viable before being sold off – to one involved in steering and nurturing a broader industrial strategy, and extending democratic governance into key areas of economic life.

A broader transition to public ownership in key strategic sectors also has widespread support<sup>109</sup>: 73 percent of people in the UK want public transport to mostly be run by the public sector, while 64 percent want the railways in public ownership and only 22 percent of people oppose allowing councils to set up new bus companies.

In place of the current model, we can reshape how we own and deliver the key utilities and services we all rely on. The sections below outline some of the ways in which we could further embed an approach of democratic public ownership into Scotland's economy.

There are case studies we can draw on in Scotland, which we can be replicated elsewhere. Lothian Buses<sup>110</sup> is the UK's largest publicly owned bus company, returning £6 million to the City of Edinburgh Council in 2017. Despite benefiting from millions in taxpayers' money amid the pandemic, FirstGroup<sup>111</sup>, which operates several of Scotland's bus services, took steps to maximise pay-outs to shareholders amid the pandemic. Following the passing of the Transport Bill last year, local authorities now have the power to establish local publicly owned bus companies. We recommend that local authorities and regional transport partnerships are encouraged to scale up publicly owned bus services with new fleets of low carbon electric buses, building an equitable transport system that connects communities, especially in areas of deprivation, with upfront financial investment from the Scottish Government.

Among the sectors hit particularly hard by the crisis was transportation, with ScotRail<sup>112</sup> being temporarily nationalised. While preventing the collapse of the rail industry was essential, it raises important questions around how the sector should be organised post-crisis. In normal times, the profits of private rail companies are substantially subsidised<sup>113</sup>, allowing them to pay out hundreds of millions of pounds per year to shareholders, including more than £1.2 billion in dividends to shareholders in the last five years<sup>114</sup> despite a 46 percent hike in fares in the decade since 2009 in the UK.

As We Own It argues, bringing rail services into public ownership<sup>115</sup> can help to alleviate many of the problems associated with privatisation. By removing shareholder payouts, earnings can be reinvested to improve services and reduce rail fares instead of being distributed to major investors; by replacing the for-profit structure of the rail services, a new de-financialised structure of incentives can emerge to meet social, economic and environmental needs. In addition, as demonstrated by fact that the Scotrail franchise was operated by Abellio, which is owned by the Dutch government, a Scottish publicly owned rail company could also develop export potential. The Scottish Government has already ended Abellio's contract to run the Scotrail franchise three years early due to poor performance.<sup>116</sup> While the rail franchising system is reserved to the UK government, the Scottish Government can establish a publicly owned train operating company to bid to run the Scotrail franchise from 2022 onwards.

But the need for democratic public ownership extends far beyond that of transport. As with so much of Covid-19, it served to highlight fault lines in our economy that long predate the crisis. The care system is one such example. The majority<sup>117</sup> of care homes in Scotland are

private for-profit (59%), with the third sector accounting for 27%, and local authority or Health Board provision accounting for only 14%. As The Ferret has revealed, dozens of Scotland's care home buildings are owned by companies based in tax havens and controlled by global hedge funds, private equity and the Chinese government.<sup>118</sup>

Even prior to the crisis, private care providers faced financial difficulties, with frequent changes in ownership creating challenges for local authorities. One of the problems embedded in a for-profit model of care is that providing dignity to people runs at odds with a drive to maximise shareholder returns. The private care sector is also low paid, with more than half of frontline care workers in the UK being paid below the real cost of living and many on zero-hour contracts. As employment law is overseen at Westminster, one way in which the Scottish Government can gain greater oversight in care is to initiate a National Care Service. As UNISON has suggested<sup>119</sup> a new National Care Service could deliver the vast majority of social care through public funding, with the aim of enhancing pay and conditions as well as collective bargaining powers, tackling the tension of delivering care through for-profit models, and allow for better long term planning through greater financial stability.

More broadly, while steps to increase the public's stake in the economy are positive, democratising companies<sup>120</sup> should be a core component to any democratic public ownership strategy. While corporate governance is largely a reserved power, Scotland could take steps to integrate best practices into publicly owned and managed companies and services, by, for example, ensuring that 45% of a company board is elected by the workforce and bringing in fair pay ratios<sup>121</sup>.

## 6 Stewarding land

Land reform has been one of the crowning achievements of the Scottish Parliament. However, land reform should not be viewed as a one-off event but rather an ongoing process, not least given Scotland still has one of the most unequal patterns of land ownership in Europe despite legislative action. An archaic and dysfunctional land market continues to lie at the root of many of Scotland's most pressing challenges – including the housing crisis, inequality and environmental breakdown. There is still a long way to go before Scotland's system of land ownership, governance and use is fit for purpose for a modern, progressive democracy. In this section we outline a series of reforms that should be included in the next phase of land reform in Scotland, which should commence as soon as possible.

### — Land acquisition and compensation

As noted above, solving the housing crisis and tackling the climate emergency requires an ambitious plan for building a new generation of affordable, zero carbon housing. Because land acquisition is usually the largest single cost, and often the first one to be incurred, the price paid for land determines much of what happens later in the process.

Ever since the state withdrew from development on a large scale in the 1980s, Scotland has been reliant on private developers to develop land and build housing. These companies operate what is known as a 'speculative' model of house building, which is a cyclical process of

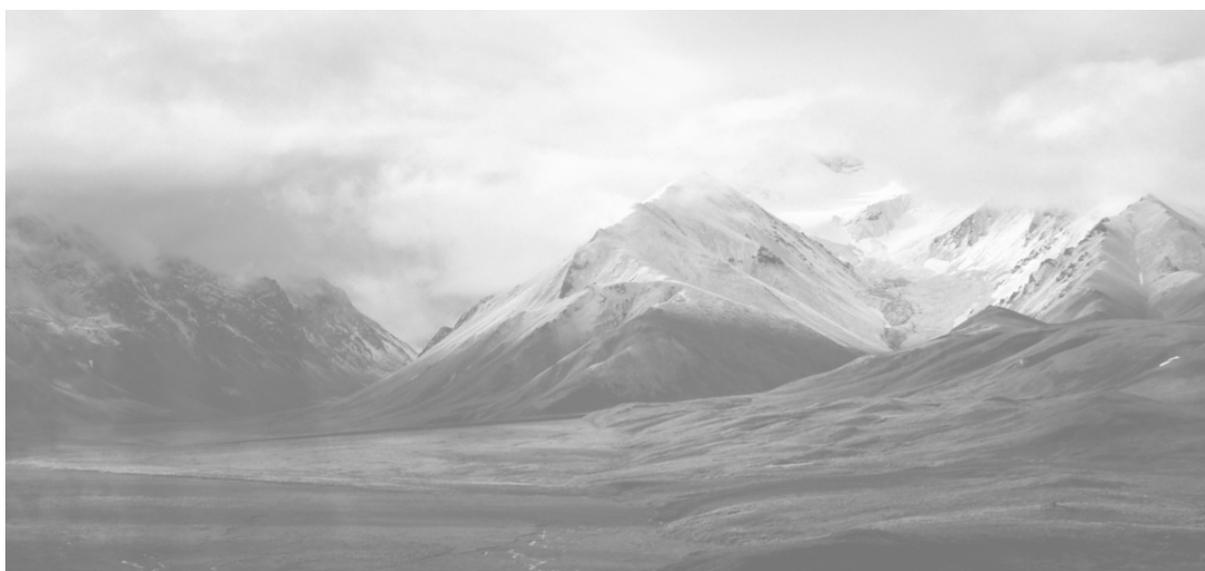
raising finance, buying land, securing planning permission, constructing the homes and finally selling them.<sup>122</sup> The duty of these companies is to their shareholders, and they will shape the built environment in whichever way will maximise shareholder value. In practice, this often bears little resemblance to the type of buildings, tenures and amenities that Scottish communities actually require.

Moreover, after securing land developers face a strong incentive to 'drip feed' new homes onto the market, as releasing too many homes at once could reduce house prices in the area, which in turn would undermine profits. Housing supply is therefore determined not by housing need, but by the 'market absorption rate' – the rate at which newly constructed homes can be sold into the local market without materially disturbing the market price.<sup>123</sup> As long as this remains the case, it will be extremely difficult to deliver step change in the number of new homes being built.

Lessons from around the world, as well as from the UK's own history, indicate that development is more effectively led by bodies that are democratically accountable with a duty to serve the public interest, working in partnership with planning authorities, landowners and other relevant stakeholders. One way of doing this is to establish a new, democratically accountable 'Scottish Land Development Agency' with the power to purchase, develop and sell land and ensure that this key resource is being managed strategically in the public interest. The Agency would not replace private developers altogether, but would act as the 'prime mover' in the land market, working in partnership with local authorities, small and medium sized house builders, landowners and citizens to ensure that enough land is brought forward to deliver housing, infrastructure, new towns and regeneration projects.

Once land has been assembled, the Agency would contract out construction to housebuilders, prioritising local small and medium-sized firms, who would compete with each other on the basis of quality and design of house building. This means that the success or failure of private developers would be determined by construction quality rather than by their ability to navigate the speculative land market. Once construction is completed, the sites could either be kept in public ownership and used for social housing, or sold on for homeownership. If implemented effectively, this would be a powerful way to break the logjam in housing supply and make the market work more efficiently in line with the public interest.

In recent years, the idea to establish a new public body of this type has been recommended by the Land Reform Review Group,<sup>124</sup> the RICS Scotland Housing Commission<sup>125</sup> and the independent Commission on Housing and Wellbeing.<sup>126</sup> Any new entity would likely



need borrowing powers, and would also need to be sufficiently well resourced. Financing could be provided by the Scottish National Investment Bank as part of its placemaking mission.

This approach would be even more powerful if combined with reforms to enable the Agency to purchase land at low cost and capture land value uplift. The question of who captures the increase in the value of land that results from the granting of planning permission and new infrastructure, and how this is used, has been at the centre of land reform debate for centuries. In many countries, the planning system or compulsory purchase laws enable the uplift generated by planning and collective development to be captured by the state. This was also historically the case in the UK – a system that was perhaps most successfully used to deliver the New Towns programme which began in 1946.

However, under the current legal framework, public authorities are prevented from purchasing land at existing use value and capturing the uplift. The 1959 Town and Country Planning (Scotland) Act reinstated the principle that landowners are entitled to ‘hope value’ on any land compulsorily purchased. In practice, this means that where public authorities wish to purchase land for development, landowners are compensated not on the basis of what the land is actually worth at the time, but on the basis of what it one day might be worth if it ever got residential planning permission. In other words, the changes meant that the benefits from rising land values would flow to landowners rather than the general public.

Planning authorities are able to capture a small amount of the uplift through negotiated legal agreements called Section 75 (S75) agreements, which place obligations on developers to ensure that part of the planning gain goes towards benefiting local communities, for example through affordable housing or leisure facilities. However, the value of Section 75 contributions tends to be relatively small compared with the total land value uplift. For example, the Centre for Progressive Policy estimates that S75 contributions in the Edinburgh City Region amounted to £32 million in 2015-16, while the total land value uplift amounted to £350 million.<sup>127</sup>

Reinstating the ability of public authorities to acquire land at near use value would mean that public authorities, rather than the landowner, would capture the uplift the value of land, unlocking significant funds for infrastructure and development. One way of doing this could be to make relatively small amendments to the 1963 Land Compensation Act so that, going forward, no account is taken of prospective planning permissions with regards to compensation for land designated for housing and infrastructure. Although this relates to compulsory purchase orders (CPOs), in reality it is likely that few CPOs would ever need to be issued. Evidence from Scotland’s own past, and from equivalent countries, shows that the very existence of strong compulsory purchase powers can be enough to shift the balance of incentives in the operation of the land market. In the knowledge that the land could be purchased by the state at near use value, landowners would be incentivised to part with land at a low but fair price.<sup>128</sup>

## — Land ownership and use

In order to meet Scotland’s ambitious climate commitments, it is likely that a sizeable area of Scotland’s land will need to change use. According to the Committee on Climate Change Scotland needs to dramatically increase the rate of tree planting to around 15,000 hectares per year an absolute minimum (and ideally up to 24,000 hectares), and increase the rate of peatland restoration to at least 18,200 hectares per year.<sup>129</sup> However, much of the land that would be highly suitable for nature restoration is currently managed as part of private estates for grouse shooting or deer stalking. Scotland still has one of the most concentrated land ownership patterns in the world – just 432 people own half of Scotland’s land. Meeting Scotland’s climate commitments will therefore likely require changes to land ownership, particularly where

landowners are not willing to invest in restoration at the scale and pace required.

At the same time, in 2019 there was over 2,000 hectares of vacant urban land, and over 8,000 hectares of derelict land in Scotland.<sup>130</sup> Much of this land has remained in the same state for decades. Almost a third of the Scottish population lives within 500 meters of a derelict site, and in deprived communities that figure increases to 55%.<sup>131</sup> There is little justification for having large amounts of land lying vacant or derelict in urban areas, particularly when land for housing is in short supply, therefore steps need to be taken to bring vacant and derelict land into sustainable use.

While Community Right to Buy continues to be an important mechanism for diversifying landownership in Scotland, high land prices mean that many communities cannot afford to pursue buyouts, even with support from the Scottish Land Fund – as the example of the Langholm Initiative’s attempt to buyout land on the Buccleuch Estate demonstrates.<sup>132</sup>

We therefore recommend that the Scottish Government brings forward new legislation to tackle Scotland’s concentrated pattern of landownership and bring land into sustainable use. This should include:

- Introducing an upper limit on the total amount of land in Scotland that can be held by a private landowner or single beneficial interest, as was recommended by the Land Reform Review Group.
- Strengthening Community Right to Buy powers to enable communities to acquire land at below market value.
- Granting local authorities the legal power to issue Compulsory Sale Orders to bring land which has been vacant or derelict for a defined period into public use by selling it via public auction, as the Scottish Government has already committed to doing.

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### — **Re-commoning Common Good property**

Common Good Funds are a special type of property owned by local authorities in Scotland, which are legally distinct from all the other property which they own. These Funds are of ancient origin and consist of property that previously belonged to one of Scotland’s burghs. By far the largest component of Common Good Funds is heritable property which mainly consists of public buildings and public spaces, such as parks, farmland and salmon fishings.<sup>133</sup>

The ownership of these Common Good Funds has undergone a series of changes as a result of local government reforms in Scotland since the Second World War. Common Good Funds were owned by 196 burghs at the time of the Local Government (Scotland) Act 1947, when the burghs became managed by Town Councils. Subsequently, when the Local Government (Scotland) Act 1973 abolished Scotland’s Town Councils, legal title to Common Good Funds was transferred to the new District Councils and then, in 1996, to Scotland’s current local authorities under the Local Government (Scotland) Act 1993. Throughout this period of change, the status of Common Good property has been degraded and many Common Good assets have been lost.

The Community Empowerment Act (Scotland) 2015 placed new duties on local authorities in relation to Common Good property. Authorities now have to ‘create and maintain a publicly available list of all their Common Good property’. It also requires local authorities to publish their proposals and consult community bodies before disposing of or changing the use of Common Good assets.

However, in order to truly restore the original purpose of the Common Good Funds to people and place across Scotland, it is necessary to go beyond empowering local authorities to

exercise more control over these assets and instead seek ways to ensure that the management, ownership, and governance of the Common Good is redistributed down to the lowest level. As the Centre for Local Economic Strategies (CLES) has proposed, this can be done by introducing a new Common Good (Scotland) Act to 're-common' the Common Good. This would provide a new statutory framework to modernise Common Good law and replace the original Act of 1491. The Act would retain the original purpose of the 1491 legislation but update it into a modern context, and help to restore the stature of Common Good property.<sup>134</sup>

The purpose of this Act would be to go beyond the local authority focus offered by the Community Empowerment legislation, and instead provide formal mechanisms for the residents of former Burghs to exercise direct democratic control over Common Good assets. In line with the CLES proposals, we recommended that a new Common Good (Scotland) Act should include the following provisions:

- an explicit statement that the purpose of the Act is to uphold the concept of the Common Good in accordance with the original Act of 1491, and that the Scottish Government considers Common Good a legitimate and necessary legal frame through which to make Scotland's land more productive, accountable, and sustainable;
- provides a clear definition of the Common Good, which should consider the current imprecision on the distinction between alienable and inalienable land; and
- gives the residents of former burghs the right to exert control over Common Good assets and Common Good Funds through a local 'Common Good Council'.

# Conclusion

We face an acute crisis on multiple levels. The immediate public health emergency poses a threat to life and has triggered a profound economic downturn, bringing with it the prospect of mass unemployment. The scale of this crisis is unprecedented and has shone a spotlight on injustices and insecurities embedded into our economy that long predate it. The climate crisis rages on and remains the single biggest threat to our future.

A strategy for recovery must centre on providing a sustainable and just transition. Driving both climate breakdown and economic injustice is an economic model rooted in extraction and financialisation.

It is increasingly clear that the current economic model is not fit for purpose. As we battle with the immense upheaval and uncertainty of the current environment, now is a time for bold thinking and action, to fundamentally shift how our economy operates and in whose interests, and lay the foundations for a more equitable, sustainable, and democratic system based on a pluralistic landscape of common and democratic ownership.

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