

Cabinet Secretary for Finance and the Constitution
Derek Mackay MSP



Scottish Government
Riaghaltas na h-Alba
gov.scot

T: 0300 244 4000
E: scottish.ministers@gov.scot

Councillor Alison Evison
COSLA President
Verity House
19 Haymarket Yards
Edinburgh
EH12 5BH

Copy to: The Leaders of all Scottish local authorities

14 December 2017

Dear Alison,

Today I set out the Scottish Government's draft spending and tax plans for 2018-19. Further to my announcement I write now to confirm the details of the local government finance settlement for 2018-19.

Details of the indicative allocations to individual local authorities for 2018-19 are also being published today as set out in Local Government Finance Circular No. 5/2017.

This settlement is set against the context of the continuing austerity imposed on Scotland by the UK Government, which means that by 2019-20 the Scottish Government's fiscal block grant allocation will be £2.6 billion (8.0%) lower in real terms than it was in 2010-11.

I have considered carefully the representations and evidence COSLA have presented on behalf of local government and have welcomed the constructive approach with which you have approached our negotiations.

I have noted the issues COSLA have said are important for local government and have tried where possible to address these in this settlement. I recognise the continuing financial pressures local government, along with the rest of the public sector, is facing in a very challenging fiscal environment. However, I believe that the outcome, presented in the measures set out in this letter, is the best that could be achieved in the circumstances and continues to provide a fair settlement for local government to enable them to meet our shared ambitions for the people and communities we serve.

Turning now to the detail of the package of measures, the total revenue funding to be provided through the settlement for 2018-19 will be £9630.8 million, which includes distributable non-domestic rates incomes of £2,636 million.

The core Capital funding is set at £726.4 million but with the inclusion of the expansion of Early Years provision as set out below this increases the Capital funding within the settlement to £876.4 million.

The total funding which the Scottish Government will provide to local government in 2018-19 through the settlement is therefore £10,507.1 million. This includes;

- Baseline from 2018-19 of the £130 million additional revenue investment I announced earlier this year at Stage 1 of the Budget Bill for 2017-18;
- £52.2 million revenue and £150 million capital to deliver on our joint agreed ambitious programme for the expansion of Early Years provision;
- £11 million of revenue to support the initial expansion of Early Years set out in the 2014 Act provisions;
- £24 million for the full year cost of our contribution to the Teachers' pay offer; and
- £66 million to support additional investment in social care in recognition of a range of pressures local authorities are facing.

I have also had to look very seriously at the capital allocation to Local Government, in particular the calculation of the share commitment which guarantees that Local Government will receive a fixed percentage of the overall Scottish capital budget each year until 2019-20, based on the position as at the 2015 Spending Review. However, I believe that the context has changed since this commitment was originally made, including the introduction of additional funding streams outwith the settlement which local authorities will directly benefit from.

For 2018-19 the calculation of the capital share allocation takes into account, at least in part, the additional funding streams outwith the settlement, except in the case of Early Years which is additional to the share allocation. The value of the capital funding I have made available to local government exceeds the percentage commitment made and equates to 31 per cent. Taking into account the Early Years grant, the percentage increases to 36 per cent.

The commitment to repay £150 million of re-profiled capital from an earlier settlement remains and this will be repaid in full in 2019-20.

For 2018-19 local authorities will continue to have the flexibility to increase Council Tax by up to a maximum of 3%. This local discretion will preserve the financial accountability of local government, whilst also potentially generating around £77 million to support services.

The revenue allocation delivers a flat cash settlement for local government for 2018-19 compared to 2017-18, including the additional resources to meet our commitments on the expansion of Early Years, teachers pay and support for social care. Taken together with the additional spending power that comes with the flexibility to increase Council Tax (worth around £77 million next year) the total funding (revenue and capital) delivers an increase in the overall resources to support local government services of 1.6%.

In my response on 12 September to the Barclay Review of non-domestic rates I made clear that there were certain recommendations that I wished to engage further on before coming to a conclusion, including the removal of charity relief for council arm's-length external organisations (ALEOs). In these discussions I heard a strong and consistent message from local government and other stakeholders about the importance of this benefit, to sports, leisure and culture facilities in particular, and of keeping the costs of these services affordable especially in disadvantaged and vulnerable communities.

As a result I confirmed on 28 November that charity relief will continue to be applicable to qualifying properties currently occupied by council ALEOs. However I am aware that some

councils are planning to increase the numbers of ALEOs or the number of properties occupied by existing ALEOs. To mitigate against this it is my intention to offset any further charity relief benefit awarded in respect of both new council ALEOs and additional properties occupied by existing ALEOs since my announcement, by implementing an equal compensating reduction in General Revenue Grant for the councils in question.

In addition, a new relief for public sector and private sector day nurseries is proposed. This will offer 100% relief for properties wholly or mainly used to provide day nursery care for pre-school children. The relief will be applicable under EU State aid rules.

We will require local authorities to achieve a pupil:teacher ratio of 13.7, and ensure that places are provided for all probationers who require one under the Teacher Induction Scheme. This is supported by a continued funding package of £88 million, made up of £51 million to maintain teacher numbers and £37 million to support the Teacher Induction Scheme. In order to support delivery of this commitment the Scottish Government will work with COSLA to consider how the use of existing or additional data on unfilled posts and teacher vacancies could be better utilised to inform how delivery of this commitment is measured. As in previous years teachers whose posts are funded through the Attainment Scotland Fund, including Pupil Equity Funding, are additional and do not contribute towards the delivery of this commitment. An additional £24 million is also be included in the settlement to cover the additional full year cost of the teachers' pay offer for 2017-18.

We have committed to provide certainty to local authorities over the quantum of multi-year funding for the expansion of early learning and childcare to support authorities in planning for and implementing the delivery of the commitment.

I understand the Deputy First Minister has been very encouraged by the constructive discussions which are taking place through the Early Learning and Childcare Finance Working Group to reach a shared understanding of the costs arising from the expansion. It is right and proper that Scottish Government and local authority colleagues take the time to challenge and refine cost estimates for this significant investment in the education and care of our youngest children, so that we can all be assured that we make best use of public funds.

On that basis, we are content to agree to the proposal made by COSLA leaders that we should agree revenue and capital funding for 2018-19 (adds £52.2 million and £150 million respectively) in our draft spending plans announced today and to continue to work closely together to agree funding levels for 2019-20 onwards in early 2018. For 2018-19 the £52.2 million includes revenue funding for free lunches and implementation of the additional graduate commitment (from August 2018). There is also a further additional £11 million included in 2018-19 for implementation of the 2014 Act provisions.

In 2018-19 an additional £66 million is included in the settlement allocations to support additional expenditure by local government on social care in recognition of a range of pressures they and integration authorities are facing, including support for the implementation of the Carers (Scotland) Act 2016, maintaining our joint commitment to the Living Wage (including our agreement to now extend it to cover sleepovers following the further work we have undertaken) and an increase in the Free Personal and Nursing Care payments. This funding is provided directly to local authorities and is in addition to the £355 million baselined provision transferred from NHS Boards to Integration Authorities. I will look to local authorities to continue to prioritise their financial support for social care.

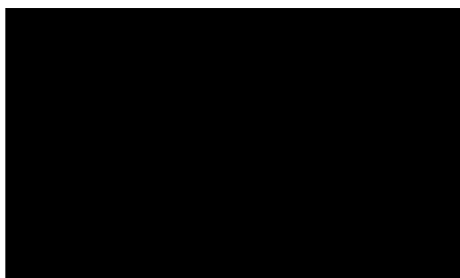
The Scottish Government is fully committed to further engagement with COSLA as we seek to make local taxation as a whole fair and progressive. We will work with COSLA to consider your objectives for local tax reform and our commitments for local government to retain the net incomes from the Crown Estate for the benefit of island and coastal communities.

I can also restate my commitment to our partnership working and can confirm my intention that this will again be a sanction free settlement.

The measures set out in the settlement offer must be viewed as a package to protect our shared priorities. In order to access all of the benefits involved, including those priorities supported by specific financial benefits, local authorities must agree to deliver all of the measures set out in the package and will not be able to select elements of the package.

Any individual authority not intending to agree the offer and accept the full package of measures and benefits should write to me by no later than 19 January 2018. For those authorities not agreeing the offer a revised, and inevitably less favourable, offer will be made.

I have carefully considered the representations made to me by COSLA and this is reflected in the detail of the settlement and the package of measures included. My aim throughout our discussions has been to reach an agreement with councils around the implementation of these commitments. I now invite local authorities to agree the terms of the settlement which I consider delivers the best outcome for local government that can be achieved in the circumstances.



DEREK MACKAY