WRITTEN SUBMISSION FROM COSLA

Introduction
COSLA welcomes the opportunity to provide written evidence to the Finance Committee on Scotland’s Fiscal Framework. COSLA understands well the Committee’s focus on a revised funding framework for Scotland, in light of the UK Government’s command paper following the Smith Commission agreement. It is in this context that COSLA wishes to re-state its message for greater local fiscal empowerment. The emphasis of this submission therefore is to impress upon the Committee the importance of the local dimension in any consideration of Scotland’s fiscal framework.

COSLA does not therefore intend to give detailed views on the Committee’s questions over the mechanics of the proposals set out in Chapter 2 of the command paper, these being primarily around cementing the governance around the UK and Scottish Government’s devolved relationship.

Key areas of focus
The key areas of focus in COSLA’s submission are to:
- Restate COSLA’s key messages on local fiscal empowerment within the context of the devolution of fiscal powers to Scotland.
- The importance of a local dimension in a Scottish fiscal framework, recognising the key points set out in the command paper.
- A brief comment on borrowing powers referred to in the command paper.

COSLA’s key messages on local fiscal empowerment
The Scottish Government continues to make the argument for greater fiscal autonomy for Scotland, in order that decisions on fiscal policy are made closer to the people it represents. Whilst COSLA is supportive of increased devolved powers coming to Scotland, the same argument can be made for those powers in turn being devolved to local communities. Local Government is a sphere of governance in Scotland along with the Scottish Government and is democratically accountable to its local communities. Given this direct relationship with communities it serves, local government is best placed to make the bulk of decisions which affect people at the local level.

COSLA firmly believes therefore that the issue of fiscal devolution must go beyond simply the relationship between the Scottish and UK Governments. Fiscal empowerment must have at its heart the needs of local communities to be able to make financial decisions over the services which affect them locally. Indeed Lord Smith in his Foreword to the Commission’s report recognised the strong desire for devolution to be extended further, with the transfer of powers from Holyrood to local communities. This should of course be suitably underpinned by an effective fiscal framework, affording the protection of and operating in balance with both a national Scottish and UK wide fiscal policy.

COSLA has on more than one occasion provided evidence to the Committee of its ambition for greater local fiscal empowerment. Most recently COSLA provided a submission to the Committee’s call for evidence on the devolution of further fiscal powers to the Scottish Government. This submission does not go back over COSLA’s previous evidence in any detail but is intended to re-enforce and complement the arguments which COSLA has put forward previously, in order that the Committee understands the importance of a local dimension in any consideration of Scotland’s future fiscal framework.
Key Message

In COSLA’s previous submission to the Committee our key message was that devolution, including fiscal powers, does not stop at the Scottish Parliament and must follow through to local communities. COSLA endorsed the recommendations of the Commission on Strengthening Local Democracy which reinforced the message that fiscal decisions which affect local communities should be made locally.

This is not a vague aspiration either. As we have informed the Committee previously, COSLA is acting on its agenda for increasing local fiscal control, through its recently convened political Task Group. This is in line with the Commission on Strengthening Local Democracy’s recommendations and, specifically, this group is pressing forward in developing COSLA’s call in a number of key areas of fiscal control. Key to this are the return of non-domestic rates to local control; for a modernised council tax which returns control to local authorities; and for a general power of competency to raise local discretionary taxes. Equally the Task Group is moving forward with the Commission’s recommendation for all property taxes to be controlled locally, including the new Scottish Land and Buildings Transactions Tax.

Since COSLA established its Task Group to look at local fiscal control and provided evidence to the Committee on its local fiscal empowerment agenda, the Scottish Government has now announced the independent cross party Commission to look at Local Tax Reform jointly with local government. COSLA welcomes the Commission’s work and the opportunity this provides to look again at the shape of local taxation into the future. The Commission is now established and will be taking evidence from key stakeholders to identify and examine alternatives that will deliver a fairer system of local taxation to support the funding of services delivered by local government. Developing COSLA’s response to the Commission’s call for evidence is a key priority for the Task Group. At the core of our submission will be a call for a modernised council tax which is based on revaluation of all domestic properties and for revenue raising powers to be returned to genuine local control.

This is therefore the context within which a fiscal framework for Scotland needs to be located, that is, a framework which truly places fiscal control at the appropriate levels, locally and nationally, that ensures the balance of funding between national and local governments reflects the proper balance between national and local taxation.

It is COSLA’s ambition to get all political parties on board with the local fiscal empowerment agenda and, as with our previous evidence to the Committee, COSLA hopes that the Committee members will also lend their support to the need for a fiscal framework for Scotland which recognises and embraces the local dimension.

The local dimension in a Scottish fiscal framework

A Scottish fiscal framework, in COSLA’s view, must encompass the local dimension and local fiscal control as well as the national Scottish and UK dimension. The command paper talks about the relationship between the Scottish and UK Government’s and the responsibilities which underpin these. Similarly in a Scottish framework there are rules and responsibilities at the national and local levels. Local Government is expected to manage its fiscal powers responsibly and local authorities must produce balanced budgets year on year and control borrowing through the prudential framework.

Local Government manages the risk of its spending decisions but when it comes to the funding to support those decisions, local government does not have anything like the
same degree of control and sharing of risk. The command paper states that, with the powers devolved to Scotland from the Smith Commission the Scottish Government would control around 60% of spending and 40% of Scottish tax. In contrast local government controls just 18% of its funding through local taxation, the Council Tax. The Commission for Strengthening Local Democracy argued that this balance of funding needs to be at least 50% of funding through local taxation, in order to ensure strong local democratic choice and accountability.

As the command paper recognises, Council Tax is a taxation which, whilst the tax itself is set out nationally in statute, the ability to raise revenue by increasing council tax rates is controlled locally. Council Tax is the only taxation where there is any degree of control at the local level and the command paper correctly points out that the Scottish Government has control over business rates revenues. The return of business rates to local control is at the core of COSLA’s ambition. Were this to be the case then there would be an adjustment to the revenue grant funding provided by the Scottish Government, in the same way that the shift in control of income tax as a result of the 2012 powers and the further devolution of powers arising from Smith, would lead to an adjustment in the UK funding to Scotland.

Moving business rates back to local control would require consideration of issues such as equalisation of resources between local authorities, given that some authorities can raise more revenue from business rates than others. This reflects the ‘no detriment’ principle outlined in the command paper. However the point here is that such considerations should be dealt with in a mature fashion jointly by the Scottish Government and local government, as part of a fiscal framework for Scotland. This would need to have mechanisms in place to ensure that any revised funding framework for Scotland would be fair, transparent and effective.

COSLA therefore calls on the Committee to recognise the local dimension in considering what needs to be included within a revised funding framework for Scotland.

Comment on borrowing powers
Whilst the command paper’s focus is on the fiscal relationship between the Scottish and UK Governments, there are some areas which the Committee should be made aware of in terms of local government’s fiscal relationship with the Scottish and UK Governments. The key area is borrowing powers. Local government has substantial borrowing powers which are regulated through the prudential code and treasury management policies. Currently borrowing by Scottish local authorities is done through the Public Works Loans Board (PWLB).

With new borrowing powers coming to the Scottish Government, COSLA would be concerned if there is any inference drawn from the command paper that this changes the dynamic with regard to local government’s borrowing powers.

Conclusion
In conclusion COSLA is calling for the Committee to recognise that devolution does not stop at the door of the Scottish Parliament and that a fiscal framework for Scotland does not just cover the fiscal relationship between the UK and Scottish Governments in a devolved environment. A Scottish fiscal framework must therefore include the fiscal relationship between local government in Scotland, both with the Scottish and UK Governments. This recognises the importance of the local dimension and that devolution of powers, including fiscal powers, must flow through to local communities.