

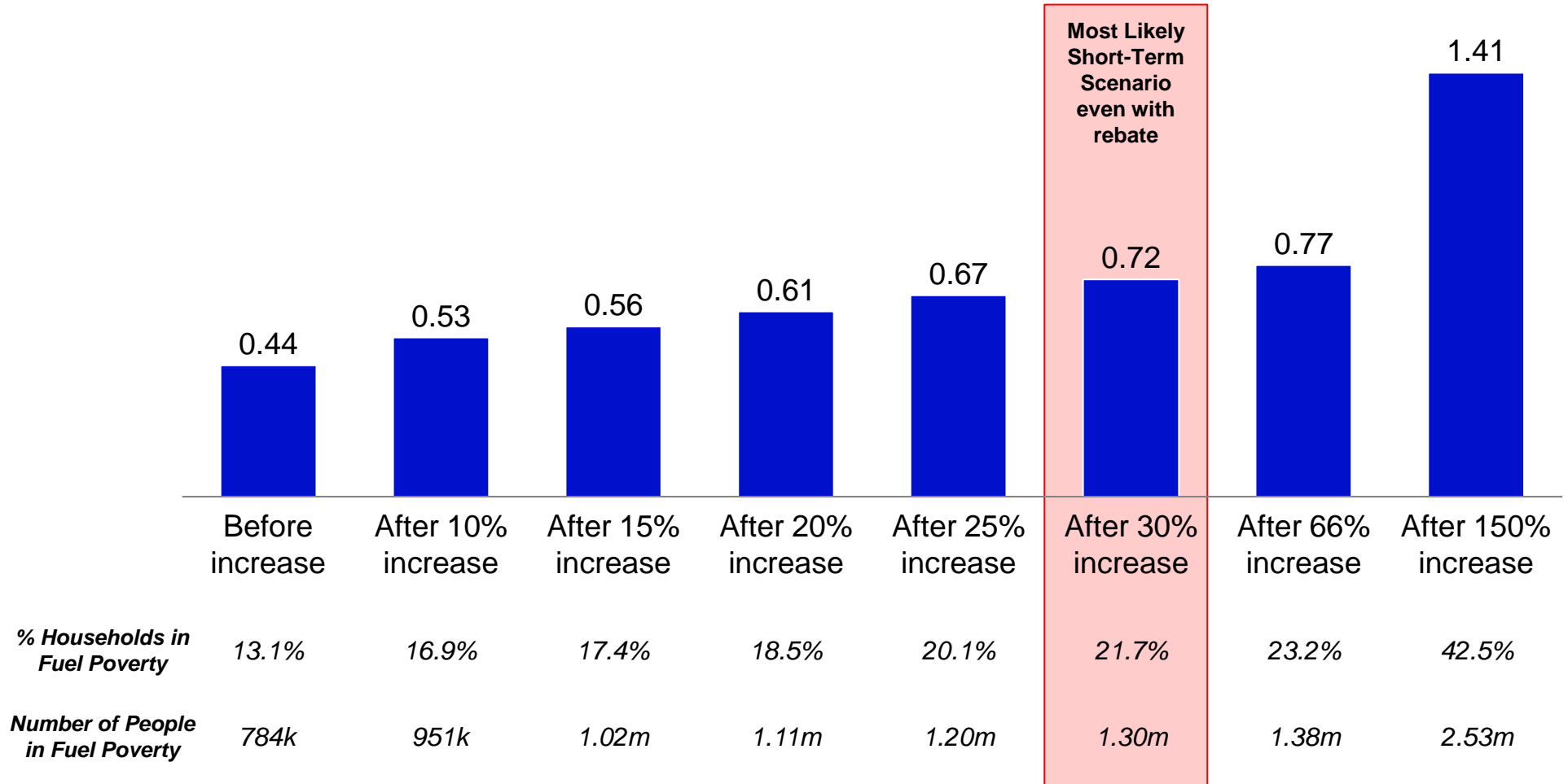
Our Scottish Future Economy Commission
Co-Operating To Solve the Cost of Living Crisis
GB Presentation

Our
Scottish Future



All households will feel this squeeze, but an energy price rise even after mitigation will push over half a million more Scots into fuel poverty

Forecast Number of Scottish Households in Fuel Poverty by Energy Bill Increase, (# households)



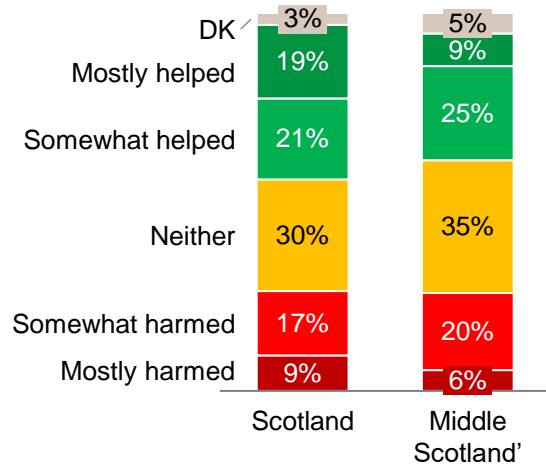
Source: Prof Jonathan Bradshaw (York University)



We believe cooperation through a real plan for economic change is the way to tackle this – and think voters agree with us

Scots believe that being part of the UK has helped Scotland's response to the pandemic...

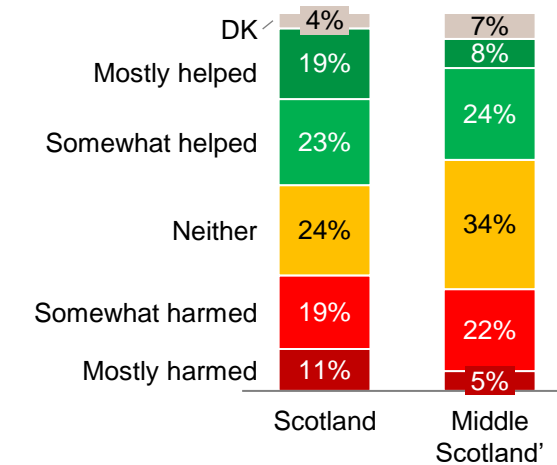
Do you think that Scotland being part of the UK has helped or harmed Scotland's health response to the pandemic?



- By a majority of 41% vs 26% Scots think that being part of the UK helped Scotland's health response to the pandemic rather than harmed it – driven primarily by the vaccine, furlough
- This is also true for 'Middle Scotland' (33% vs 26%)

...And on balance its membership of the UK should help Scotland's Economic Recovery

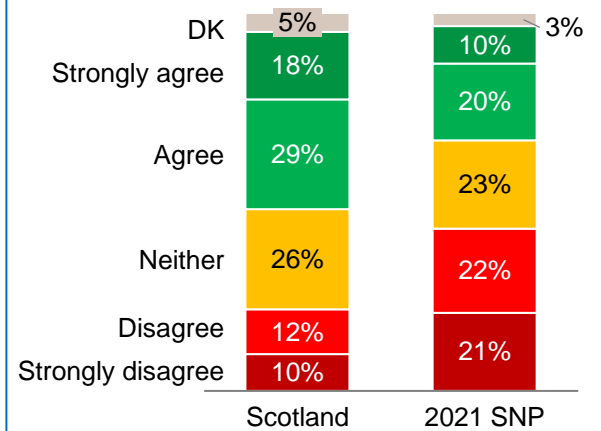
Do you think that Scotland being part of the UK will help or hinder Scotland's economic recovery?



- By a majority of 41% vs 31% Scots think that being part of the UK should help Scotland's economic recovery
- This is also true for 'Middle Scotland' (32% vs 27%)

Therefore a plan for a changed Britain could be better than Independence for Some

To what extent do you agree with each of the following statements: A serious plan to change Britain could be more attractive than independence for Scotland?



- Over 2x as many Scots agree vs disagree that a real plan for change in Britain could be more attractive than independence (47% agree vs 22% total disagree)...
- ...Including c.30% of 2021 SNP List Voters



Scots – especially those in lower income brackets - expect the Cost of Living Crisis over the next year to inflict more harm their finances than COVID did

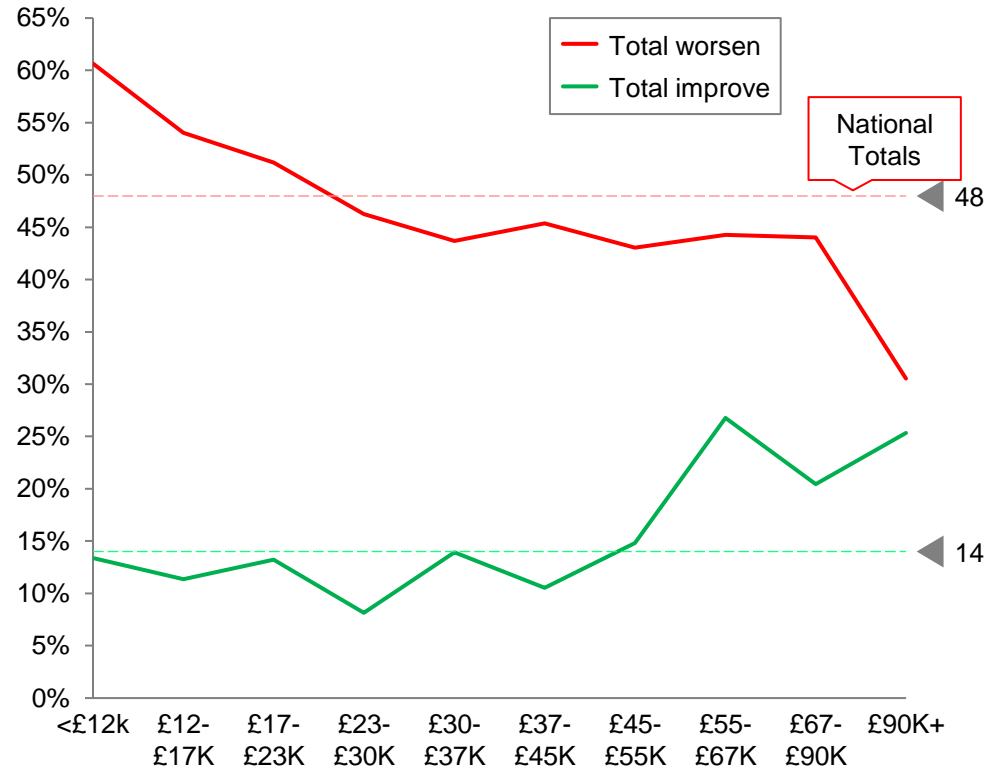
Impact of Covid vs Cost of Living Crisis on Personal Finances

48% of Scots think their personal finances will worsen over the next year, compared to 37% who felt Covid made them less financially secure

Since Covid hit, would you say that you are more financially secure or less financially secure?



How do you feel your personal financial situation is going to change over the next year?

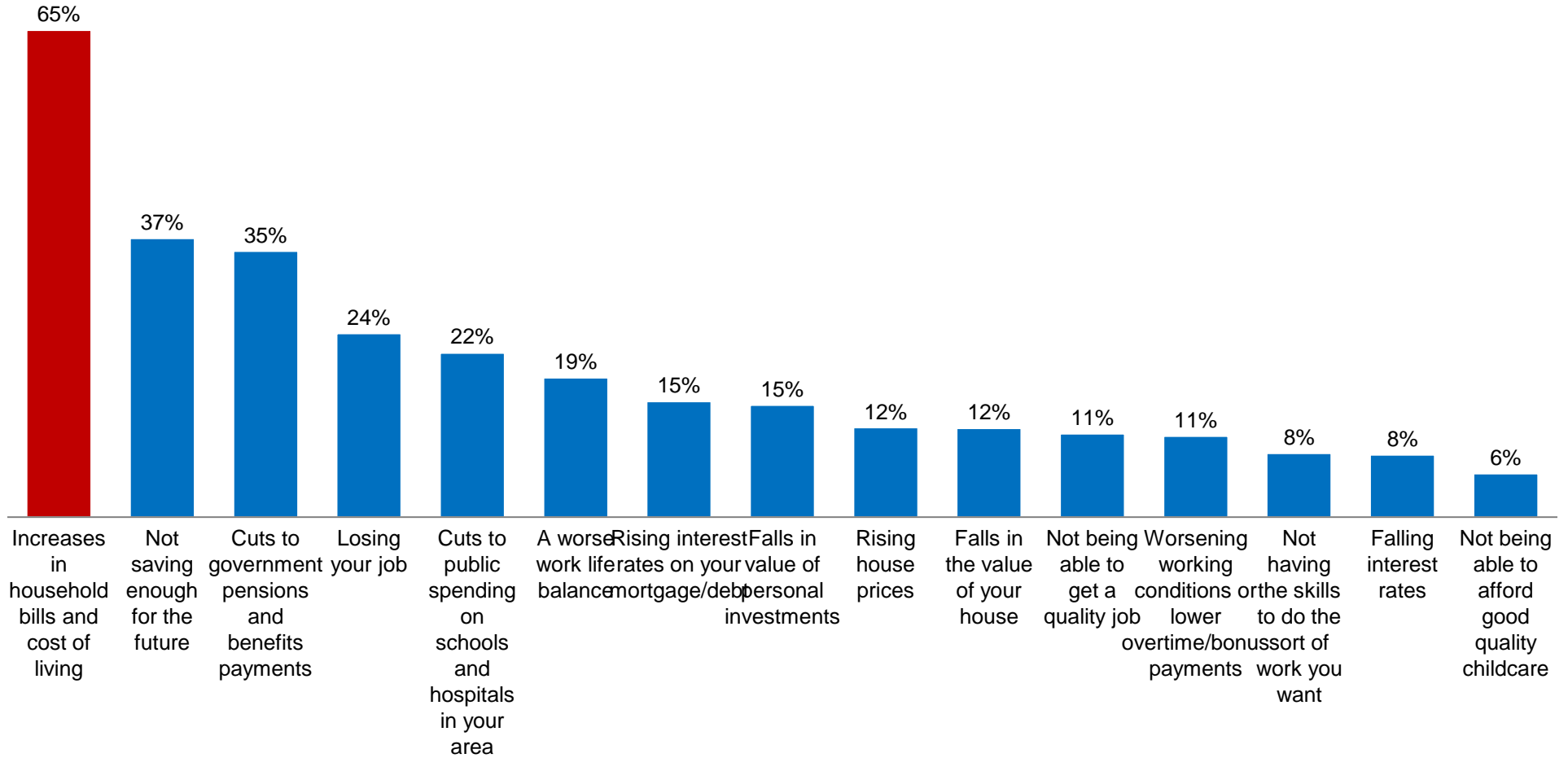


Source: OSF Survey February 2022 (2,005 responses)



The Cost of Living is by far the #1 personal financial fear for Scots of all demographic and income segments

Out of the following, what are your top 3 fears relating to your personal finances and worklife? % included in top 3

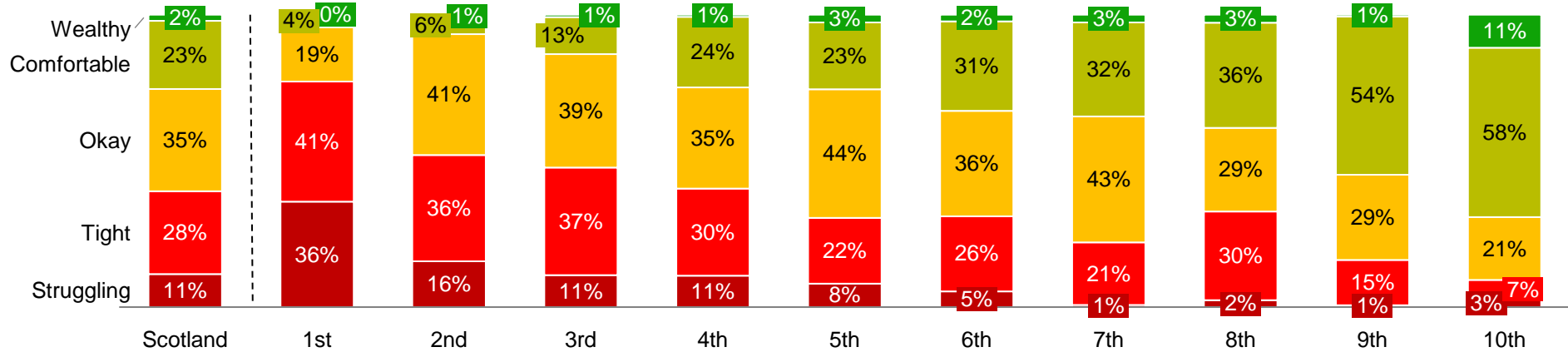


Source: OSF Survey February 2022 (2,005 responses)

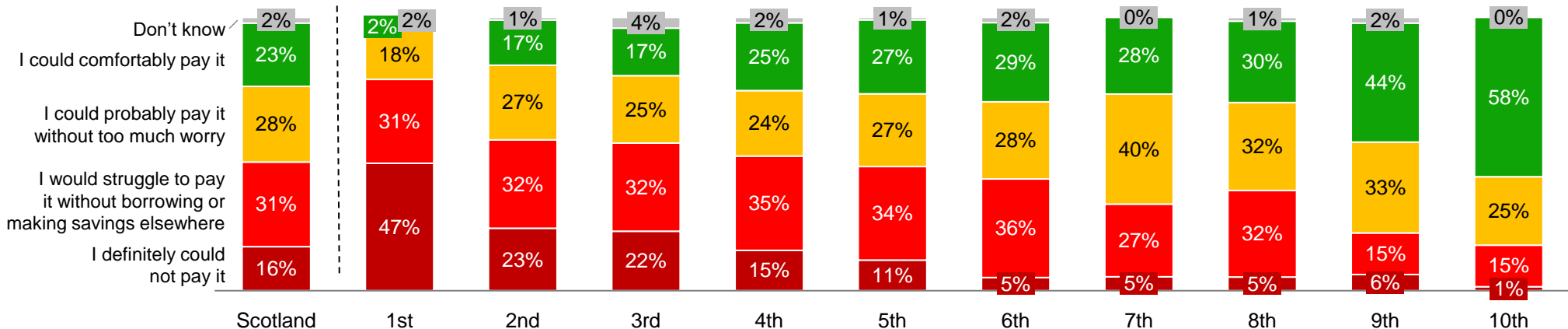


Around 40-50% of Scots feel financially vulnerable – around double the official poverty rate

How would you describe your and your family's financial situation? (by Income Decile)



If you received an unexpected bill for £500 (e.g. for boiler or car repair), how would that affect you? (by Income Decile)



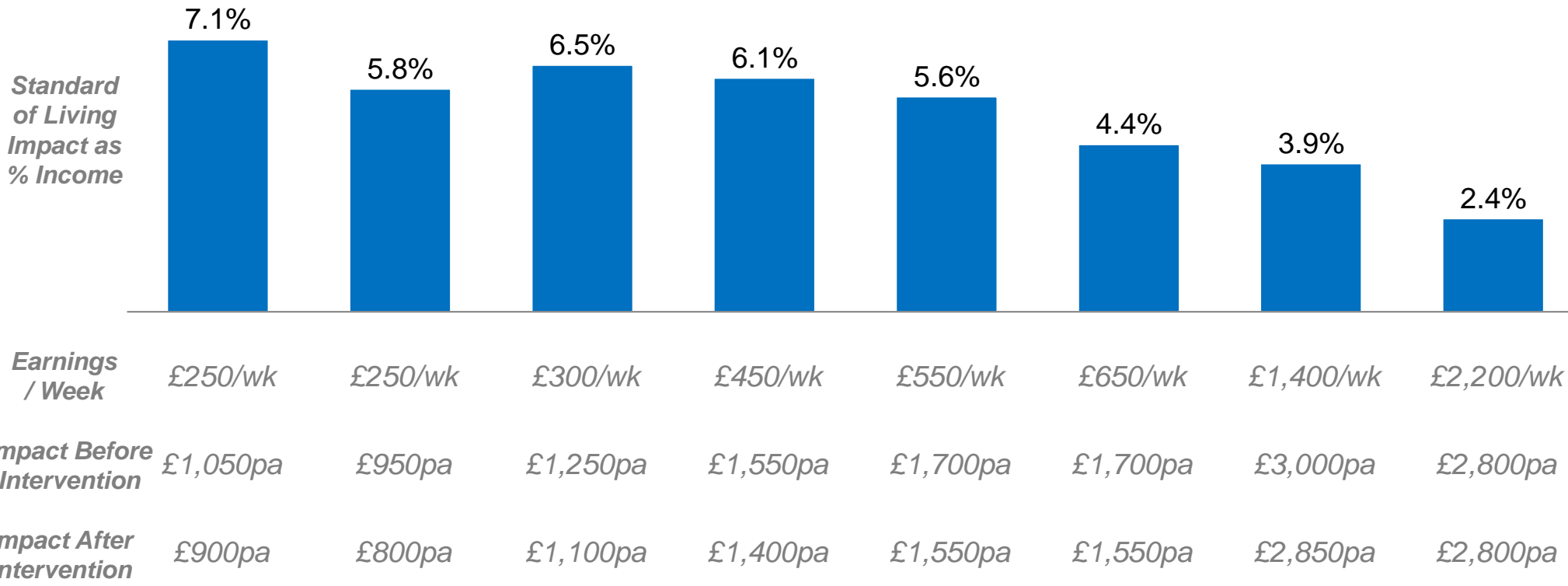
Source: OSF Survey February 2022 (2,005 responses)



The impact of the cost of living crisis will be felt unevenly – with the lowest income working-age households unsurprisingly the worst hit as a % income

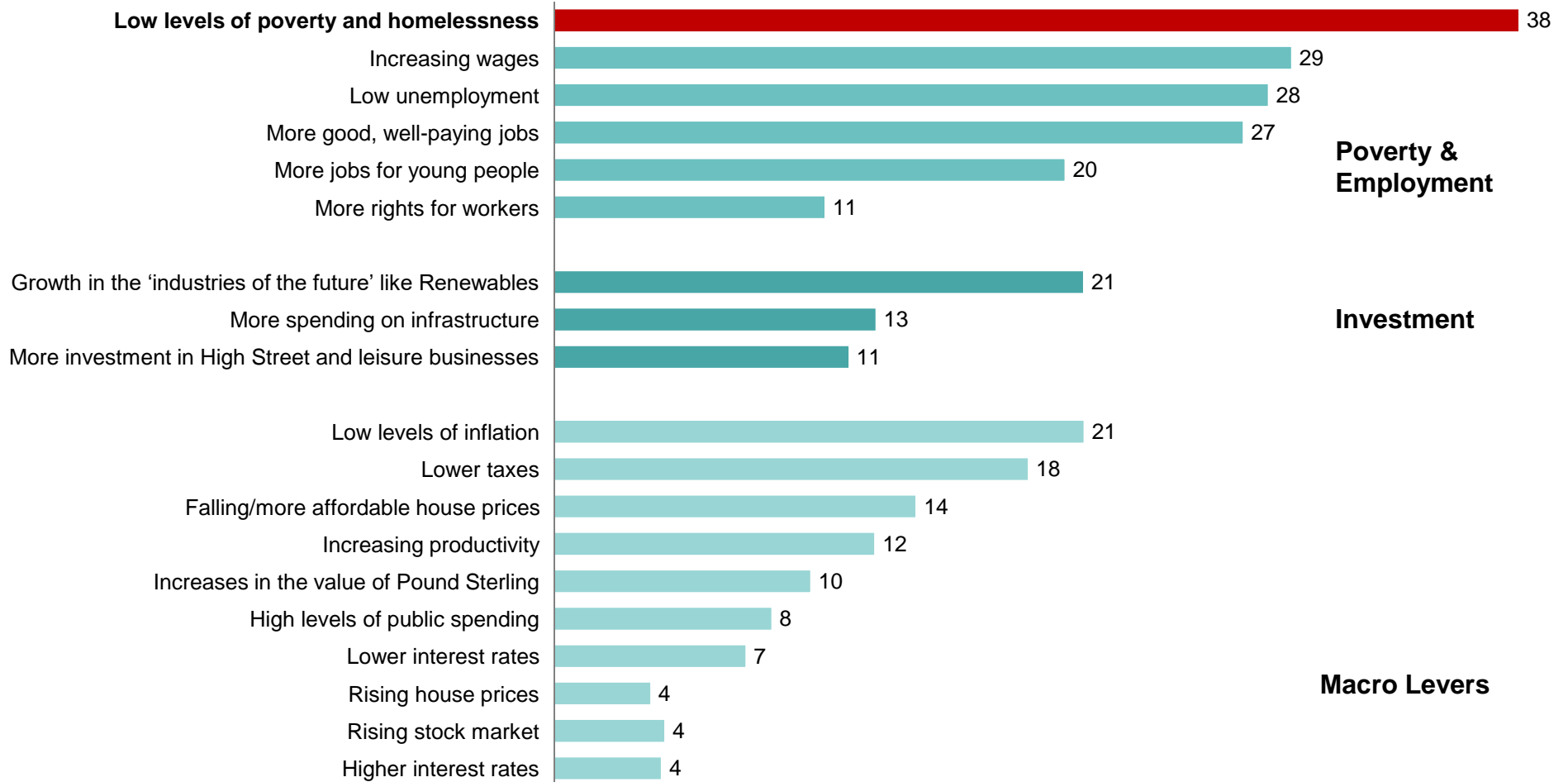
Forecast Cost of Living Impact

Note: Have assumed those households that are renting are renting in Glasgow which has experienced the greatest increase in average rents over the past year



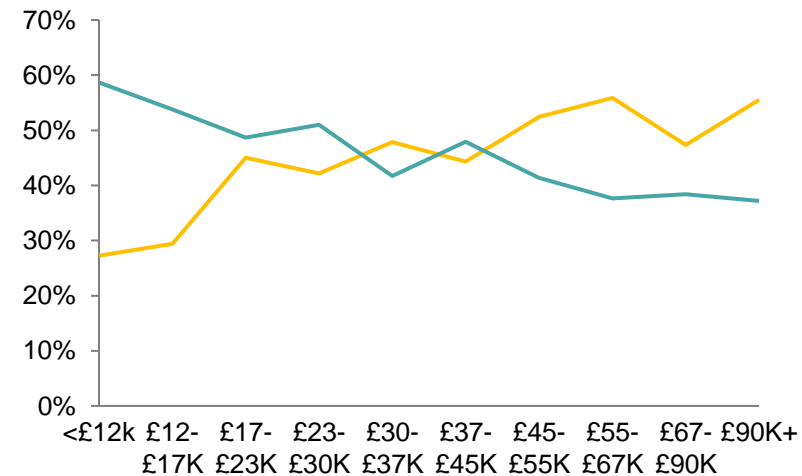
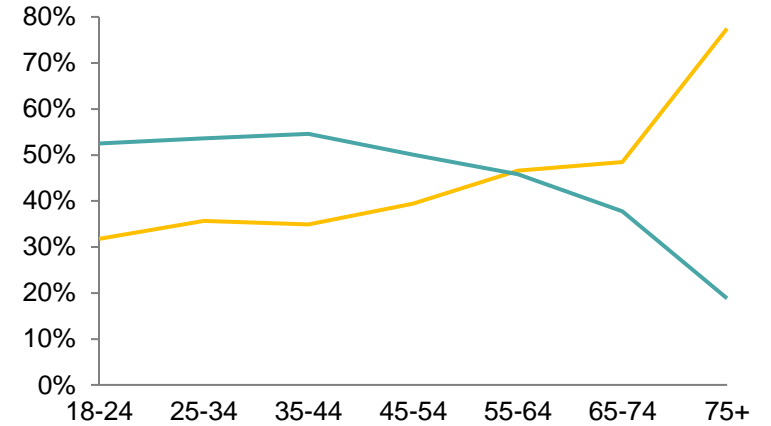
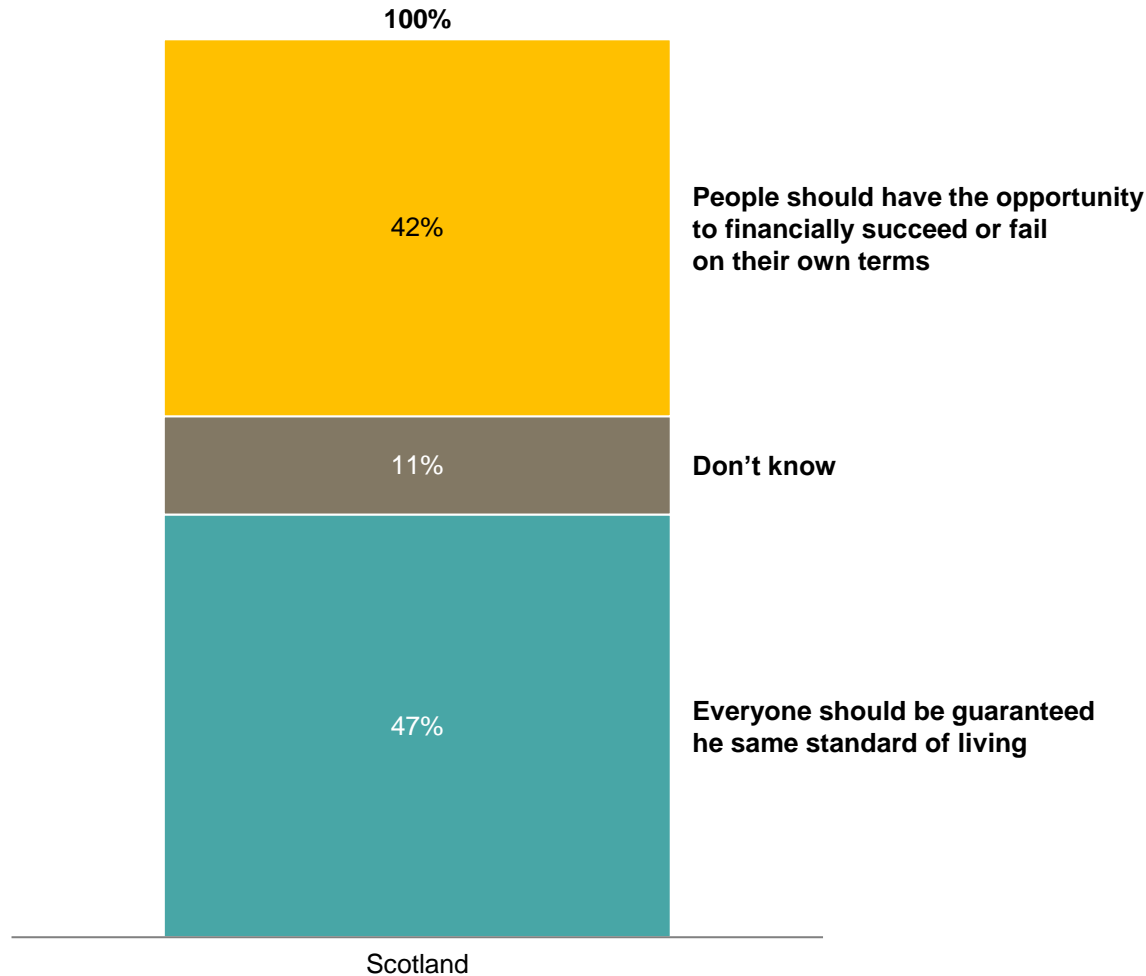
Scottish people are concerned about poverty and what is happening to their fellow Scots – hoping for poverty relief over any other macro indicator

Out of the following options, what are your top 3 hopes relating to the wider Scottish economy? % included in top 3






In most polls Scots – in particular the young – show a desire for more equality of outcome vs opportunity

Thinking about financial security, which statement best reflects your view?



The short-term Cost of Living Interventions from both governments make similar mistakes around a lack of targeting at those who will need it the most

Intervention	 Median Scot	 Struggling Single Parent	 Better-Off Bankers	Issues
	Impact (% Change Standard of Living)			
UK Government Energy Bill Rebate	£200 3.9% <i>without</i> 3.3% <i>with</i>	£200 (or £0) 7.0% <i>without</i> 5.5% <i>with</i>	£200 2.0% <i>without</i> 1.8% <i>with</i>	<ul style="list-style-type: none"> Fundamentally a loan that is repaid over next 4 years Very poorest households who pay for energy on key cards may not be reached by the rebate
Scottish Government Council Tax Rebate	£150 3.9% <i>without</i> 3.4% <i>with</i>	£150 7.0% <i>without</i> 5.9% <i>with</i>	£0 2.0% <i>without</i> 2.0% <i>with</i>	<ul style="list-style-type: none"> Not very targeted measure: over 30% of those in highest income decile benefiting, and low earners in larger properties missing out Scotland did extend measure to include all on Council Tax Reduction However those exempt from council tax (e.g. students) will not benefit
UK Government Council Tax Rebate	£150 3.9% <i>without</i> 3.4% <i>with</i>	£150 7.0% <i>without</i> 5.9% <i>with</i>	£0 2.0% <i>without</i> 2.0% <i>with</i>	<ul style="list-style-type: none"> As in Scotland, the measure is untargeted, meaning available funds are spread too thinly to properly support people through the crisis
Scottish Government Additional £10m for Fuel Insecurity Fund	n/a	n/a	n/a	<ul style="list-style-type: none"> Fund is managed via Local Authorities It's the right kind of support, but the urgency of the situation means that proactive and direct measures would be more effective, rather than wait for Local Authorities to become aware of a family in crisis

Source: ONS, Statista, Scottish Government, Fraser of Allander, Financial Times

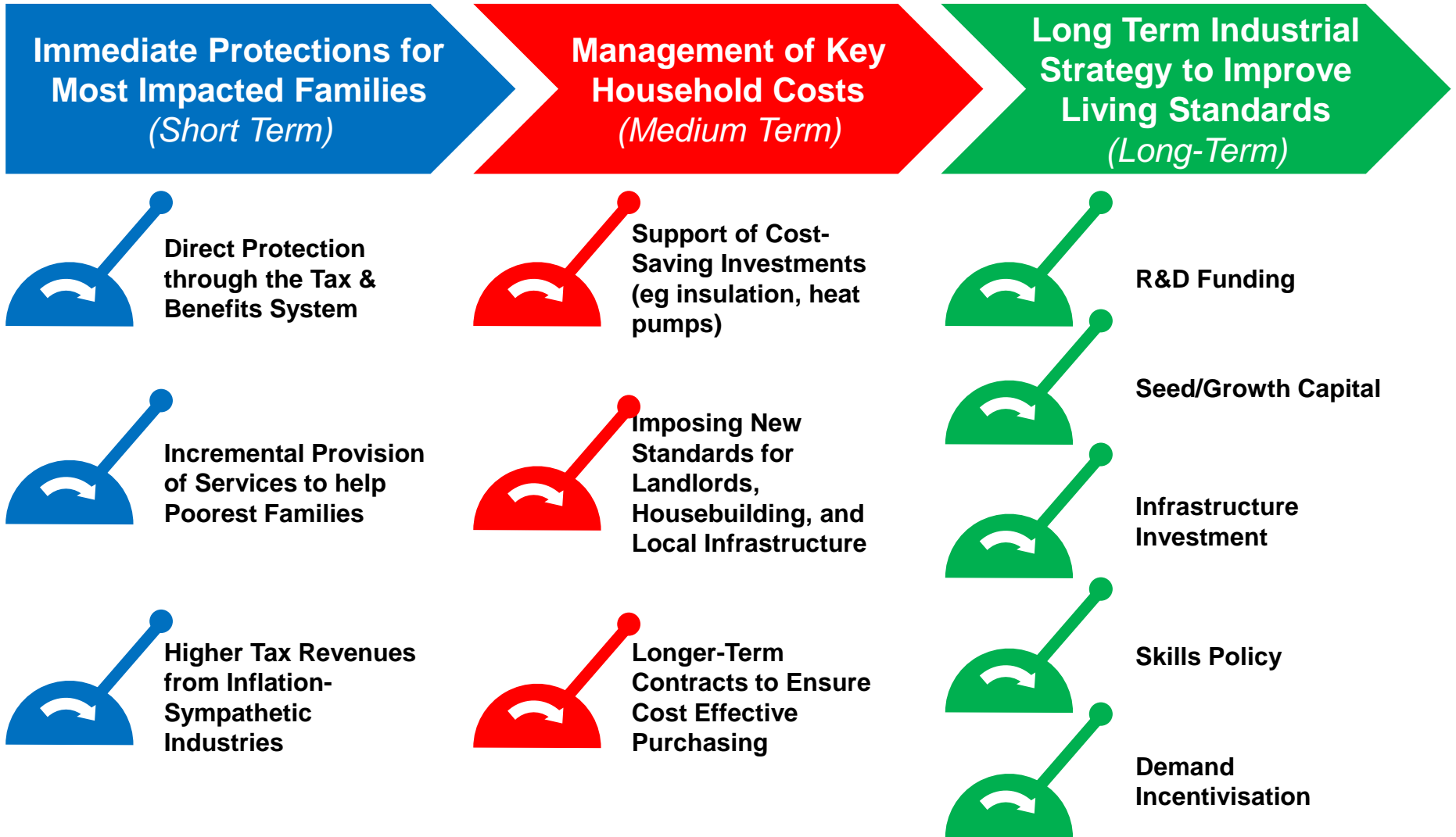
In the short term support must be directed to the most needy households as quickly as possible: UK institutions and systems will be required to do this

Suggested Policies for
Short-Term Relief



Intervention	Median Scot	Struggling Single Parent	Estimated Cost to Taxpayer	Commentary
	Impact			
Reinstate Universal Credit £20 Uplift	£0-£1k	£1k	£6bn (UK)	<ul style="list-style-type: none"> The £20 uplift to Universal Credit introduced during the pandemic should be reinstated during this period of high inflation; it is relatively well targeted, and its regular nature is helpful for financial planning
Refocus Rebates Through DWP or Energy Companies	£0	£300 (£150 extra)	n/a	<ul style="list-style-type: none"> Focusing the £290m Kate Forbes package on the bottom 40% of households to give them £300/head each This should be directed through existing DWP or HMRC systems (or even utility companies) rather than waiting for a Scottish-specific processing solution
Uprate Benefits In Line with Inflation	£0-£50	£150-200	£7.5bn	<ul style="list-style-type: none"> Benefits are currently set to increase by 3.1%, well below the 6%+ likely in 2022, and 7%+ peak in April 2022 These should be uprated from this April in line with current inflation (7% increase would be £7.5bn)
Extend Covid Eviction Laws	n/a	n/a	n/a	<ul style="list-style-type: none"> There is a risk that rising bills for essentials will leave people short for what is often their biggest expense – rent In the acute phase of this cost of living crisis, families should be given longer to respond to and move after eviction notices
Postpone National Insurance Rise to help lower deciles	£250	£0-50	Up to £12bn (UK)	<ul style="list-style-type: none"> The policy should be delayed and reviewed given the CoL crisis E.g. threshold for the Social Care Levy could be raised to exclude the bottom 30-40% of earners, at least in the immediate term

In addition to short-term levers, we believe that governments need to work together to deal with the medium- and long-term causes of inflation and high consumer costs



Control of most of these levers are shared, and it is beyond doubt that better co-operation can help make most of them more effective overall

	Control Today	Potential Benefits of Co-Operation
Direct Subsidy	Equal Holyrood/Westminster	<ul style="list-style-type: none"> • HMRC/DWP the fastest, most effective, and economically discerning routes to peoples pockets • UKG borrowing/financing power enables larger overall financial envelope
Incremental Provision	Primarily Holyrood	<ul style="list-style-type: none"> • Best practice sharing around innovation and impacts (eg on extended Free School Meals) at a local level
Taxation	Primarily Westminster	<ul style="list-style-type: none"> • Borderless taxation within the UK far harder for large companies to hide from
Investment Subsidy	Primarily Holyrood	<ul style="list-style-type: none"> • Scaling up existing schemes between regions/nations of UK will lead to faster action than brand new schemes • Single schemes across UK better understood than regional/national schemes, and easier to navigate for equipment providers
Regulation & Standards	Equal Holyrood/Westminster	<ul style="list-style-type: none"> • Ability to pool and share risks/upside of regulations across broader economic base increases fairness • Real reduction in trade friction only comes when regulations move in parallel: significant differences between Scotland and England could result in adverse incentives for largest employers
Scale Purchasing	Either Holyrood or Westminster	<ul style="list-style-type: none"> • UK public procurement power greater than Scotland alone for key categories (cf testing/PPE in the pandemic), enabling greater scale discounts
R&D	Primarily Westminster	<ul style="list-style-type: none"> • Combining institutions across the UK into relevant programmes (as Horizon does across the EU) should improve impact • Shared priorities on key industries should enable greater focus on where Scotland wants to win
Capital	Equal Holyrood/Westminster	<ul style="list-style-type: none"> • Scotland should be able to benefit more from London/the South East's VCs and PE firms • The UK public purse as a whole has more power to stimulate growth in key sectors
Infrastructure	Primarily Holyrood	<ul style="list-style-type: none"> • UK financing and capital raising ability critical for funding new telco/transport infrastructure • Cross-border transmission infrastructure critical for maximising renewable energy potential
Skills	Primarily Holyrood	<ul style="list-style-type: none"> • Scotland can access UK skill development courses/resources beyond its borders, as well as skilled individuals living in the rest of the UK to kick-start growth industries
Demand Incentivisation	Either Holyrood or Westminster	<ul style="list-style-type: none"> • Similarly as for Scale Purchasing – financial power of whole of UK greater for stimulating innovation than Scotland alone

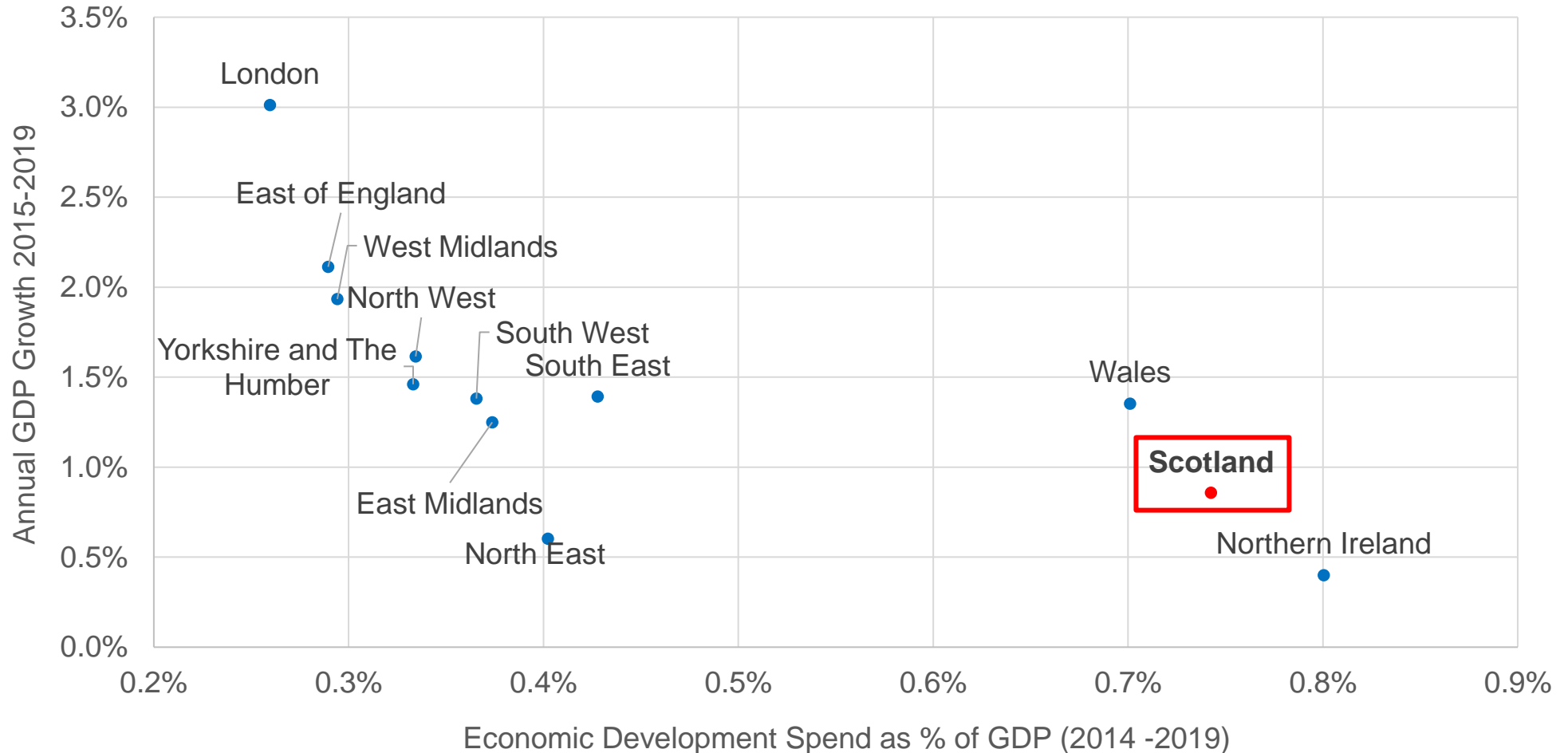
In the medium-term, a joint policy agenda could bring down the cost of housing and utilities for all Scots

	Policy	Description
Increasing Accessible Housing Supply	Land value taxation	<ul style="list-style-type: none"> Reducing practice of landbanking by housebuilders – creating more of a ‘use it or lose it’ mentality to development
	Local Taxation Variations	<ul style="list-style-type: none"> Allowing local caps for LBTT to vary against house prices (eg for Glasgow), and allowing taxation of second home ownership on a recurring basis
Lowering Housebuilding Costs	Timber Frame/MMC Capacity Investment	<ul style="list-style-type: none"> Investing in modular/offsite housebuilding methods to reduce costs and increase industry capacity in Scotland
Securing Renters	Rights to Long-Term Rent Guarantees	<ul style="list-style-type: none"> Hedging long-term rental agreements to interest rates/mortgage costs rather than house price inflation
	Superior Housing Standards	<ul style="list-style-type: none"> Improving insulation and upkeep requirements using existing landlord register system
Reducing Home Heating Costs	Upskilling and Capitalising Insulation Programmes	<ul style="list-style-type: none"> Jointly investing in new skills, and procurement of materials across Scotland and UK to speed up currently separate insulation installation programmes
	Investing in Heat Pump Manufacturing	<ul style="list-style-type: none"> Joint investment in/procurement of (/market making for) domestic heat pump manufacturing that can reduce individual home heating costs by 25%
Right to Infrastructure	Scottish Water Debt Forgiveness	<ul style="list-style-type: none"> Taking a poverty lens to water bill debt with state-owned Scottish water
	Cheaper Bus and Train Fares	<ul style="list-style-type: none"> Investing in capacity to drive up ridership and drive down prices for most
	Free Basic Data	<ul style="list-style-type: none"> Working with telecoms companies to extend some COVID policies



Despite fine words Scotland's spending on Industrial policy has barely created any growth over the last 5 years

UK Spending on Enterprise and Economic Development as % GVA vs Economic Growth 2015-19 by Region

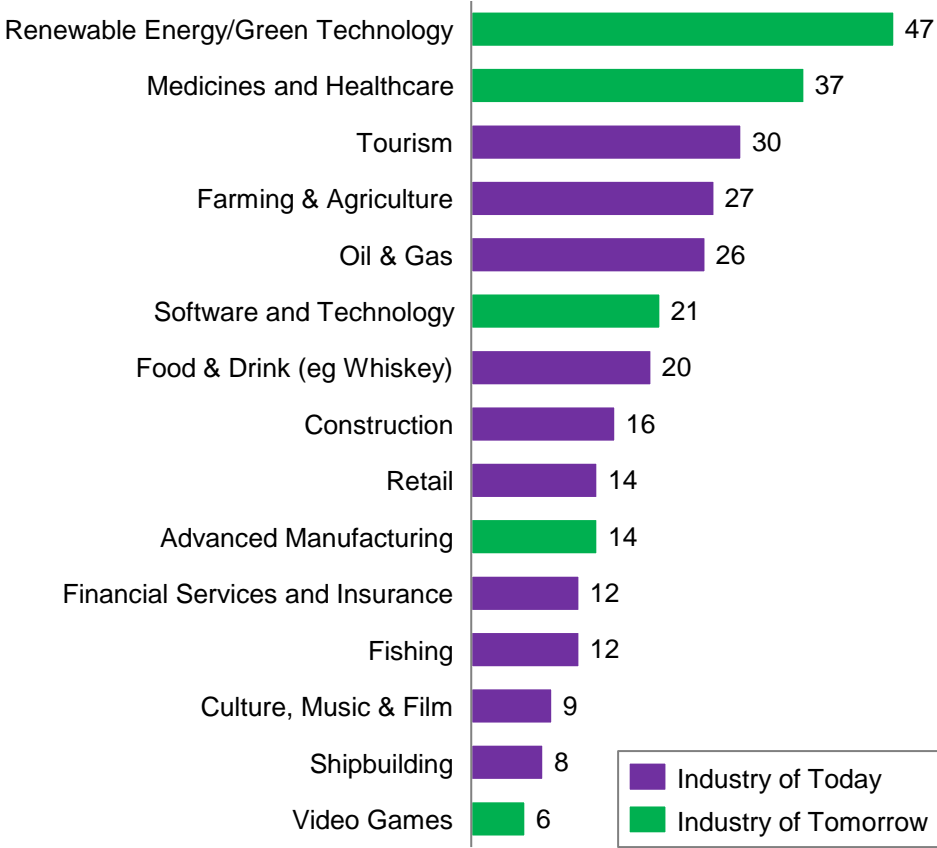


Source: ONS, Statista, Scottish Government



Specific plans are required for the industries Scots want to invest in, and cross-UK co-operation will be essential for any of them to be successful

Which Industries should Scotland’s Economy Prioritise?



	Importance of Co-Operation
Renewables	<ul style="list-style-type: none"> A serious plan for hydrogen, as well as incremental transmission capacity will be required to deliver on the promise of Scotwind A UK supply chain is more likely to be built up for renewables than Scotland-only
Life Sciences	<ul style="list-style-type: none"> NHS demand incentivisation (as seen for the vaccine) could be used to encourage private R&D spending Linking up Scottish universities with the golden triangle could increase pace
Tourism	<ul style="list-style-type: none"> C. 60% of total tourism spend in Scotland is domestic visitors A large proportion of international visitors also visit the rest of the UK
Farming & Agriculture	<ul style="list-style-type: none"> Post-Brexit agriculture subsidies will require fair distribution across the whole of the UK
Oil & Gas	<ul style="list-style-type: none"> One strategy required for UKCS – current mixed messages dampen investment that might be desired
Software & Technology	<ul style="list-style-type: none"> Building out current talent clusters can be accelerated by attracting scale-ups from South East England

The Scottish National Investment Bank – if made a co-operative institution with joint funding – could become the centrepiece of Scotland’s industrial strategy

The Scottish National Investment Bank – Maximising the Opportunity

- Substantial capital and investment is required to transition the Scotland to a higher productivity, greener, fairer economy than today
- The Scottish National Investment Bank – operating like a sovereign wealth fund – could be a huge component in that transition, but appears hamstrung by lack of capital and a tight definition of mission
 - Only c.£200-300m annual investment envelope
 - And only via debt/equity, not overlapping any existing agencies or private capital
- A more ambitious mandate could have greater impact
 - Involving UK Government – as well as representatives of Scottish regions – as co-investors
 - Aiming to create national champions in key industries of the future
 - Incentivising exports and job-creation
 - Partnering with private funds to bring more capital to Scotland
- **Over time this model could be extended by the UK Government so that it is a shareholder in multiple regional investment banks**

Today

- **Scottish Government**
- **£200-300m annual funding**
- **Debt & Equity, primarily to start-ups/scale-ups**
- **Focus on broad missions (Improving Places, Net Zero, Harnessing Innovation)**
- **Supporting scale-ups**
- **Direct investments, directly originated**

Who Owns It?

What Investments Does It Make?

What Mandate?

How Executed?

Tomorrow?

- **Joint Venture, led by Scottish Government**
- **£1bn+ annual funding**
- **Debt & Equity to start ups**
- **Export Guarantees**
- **Incentives to Invest in Scotland**
- **Focus on key industries (ie life sciences, digital, high tech)**
- **Supporting scale-ups**
- **Creating National Champions and ‘Hero’ hub employers**
- **Some direct investments...**
- **...But also indirect funding Scottish arms of existing successful VCs or bringing in industry-experienced co-investors**

Scotland can link up with the rest of the UK to campaign for change

Statement by the First Minister of Wales Tracy Brabin, West Yorkshire Combined authority, Andy Burnham, Greater Manchester Combined Authority, Jamie Driscoll, North Tyne Combined Authority, Nik Johnson, Cambridge & Peterborough Combined Authority, Sadiq Khan, Greater London Authority, Dane Norris West of England Combined Authority, Steve Rotheram, Liverpool City Region and former PM Gordon Brown from the Alliance for Full Employment:

April 2022 brings us the worst cost of living crisis for half a century. Six million low income families have already lost £20 a week because of the cut in Universal credit in October. Further cuts in the value of their incomes, as heating bills surge and food bills soar, will deepen the cost of living crisis millions face. They are unfair and for millions will be unbearable, pushing them over the edge into extreme poverty and unable to afford to heat their homes or provide the nutrition their children need.

Families and communities in every part of the United Kingdom face a heavy price of severe hardship, and each of us is deeply concerned about the damage that will be done to the cohesion of our whole country. In response, a group of us including the First Minister of Wales, Metro Mayors, and local authority leaders have come together from all parts of the country to make a special and unprecedented plea to the Chancellor.

In these extraordinarily difficult times, he must use his March 23 statement to:

- Halt the 1,.5% rise in the employees national insurance rates
- Restore the £20 a week taken away from 6m families last October
- Provide extra help for heating and launch an ambitious programme of financial support for insulation for the poorest families – going well beyond his previous inadequate offer – as an initial element of a comprehensive longer-term programme for housing retrofits
- Uprate benefits this year in line with the real inflation families are facing

We are already seeing the impact of rising poverty in all our areas. Nothing less than these four measures, introduced simultaneously on March 23, can prevent fuel poverty hitting millions more in our country, and stop poverty as a whole rising faster than at any time in recent history. At stake is unacceptable and avoidable suffering for millions of our fellow citizens – and especially for millions of children – across our communities.