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In 2014 Scotland Welcomes the World



Copy to: The Leaders of all Scottish local authorities

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This letter sets out the terms of the local government finance settlement allocations to be provided to local government for 2015-16 as part of our continuing partnership negotiations and confirms a number of changes to the allocations that we have agreed since the indicative figures for 2015-16 were previously confirmed.

This settlement is set against the challenging fiscal environment and austerity measures set out by the current UK Government in their budget projections, which are set to continue in the coming years. Over the course of 2010-11 to 2015-16, the Scottish Government's Fiscal DEL Budget has been cut by around 10% in real terms with the Capital budget facing a particularly challenging real terms reduction of around 26% over the same period.

Despite that the terms of this offer on the funding package to be provided to local government represent a very fair settlement and delivers on this Government's priority to continue to protect Scottish local authorities from the cuts imposed on the Scottish budget. This is in stark contrast to the swingeing cuts the UK Government has applied to local authority funding in England.

Local government is an integral and essential element of the overall good governance of Scotland and continues to be a critical partner in the Scottish Government's transformative programme of public service reform. This funding package builds on the priorities laid out in the Scottish Spending Review 2011 and the Draft Budget 2014-15 and continues to be focussed on delivery of our joint priorities of growing the economy together with protecting front-line services and the most vulnerable in our society. COSLA is invited to agree the terms of the settlement set out below on behalf of local authorities.

For 2015-16, in addition to the pursuit of our joint priorities, individual local authorities, in return for this settlement will require to agree formally to work with the Scottish Government to deliver a council tax freeze for the eighth consecutive year and secure places for all probationers who require one under the teacher induction scheme. The Scottish Government and COSLA have also agreed to:

- A five month timetable to reach an in-principle agreement on an outcomes based approach to educational outcomes subject to the completion of work which is satisfactory to both Scottish Government and Local Government. We would embark on this work immediately with the first phase to be completed by 1st March 2015. This process should be inclusive and engage other parties notably trade unions, parent bodies and others with an interest in educational outcomes. This approach would consider a broader range of indicators of educational improvement and should include teacher numbers as an important contributory factor.
- Commencing over the same five month period and in relation to 2015-16: if a local authority is able to reach agreement with partners through engagement mechanisms, including the LNCT, to introduce flexibilities which impacts on the numbers of teachers then this may be viewed as a derogation to the national commitment on teacher numbers.
- That the commitment to maintain teacher numbers in line with pupil numbers along with associated sanctions remain in place for 2014-15. While the work to reach an in-principle agreement (as above) is on-going, the sanctions in relation to teacher numbers are suspended for 2015-16. If a new agreement is not reached for 2015-16 there will be a continued Scottish Government commitment to maintain teacher numbers in line with pupil numbers at a national level.

The financial support to be distributed to authorities will be the subject of consultation with COSLA and set out in a Scottish Local Government Finance Circular early in December 2014. As in previous years, the Scottish Government will hold back £70m from the Local Government Finance Order put to Parliament in early February 2015, representing the amount that is included in the settlement to deliver the Council Tax Freeze. Parliamentary approval to pay out the remaining amount will be sought in March 2015 once all councils have set their budgets and their council tax rates for the year ahead.

Delivery of these commitments will be monitored and in the event of a failure to deliver, appropriate adjustments made to distributable resources as described below.

I can confirm that for 2015-16 I will only require those Council Leaders who do not intend to take up the offer and agree the full package of measures to write to me setting out the reasons why they do not wish to comply. Any Leader not intending to take up the offer should write to me confirming their Council's decision by no later than 11 March, but preferably by the end of February, (and ideally as soon as possible after they have set their budgets and announced their council tax rates for 2015-16). Any Council not taking up the offer will not receive their share of the monies held back to be distributed later in March 2015.

The total funding as set out in the Draft Budget 2015-16 document, including provision for the council tax freeze and the support for teacher employment, which the Scottish Government will provide to local government in 2015-16 is £10,756.7 million.

Within the total funding package, revenue funding will amount to £9,895.4 million,

including the funding to deliver a council tax freeze and capital £861.3m for 2015-16.

This total includes the Government's estimate of non domestic rate income over the period.

The 2015-16 total of £10,756.7 million includes a number of changes since the publication of the £10,608.2 million included in the 2014-15 Draft Budget. The additional sums are as follows:

- £54m for free school meals in General Revenue Grant (GRG);
- £44m for pre-school entitlement (GRG);
- £6.5m for the Council Tax Reduction Scheme administration costs (GRG);
- £39m for Children and Young People Act in General Capital Grant (GCG); and
- £5m for Shetland Islands Council to support future house building projects (GCG).

The cash neutral changes are as follows:

- £7m increase in GRG with a corresponding reduction in Specific Revenue Grants as a result of the re-classification of the Hostels Grant funding; and
- £83.5m increase in GRG with a corresponding reduction in Non Domestic Rates because of the impact of the cap on the 2014-15 poundage and further estimating changes.

There have also been changes to the published 2014-15 total funding figure of £10,531.4 million and the revised total is now £10,586.7 million. The changes are as follows;

- £13m for free school meals (GRG);
- £18.5m for pre-school entitlement (GRG);
- £0.3m for Blanefield contaminated land project (GRG); and
- £23.5m Children and Young People Act in General Capital Grant (GCG).

The only cash neutral change was as follows:

- £38.5m increase in GRG with a corresponding reduction in Non Domestic Rates because of the impact of the cap on the 2014-15 poundage.

It should be note that these published sums do not include a number of other agreed, or still to be finally agreed, sums that will be included in the final local government finance settlements for both 2014-15 and 2015-16 and added to the Draft Budget figures at either Autumn Budget Revision (ABR) or Spring Budget Revision (SBR). These additions include:

2014-15

- £15m additional Discretionary Housing Payments (GRG);
- £5.1m for additional teacher support (National Qualifications) (GRG);
- £3m additional Family Support funding (GRG);
- £2m agreed as a result of the teacher pay agreement in 2014 which adds to the £39 million already included in the settlement (GRG);
- £24.8m for Free School Meals (GCG); and
- £17.5m top-up for the Children and Young People Act (GCG).

- £38m for the Scottish Welfare Fund (GRG);
- £35m for the Discretionary Housing Payments (GRG); and
- £2m baselined agreed as a result of the teacher pay agreement in 2014 which adds to the £39 million already included in the settlement (GRG).

This settlement package for 2015-16, which funds councils to maintain the council tax freeze to households and provides additional resources to deliver our shared priorities around school education, free school meals and childcare, remains a fair settlement in the continuing challenging financial circumstances. The package continues to be focussed on delivery of our joint priorities of growing the Scottish economy and protecting front line services and the most vulnerable in our society, and supported by continued investment in prevention and wider reform actions.

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JOHN SWINNEY