

**Private and Confidential**

**Fiscal Framework for Local Government**

**Summary and Recommendations**

In May 2023, Leaders mandated COSLA officers to explore the feasibility of a rules-basis as part of ongoing Fiscal Framework discussions. Since then, COSLA officers have been working with Elected Members, as part of the Fiscal Framework Member/Officer Group, and Directors of Finance, to outline the benefits, challenges, and implications of a rules-basis.

Working with Scottish Government colleagues, the Member/Officer Group, and Directors of Finance, two options have been established as the most feasible for both Scottish and Local Government. Further work on the implications of these two options will be conducted over the coming weeks.

This report, accompanied by a short presentation on the day of Convention, seeks the views of Convention on the principles of a rules-basis which would see the alignment of Local Government and Scottish Government funding.

The paper invites Convention to:

- i. Reaffirm its commitment to a Fiscal Framework for Local Government;
- ii. Offer views as to whether a rules-basis meets the requirements of Local Government for the future sustainability of Local Government funding as part of the Fiscal Framework; and
- iii. Provide views on the overall strategic direction in order that this work can be progressed at pace.

**References**

No previous reports to Convention

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**September 2023**

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**Fiscal Framework for Local Government**

**Background and Purpose**

1. This report is intended to inform and consult with Convention on the progress of a Fiscal Framework between Scottish and Local Government.

**Previous COSLA Position**

2. COSLA and Scottish Government are developing a Fiscal Framework which is a key feature of the Verity House Agreement (there is a separate item on this on today's agenda). Work has been progressing on this for over a year and key elements of the Framework have been agreed, these being a set of Principles and a Budget Engagement Process, as highlighted below.
3. This work has been progressed with significant input from a Fiscal Framework Member/Officer Group (MOG), established to offer advice to Leaders on developing a Fiscal Framework, which has made a number of recommendations to Leaders. The membership of this Group can be found in **Appendix One**.

**Principles**

4. In September 2022, Leaders and Ministers agreed three principles which would underpin the Fiscal Framework. These are set out in full in **Appendix Two** but are summarised below:
  - Principle A – The fiscal framework should promote stability, certainty, transparency, affordability, and sustainability.
  - Principle B – The fiscal framework should promote effective use of fiscal flexibilities and levers to address local priorities and improve outcomes.
  - Principle C – The fiscal framework should enable discussion of fiscal empowerment of Local Government.

**Budget Engagement Process**

5. In May 2023, Leaders and Ministers agreed a much improved and extensive budget engagement process. This is a key change which will support a better, mutual understanding of the budget pressures that both Scottish and Local Government face and impacts of budget decisions. Critically this would see engagement commencing as early as May of each financial year ahead of the Scottish Budget (usually around November each year) and the Local Government Settlement in December.
6. This process should also enable increased influence in the Programme for Government which drives significant policy and funding direction from Scottish Government each year. The full process is set out in **Appendix Three**.

**What is Changing?**

7. In May 2023, Leaders mandated officers to explore the options for a rules-basis within the Fiscal Framework that would align Local Government and Scottish Government funding. The rules-basis would sit alongside the budget engagement process and would be underpinned by the agreed Principles. Work on rules-basis options has been progressed over the summer.

8. As part of this work, discussions have taken place at the MOG and with Directors of Finance regarding what should constitute the key elements of a rules-based aligned base budget. Within both groups there was agreement that COSLA officers should start to explore the possibility of aligning Local Government and Scottish Government funding.

### **Key Aims and Advantages of a Rules Basis**

9. Through discussion with the MOG and Directors of Finance, it was noted that aligning Local Government funding to the Scottish Government Budget may have several benefits for Local Government.
10. The principal aim of a rules basis for Local Government is that it would provide greater certainty, accuracy, and stability. Being pegged to the overall size of the Scottish Government Budget, the establishment of a rules-basis would reduce the potential for large, unexpected fluctuations in the size of the Local Government Settlement.
11. What's more, with changes to the Budget Engagement process outlined above, including greater influence over the development of the Scottish Government's Programme for Government, we could also expect a reduction in the number of policy 'surprises'. As such, alongside greater stability, it could also be expected that a rules-basis may foster better mutual understanding and appreciation between both parties regarding the financial constraints that Local Government is currently facing and has experienced historically.
12. In turn, this combination of greater stability, earlier involvement in policy development, and better mutual understanding may allow for more accurate medium and long-term planning for Local Government.

### **Challenges of a Rules Basis**

13. At the same time, concerns have been raised by both the MOG and Directors of Finance regarding a number of issues which may pose a financial risk to Local Government if budgets are aligned.
14. There is concern regarding what share of the Scottish Government Budget Local Government could expect to receive. In particular, it has been noted that a rules basis could lead to a worsening of Local Government's financial position due to a reduced Local Government share of the Scottish Government Budget. Currently, the Local Government share of the Scottish Government Budget is around 32%. However, there is no guarantee that the Scottish Government would agree to maintain this level, with any reduction in this share resulting to cuts in Local Government funding. What's more, if both parties do agree to maintain the Local Government share at 32%, there may also be a risk that this becomes a new ceiling – not a floor.
15. There is also a risk that budget alignment diminishes the lobbying ability of Local Government. Agreement on the size of the Local Government Settlement may come with a number of stipulations. For example, that Local Government meets all financial pressures, including unexpected in-year costs, within the agreed Local Government share of the Budget. This could severely curtail the ability of Local Government in areas such as pay.
16. Any agreed share of funding could also come with increased requirements for Local Government to support new Scottish Government policy commitments without additional resources.

### **Options for a Rules-Based Framework**

17. Various options for a rules-based framework have been explored. Through discussion with Scottish Government colleagues, the MOG, and Directors of Finance, two options have been decided upon as the most feasible for both parties.

18. The first option proposes that a 'triple lock' baseline, consisting of three indicators, is established. The highest figure produced by one of these three indicators would determine the share of Local Government funding within the overall Scottish Government Budget. However, what these percentages would represent would be open to negotiation.
19. The second option proposes that Local Government is allocated a fixed share of the discretionary Scottish Government Budget. The percentage share allocated would be open to negotiation.
20. Further work on these two options, particularly on the pros, cons, and financial implications for Local Government, will be conducted by COSLA officers over the coming weeks. These findings will be presented to the MOG and Directors of Finance.
21. A short presentation will also be delivered to Convention further expanding on the points above and offering greater detail on the rules-based options, the current financial context within which the rules-basis has been proposed, and the implications of a rules-basis for Local Government.

### **Proposed Position**

22. This paper does not therefore seek the views of Convention on the specific options but rather on the principle of a rules-basis overall, and whether this meets the requirements of Local Government for the future sustainability of Local Government funding.
23. Convention is also asked to reaffirm its commitment to the Fiscal Framework and provide views on the overall strategic direction.

### **Next Steps**

24. Taking into account the comments provided by Convention, officers will continue to work with Scottish Government to develop a Fiscal Framework. This will include the continued input of the Member/Officer Group and further recommendations to Leaders.

## Appendix One

### Fiscal Framework Member/Officer Working Group

#### Current Membership

Cllr Katie Hagmann	COSLA Resources Spokesperson
Cllr Alasdair Christie	Highland Council
Cllr Ian Dickson	West Dunbartonshire Council
Cllr Russell Imrie	Midlothian Council
Cllr Jon Molyneux	Glasgow City Council
Cllr Peter Smaill	Midlothian Council
Cllr James Stockan	Orkney Islands Council
Robert Emmott	Directors of Finance
Eileen Rowand	Directors of Finance
David Roberston	SOLACE
Sarah Watters	COSLA
Mirren Kelly	COSLA
Derek Yule	COSLA
Jonathan Sharma	COSLA
Ed Gordon	COSLA

## Appendix Two

### **Scottish Government and COSLA** **Fiscal Framework Principles**

#### **Principle A – The fiscal framework should promote stability, certainty, transparency, affordability and sustainability.**

- a) An effective fiscal framework should provide the foundations of a stable, transparent and certain fiscal relationship.
- b) It is accepted that there are circumstances where this might not always be practically possible, for example as a result of the lack of stability and certainty in the funding relationship between the Scottish and UK governments.
- c) The effective operation of the framework should not require ongoing revisions or negotiations. Any periodical review of the framework as a whole or any specific arrangement, as may be provided for, should be agreed by all relevant parties from the outset.
- d) The provisions of the framework should be transparent and unambiguously clear to all parties to the agreement and other stakeholders.
- e) The fiscal framework will enable mutual consideration of the affordability and sustainability of any arrangement, particularly within the context of new and existing commitments, demands and pressures.

#### **Principle B – The fiscal framework should promote effective use of fiscal flexibilities and levers to address local priorities and improve outcomes**

- a) The fiscal framework should set out mutual expectations related to the exercising of greater fiscal powers, and the use of new fiscal levers in a local setting. This should include the consideration of how decisions may affect the tax receipts or expenditure of individual councils, Local Government, Scottish Government or UK Government.
- b) The fiscal framework should set out clear processes for the discussion of the introduction of new fiscal flexibilities for local government, ensuring they support the effective overall use of public funds in Scotland.
- c) Any proposals to introduce new fiscal flexibilities or levers must consider the impact on Local Government Finance distribution.
- d) As far as is reasonably possible the fiscal framework should seek a balance between local flexibilities and administrative and economic efficiency in the context of the tax system as a whole.
- e) Where necessary consideration should be given to a neutral application of fiscal flexibilities across local authorities to ensure certainty for tax-payers, for example utilising whichever forums are available to local authorities.

#### **Principle C – The fiscal framework should enable discussion of fiscal empowerment of Local Government.**

- a) Both parties agree to establish and maintain a clear route for the exploration of opportunities for further fiscal empowerment.
- b) Discussions should include consideration of existing devolved fiscal powers, and those that flow from any future devolution of powers to Scotland.

Appendix Three

**Fiscal Framework (FF) SG and LG Budget Engagement Process**

