Fiscal Framework between Scottish Government and Local Government

October 2025

Scottish Government
Riaghaltas na h-Alba

Introduction

1. The Verity House Agreement, signed on 30 June 2023 as part of the New Deal with Local Government, committed to "a robust Fiscal Framework which will include meaningful early budget engagement, the Local Government Settlement will be simplified and consolidated, clear routes to explore local revenue raising and sources of funding will be established, and wherever possible multi-year certainty will be provided to support strategic planning and investment."

2. The Verity House Agreement, sets out Scottish and Local Government's clear starting point and public commitment to the principle of regular and meaningful engagement, and respect for each other's democratic mandate, in order that we can work together more effectively to improve the lives of people in Scotland.

3. Further, the Verity House Agreement commits to regularly reviewing powers and funding for Local Government to ensure they are aligned with the effective delivery of outcomes. It established a default position that there will be no ring-fencing or direction of funding, unless there is a clear joint understanding of, and rationale for, such arrangements.

4. The Verity House Agreement and the Fiscal Framework aims to balance greater flexibility over financial arrangements for Local Government, with clearer accountability for the delivery of shared priorities.

5. The Fiscal Framework establishes an agreed foundation for cooperation and coordination on all matters concerning the financial relationship between Local Government and the Scottish Government.

6. This Fiscal Framework sets out provisions relating to:
   - Principles
   - Roles and scope
   - Engagement
   - Local Taxation and Fiscal Flexibilities
   - Multi-year Allocations
   - Forward Work Plan

7. The Fiscal Framework has the status of a 'Memorandum of Understanding'. As with the Verity House Agreement, it is an agreed statement of political intent. The Framework is not intended to constrain the independence of Local Government, nor the freedoms of either party to operate in areas for which they are responsible, but rather to enhance the work required to deliver our shared priorities and produce better outcomes for communities.

8. Whilst the Verity House Agreement committed to concluding a Fiscal Framework between the Scottish Government and Local Government, both parties agree that the Framework should be viewed as an evolving document that will develop over time to ensure both parties continue to benefit from its core principles and objectives. COSLA and Scottish Government will together monitor the effectiveness of the Fiscal Framework periodically.

9. The 2025-26 Scottish Budget setting process highlighted the benefits of a Fiscal Framework. This was reflected in the engagement and greater transparency between Local and Scottish Government at both a political and official level during the 2025-26 Scottish Budget setting process and the plans for further strategic engagement during 2025-26. This has been acknowledged to have delivered an improvement on previous years. Importantly, this engagement enabled a greater degree of transparency than in previous years and ensured there was agreement about the levels of funding in the settlement. Investing in maintaining a strong partnership approach through best practice in engagement will remain a critical component of the Fiscal Framework.

Principles

10. The underpinning principles of the Fiscal Framework agreed between the Scottish Government and Local Government are:

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) Although the Framework will evolve over time, the effective operation of the Framework should not require frequent revisions or negotiations. 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 should promote best practice in early engagement to enable mutual consideration of the affordability and sustainability of arrangements between the Scottish Government and Local Government, particularly within the context of new and existing commitments, demands and pressures.

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 taxpayers, for example utilising whichever forums are available to local authorities.

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 that incorporate the right balance of flexibility alongside robust governance and assurance which recognises the role of the Scottish Parliament in scrutinising the use of public money in Scotland.
b) Discussions should include consideration of existing devolved fiscal powers, and those that flow from any future devolution of powers to Scotland.

Roles and scope

11. As set out in the Verity House Agreement, Scottish Government and Local Government are partners with a relationship based on mutual trust and respect, recognising the need for effective and joint leadership on shared priorities. This Fiscal Framework applies directly to the Scottish Government and should be considered in the activities of all Scottish public bodies where their activities impact upon Local Government.

12. Local authorities are independent corporate bodies with their own powers and responsibilities for the delivery of a wide range of national and local services, both statutory and non-statutory. Local authorities are also independent of each other and are not accountable for the delivery of other local authorities.

13. Local authorities are not the only local partners who lead delivery of services - health, police, fire and the third sector also have statutory and/or essential roles in local public services. Many of these bodies are required to work collectively and with councils as set out in the Community Empowerment (Scotland) Act 2015.

14. The Scottish Government provides local authorities with block grant funding to operate independently and to take locally appropriate decisions, openly and transparently. Local authorities also have their own sources of revenue including the raising of Council Tax, discretionary local fiscal levers (for example the Workplace Parking Levy), and the setting of fees and charges for a range of services.

15. It is the role and responsibility of each individual local authority to manage its own budgets and to allocate the financial resources available to it based on local needs, the fulfilment of any statutory obligations, and jointly agreed national and local priorities. The management of the available local authority budget and the effective utilisation of funds to deliver services to local communities are decisions to be determined by locally elected representatives. Any decisions on ringfencing

and/or restrictions on funding should routinely be taken jointly in accordance with the Verity House Agreement.

16. The respective roles of Scottish Government and Local Government, as they pertain to national outcomes and policy direction, will be set out in the planned assurance and accountability arrangements underpinning the Verity House Agreement. This policy cooperation is central to the financial relationship, and this Fiscal Framework should be read alongside that Agreement once finalised.

Local Taxation and Fiscal Flexibilities

17. The Scottish Government and Local Government are committed to enhancing local fiscal levers and flexibilities through the exploration of new opportunities, and to regularly evaluating existing local levers to ensure they are fit for purpose.

18. A structured process of design and evaluation of fiscal levers will allow Scottish and Local Government to work together to deliver future opportunities for fiscal empowerment.

19. Annex C contains a 'design and consideration' process for the development, appraisal, and implementation of fiscal levers. The design of any fiscal leavers should reflect the principles of stability, certainty, transparency, affordability and sustainability.

20. All fiscal levers will be developed in accordance with the agreed Fiscal Framework principles, including seeking a balance between local flexibility and economic efficiency.

21. Scottish and Local Government agree that new fiscal levers, which are created to be administered and levied by local authorities should favour local discretion, unless there is a legitimate reason and agreement for the lever to be set or constrained to some extent nationally.

22. The establishment of a Joint Working Group with Local Government to support discussion on sources of Local Government funding, including Council Tax has enabled the exploration of more fundamental changes in Local Government funding, including Council Tax reform.

23. Any future working groups to consider the development, implementation or use of fiscal leavers should abide by the principles set out in this Framework.

Engagement

24. Scottish and Local Government are committed to new ways of working in the fiscal relationship going forward, which promotes best practice in engagement to support transparency and accountability. This will encourage a relationship based on collaboration and also improve our shared information and evidence base.

25. This will include engagement on:
    - high level policy ambitions;
    - strategic issues and themes;

- the demands of the previous, current and subsequent financial years;
- the fiscal and economic circumstances in which decisions must be made for the next financial year; and
- horizon scanning and the impacts for medium to long term financial plans.

26. Local Government will also be provided with opportunities to contribute to the evidence and options for:
    - the Programme for Government, which sets out the Scottish Government's legislative and policy priorities; and
    - the Draft Scottish Budget, which sets out the Scottish Government's proposed spending plan for the relevant financial year.

27. To facilitate this, Scottish and Local Government will hold joint political level meetings at the following key points in the financial year:
    - start of the financial year, around the publication of the Scottish Government's Medium Term Financial Strategy;
    - in connection with the Programme for Government at the outset of the autumn;
    - following UK Government's fiscal events;
    - pre-Scottish Budget; and
    - post-Scottish Budget.

28. Official/officer level engagement will take place throughout the financial year to ensure there is a robust understanding of the evidence and challenges faced by Scottish and Local Government. Developing this shared understanding will be critical in supporting and informing the joint political level meetings outlined above.

29. These meetings should supplement those agreed as part of the Verity House Agreement annual strategic engagement plan which offer a forum to discuss progress towards our three shared priorities and resolve issues and barriers to their delivery.

30. At an official/officer level:
    - regular meetings between the Permanent Secretary and COSLA Chief Executive as well as between Scottish Government Executive Team and COSLA's Senior Management Team. These meetings provide an opportunity for discussion on strategic policy developments, joint priorities, and areas of concern for Local and National Government.
    - the Settlement and Distribution Group will continue to meet to consider and make recommendations on distribution and settlement issues.

31. The meetings outlined in this section do not replace on-going Ministerial and official level engagement around specific policy development and delivery and associated funding decisions.

32. A process map at Annex B captures this engagement and the connection to official level preparatory work.

Multi-Year Allocations

33. The Scottish Government and Local Government acknowledge that robust multi-year budgeting would better enable long-term planning although a Fiscal Framework cannot in isolation provide multi-year certainty. Conversely, multi-year certainty could hypothetically be provided in the absence of a fiscal framework.

34. Despite the clear value of multi-year funding certainty, both parties recognise that without equivalent clarity from the UK Government, it is not realistic for Scottish Government to offer multi-year funding commitments given the prominence of the adjusted block grant in the Scottish Government's funding position.

35. As outlined in the Written Agreement between the Scottish Government and the Finance and Public Administration Committee on the Budget Process, there is a presumption that the Scottish Government will carry out a Spending Review following the publication of equivalent UK Spending Review.

36. The Chancellor of the Exchequer's commitment in the Autumn Budget 2024 Statement to set resource budgets for three years and capital budgets for five years, with reviews every two years, will provide key funding information to help underpin the Scottish Government's own multi-year spending review. The details of the first UK Government Spending Review following this commitment were published on 11 June 2025.

37. It is anticipated that the approach proposed by the Chancellor will provide greater clarity and certainty over the Scottish Government's funding position moving forward, creating the foundations to allow the Scottish Government to adopt a multi-year approach to funding public services in Scotland which we will take forward through the next Scottish Spending Review.

38. Where a multi-year spending review provides an indicative planning assumption for Local Government overall, Local Government may request indicative council level allocations for future year(s) be provided in addition to the overall settlement figure within the spending review. Decisions on distribution, such as the application of changes or the approach to updating indicators will be considered by Settlement and Distribution Group in the normal way.

39. As with previous Spending Reviews, these will be indicative only on the basis of the baseline set out by the UK Government and will necessarily be subject to change for a range of factors. It is anticipated that this will be set out in an accompanying explanatory memorandum.

Governance

Implementation and oversight

40. The Fiscal Framework is jointly owned by the Scottish Government and Local Government. Its implementation will be overseen by the Scottish Cabinet

Secretary responsible for Local Government finance[1] and the COSLA Presidential Team.

41. Consideration of its implementation and whether it remains fit for purpose should feature on the agenda of at least one high level meeting between the parties per annum under the auspices of the Verity House Agreement strategic engagement. That consideration should be informed by a joint report led by Scottish Government Officials and COSLA Officers.

Review

42. Processes and mechanisms outlined in this framework will be reviewed and updated as necessary at the outset of each Scottish Parliament, and not less than within 12 months of the establishment of a new Parliament. The Forward Work Plan will be revisited annually following the conclusion of the Budget Bill process each year and COSLA and Scottish Government will keep the effectiveness of the Framework under review.

43. It is expected that issues arising under this Fiscal Framework will normally be resolved by detailed consultations between policy officials and COSLA officers, including those responsible for Local Government relations within the Scottish Government.

44. Where agreement cannot be reached by officials and COSLA officers and political escalation is required, the First Minister and COSLA President will be invited to consider the issues at their next biannual meeting, or earlier if required.

Scrutiny and Accountability

45. Both Local Government and the Scottish Government are accountable to the electorate – the people of Scotland who we serve together. At a local level, council administrations and councillors are held to account within council chambers. At a national level, the Scottish Parliament holds the Scottish Government and Scottish Ministers to account. The Scottish Parliament has a legitimate interest in collective delivery of outcomes across the public sector and takes an interest in the actions of individual councils or Local Government collectively.

46. The operation of the fiscal framework will also be supported by the robust assurance and accountability arrangements agreed as part of the Verity House Agreement.

47. These arrangements will support transparency and provide assurance that, within the funding available to Local Government, local authorities are delivering improved outcomes in each of the three shared priority areas, either individually or jointly with Scottish Government and other partners.

[1] As at March 2025, that responsibility is held the Cabinet Secretary for Finance and Local Government.

Forward Work Plan 2025-26

Key Priorities for 2025-26

48. On 11 June 2025, the UK Chancellor of the Exchequer published a multi-year spending review providing departmental spending envelopes for resource funding for each of 2026-27, 2027-28 and 2028-29, with an additional year for capital (2029-30), and setting out a high-level assessment of the Scottish Block grant over that same period. Initial engagement on the outcome of the UK Spending Review has already taken place and the Framework for the Scottish Spending Review published alongside the Medium-Term Financial Strategy signals the formal start to the Scottish Spending Review process. Detailed plans for resource spending and capital investment for next year and future years will be developed and presented alongside the 2026-27 Scottish Budget towards the end of this year and this Framework commits to open and substantive engagement with Local Government as that work progresses.

49. Ongoing engagement has identified mounting pressure within capital budgets, it is therefore proposed that joint work to understand these pressures is taken forward. Additionally, the Scottish Budget 2025-26 made available £40 million of capital funding for the purposes of responding to the climate emergency. As one of the key priorities in the Verity House Agreement, it is understood that the Scottish Parliament are likely to take strong interest in how that funding has been prioritised locally. To avoid the need for burdensome reporting and monitoring, it is agreed that budget engagement should prioritise the challenge of outlining how Local Authorities have collective responded to the climate emergency.

50. Ongoing engagement and budget correspondence have recognised the pressures affecting Health and Social Care Partnerships in 2024-25 and 2025-26. It is therefore proposed that joint work to understand these pressures is also prioritised ahead of the Scottish Budget 2026-27

51. Routine engagement between officers and officials will ensure that any emerging issues are also given due prominence through the budget engagement process.

Annex A: Scottish Government and Local Government Funding

Sources of Funding for the Scottish Government

1. The money that Scottish Government has to allocate, collectively called the Scottish Consolidated Fund, comes from the following sources:
    a. block grant from the UK Government
    b. other funding from the UK Government
    c. Scottish income tax (collected by HMRC)
    d. non-domestic rates (collected by local authorities and redistributed by the Scottish Government)
    e. devolved taxes (collected by Revenue Scotland)
    f. borrowing

2. The block grant includes resource, capital, annually managed expenditure (which can only be spent for the purposes for which it is allocated) and Financial Transactions allocated by the UK Government at UK fiscal events and is currently determined with reference to the overarching requirement to meet the objectives set out in the Charter for Budget Responsibility[2]

3. Changes in the block grant are calculated as a population share of changes in spending on public services devolved to Scotland. These arrangements are set out in the Statement of Funding Policy[3] and the allocation process is often referred to as the Barnett Formula.

4. For devolved social security benefits and all taxes set, raised or assigned in Scotland, the block grant is subsequently adjusted to reflect the benefit costs and tax revenues foregone by the UK Government. These 'block grant adjustments'[4] reflect the hypothetical value that would have been raised or spent in Scotland by UK Government if the taxes and payments had not been devolved.

Sources of Funding for Local Government

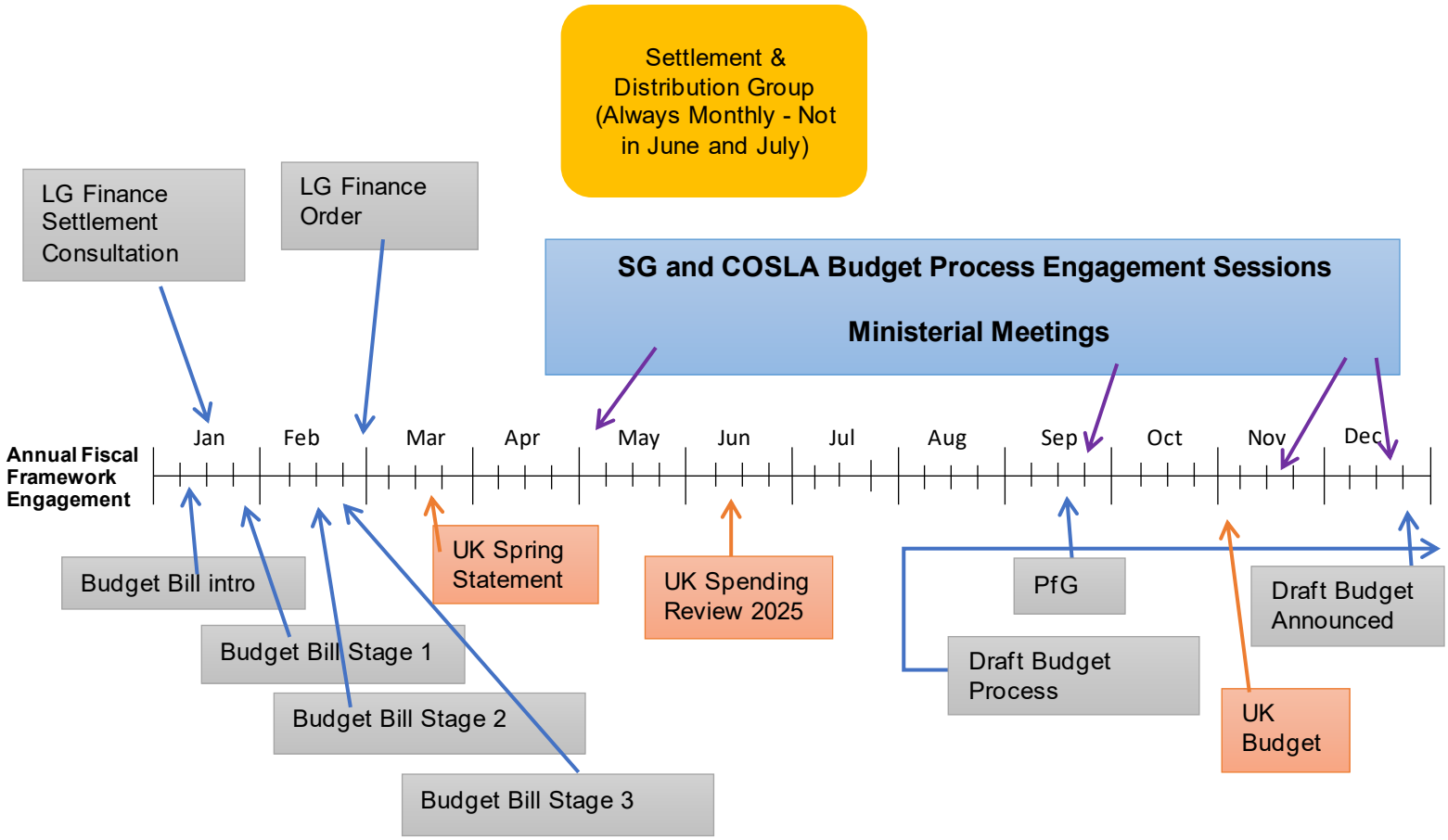
5. Local Government receive its funding mainly from the following sources:
    a. Scottish Government General Revenue Grant (GRG)
    b. Non-domestic rates (collected by local authorities and redistributed by the Scottish Government)
    c. Council Tax (collected by local authorities)
    d. Government Grants (other than GRG) from either the Scottish or UK Government
    e. Other Grants including from NHS Boards and income from Integrated Joint Boards
    f. Customer and Client Receipts, from fees and charges for services

[2] Charter for Budget Responsibility: autumn 2016 update - GOV.UK (www.gov.uk)
[3] Statement_of_Funding_Policy_update_Feb_2023.pdf (publishing.service.gov.uk)
[4] Block grant adjustments - Fiscal framework: factsheet – go`v.scot (www.gov.scot)

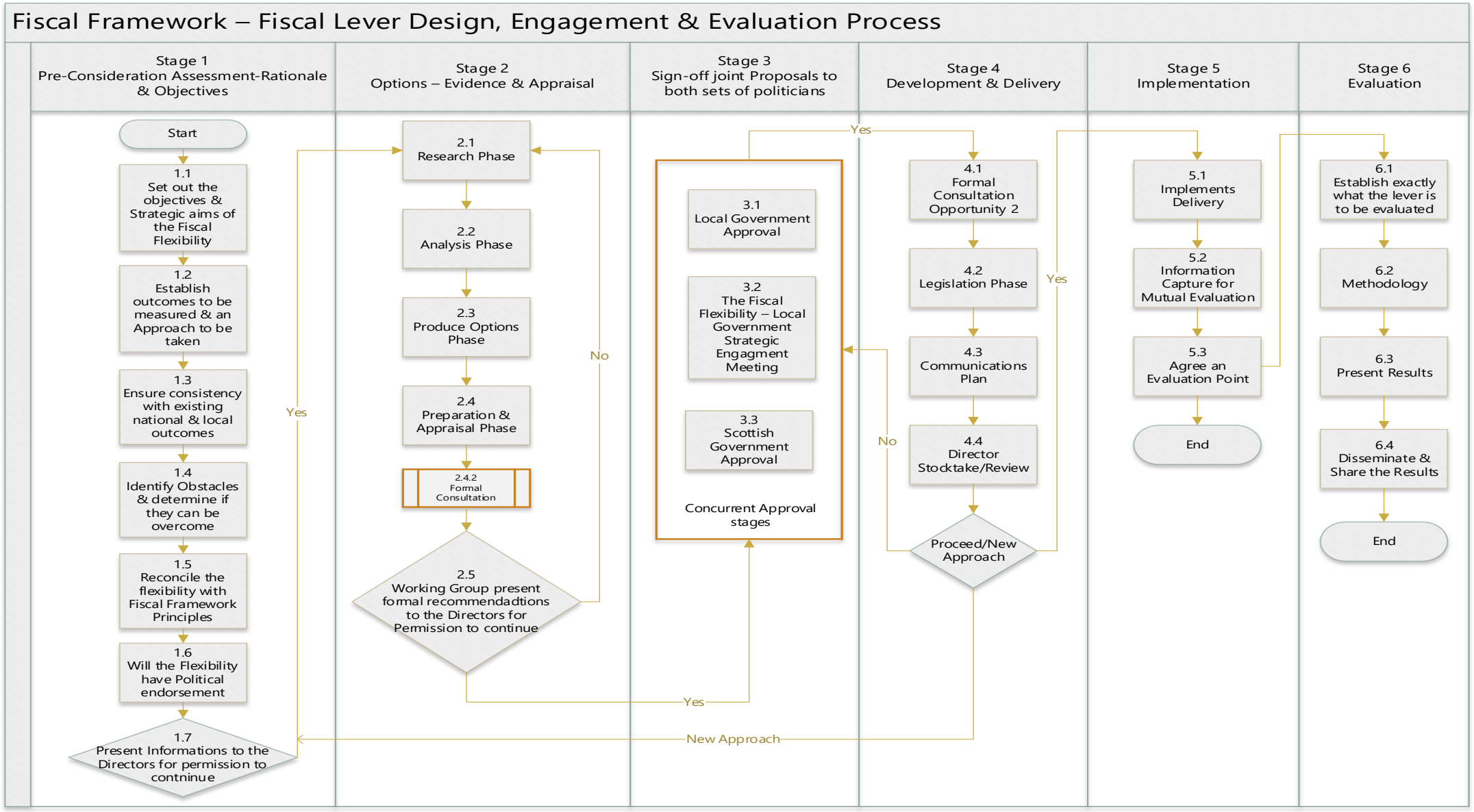
6. The Scottish Government guarantees each local authority receives the total level of funding set out in the Local Government finance settlement (detailed in the Local Government Finance Order and circulars) through a combination of General Revenue Grant plus Non-Domestic Rates Income, and each councils' share is calculated using the jointly agreed needs-based formula.

7. An adjustment to each councils' funding is made which assumes a baseline level of Council Tax receipts. This takes into account local authorities' differing tax bases but also enables councils to raise additional funding to spend on local services.

Annex B: Fiscal Framework (FF) – Fiscal Events and SG and LG Budget Engagement



Annex C: Fiscal Lever Design, Engagement and Evaluation Process



Scottish Government
Riaghaltas na h-Alba

© Crown copyright 2025

OGL

This publication is licensed under the terms of the Open Government Licence v3.0 except where otherwise stated. To view this licence, visit **nationalarchives.gov.uk/doc/open-government-licence/version/3** or write to the Information Policy Team, The National Archives, Kew, London TW9 4DU, or email: **psi@nationalarchives.gsi.gov.uk**.

Where we have identified any third party copyright information you will need to obtain permission from the copyright holders concerned.

This publication is available at **www.gov.scot**

Any enquiries regarding this publication should be sent to us at
The Scottish Government
St Andrew's House
Edinburgh
EH1 3DG

ISBN: 978-1-83691-852-3 (web only)

Published by The Scottish Government, October 2025

Produced for The Scottish Government by APS Group Scotland, 21 Tennant Street, Edinburgh EH6 5NA
PPDAS1620274 (10/25)