

Rewiring Scotland

Scott Dickson

Eddie Barnes

Our
Scottish Future

About the authors

Scott Dickson works in English local government, and at the time of writing this report, was an independent researcher specialising in devolution and constitutional reform. Prior to this, he coordinated the work of Labour's Commission on the UK's Future and worked for several Scottish and UK Labour MPs

Eddie Barnes is the Director of Our Scottish Future

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Introduction

For a nation that is often characterised as being split down the middle, there is at least one issue on which there appears to be consensus - power does not lie close enough to the Scottish people. It is a view held by the First Minister – promising during his leadership campaign to “empower local communities.”¹ Similarly his SNP leadership opponent Kate Forbes floated the idea of breaking up the Highland Council on account of its sheer size, and criticisms of remote decision-making.² It is a view that cuts across party lines - all have criticised centralisation, and all have promised, to varying degrees, to redress this imbalance.³

This sentiment is not restricted to politicians in Holyrood. For this report, Our Scottish Future interviewed council leaders, MSPs, civil servants, economists, and public policy practitioners. The overwhelming consensus is that Scotland’s system of governance is sorely out of step with the needs of its economy and society.

This paper offers part of the answer: putting forward a set of proposals that, taken collectively, would begin to put the right powers in the right places. In so doing it would empower Scotland’s communities, towns and cities, and allow the Scottish Government to concentrate its resources on the tasks that it is best placed to do.

The analysis underpinning these recommendations draws upon history of Scottish local government, and recent developments regarding its relationship with the Scottish government. It also draws on increasing evidence that sub-national governance can play a crucial role in stimulating economic growth. It is at this level where powers over economic development – skills, transport and spatial planning – can be used effectively to develop clusters, described by Lord Sainsbury as “complex, economically significant ecosystems in which people can meet, exchange ideas, develop innovations, and create businesses together.”⁴ In Glasgow, Edinburgh, Dundee, Aberdeen and across Scotland, the potential for growth in the fields such as life sciences, advanced manufacturing, fintech, and renewable energy is immense – but only if there are steps to empower city-regions so they can realise their potential.

Our analysis also draws on lessons from other parts of the UK. A newfound political consensus means devolution is now considered a critical ingredient in rebalancing England’s economy, and has seen the empowerment of metro mayors and combined authorities with powers to drive regional economic development. While devolution has deepened and broadened in scope in England, Scotland’s governance has remained highly centralised – despite rhetoric of bringing power closer to people.

Scotland therefore risks being left behind as increasingly empowered local leaders in other parts of the UK seize new economic opportunities. An agenda of radical decentralisation would not only bring Scotland up to speed with its nearest neighbour, but other countries across the OECD where empowered subnational governments are able to deliver for their localities, while also finding new ways to open up politics and democracy to citizens and communities.

This is an opportunity to bring Scotland together on an issue where there is widespread agreement. The argument and recommendations that follow set out some of the ways in which this might happen.

Executive summary of recommendations

1. There should be a new Local Governance Act to create Scottish Combined Authorities, clarify the roles and responsibilities of different levels of government, and provide a mechanism for devolution within Scotland

Scotland's current system of local government emerged from a politicised reorganisation process in the 1990s that was not attentive to local or economic needs, and few would choose to create it this way if starting from scratch today. But the overwhelming evidence we received was that we need to work with the governing framework we have, given the cost and time that local government reorganisation would imply. Efforts should focus on enabling existing councils to collaborate at a regional level, which would enable them to manage strategic services while remaining responsive to local circumstances. Our first and most important recommendation is for the Scottish Government to introduce a new Scottish Local Governance Act. This should allow for existing local authorities to form "Scottish Combined Authorities" (SCAs), which would allow for collaboration and the pooling of resources at a regional level.

The creation of SCAs should not diminish the vitally important role existing local authorities play in delivering and shaping services around the needs of the communities they serve, so this legislation should also seek to clarify the roles and responsibilities of each level of government, embedding the principle of subsidiarity into Scotland's system of governance and public service delivery, and providing a mechanism by which powers can be drawn from the centre.

2. Skills, transport, spatial planning and economic development powers should be devolved to Scottish Combined Authorities

We recommend that these new SCAs take lead responsibility in their region for skills, transport and spatial planning. This could be done either by reorganising existing quangos, such as Skills Development Scotland, Scottish Enterprise and Scotland's Further Education College network, along these new regional boundaries, or making them accountable to SCAs instead of Holyrood. Over time they could take the lead in other policy areas, including environmental management, retrofit and health, with the aim of fostering place based policy solutions.

3. There should be measures to strengthen strategic institutional capacity at a local and regional level, establish strong governance and scrutiny mechanisms, and ensure visible political leadership

The Scottish Government would need to support the rebuilding of local institutions, and ensure SCAs are suitably resourced, if these new regional bodies are to be effective. Years of austerity have reduced capacity and capability in local authorities - reversing this should be an early priority. Stronger mechanisms around scrutiny and accountability, and clearer leadership and governance structures are the quid pro quo for more powers – this could involve a cabinet model within SCAs with council leaders adopting policy portfolios, as well as the possibility of a directly elected figurehead.

4. Local Government should be given greater financial discretion

We recommend that all of Scotland's 32 local councils should be given multi-year budgets by central government to allow them to plan properly, and central government ring-fencing must be radically reduced.

5. Council tax should be replaced with a more progressive form of local taxation

This should be a form of property tax that could be used to strengthen the financial autonomy of local government, ensure communities benefit from rising land values, and support environmental aims. There should be new cross-party efforts to build public consensus on replacing council tax following the next Scottish Parliamentary elections.



Chapter 1: Centralisation and its discontents



Decisions should be made as close as possible to the citizen....the Scottish People will be served best by a Scottish Parliament and Executive working closely with a strong democratically elected local government⁵

Scottish Office, 1997

The prevailing spirit of the constitutional reforms in the 1990s was one of optimism - the possibility of a new politics in Scotland, reviving accountability and driving power closer to the Scottish people. But instead of power flowing out from Holyrood towards communities, towns and cities, Scotland's governance has become increasingly centralised – and in many has imitated some of the worst aspects of the UK's governance arrangements.

As one of the most prominent scholars of Scottish politics, Professor James Mitchell, has described:

“For all the talk of popular sovereignty, what has emerged is a mini-Westminster in which the executive is dominant, Parliament is compliant and any other potential sources of legitimacy are denuded of authority.”⁶

There is nothing particularly new in this debate: concerns around centralisation have swung like a pendulum for over half a century. They predate the creation of the Scottish Parliament itself, with some objecting to the prospect of such a legislature on the grounds that it would concentrate power in the central belt and marginalise local councils.⁷ But the experience of Conservative governance in the 1980s strengthened the arguments of those who believed devolution was necessary to counter centralised UK governance, and could in fact lead to wider democratic renewal.

Almost 25 years later, it is clear this renewal has not come to pass. The principle of subsidiarity - that decisions should be made at the lowest meaningful and practicable level – was one of the core principles behind devolution, but it is almost wholly absent in Scotland today. Rather there has been a strong tendency towards one size fits all, top-down policymaking, resulting in the marginalisation of local voices and more remote, opaque and unaccountable decision-making.

This tendency was seen in the creation of Police Scotland in 2013, which saw local democratic oversight and accountability stripped from key public service functions. It was evident in the original proposals for a National Care Service – described initially as a “power grab” by councils – before Ministers partially u-turned.⁸

The creation of such new, centrally managed quangos and arms length bodies has added to the arguably high number for a nation of Scotland's size: today there are over 130 non-elected public bodies.⁹ George Thorley, former Chief Executive of South Ayrshire Council and member of the Mercat group of former local government chief executives, has argued this represents a new “democratic deficit” in Scotland, with such bodies being accountable to ministers but not to local authorities, and few incentives to coordinate their activities.¹⁰

The flip side of increasing centralisation is a lack of autonomy for local government, which is often relegated to the role of a delivery agent for the centre rather than a genuinely empowered level of government. One of the main drivers of this dynamic is its lack of financial autonomy. For years Scottish local government has been the “least fiscally empowered” in the whole of Europe, with the lowest level of local income-raising fiscal powers.¹¹

It is within the gift of the Scottish Government to change this, but very little has been done beyond discussion of local levies for select councils. Rather than strengthen its financial position, the Scottish Government has forced councils to absorb cuts, essentially delegating the pain of straitened public finances – with the Convention of Scottish Local Authorities (COSLA) now warning that many face bankruptcy.¹² A lack of multiyear budgets, and the prevalence of short-term pots of smaller funds for specific policy issues, have hampered efforts to pool resources and integrate services.¹³

This has coincided with the SNP's council tax freeze, which over the course of a decade has piled further pressure on councils at a time of increasing public need. While this was electorally popular, research has shown that if council tax had been allowed to keep pace with England and Wales, an extra £900m would have been raised.¹⁴ As IPPR have argued, “the policy decisions taken have reduced revenue while not necessarily making the system fairer”.¹⁵ The Scottish Government has since chosen to re-introduce the council tax freeze, a move that means Scottish councils now face real terms cuts of up to £156m.¹⁶ Nor has there been much appetite for wholesale reform: recent proposals to change the “gearing” of council tax bands will only paper over the cracks and are not an alternative to introducing a more progressive alternative.

The prolific use of ring fencing and directed spend means councils have been further restricted in their ability to shape policy to local circumstances. There are different estimates of the extent of ring fencing - with the Scottish Government claiming that only the specific revenue grant is ring-fenced, amounting to 7% of total funding.¹⁷ The view from COSLA is rather different, with estimates that ring fencing affects up to 65% of budgets, although there have been claims that the actual amount is closer to between 75% and 85% of Local Government budgets.¹⁸ The manner in which the Scottish Government has chosen to exert its authority over local spending was brought to the fore last year when the Education Secretary warned councils that funding would be withheld or recouped if teacher and support staff numbers were not maintained, in a move described as undermining the “democratic mandate” of local government.¹⁹

Restricted from making spending decisions based on local needs and circumstances, councils have been forced to make cuts to important community assets, such as parks and libraries. Data from the Improvement Service reveals:

- From April 2010-March 2021 there was a 25% reduction in spending on leisure services by councils but an increase of 14% in the number of people attending these
- council spending on parks and open spaces reduced in real terms by 41% – from around £32 per person per year to £19
- Since 2009-10 a total of 83 public libraries have closed in Scotland²⁰

The effect of such cuts was summed up well by one council leader interviewed for this project, who stated that “ringfencing is squeezing the bits that really make a difference to people’s lives.”

Restrictive budget settlements and a lack of revenue raising power means that today, Scottish local government is in a dire financial situation which despite the best efforts of dedicated public servants, has greatly impeded its ability to deliver for people at a time of growing demand. Unsurprisingly, the stringent financial settlement councils are facing, alongside their lack of policymaking or administrative independence, have led to widely acknowledged concerns about a reduction in capacity - as fewer people see the attraction to public service in such circumstances.

Councils and COSLA have been pushing for change. Such demands have emanated from within the SNP itself, with Susan Aitken, leader of Glasgow City Council arguing that “we cannot be treated solely as a delivery vehicle for national priorities at the expense of local needs.”²¹ Former Edinburgh council leader Adam McVey also made the case for a tourist tax to pay for local services, only to be slapped down by the Culture and Tourism Secretary - revealing both how the centre responds to demands for more power, and the barriers local government faces in securing it.²²

Ultimately this is not just a debate between politicians about who has more power, but something that has an impact on people and communities across Scotland. This is obviously felt in terms of the worsening quality of local services, and the closure of services like libraries or community centres.

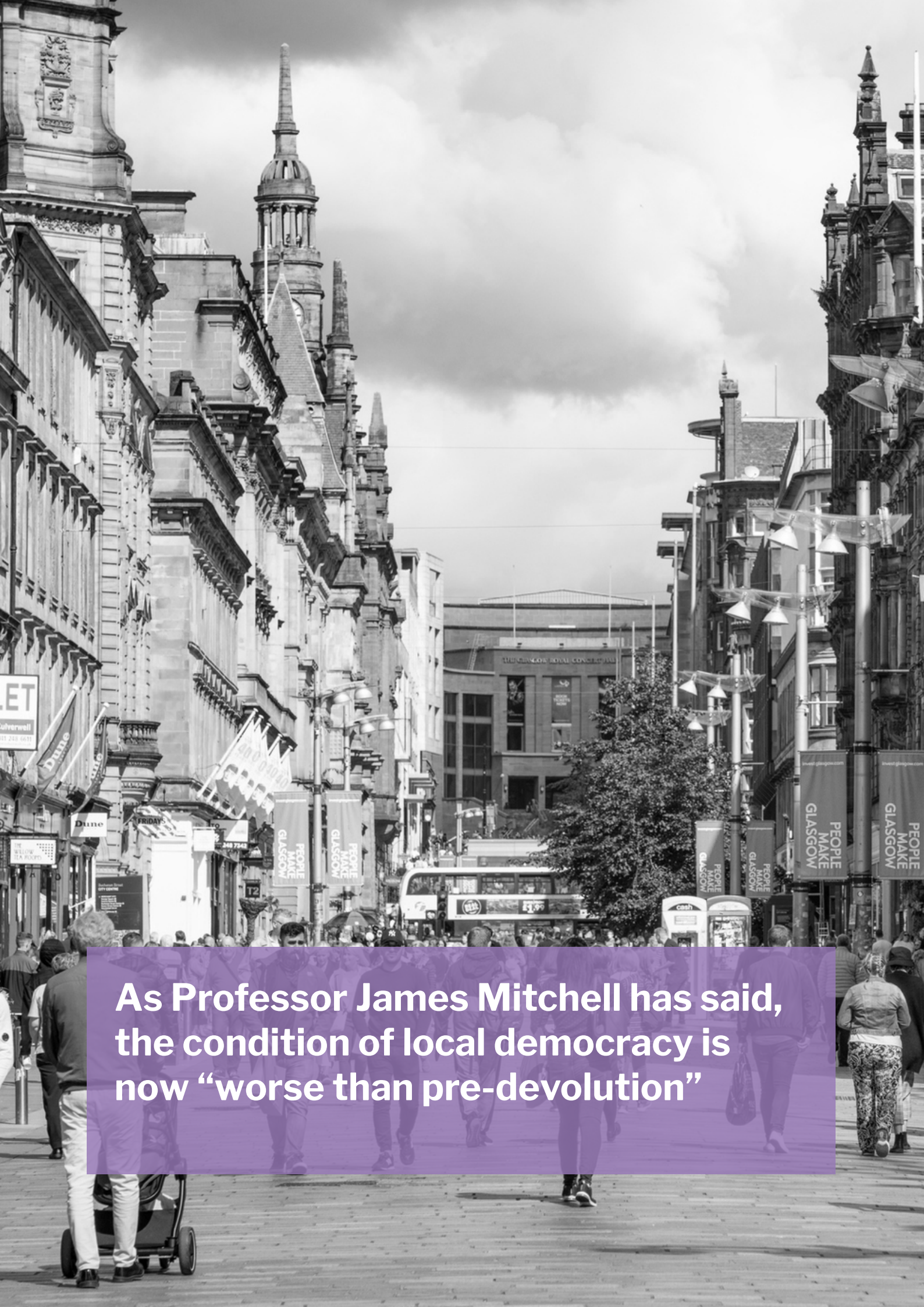
But it also has a more pernicious effect on civic and democratic engagement, as people feel unable to shape decisions on the issues that matter to them. As Professor James Mitchell has said, the condition of local democracy is now “worse than pre-devolution, which is staggering.”²³ Turnout at local elections – never great to begin with – fell between 2017 and 2022.²⁴ And polling by ERS Scotland, conducted prior to the 2021 Scottish Parliament elections, has shown:

- **Two thirds** of people surveyed (67%) feel they have **little or no influence** over decisions that affect their local community.
- **Only five percent** of respondents **felt they have a lot of influence**, and around a fifth (18%) said they had some influence.
- **45% of people would like to have more influence** over the decisions that affect their communities.²⁵

Some councils have bucked the trend, finding new ways to engage local people. Take the enterprising approach taken by councils such as East Ayrshire, which rightly argues for the creation of systems that allow “people to own things together and have the power to make change over their own lives.” It has put communities in control over everything from community centres, sports centres, theatre companies and golf courses. And beyond East Ayrshire, the Covid pandemic led to a groundswell of activity and collaboration between local government, public bodies and communities - enabling the latter to step in and support people on the occasions where a hyperlocal understanding would allow for more effective delivery.²⁶

Several interviewees commented that for all the progress made then, there is backsliding today. Community organisations complained about a lack of engagement from local authorities, or their ability to shape the services people rely on. It is perhaps unsurprising that when councils have been denuded of power, they are more reluctant to give it away. Whatever the reason, the growing clamour for greater voice and influence cannot be ignored.

These developments show how little the Scottish Government have done to improve an increasingly dysfunctional and unaccountable system of governance. Change is essential if Scotland is to navigate some of the biggest challenges it will face over the next decade.



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Chapter 2: The case for change: inequality and an underperforming economy

The case for reversing the trend towards centralised governance and pushing power out of Holyrood does not rest solely on democratic principles. It is also because Scotland's top-down, siloed approach to policymaking, and the marginalisation of local government, is actively frustrating efforts to address intertwined social and economic challenges; in particular, low levels of growth and productivity.

The coming challenge for Scotland's public services

In May 2022, the SNP's then-Finance Secretary Kate Forbes unveiled the Scottish Government's Spending Plans for the next five years – which project huge increases in spending on Scottish benefits and the NHS. She acknowledged that Scotland would need to “reset” if it is to find ways to maintain this level of spending while maintaining other public services too.²⁷

With a £2bn funding gap on the horizon by the end of the decade, the question that is increasingly being asked is whether Scotland's model of public service delivery is sustainable.²⁸ An ageing population and changes to the way Scotland is funded through the Barnett Formula will add further pressures, the Institute of Fiscal Studies has warned. In early 2023 it noted that these pressures will make it “more difficult...to “maintain enhanced service provision relative to England, such as free personal care and free university education, in the longer term.”²⁹

As set out in the last chapter, much of the pain has been passed on to local government. But the squeeze is becoming endemic across public services, which are already facing huge challenges as a result of rising demand – with damaging consequences already evident in the form of worsening social inequality.

Rising inequality

As the Health Foundation has concluded, the bottom 10% areas in Scotland in terms of deprivation are now being “left behind” by the rest of society, with life expectancy rates now falling.³⁰ It found an astonishing 24-year difference in the life expectancy of those living in the least and most socially deprived areas of Scotland in 2019. Those at the bottom spend 35% of their lives in ill health, compared with 15% at the top.

As Scotland ages, we have failed as a society to change services to provide for the larger number of elderly people in society. As the Auditor General Stephen Boyle noted, a 2017 report on self-directed support – to help elderly people manage their own social care – found that seven years after the policy was supposed to have come in, there was “no evidence that authorities had made a transformation in services.”³¹ Delayed discharge rates, whereby patients are stuck in hospital waiting for social care provision to be in place, remain staggeringly high.

And it the combination of all these factors – our poor health and deprivation, together with the failure to manage Scotland's ageing population - which has contributed to a now yearly winter crisis in the NHS.

On the other key public service delivered by the Scottish Government – education – there is no evidence that the First Minister’s “defining mission” to reduce the poverty related attainment gap in Scotland’s schools is closing. Indeed, recent evidence suggests that, following the pandemic, the gap is actually widening.³² And this is not because better off students are doing better than the rest: it is because everybody is doing worse, with the most recent PISA rankings showing a decline in maths, science and reading.³³

On homelessness, numbers are now higher than before the pandemic, with over 39,000 homelessness applications in 2022-23, and almost 9,600 children in temporary accommodation.³⁴ Scotland’s *Shelter* director Alison Watson has declared that there has been a “choice” made by the Scottish Government to “deprioritise the fight against homelessness.” She added: “Over the years they have been presented with endless evidence and testimony that investing in social housing ends homelessness, tackles child poverty and is vital in tackling the housing emergency. We must be clear: the Scottish Government has made a choice not to act on that evidence.”³⁵

Across, the message is that Scotland is already struggling to meet the challenges today – let alone those of tomorrow. This is why Scotland’s economic performance concerns us all: no plan to deliver world class public services or pursue interventionist policies to address entrenched socioeconomic inequalities will get off the ground unless Scotland secures higher sustainable economic growth than that which is currently predicted.

The growth and productivity challenge

The outlook at present is not good, with the Scottish Fiscal Commission’s current predictions indicating low rates of growth until the late 2020s – from 0.2% in 2023/24 to 1.4% in 2028/29.³⁶ Any attempt to deal with Scotland’s economic underperformance and stimulate growth will need to address poor productivity. While improving productivity has been a Scottish Government target since 2007, Scotland continues to punch below its weight.³⁷

As the Productivity Institute has described:

“Scotland’s productivity has outperformed all regions of the UK over the 1999-2019 period, recording an average growth of real output per hour of 1.5% per annum. Despite this, productivity is still below the national average and sits below the median OECD. Scotland’s productivity growth has slowed in recent years too.”³⁸

There is no reason why this should be the case for a country of Scotland’s size, given that similarly sized territories such as Denmark and Flanders, are respectively 20% and 40% more productive than Scotland.³⁹ The issue is that many of the drivers of productivity - particularly the presence of innovative, high growth firms - are conspicuously absent in Scotland today.

Big cities such as Glasgow are underperforming, with recent analysis from Centre for Cities showing that it has fewer firms in innovative sectors per head than Birmingham, Manchester, Leeds and many other comparable cities.⁴⁰ As Our Scottish Future has previously shown, Scottish businesses report gaps in employee digital skills - crucial for the ecosystem to engage fully and reap the benefits from digital transformations.⁴¹

Scotland's low growth, low productivity economy is intrinsically linked to levels of regional inequality, due to a lack of access to well paid jobs and economic opportunity. Recent years have seen increased political focus on this issue in England in the form of the 'Levelling Up' agenda. The problem is almost as severe in Scotland, where there are pockets of extreme wealth, particularly in Edinburgh which is ranked tenth of UK ITL3 areas by GDP per head. But areas that were worst affected by deindustrialisation are still suffering the effects to this day, with higher levels of deprivation and poorer labour market outcomes: for example East Ayrshire and North Ayrshire mainland sit in the bottom ten of ITL3 areas.⁴²

Eliminating Scotland's productivity gap is therefore central to turning around its economic fortunes - delivering better paid jobs in more parts of the country and putting it on the path to sustainable economic growth.

It is for this reason that the increasing scepticism about focusing on growth – often articulated in relation to building a “wellbeing economy” - could be self-limiting.⁴³ In the words of one economist we interviewed:

“Good jobs and incomes are absolutely central to quality of life. But the political language around wellbeing has allowed administrations to forget about economic development, which is a catastrophic mistake...how can you address wellbeing if there are not decent jobs?”

It is an argument that Our Scottish Future has strongly endorsed in its recent report on making Scotland an innovation leader.⁴⁴ And as economist John McLaren, who wrote for Our Scottish Future last year, has identified, better growth enables the pursuit of interventionist policies that address socioeconomic inequality:

“An economic strategy should be just that, based on improving the performance of the economy. A government's social or environmental targets are best met through other strategies. While the economic strategy must be compiled so as not to detract from achieving these other goals, it should not be derived with such ‘alternative’ goals at the forefront of its thinking, as is the case at present in Scotland. A high productivity economy should result in better jobs and higher taxes that can be used to intervene where markets are failing or inefficient with regards to social or environmental outcomes. This is not trickle down economics, rather it is using the benefits of a successful economy to help offset any existing or emerging inequalities and negative externalities.”⁴⁵

Eliminating the productivity gap in Glasgow alone would have huge economic benefits, generating an extra £7.4bn in GDP that could be put towards improving Scotland's public services.⁴⁶

The good news is that Scotland is in a strong position to deliver on this. As Our Scottish Future has shown, Scotland has one of the strongest set of innovation enablers in the UK: for example, the largest pool of graduates outside London, high levels of economic development spend, and the highest rate of HE sector R&D.⁴⁷ There are several steps that could be taken to maximise its potential further, including an increased focus on private R&D, stronger backing for the sectors Scotland is leading in, and increased cooperation across the UK to leverage these strengths.

But another key ingredient is an effective, empowered system of subnational government that can help manage and deliver local economic growth. This is because a regionally led growth strategy can bring better understanding of the different assets and opportunities present across an area than a more distant central government approach. As Professor Philip McCann writes:

“Central government fails to learn any new knowledge from local citizens, communities, and local governance activities. While expert knowledge flows down the system almost no experiential and locally-specific knowledge flows up the system. The result is top-down policy-making which is largely devoid of any context, nuances or engagement with citizens, and this represents profound and systemic knowledge failure, not simply a market failure or information problem as economists might typically frame it.”⁴⁸

Or, as Lord Sainsbury, founder of the Centre for Cities, argued at Our Scottish Future’s event on the Greater Glasgow Region:

“The levelling up of our cities will only take place if they are given the necessary powers to support new high value-added per capita companies which spring up in them or to attract high value-added per capita companies to them. Local economic growth cannot be engineered by Ministers or civil servants sitting in Whitehall.”⁴⁹

For subnational government to do this well, the following elements are needed:

- ‘on the ground’ knowledge and technical capacity to tailor policy to local needs and circumstances
- the ability to build relationships and convene key stakeholders, such as consortia, businesses, universities, colleges, trade unions and other public bodies
- ability to coordinate growth levers such as policy around transport, skills and spatial planning
- Bringing together policy levers in such a way can provide a ‘single point of contact’ for prospective investors⁵⁰

The benefits of opting for a locally strategic or regionally led approach to growth have been recognised in many other states, where it is commonplace for a subnational level of government, from the Länder in Germany or states in the USA, to assume the bulk of policy and decision-making responsibilities in relation to local economic development.⁵¹

Devolution is a necessary ingredient in any growth strategy, but it is not sufficient. As the Institute for Government identified earlier this year, the scale of devolved institutions, their corresponding powers and capacity, and the quality of governance arrangements all affect the ability of devolution to enable growth.⁵² But the overall lesson, supported by widespread OECD evidence, is that highly centralised governance systems tend to lead to large interregional imbalances. In contrast, more decentralised states tend to grow more evenly across their regions.⁵³



Good jobs and incomes are absolutely central to quality of life. But the political language around wellbeing has allowed administrations to forget about economic development, which is a catastrophic mistake...how can you address wellbeing if there are not decent jobs?

This is crucial in the Scottish context, where it is becoming increasingly clear that a centralised, top-down and place-blind approach to economic development is limiting opportunities to address low growth. The Scottish Government is responsible for many of the policy levers that are key to improving productivity and reducing regional inequality, including infrastructure spending, skills, economic development and regeneration spending, spatial planning, education and digital.⁵⁴ As a result, policymakers are poorly placed to manage local opportunities or challenges, which require geographically specific knowledge. As Professor Duncan McLennan writes:

“Scotland has a diverse structure of settlements and communities, reflecting history and geography, that range from two mid-sized major cities and metropolitan areas (the Edinburgh and Glasgow city-regions), through a spectrum of small cities and diverse town sizes to small and sometimes remote settlements. Growth and decline processes operate at all these settlement scales. Income inequalities across neighbourhoods within cities and towns are greater than between them. Scotland, then, faces a considerable challenge in managing places. It has chosen to do so by a particularly centralised form of government.”⁵⁵

Even recent policy innovations, such as the development Regional Economic Partnerships and City Deals (discussed in greater detail later in this report) have not been accompanied by significant devolution of economic policy levers. This is unusual given that recent devolution deals in England have led to growing responsibilities over policy areas such as adult skills and local transport, meaning Scottish city-regions are now at a competitive disadvantage compared to their English counterparts.

A new approach to public services and the economy

The social and economic costs of this Holyrood-driven ‘one size fits all’ approach to governance are becoming harder to ignore. Scotland’s economy is punching below its weight, in turn making it harder to address the regional inequalities that blight too many communities. Fundamental reform of Scotland’s system of governance, with the goal of empowering institutions at a subnational level, has to be part of any serious answer to improving the life chances of ordinary Scots, and putting the economy and public services back on a sustainable footing.

Chapter 3: An evolutionary approach to reforming Scottish local governance

There are growing calls to reform Scotland's system of local governance, and awareness of the problem does clearly extend to the Scottish Government. Its *Local Governance Review* does show an awareness of the problems resulting from overly centralised decision-making.⁵⁶ *While the Democracy Matters* consultation puts forward some innovative ideas to advance the community empowerment agenda. The Verity House agreement, since undermined by the Scottish Government's decision to freeze council tax, committed to a "local by default" approach and to review the powers and funding of local government regularly.⁵⁷

New thinking on how to improve the standing of local government should be welcomed, but there is one key dimension of reform which is often overlooked: whether Scotland's system of subnational government operates at an appropriate scale.

Most would accept that the current structure of local government in Scotland – with 32 unitary authorities covering hugely varying geographies and economic areas – is far from ideal, on account that few existing local authority boundaries reflect either economic geography or local identity. Some, including former First Minister Jack McConnell, have suggested that a fundamental reorganisation may be needed.⁵⁸

Any effort to reform must learn the lessons from previous local reorganisations in the 1970s and 90s. The first reorganisation, in 1975, came six years after the Wheatley Commission (Royal Commission on Local Government in Scotland). The starting point for its recommendations was that power needs to be held at the right level. This was based in large part on its economic analysis, which suggested that coordinating certain strategic powers at a regional level was essential to economic development. Take, for instance, its enduring insight that "*the lack of a single unit for the entire Clyde Valley area is one of the greatest impediments to the economic and social regeneration of the West of Scotland today.*"⁵⁹

It also identified the benefits that empowering the regions would bring for parts of the country that seemed marginal to the centres of political and economic life, giving them the tools to address local issues:

*"A highlands and islands region offers the chance for the first time of having questions affecting the highlands as a whole dealt with democratically by the inhabitants of the highlands themselves."*⁶⁰

Wheatley's analysis led to a two-tier system of local government, with nine regional councils, and fifty-three district councils. The powers accorded to each followed the principle of subsidiarity - with the regional councils taking a strategic role, and given a particular responsibility for driving economic development as well as other large scale services. The district councils focused on local planning, services, and amenities such as museums, parks and libraries.

Although not perfect, the two-tier system had some well documented advantages. As predicted by Wheatley, the regional scale brought a level of authority and capacity which helped deliver economic development. Several of those who worked in regional bodies at that time continue to speak highly of the quality of economic analysis and policymaking capabilities within and around these institutions, as well the long-term relationships cultivated with the Scottish Development Agency, universities and investors, all of which generated the confidence necessary for economic development. As the Mercat group of former local government chief executives has written:

*“Local government became a powerful driver of change as evidenced by the regeneration of urban areas, economic and transport initiatives, housing improvement, social inclusion programmes and through the extensive use of European Structural and Social Funds.”*⁶¹

Wheatley’s argument that a strong and independent regional voice could not be ignored also proved to be accurate, although this particular quality arguably hastened the end of the two-tier system. The sheer size of some regions - Strathclyde in particular - and the extent of policy divergence on totemic issues such as privatisation meant the regional councils attracted the ire of the UK government, resulting in the 1990s restructuring.

In 1995 the two-tier system was abolished in favour of a single tier of 32 unitary authorities. The contrast with Wheatley’s evidence based approach was stark, and given the lack of clear evidence for the restructure there was much to suggest that the redrawing of boundaries was motivated by partisan considerations more than anything.⁶²

The lack of relation to either economic geography or local identity means Scottish local government is now criticised for being ‘too big to be community led, too small to be strategic.’ With regard to the former, the removal of the district authorities and their replacement with a larger, but not quite regional authorities means that Scotland now has the biggest units of local government in Europe, as identified in the Jimmy Reid Foundation’s 2013 report *The Silent Crisis*.⁶³

The sheer size of some council areas, such as the Highlands, has led to increasing resentment at the remote and distant nature of ‘local government,’ - leading to calls, echoed by Kate Forbes, to break it up into smaller units. Community groups also argue that local government suffers from its own ‘democratic deficit,’ with some councils being guilty of top-down decision making and an unwillingness to properly engage local people in decision making.

Yet while some councils are too big to be locally responsive, others are too small to be properly strategic, with the division of local government into units unreflective of economic geography leading to fragmentation in areas where coordination is needed.

This is most notably an issue in the West Coast of Scotland, where Strathclyde Regional Council was broken into multiple local authorities, each with responsibility for economic development. This means that Glasgow has had far fewer means through which to coordinate economic policymaking with surrounding areas. The replacement of 9 large regional bodies with 32 medium sized authorities (alongside the pace of centralisation and reduced financial autonomy described in the previous chapter) has, unsurprisingly, also diluted the ability of local government to speak with a strong and unified voice.

The creation of the Scottish Parliament so soon after the 1995 reorganisation meant that despite devolution of powers in relation to local government, there was no serious attempt to reconsider whether the structure would be appropriate for Scotland in the future. Although the 1998 McIntosh Commission contained many suggestions to put centre-local relations on a better footing under the new Parliament, most of its recommendations have not come to pass.

The result is that Scotland has been served by a system of local government that was barely appropriate for the time it was created, and now, almost 30 years on, is completely out of step with the specific social and economic challenges it faces.

A new way forward

The situation facing local government today shares many similarities with the issues outlined by the Wheatley Commission in its opening pages:

“Something is seriously wrong with local government in Scotland. It is not that local authorities have broken down, or that services have stopped functioning. The trouble is not so obvious as that. It is rather that the local government system as a whole is not working properly – it is not doing the job that it ought to be doing....Looked at as part of the machinery for running the country, local government is less significant than it ought to be. It lacks the ability to speak with a strong and united voice. Local authorities have come to accept, and even rely on, a large measure of direction and control from the central Government. The electorate are aware of this. They are increasingly sceptical whether local government really means government. The question is being asked – and it is a serious question- whether, as an institution, local government is worthwhile maintaining at all.”⁶⁴

Wheatley’s strong view was that structural reform was essential to address these issues.⁶⁵ There is clearly a case that could be made for it today, but two significant problems arise.

The first is that a reorganisation would take a great deal of time, money and process - a luxury when there is a pressing need to adapt at pace to deal with the challenges Scotland faces. Furthermore, the overriding sentiment from within local government after years of austerity is one of weariness, with minimal appetite for reorganisation.

The second is that such a fundamental overhaul is unnecessary given recent developments in regional collaboration, particularly through City Deals and Regional Economic Partnerships. This provides a template for cooperation that could be built upon, an option which would be more consensual and less disruptive than redrawing boundaries from scratch.

As such this paper recommends an approach based on evolution, rather than revolution. There are still insights that can be drawn from Wheatley, particularly in its articulation of how the principle of subsidiarity should work in practice, with a clear link between form and function. This leads us to a series of recommendations over the following chapters. Taken collectively, they could transform Scotland’s system of local governance while building on what already exists.



Chapter 4: Putting the right powers in the right places

The previous chapter identified the ‘missing scales’ in Scottish subnational governance, a problem created by the 1995 reorganisation which limited opportunities for regional collaboration. Recent years have seen a trend of increased collaboration at the regional level within Scotland, often but not uniformly operating at the city-region. While this is encouraging on the whole, these arrangements are from the mature governance structures that can be found in comparable countries, and they also have little in the way of genuine policymaking autonomy.

This chapter therefore proposes a new level of strategic governance in Scotland through the creation of Scottish Combined Authorities with specific powers over economic development. This would protect the existing structure of local government, and its vitally important role in the delivery of local services yet also enable the cooperation and autonomy needed to deliver certain functions at a regional level.

The case for strategic collaboration

While states with greater levels of decentralised governance enjoy more balanced economic growth, there is not a casual relationship between devolution and growth. This is because, as the Institute for Government has documented, the scale of the devolved institution, the quality of its governance, and its ability to exercise complementary policy levers are important variables that can determine the success or failure of this approach.⁶⁶ To put it more simply, the right powers have to be in the right places.

Many countries across the OECD have a level of governance, often described as the ‘meso’ or ‘intermediate’ level, which plays a crucial role in economic development. As the regional economist Professor Philip McCann describes, units such as the Lander in Germany and provinces in Spain act as *“the glue which facilitates economic development policy-making within a shared management framework across multi-level governance facilities and different spatial arenas.”*⁶⁷

While these typically operate at population levels of 3-5 million, they can also cover a smaller scale, where governance arrangements match the ‘economic geography’ or ‘functional urban area.’⁶⁸ Operating at this scale allows for consideration of “key economic, and environmental systems, such as labour markets, housing systems, transport arrangements and environmental flows,” and institutions that focus on these issues and the opportunities they present more than would be possible at a national government level.⁶⁹ As described in Our Scottish Future’s report *Engine of the North: Making Scotland a European Innovation Leader*:

*“These are large enough territories to benefit from economies of scale and analysis of how economic actors operate, but small enough that the comparative advantages and wishes of the community and geography can be taken into account.”*⁷⁰

As Professor McCann also notes, intermediate levels of governance can also play a ‘market facing’ role of attracting inward investment; a complex activity that benefits from economies of scale but tailored to the particular opportunities these places offer.⁷¹

With OECD data showing data showing that city-regions have led productivity growth since the mid-1990s⁷², the quality of city-region governance has become increasingly important consideration in debates about how to improve a nation's economic performance more generally.

This is not to say that the benefits of such growth are only felt in big cities. One of the arguments in favour of regional governance that aligns strategic decision-making with a functional economic geography is that there can be greater understanding of the interdependency between cities and surrounding areas. This can lead to benefits in the form of more sustainable development and greater access to economic opportunity, by ensuring that issues such as housing stock and transport links are factored into economic planning.

The prospects for strategic governance in Scotland today

As outlined in the previous chapter, this level of governance is absent in Scotland today. Scotland's city-regions - particularly Glasgow - are under bounded, meaning the governance arrangements do not reflect its economic geography. Where in the past there was Strathclyde Regional Council, today there are a multitude of local authorities each with responsibility for economic development in their area.

This is why any call for devolution within Scotland must first address this issue of scale, as decentralising economic policymaking functions within the current framework would only lead to a continuation of fragmented decision making, which hinders opportunities to develop a joined-up strategy that delivers local and regional economic growth.

There is increasing acceptance that this gap in governance arrangements and the quality of economic development must be addressed, and that failure to do so will hold back Scotland's economic prospects for the foreseeable future. As the 2020 report to the Economic Commission for the Glasgow City Region writes: *"It is primarily within Scotland's city-regions that firms and citizens and institutions will both adapt to and create Scotland's place in the new world."*⁷³

Such opportunities abound across Scotland: from Glasgow's strengths in advanced manufacturing, space, photonics, nanofabrication and quantum technologies, in precision medicine, fintech and renewables; or in the northeast, where the private sector led Opportunity North East is opening up new opportunities around offshore wind and net zero.⁷⁴

These are all unique opportunities for Scottish cities and their surrounding regions, and the Scottish and UK Governments clearly have a responsibility to play in supporting through greater cooperation. But there is also an opportunity to develop the clout of local leaders, who are best placed to focus on developing this economic potential and ensuring that local areas reap the rewards.

City and Growth Deals

While there are no formal institutions operating at the regional level in Scotland today, there is now a basis for regional collaboration in the form of City and Growth Deals, and Regional Economic Partnerships that have developed over the last decade.

The process of City Deals began under the UK government since 2011, and most have involved giving funding and powers to these areas in exchange for a more clearly defined role in promoting local economic growth.⁷⁵ The first was agreed in the Glasgow City Region in 2014, and they have since spread across Scotland so that the majority of local authorities are now part of a 'City Deal.' A smaller number have struck 'Growth Deals', covering over a smaller area or involving fewer local authorities than the City Deals.

Each deal has a locally tailored focus: for example, the Glasgow City Deal is concerned predominantly with infrastructure projects and related funding, whereas the Edinburgh deal focuses more heavily on 'innovation activities' and links with universities.⁷⁶ The governance arrangements also vary: whereas the Glasgow City Region has a cabinet structure with each council leader taking on a portfolio structure, similar to a Combined Authority structure in England, other city deals operate under a Joint Committee which includes representatives from the Scottish and UK Governments as well as the constituent councils.



The city deals have undoubtedly brought a clear benefit in the form of greater regional collaboration, acknowledged both by Audit Scotland and the House of Commons Select Committee inquiry into City Deals.⁷⁷ This has led to the establishment of another form of regional working in the form of Regional Economic Partnerships. Described as a "broader and more flexible entity" than the city deals, these eight bodies, which do not yet cover the whole of Scotland, have been driven by ground-up collaboration and have a more specific focus on improving productivity and economic growth. They also typically bring in a wider range of stakeholders from business, education and the third sector.⁷⁸

But while greater cross-region working is positive, the current structures have limitations. One notable issue is that of accountability: as the Select Committee inquiry into City Deals reveals, clear lines of public accountability for the decisions being made are limited, which limits the opportunity for public engagement and involvement in regional politics.

Nor are these institutions particularly autonomous, as evidenced by the involvement of the Scottish and UK governments in the Joint Committees. Being able to operate free of direction from either the Scottish or UK Governments is key if regional governance is to remain focused on its priorities rather than national ones.

Perhaps the biggest problem is that the existing structures have failed to evolve. Several people we interviewed during the course of this research criticised the fact that the Glasgow City Region deal had barely changed since it was first signed a decade ago, meaning it was backwards looking and failed to offer the flexibility required to identify and embrace new economic opportunities. Nor have the deals genuinely devolved economic policy levers which, as previously described, continue sit at the Scottish Government level. Glasgow also has a particularly limited suite of powers when compared to other cities of a comparable size.

Legislating for the creation of Scottish Combined Authorities

The regional collaboration initiated through the City and Growth Deals is a positive development, but their limited remit and powers are limiting the potential of Scotland's city regions. There is clearly a need to create more forward looking and empowered institutions.

Scotland should learn from developments in England over the last 15 years. Since Labour's 2009 Local Democracy, Economic Development and Construction Act, English councils have been able to work together as a Combined Authority. The Local Government Association describe these as:

*"A legal body set up using national legislation that enables a group of two or more councils to collaborate and take collective decisions across council boundaries. It is far more robust than an informal partnership or even a joint committee. The creation of a CA means that member councils can be more ambitious in their joint working and can take advantage of powers and resources devolved to them from national government. While established by Parliament, CAs are locally owned and have to be initiated and supported by the councils involved."*⁷⁹

Adopting this approach in Scotland would mark a natural evolution in the existing structures of City Deals and REPs, and avoid the need for a wider reorganisation of local government. However, at present there is no legal provision that would allow for the creation of Combined Authorities.

The Scottish Parliament should therefore bring forward a new Local Government Act that would allow for the creation of Scottish Combined Authorities (SCAs). This legislation should clarify the roles and responsibilities not only of these new institutions, but of existing local authorities and the model of community governance proposed later in this chapter - effectively embedding the principle of subsidiarity in Scotland's system of governance. This would provide local authorities with necessary reassurance that these new SCAs would not centralise power at a regional level.

This would also provide an opportunity to reassess Scotland's public service delivery landscape, establishing greater clarity about the most effective level for delivery, who should be accountable for this, and allowing local government to draw powers down from the centre.

The geography of these new SCAs would be a matter for local consideration and should not be imposed from the centre, but there would be an obvious case for boundaries to reflect those of the existing City Deals rather than starting again from scratch. There may be parts of the country, most notably the Islands, where different governance arrangements will be needed to reflect local preferences and geography. Whether or not an area chooses to form an SCA, the goal of a new Local Governance Act should be to allow for greater local empowerment across the whole of Scotland, whether at a local or regional level, and establish a mechanism by which power can be devolved.

Recommendation 1: There should be a new Local Governance Act to create Scottish Combined Authorities, clarify the roles and responsibilities of different levels of government, and provide a mechanism for devolution within Scotland

Local strategic powers to drive national economic development

As with Combined Authorities in England, SCAs should be given a wide range of policy levers that can be more effectively utilised at a subnational level than at a national or a very local level. At a minimum this should include:

1. Skills
2. Local transport
3. Spatial planning and housing

Skills

Scotland faces two big skills challenges: a high percentage of adults without any qualifications (10%), and a high percentage of skills mismatches, with 30% estimated to be over or under qualified for their role.⁸⁰ This is a major issue in the Glasgow and Valley City Region, which has a disproportionately high number of people in the workforce with no qualifications.

Efforts to address these problems have typically involved a centralised approach, which was criticised by Audit Scotland in 2022 as a factor for Scotland's lack of progress in aligning skills planning and provision.⁸¹ While Scotland's main skills quango, Skills Development Scotland, was considered by those we interviewed to have good regional analytic capacity which it uses to shape Regional Skills Strategies and Investment Plans, there is no skills investment made or decided at a city region level.⁸²

This contrasts markedly with England, where regional mayors are playing an increasingly prominent role in the delivery of adult skills, in recognition of the benefits of allow for a regionally responsive skills strategy, that aligns to local labour market needs. For example, West Yorkshire Combined Authority has focused heavily on skills provision: using its control of the Adult Education Budget to boost learner numbers by 6%, and setting up a Digital Skills Plan to grow the region's digital economy.⁸³

There were also calls for greater regional autonomy over skills in the Scottish Government backed Withers Report on the Skills Delivery Landscape, which noted *“the structures and decisions to better support skills planning and delivery of skills provision in local and regional economies should not need to be taken or controlled nationally.”*⁸⁴

There is a strong case for empowering city-regions to influence regionalising skills policy in Scotland. This could involve transferring both the analytic capacity of Skills Development Scotland, and the funding levers for FE held by the Scottish Funding Council, to Scottish Combined Authorities as part of a more locally led approach to skills, with the key elements of analysis, funding and delivery aligned as part of a regional skills strategy. Alternatively, *Skills Development Scotland* could be made accountable to Scottish Combined Authorities, with local strategic leadership given greater capacity to shape how skills policy is delivered in their area.

Local transport

The longstanding existence of regional transport partnerships means there have historically been elements of transport policy determined at a regional level. But there are still significant shortcomings of the current approach.

One particular issue is the lack of a reliable, affordable bus network. The recent news that a number of night buses would be axed in Glasgow is symptomatic of a wider decline in bus services, with data suggesting that over 1,200 bus routes have been lost between 2007 and 2023.⁸⁵ The Scottish Government has responded that local authorities can already shape local bus services, and they will soon be able to franchise and set up municipal bus companies. But there are still a number of practical obstacles.

One of the biggest is funding: for example, Strathclyde Partnership for Transport commissioned analysis suggests that bus franchising would cost £20 million, whereas a municipal bus company could cost up to £200 million.⁸⁶ Another issue is that of scale: many local authorities are currently too small to take off franchising powers, particularly if they sit in a larger functional economic area.

Powers around franchising and integrating all forms of local travel should therefore sit with regional transport partnerships like SPT, which could be accountable to SCAs. Any move to encourage regional bus franchising should also devolve relevant local transport funding with it. The Centre for Cities have explored what such a process might look like in the Greater Glasgow Region, suggesting a three phase, twenty-year transition to an integrated and publicly controlled local transport network.⁸⁷ There is a case for learning from devolved transport policy in England, such as the control of commuter rail promised to Greater Manchester in its recent Trailblazer deal, which would lead to a city-region wide system of integrated, ‘tap on tap off’ public transport - a model that could be applied in cities like Glasgow and Edinburgh.

For many years in Scotland there has been recognition that strategic planning – determining where best to build homes, construct infrastructure and attract business - is best carried out at a regional level.⁸⁸ This was “one of the hallmarks of the Scottish planning system for over fifty years”, with bodies like Strathclyde Regional Council playing a leading role in the delivery of its spatial plan and the construction of roads, public transport, education, water supplies and sewerage.⁸⁹ The existence of statutory plans across Scotland “added up to a national plan”,⁹⁰ which helped direct the activity of bodies like the Scottish Development Agency, and played a significant role in delivering an integrated approach to social and economic development.

Scotland’s regional approach to planning was significantly disrupted by the 1995 reorganisation, which fragmented the delivery of planning,⁹¹ even though initiatives such as Clydeplan continued to play an important role in developing a regional strategy that was supported by leaders across local authority boundaries.

Rather than attempt to return to the tried and tested regional approach, the Scottish Government’s National Planning Framework 4 (NPF4) shifts the dial significantly in the opposite direction, moving towards a system of statutory national planning. Such an approach runs contrary not only to the lessons of Scotland’s previously successful approach to regional planning, but the approach taken in countries across the world. As one interviewee noted:

“The essence of strategic planning is seeing everything as a whole...in this regard the regional level has a proven track record for being the right level.”

This insight is reflected in the success of city-regions across the world that have adopted this approach. For example the Sydney Metropolitan Region brings together planning expertise, governance and delivery functions at a strategic level, and is seen to play a critical role in managing the city-region’s sustainable growth. As Vincent Goodstadt and Dr Grahame Buchan have written, there are three key dimensions to a successful regional approach:

- “1) Coherence of area as a spatial planning unit in terms of social economic and environmental integrity;*
- 2) Legal powers to prepare and enforce a plan ;*
- 3)Linkage to plan implementation programmes and policies... The more self-contained the plan area...the more coherent and therefore competent it will be in making effective choices about how the area is developed. This is an aspect of subsidiarity.”⁹²*

NPF4 fails on all of these counts. Instead of a coherent spatial planning unit, it adopts a national, top down and ‘space blind’ approach in which local knowledge has been marginalised. This is most obviously seen in relation to Scotland’s cities – despite their importance for growth, there is little articulation of the purpose of city centres, employment hubs and transport assets (for example, Glasgow Airport is mentioned once).⁹³

Its failure to reflect Scotland’s governance setup in any meaningful sense means there is no clear link to implementation. In the past those responsible for conceiving plans and those responsible for delivering them – whether in regard to housing, economic development and the environment – sat at the same level and often in the same institutions

Today, responsibility for implementation now sits across different levels of government and centrally run agencies, meaning the practical implementation of the plan faces significant hurdles. This was a key criticism made by in a public letter from planners across Scotland, citing the use of “broad, ad hoc regions that do not align with any of the existing structures of government or governance in Scotland.” Their recommendation was to *‘re-organise and democratise regional economic partnerships, so that they can become agents for delivering strategic change; and, converging quango boundaries, so that health, housing and economic development can be planned together and more effectively.’* This could also be a set of responsibilities held by Scottish Combined Authorities, with all relevant powers devolved to this level.⁹⁴

Spatial planning is just one element of an ‘infrastructure in place’ approach. Another key issue is having an effective economic development strategy. This is the argument for a government backed agency that can fulfil a ‘market facing function’ at a regional level, with arms-length status ensuring it can take proportionate risks when engaging with the private sector, but accountability arrangements ensuring democratic oversight, and alignment with spatial and investment plans.

In the past this role was carried out by the Scottish Development Agency (later Scottish Enterprise), which worked particularly closely with Strathclyde Regional Council to drive regeneration and development across the West coast of Scotland. Today there is little evidence that Scotland’s Enterprise Network can play a similar role. This is not to criticise the efforts of those who work there, but rather the environment and structures in which it operates. Economic development has been stripped of resources, and several interviewees noted that it is subject to national rather than regional direction, limiting opportunities to tailor its activity to different localities.

There is therefore a case for enhancing economic development capacity at a regional level. One route could be to create Regional Development Agencies to match new SCA boundaries. These should be genuinely arms-length bodies, with responsibilities for developing infrastructure and urban regeneration schemes, attracting inward investment, and land assembly powers. Relevant expertise would be needed for this, which could be secured by redeploying existing staff from the enterprise network. Another route would be to maintain SE but make it accountable to SCAs. Crucially, there must be a link between the two in order to ensure planning and economic development functions are effectively integrated at the regional level.

Other policy powers

Bringing skills, transport, spatial planning, and economic development under a regional Combined Authority would bring a set of complementary policy levers together and offer a new policy approach to addressing Scotland’s economic underperformance. This list of policy levers is not exhaustive. The powers held by regional authorities in the past over roads, water and sewage amongst others, could be considered, particularly given the interdependency with economic development. Taken alongside management of environmental assets, they could help strengthen local resilience in dealing with the impact of climate change.

There is a case for fiscal levers, discussed in the next recommendation, sitting at this level. So too could aspects of housing, which would counter the criticism made of the centralisation of housing market analysis in recent years, and retrofit, and retrofit, to maximise the role that can be played by local leaders in achieving net zero.⁹⁵

There is also a role that SCAs could play in the delivery of employability services, as noted in the Report to the Economic Commission for the Glasgow City Region. The UK Government could also support Scotland's regional devolution journey by devolving the administration of Jobcentre Plus, so these could instead offer more holistic support to individuals and align with the needs of the regional economy.

The potential range of 'soft' policy functions SCAs could hold is described by Mark Sanford, who has written about how English Combined Authorities have adopted *"orphan policies" that fall between the cracks of other tiers of government – for instance, homelessness, air quality, mental health,* often through convening and assembling informal partnerships at a local or regional level.⁹⁶ This could see SCAs leading the way in innovative place based approaches to address some of Scotland's deep seated social problems, such as drug misuse.

Recommendation 2: Skills, transport, spatial planning and economic development powers should be devolved to Scottish Combined Authorities

Strengthening local strategic capacity

In order for this significant range of new powers to be exercised successfully at the regional level, there would need to be efforts to increase policy capacity and capabilities both within local authorities and new regional institutions.

Building up this capacity would not happen overnight, but steps could be taken now to ensure that when the time comes for pushing power downward, there is a healthy policymaking ecosystem at a local and regional level. As the Institute for Government has identified, centrally supported training programmes are vital to ensuring devolved powers can be used effectively, having been used in Germany following reunification to ensure Lander in the East were supported in developing administrative capacity.⁹⁷

Emulating this approach in Scotland might mean engaging with well-established Combined Authorities in England, through training and partnership opportunities. As policy functions are devolved, civil servants from relevant government departments and arms-length bodies could be seconded to work at the regional level.

There must also be a focus on capacity within local authorities, given the close working relationship between city regions and their constituent districts, and interdependencies on policy areas like economic development. As Audit Scotland have identified, regional working is already limited by "shortages of money, staff and skills in councils," which in their words, have "put the successful delivery of deals at risk, particularly single-council deals."⁹⁸ Rebuilding the policymaking capacity and capabilities local authorities have lost over the last decade due to austerity will be an essential part of any effort of building effective strategic institutions.

One area where there is notable shortcomings is around collection and analysis of data that can inform decision-making and strategic planning.⁹⁹ This could be a focus of the aforementioned training programmes, but there would likely be a need for other measures; for example, ensuring that Scottish Government data collection is aligned with economic geography and administrative boundaries.¹⁰⁰ There should be efforts to build on the example of the Glasgow City Intelligence Hub, which is widely credited for the quality of its analysis, and is used to inform the City Region's activities, through partnerships with local universities.

Governance, scrutiny and accountability

Stronger mechanisms around scrutiny and accountability, and clearer leadership and governance structures are the quid pro quo for more powers. There would be an obvious case for emulating the model of Combined Authorities in England, with a cabinet structure in which each local authority, represented by the council leader, takes on a policy portfolio such as local transport or skills. This would not be a significant change for Glasgow City Region, which already operates on such a basis under the City Deal, but it would be new for other areas using the Joint Committee structure, in which the Scottish and UK governments are represented. There is an obvious attraction in moving to a structure which enables greater policymaking autonomy and reduces the need for the Scottish Government to be involved.

There are other benefits too, particularly in the requirement for unanimity at cabinet which ensures decisions benefit the city-region as a whole. This can assuage the concerns that local authorities in more peripheral areas may have about their needs being addressed and voices heard within these new institutions. Unlike the current City Deal model, councillors from respective councils could be far more involved in scrutiny and policy committees, which would arguably address the shortcoming addressed by Audit Scotland regarding the lack of formal reporting arrangements and feedback between City Deals and councils.¹⁰¹ Councillors assuming portfolios or new scrutiny roles would also have to be supported in their activities and properly compensated.

Political leadership of Scottish Combined Authorities

To give these nascent institutions public visibility and electoral legitimacy, there would be a case for establishing a strong figurehead that works for the whole region, capable of challenging government if their area is getting a raw deal.

These are the likely benefits of having a mayor for each city-region, or perhaps more appropriate in the Scottish context, a regional provost. This could be selected by the Combined Authority cabinet, but in terms of investing the role with power and a mandate and engaging with the public more broadly, there is an obvious case for such a role being directly elected.

While this should not be imposed by government, it could be incentivised on account of the possible advantages. One is that it provides the answer to the ‘who do I call?’ question, providing a single point of contact and authority over economic policy at a city-region level. A mandate from across the region may help a Combined Authority navigate politically difficult issues, and encourage cooperation across party lines which is needed for these institutions to function effectively.

A clear figurehead can also provide a strong voice with which to challenge central government, as seen during the Covid pandemic, when mayors in the north of England highlighted the way in which their area was being disadvantaged by central government decisions. Providing the separation of powers between different levels of government is made clear, it can also provide greater democratic accountability for voters.

Given some existing local authorities are already a considerable size, there might be concerns that an elected mayor would lead to executive centralisation at the regional level. It should be said that the current City Deal arrangements have been criticised for the lack of community involvement or public consultation. Audit Scotland have identified in particular the lack of direct links to community planning partnerships, and the need for “more explicit alignment with local development plans...and councils’ corporate plans”¹⁰²

This would need to be addressed in the creation of any new institution, ideally through a programme of public consultation prior to them being established. This should clarify how they would link to constituent local authorities, communities and other public bodies across the region. But there is no intrinsic reason why a regional mayor and Combined Authority is not compatible with greater democratic engagement at a local or community level. As Rory Scothorne has written in the *New Statesman*, mayors across Europe have galvanised community involvement in politics, with “Zagreb’s Tomislav Tomašević and Barcelona’s Ada Colau have used mayoral politics to bridge social movements and institutional power, sometimes clashing directly with central government in the process.”¹⁰³ The Electoral Reform Society Scotland has similarly noted that “current or reformed council structures, including larger council areas, are not incompatible with more community empowerment.”¹⁰⁴

Recommendation 3. There should be measures to strengthen strategic institutional capacity at a local and regional level, establish strong governance and scrutiny mechanisms, and ensure visible political leadership

Chapter 5: Reforming local government finance

The previous recommendations outline new roles and responsibilities for local government, enabled through collaboration at a regional level. In order to do this, and deliver existing functions, the lack of local financial autonomy must be properly addressed.

This has been an issue as far back as the Wheatley report.¹⁰⁵ While little has changed in terms of the overall balance between centrally and locally raised finance since then, issue has become increasingly prominent as local government has been forced to make significant and disproportionate cuts in recent years.

Much of the money that councils do receive is heavily ring fenced. While the Scottish Government has argued that this only affects a small proportion of budgets, numerous interviewees noted that central and local government “were not talking the same language,” and that spending can be restricted in other ways: *“Ring fencing doesn’t necessarily have to be legal ring fencing. It also includes all kind of areas of directed expenditure.”*

The extent of ring fencing restricts local decision makers from spending money on local priorities. In doing so it blurs accountability, forcing councils to take decisions that they may not have arrived at otherwise, and making them accountable for what are essentially Scottish Government decisions.

One of the few tools for raising local revenue is the much-maligned council tax, now frozen by the Scottish Government and thus depriving councils of a vital income stream at a time of straitened finances, while doing nothing to reform an inherently regressive tax.

The cumulative effect of spending cuts, ring fencing, and the council tax freeze has been the erosion of council’s core spending power, a scenario described by the former Chief Executive of COSLA, Sally Loudon, as *“the biggest single challenge facing local government today.”*¹⁰⁶

As detailed in chapter 2, this challenge has forced increasingly difficult choices on councils who have had to make cuts to local services and amenities. Worryingly, there are ominous warnings of a ‘financial black hole’ facing some councils, raising questions about the overall sustainability of the current system of financing local government.

Stalled reform

There has been no shortage of efforts to suggest possible reforms to the system of local government financing, but a concrete solution has remained elusive. The McIntosh Commission called for an inquiry into local govt finance, but there was no proper attempt at reform until the 2006 Burt review, which proposed a flat rate percentage property tax regularly revalued based on capital values – rejected in Scotland but adopted in Northern Ireland.

The ill-fated 2015 Commission on Local Tax Reform suggested a programme of reform over time, involving property and land taxes, and longer term consideration of a local income tax - none of which was taken up. COSLA’s 2014 Commission on Strengthening Local Democracy also called for control of a whole suite of property taxes, and the power to set and raise new taxes.¹⁰⁷

The issue is clearly not a lack of possible solutions. It is, as ERS Scotland have said, a lack of “political will and courage to commit to and implement an alternative.”¹⁰⁸

Reforming local government finance

There are two issues that any reform of local government finance should address: the extent to which local authorities can determine how local budgets are spent, and the introduction of a more progressive form of local taxation.

The first of these could be resolved in the short term, and without needing to answer the more complicated questions that would arise when designing a new system of local taxation, such as how fiscal equalisation should work so that areas with a weaker local tax base are not disadvantaged, or how to determine the ‘balance of funding’ between Scottish Government and local government.

As Sir Peter Burt identified following his 2006 Review, it would be possible to strengthen the financial position of local government without touching these challenging issues. He noted:

*“Balance of funding is something that is dear to politicians’ hearts but it does not bother the man in the street at all. The problem goes back as far as Layfield [the local government commission which reported in 1976] and it has not been resolved yet....the real problem in my view is the fact that local government has very little control over what it can spend its money on.”*¹⁰⁹

In practice this means vastly reducing the scope of ring fencing so that councils receive money from the Scottish government and have discretion to choose what it is spent on. This would require a commitment on the Scottish Government’s part to relinquish oversight and control – but it is no different to the relationship it has with the UK government in respect of the block grant. If the Scottish Government were to be told by UK ministers how to spend its money, it would rightly object. The same principle should therefore apply to local government in Scotland, subject to the agreement of a clear, limited and deliverable set of shared outcomes and appropriate accountability mechanisms – similar to the “Single Settlement” model now being introduced in Greater Manchester and the West Midlands. Such an approach would also require improved financial scrutiny at a local level, for which the Scottish Government would have to make funding and training available.

Reducing the scope of ringfencing should be accompanied by other changes, including the use of multiyear budgets in place of the current single year settlements which limit the ability of councils to plan for the long term. These two measures alone would significantly free up local government so it can play a fuller role not only in public service delivery, but other areas such as economic development.

Recommendation 4: Local Government should be given greater financial discretion

Moving beyond council tax

Multiyear financial settlements that allow for local discretion on spending would stabilise the financial position of councils and enable a greater focus on local priorities. It also means the conversation could turn to finding an alternative to Scotland’s outdated system of local taxation.

Most parties have – at various points – agreed that council tax needs to be abolished and replaced with something fairer.¹¹⁰ But the challenging politics of local tax reform means the can has been kicked down the road for years.

A local component to the tax system suited to Scotland's present needs is long overdue, and there are candidates for what this might look like. The most obvious is a new form of property taxation based on land values and assets.¹¹¹ Such a system would ensure the benefits of rising land prices are felt by communities, and the basic tax could also be modified so that it addresses environmental issues such as housing decarbonisation.

There is a secondary challenge to reforming local taxation: ensuring any new tax is accepted by the public. This will undoubtedly be a barrier to change unless people are prepared for it; as the Poll Tax showed, any change will be contentious. Professor Ken Gibb has written about what should be done to mitigate these risks:

“Reformers would need to take head-on the issues of salience and the presumptive nature of the tax. Tax ideas will have to be clearly and credibly communicated, political and professional support will be required to lend credibility and help educate, and strategies will have to be deployed to address these ‘deep-rooted social beliefs and norms’. This persuasion-based focus may seem a little nebulous but political and public support will be essential.”¹¹²

Our recommendation is that there should be efforts ahead of the next Scottish Parliament election to build a cross party consensus on introducing the new system of local taxation suggested above, with a view to implementing in the next parliamentary term.

There are of course other revenue raising powers that could be introduced with ease - such as Visitors Levy or Second Homes Levy. But it is important to maintain perspective about what their likely benefit would be: as numerous interviewees noted, a tourist tax would only ‘tinker at the edges’ and ‘doesn’t deal with the fundamental issue,’ that being the dysfunctional nature of Scottish local government finance. Welcome though these might be in providing some councils a valuable source of revenue, they should not be considered a substitute for comprehensive reform of how councils are financed and the replacement of council tax.

These proposals for enhanced local fiscal autonomy enhance and complement other proposals put forward in this paper. It would give local authorities the stable financial footing they need to play a more strategic role in the delivery of public services. It would enable SCAs to develop important local infrastructure and deliver services such as local transport. It is also a prerequisite to more radical forms of community empowerment, particularly with regard to the scope of participative budgeting: as one interviewee noted, it is “difficult to share power unless you’re willing to share money.”

Recommendation 5: Council tax should be replaced with a more progressive form of local taxation

Conclusion

These five recommendations alone would mark a significant change in re-empowering local government and rebalancing centre-local relations. They are not intended to be an exhaustive list.

One other idea that could merit consideration would be revisiting the proposal put forward in the McIntosh Commission for a 'Joint Conference,' which was envisaged as a forum in which parliamentarians and local government would hold a dialogue on "the basis of equality." While it was not introduced, the need has not gone away and if anything has strengthened, as the diminished role for local government in recent years has made it difficult to compel the Scottish government to listen to it.

This could complement proposals in Labour's Commission on the UK's Future for a statutory Council for England, that would bring together English local government with central government to enable greater collaboration and resolve disputes. It would reflect measures in other countries like Australia, which have made significant efforts to bring regional and local voices into national decision-making. A National Cabinet was introduced during the pandemic, bringing state premiers together with the national government. More recently it has reinstated a Council on Local Government, which brings central government, state and local government leaders together to discuss the major policy challenges facing Australia.

A more radical proposal might be for local government to form the basis of a new second chamber in Scotland; a notion that has become attractive to some in light of notable shortcomings in legislative quality under Scotland's unicameral system. This could reflect the system in place in Germany, where the upper house is formed of representatives from the Lander. This means it does not function only as a legislature, but as a forum for intergovernmental relations – giving German regions a strong and influential voice in the running of the country and generating coalitions of interest that span party lines.

Any effort to strengthen regional collaboration could also be accompanied by efforts to enhance community empowerment. It would be remiss not to mention concerns that existing local authorities are often accused of being too centralised: as *The Silent Crisis* identified over a decade ago, "Scotland has 'the largest average population per basic unit of local government of any developed country.'"¹¹³ Many other European countries have a unit of governance existing at the level of villages and small towns, often with budgets and the power to shape the local built environment. This contrasts markedly with Scotland's Community Councils, which have few comparable powers.

Recent years have seen these issues come to the forefront of political life, with the 'community turn' reflected in the 2015 Community Empowerment Act. Across the country there are many effective partnerships in place between communities and local government - most notably in East Ayrshire. Development Trusts have also emerged across Scotland and have proven adept at acting on local needs and priorities.

But there are arguments to go further, with ERS Scotland and Commonweal calling for a new form of local governance in the form of Community Development Councils. This could be an elected body, set up by ‘communities of interest’, perhaps with a ‘a standing, annual citizens assembly for that community’ that ‘design a community vision¹¹⁴’. This notion has clearly resonated, with the Scottish Government floating this concept in its *Democracy Matters* consultation.¹¹⁵ It also reflects the fact that despite some good work, the existing model of Community Councils does not command universal praise, and as far back as the McIntosh Commission there have been calls for renewal – with little evidence of this taking place.

There is clearly a case for greater community empowerment, which should reflect local needs and preferences. This could mean moving beyond the Community Council model towards the Community Development Councils suggested above, or enhancing the responsibilities of Development Trusts. In order to prove more successful than previous approaches to community governance and galvanise local interest, they would need actual powers, or a clear role in shaping public service delivery.

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- A general power which allows the community to act – this is designed to support creative responses to local issues which other parts of government might find difficult to do. Funding is key and can be raised locally or secured through agreement with public sector partners.
- Specific powers to take over decisionmaking responsibility for a range of functions where equality duties can also be met. Examples of this might include, but are not restricted to, taking control over, recycling, management of green spaces, the design of employability programmes, and out of hours health services.”

Our Scottish Future believes that good government in Scotland and across the United Kingdom has to be based on the values of cooperation, empathy, solidarity and reciprocity.

Our Scottish Future | www.ourscottishfuture.org | info@ourscottishfuture.org