The Committee will meet at 10.00 am in the David Livingstone Room (CR6).

1. **Budget (Scotland) (No.3) Bill**: The Committee will take evidence on the Bill at Stage 2 from—

   Derek Mackay, Cabinet Secretary for Finance, Economy and Fair Work, John Nicholson, Deputy Director for Public Spending, Graham Owenson, Head of Local Government Finance, and Aidan Grisewood, Head of Tax Division, Scottish Government.

2. **Budget (Scotland) (No.3) Bill**: The Committee will consider the Bill at Stage 2.

3. **Work programme (in private)**: The Committee will consider its work programme.

Jim Johnston
Clerk to the Finance and Constitution Committee
Room T3.60
The Scottish Parliament
Edinburgh
Tel: 0131 348 5215
Email: James.Johnston@parliament.scot
The papers for this meeting are as follows—

**Agenda Items 1 and 2**

Cover note  
FCC/S5/19/4/1

**Agenda Item 3**

PRIVATE PAPER  
FCC/S5/19/4/2 (P)
Introduction

1. The Budget (Scotland) (No.3) Bill (“the Bill”) was introduced in the Parliament on 19 December 2018. The Bill and Annexe F to the Budget document are available via the links below. Annexe F provides further detail on the reconciliation of the portfolio spending allocations as set out in the Budget documents with the Budget Bill, showing the overall resource authorisations—

- [Budget (Scotland) (No.3) Bill](#)
- [Budget 2019-20 Annexe F](#)

Procedure

2. Budget Bills follow a different procedure to that of other public bills and are governed separately by Rule 9.16 of Standing Orders. At Stage 1, a Budget Bill is referred immediately to the Parliament for consideration of its general principles and a decision on whether they are agreed to. The Parliament agreed to the general principles of the Bill on [31 January 2018](#).

3. Standing Orders provide that Stage 2 of the Bill shall be taken by the Finance and Constitution Committee.

4. The Committee will consider the Bill at Stage 2 under two separate agenda items. Under the first item, the Committee will have the opportunity to take evidence on the Bill from the Cabinet Secretary for Finance, Economy and Fair Work and his officials. This will be followed by formal stage 2 proceedings.

Stage 1 revisions

5. Following the Stage 1 debate, the Cabinet Secretary wrote to the Committee and to COSLA setting out a revised settlement for local government. This correspondence is attached at the [Annexe A](#). SPICe have produced a briefing paper which is attached at [Annexe B](#).

Conclusion

6. The Committee is invited to consider the Budget Bill at Stage 2.

Committee Clerks
February 2019
1. Mr Bruce Crawford  
   Convenor  
   Finance and Constitution Committee  

2. Mr James Doran  
   Convenor  
   Local Government and Communities Committee  

31 January 2019

Dear Bruce and James,

Following careful consideration of all the views expressed on the Budget proposals for local government, included the points raised in the evidence sessions with your Committees, I announced in Parliament today in the Budget Bill Stage 1 debate a package of further measures covering local taxation and local government finance. I consider these to be the biggest empowerment of local authorities since devolution.

Attach is a copy of my letter to the COSLA President setting out the detail of the further package of measures for local tax reform and local government finance.

DEREK MACKAY
Dear Alison,

I have listened carefully to the points you and other Leaders have raised with me following our consultation, and most recently in our meeting on 30 January, on the terms of the local government settlement and the issues you have sought to resolve as being important to you. The Scottish Greens have also raised many similar points in my discussions with them to secure support for the Budget.

In the Budget Bill Stage 1 debate in Parliament today I announced a package of further measures covering local taxation and local government finance which I consider will be the biggest empowerment of local authorities since devolution. I write now to confirm the details.

The Scottish Government has committed to make a number of changes to local government taxation between now and the end of this Parliament and clearly COSLA will have a key role as that works unfolds. These potential changes include:

- To consult, in 2019, on the principles of a locally determined tourist tax, prior to introducing legislation to permit local authorities to introduce a transient visitor levy, if it is appropriate for local circumstances;
- To support an agreed amendment from the Scottish Greens to the Transport (Scotland) Bill that would enable those local authorities who wish to use such a power, to introduce a workplace parking levy. Scottish Government support will be contingent on the exclusion of hospitals and NHS properties; and
- To devolve Non-Domestic Rates Empty Property Relief to local authorities in time for the next revaluation.

Both the Scottish Government and the Greens also supported the recommendation of the Commission on Local Tax Reform, which was co-chaired by the then COSLA President, that the present council tax system must end.
In order to make progress the Scottish Government will convene cross-party talks on its replacement with a view to publishing legislation, should cross-party agreement on a replacement be reached, by the end of this Parliament, with that legislation taken forward in the following Parliament.

While the Scottish Government maintains the position that money for education, social care and early learning and child care are core functions of local government, we have listened to the arguments that local government requires increased funding and flexibility for the ‘core’ local government settlement.

I have, therefore, agreed to make the following changes:

- An increase in the core resource local government settlement of £90 million;
- Continue to provide an earmarked £160 million from the Scottish Government for health and social care investment to support social care and mental health services – including those under the direction of Integration Authorities – whilst, as part of this package, allowing local authorities the flexibility to offset their adult social care allocations to Integration Authorities in 2019-20 by 2.2% compared to 2018-19, i.e. by up to £50 million across all local authorities to help them manage their own budgets;
- Provide, as you have requested, local authorities with the flexibility to increase the Council tax by 3% in real terms, which equates to 4.79% next year;
- Bringing forward a three year funding settlement for local government from 2020-21 budget onwards; and to develop a rules based framework for local government funding in partnership with COSLA that would be introduced for the next Parliament.

Taken together, this enhanced package offers up to £187 million of increased funding and flexibility to local authorities.

In addition to this, and subject to the successful outcome of negotiations with teachers, the Scottish Government will fully fund its contribution to the cost of the Teachers’ Pay deal, providing local authorities with the additional funding required to meet our share of the pay offer.

At our meeting on 30 January I also undertook to follow up and confirm the position on two further points.

Firstly, Local authorities, along with other public bodies, will face increased costs as a result of changes made by the UK Government to employer contributions for public sector pensions, including for Teacher pensions. The UK Government has committed to part fund these costs.

Local authorities were assuming a shortfall of 33% in the funding for these costs. Scottish Government analysis is that this shortfall is likely to be closer to 21%. This difference amounts to around £15 million for local authorities which they should no longer have to budget for.

We will not have formal confirmation of the impact of these changes to the Scottish Budget until the UK Spring Statement on 13 March 2019. However, we are committed to continue to press the UK Government to meet the full cost of these changes to avoid damaging impacts on the delivery of public services across Scotland. The Scottish Government will, however, commit to pass on to local government the consequentials that we receive towards the employers’ cost increase for local government Teachers’ Pension schemes.
Secondly, I can confirm that I intend to bring forward as early as I can (early in the new financial year) changes to legislation which will allow Councils to vary loans fund repayments for advances made before 1 April 2016. Changes to repayments must be based on prudent principles and we will work with COSLA and Audit Scotland to reach a solution.

Throughout the Budget negotiations, I have endeavoured to engage constructively and openly with COSLA. As a result of the continuing UK austerity cuts forced upon us I know local authorities, along with the rest of the public sector, are still facing some difficult financial challenges, but I hope that you can recognise and welcome the significant package of additional measures I have confirmed today, which I truly do consider will be the biggest empowerment of local authorities since devolution.

Set out in the Appendix to this letter are details of the additional allocations to individual local authorities, through the normal formula distribution for the additional £90 million, to be spent at the discretion of individual councils. Subject to Parliamentary approval in the final stages of the Budget Bill, these sums will be added to the Local Government Finance (Scotland) Order 2019 to be presented to Parliament later in February.

DEREK MACKAY

ANNEXE A
<table>
<thead>
<tr>
<th>Local Authority</th>
<th>Additional Stage 1 Allocation: Core Grant (£m)</th>
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<tr>
<td>Aberdeen City</td>
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<td>Angus</td>
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<td>Argyll &amp; Bute</td>
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<tr>
<td>Clackmannanshire</td>
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<tr>
<td>Dumfries &amp; Galloway</td>
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<tr>
<td>Dundee City</td>
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<td>Edinburgh, City of</td>
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<tr>
<td>Eilean Siar</td>
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<tr>
<td>Falkirk</td>
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<td>Fife</td>
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<td>Glasgow City</td>
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<td>Highland</td>
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<td>Inverclyde</td>
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<tr>
<td><strong>Scotland</strong></td>
<td><strong>90.000</strong></td>
</tr>
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</table>
Budget Bill Stage 1 deal

The Parliament debated and voted on the general principles of the Budget Bill 2019-20 on Wednesday 31 January. In his opening statement, Derek Mackay, the Cabinet Secretary for Finance, Economy and Fair Work provided details of the deal agreed between the Scottish Government and the Scottish Green Party.

At decision time, the Bill received 67 votes for and 58 votes against. There was one abstention.

What has been agreed?

The deal agreed between the Scottish Government and the Green Party combines a mix of new spending and new policy commitments.

On spending, the Cabinet Secretary announced an additional £90 million for the local government general resource grant. This additional money changes the various headline figures for the local government settlement, as covered in detail in previous SPICe blogs and briefings on the budget:

- the non-ringfenced revenue funding available for councils to deliver services (the sum of general resource grant and non-domestic rates income) now falls by 2.5% in real terms (-£230.7 million)
- once all of the revenue funding in other portfolios is added, along with, specific (ring-fenced) resource grants, the total revenue funding increases by 1.1% in real terms (+£110.4 million)
- finally, once all the above, and the capital budget is included, the total funding for local government now increases by 2.8% in real terms (+£298.9 million).

In addition to this new money, the Cabinet Secretary also announced two additional “flexibilities”:

- to allow local authorities to increase council tax by a maximum of 4.79% (rather than 3%) in 2019-20 – the Government states this would raise an additional £47 million
- to allow local authorities to spend £50 million previously earmarked for social care either on social care, or on whatever area of service they choose.
Taken together, the Cabinet Secretary stated that these three changes could increase the spending power of local government by £187 million. However, to be clear, the only additional funding to local government is the £90 million to the general resource grant.

Policy changes centred on new powers being given to Local Authorities on taxation. The Cabinet Secretary committed to:

- Consult on the principles of a locally-determined transient visitor levy (also known as a Tourist Tax) and introduce legislation thereafter
- Support an agreed Green Party amendment to the Transport (Scotland) Bill. This would enable local authorities to introduce a workplace parking levy, with Scottish Government support being contingent on the exclusion of hospitals and NHS properties.
- Devolve Non-Domestic Rates Empty Property Relief to local authorities in time for the next revaluation.
- Convene cross-party talks on replacing the current council tax. If agreement is reached, the intention would be to publish legislation by the end of this parliamentary session. The legislation would then be taken forward in the following session.
- Bring forward a three-year funding settlement for local government from the 2020-21 budget onwards.
- Develop a rules based framework for local government funding, in partnership with COSLA, that would be introduced for the next parliament.

COSLA issued a statement welcoming the changes. COSLA President Councillor Alison Evison said: “Whilst challenges still remain, and today’s movement from Scottish Government clearly doesn’t mitigate all of our funding issues, we are now in a better place than we were with the original budget proposal.

How will the additional spending be funded?

The Cabinet secretary announced that the additional allocations would be funded by “further unexpected funding in Barnett consequentials this year”. These Barnett consequentials arise from the UK Government’s 2018-19 supplementary estimate and provide £126 million in Resource (day-to-day) spending and £22 million in capital for the Scottish budget. Given the lateness in the 2018-19 financial year, the UK Government has given the Scottish Government the flexibility to use this resource in 2019-20.

Of this additional £148 million, £90 million will be allocated to Local Government and £4 million to Health via amendments to the Budget Bill. The remaining £54 million will go into the Scotland Reserve.

Financial Scrutiny Unit