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Councillor David O'Neill  
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Copy to: The Leaders of all Scottish local authorities

16 December 2015

Dear Cllr O'Neill

This letter contains proposals for the terms of the settlement to be provided to local government for 2016-17 under the 2015 Spending Review which is set against the UK Government's continuing austerity programme and the real terms reduction in the Scottish Budget. This has required tough decisions to be taken about expenditure across government and careful consideration of pressures and priorities in all portfolios including local government. I propose that we engage in further discussions to consider the approach to implementing the budget in advance of Stage 3 of the Budget Bill, and associated Local Government Finance Order, and recognise that we need to conclude these discussions as early as possible so councils can confirm their plans for setting their budgets in the new year.

The proposals are framed by the ongoing partnership between the Scottish Government and local government and our commitment to working together on our Joint Priorities. We have reaffirmed our commitment to our partnership and are clear about the benefits which have flowed from it in the form of more effective delivery of the outcomes on which the people of Scotland and their communities rely.

Local government is an essential partner in the Scottish Government's transformative programme of public service reform. This funding proposal delivers a strong but challenging financial settlement for local government which will be strengthened by our joint working to improve outcomes for local people through health and social care integration and by improving educational attainment.

Following the report from the joint Settlement and Distribution Group, details of the indicative allocations to individual authorities for 2016-17 are also being published today as set out in Local Government Finance Circular No. 7/2015.

Under the settlement we will look to all local authorities to continue to work in partnership with Scottish Government in pursuit of our Joint Priorities, including delivery of the Government's programme as set out in the *Draft Budget 2016-17* and the *Scotland's Economic Strategy published in March 2015*.

In addition to the pursuit of Joint Priorities, the proposition is that individual local authorities will, in return for this settlement, deliver certain specific commitments. The detail of the settlement and the package of measures included are described below.

For 2016-17 individual local authorities will require to agree to work with the Scottish Government to deliver a council tax freeze for the ninth consecutive year.

As we have previously committed to, the consequential for health will be passed on in full to the health budget. However, by contrast with the UK Government, we see health as being about all the services that help people to maintain their wellbeing, not just front line NHS services. For that reason, we will go further than the annual investment of £130 million in the Integration and Delayed Discharge Funds, and direct in the allocations to NHS boards for 2016-17 that an additional £250 million per annum will be transferred to the health and social care partnerships to protect and grow social care services and to deliver our shared priorities in respect of reform.

We agree the need to pick up the pace on health and social care integration by developing better community and primary services to help people to stay safe and cared for at home and the provision of good quality social care provided through local government is central to that reform process.

We understand the pressures on local government spending, including in relation to the Living Wage, and these are the same as for all public services in Scotland. We also recognise that these pressures have implications for all areas of service delivery, but the actions that we have taken under this budget and our commitment to provide support for social care means that the totality of social care spend through health and social care partnerships can be protected and enhanced. We would expect to see the process of reform make clear progress during 2016-17 in terms of sustainability and outcomes for people. Given good progress on reform in localities we would anticipate that health and social care partnerships could deliver cash releasing efficiencies. We would like to work with you to consider that approach further and the extent to which cash releasing efficiencies could be retained by local authorities to offset the contribution they make to health and social care partnerships for social care.

Turning to education I note the positive results at a national level published in the latest Teacher and Pupil census statistics which confirmed that pupil teacher ratios and the number of teachers in Scotland's schools have been maintained since last year.

Taking that into account I confirm the proposal makes provision for a return to a national agreement to maintain teacher numbers at 2015-16 levels, and secure places for all probationers who require one under the teacher induction scheme 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.

Our position on teacher numbers has been consistent that we see this as a central part of our priority to raise attainment. In parallel we have been developing the National Improvement Framework, to bring together key information to evaluate performance and inform action to improve attainment and wider outcomes for every child in Scotland. We wish to work with COSLA and all local authorities to fully implement the Framework, as the next phase of Curriculum for Excellence to build on our strong record of achievement recognising our shared commitment to improved educational outcomes.

Following the report from the Commission on Local Tax Reform the Scottish Government is considering its position in response to that on the future of council tax. We will bring forward our proposals in the new year and I can confirm our commitment to engage with COSLA as part of our partnership working to help inform our position.

The proposition is that the measures set out in this settlement offer must be viewed as a package to protect shared priorities and maintain a journey of reform. As noted I propose that we engage in further discussions to consider the approach to implementing the measures set out in this budget in advance of Stage 3 of the Budget Bill and this would include agreement on the scale and retention of cashable efficiency savings for local authorities contribution for social care to the health and social care partnerships.

Following those discussions and agreement on the implementation of the measures I have set out in the settlement offer I will write to you and council Leaders again confirming all the details we have agreed. My expectation is that I will again ask any Council not intending to take up the offer and agree the terms of the full package of measures to write to me setting out the reasons why they do not wish to comply and to do that by no later than Friday 22 January 2016 in Order to meet with our Parliamentary timetable for the Budget Bill and Local Government Finance Order.

For 2015-16 I can also confirm that as an act of good faith, I will maintain the existing distribution of the £41 million to support teacher numbers across all 32 local authorities and will not seek to claw back funding which I am entitled to under the terms of my agreement with individual local authorities. However, in the interests of fairness, I will reward only those authorities who have maintained or increased teacher numbers and maintained pupil teacher ratios, by distributing the additional £10 million which I provided last year among them in recognition of the additional staff costs they have incurred and for their contribution to maintaining the national figures.

Having listened to the representations from COSLA, the total funding which the Scottish Government will provide to local government in 2016-17 as part of this package of measures is £10,244 million.

This total includes the Government's estimate of non-domestic rate income in 2016-17. Within this total, revenue funding will amount to £9,637 million and capital £607 million.

This takes into account the re-profiling of -£150 million from the 2016-17 capital budget and comes with a commitment that £150 million will be added to Local Government's capital share in the next Spending Review covering the period 2017-20. Taking into account the reprofiling the capital settlement meets our commitment to maintain local government's share of the Scottish Government's capital budget.

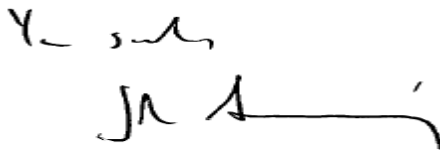
Taking into account non-baselined funding provided in the 2015-16 capital allocation (this includes funding to support implementation of the Children and Young People Act, repayment of the earlier reprofiling agreement and housing support for Shetland) and the further reprofiling proposed for 2016-17, a like for like comparison of the adjusted baseline position shows that capital provision in the settlement will have increased by 9% or £62 million in 2016-17. I can also confirm our intention that, if re-elected, the commitment to protect the local government share of the capital budget, which was due to end in 2018-19, will be extended by a further year to the end of the next Spending Review period in 2019-20.

In addition local authorities will receive £250 million from Integration Authorities to support spending on social care which as set out above will allow, subject to our further discussion

and agreement for cash releasing efficiencies delivered through reform to be retained by local authorities.

As in previous years councils will be free to retain any savings they can generate through efficiencies to re-invest in reform and the challenge for them along with the rest of the public sector is delivering transformational change in service delivery, together in key partnerships and through a step change in the implementation of transformation programmes, including shared services between local authorities and between local authorities and other public sector partners.

I believe that in the circumstances this settlement delivers the best possible outcome that can be achieved and the package of measures I have set out, if accepted, provides local authorities with the necessary resources they need to protect our key priorities around investment in health and social care and educational attainment.

A handwritten signature in dark ink, appearing to read 'John Swinney', with a long horizontal flourish extending to the right.

**JOHN SWINNEY**