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Copy to: The Leaders of all Scottish local authorities

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This letter confirms a number of changes to the local government finance settlement allocations that we have agreed since the figures for 2014-15 were previously announced and provides the terms of the indicative settlement allocations to be provided to local government for 2015-16 as part of our continuing partnership negotiations.

This settlement is set against the significant challenges presented by the recent outcome of the UK Budget and the June UK Spending round and the further cuts imposed on the Scottish Budget for 2014-15 which have been baselined for 2015-16. Against that background, the funding package on offer to local government represents a very fair settlement and the strongest possible outcome that can be achieved in the circumstances. It 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.

This settlement remains firmly anchored in the ongoing relationship between the Scottish Government and local government and our commitment to working together in pursuit of our joint priorities, including delivery of the Government's programme as set out in the First Minister's statement to Parliament on 3 September and the Government Economic Strategy.

In addition to the pursuit of our joint priorities, individual local authorities will, in return for this settlement, be expected to continue to deliver certain specific commitments.

Maintain a council tax freeze.

Maintain teacher numbers in line with pupil numbers and secure places for all probationers who require one under the teacher induction scheme.

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.

In line with the agreement reached in previous settlements, it will not be possible for local authorities to select elements of the package, including elements of the funding on offer. As in previous years, the Scottish Government will hold back £70m from the Local Government Finance Order put to Parliament in early February, representing the amount that is included in the settlement to deliver the Council Tax Freeze and in addition will take steps to recover £39m for the Teacher commitments in 2014-15 from any local authority not agreeing to the terms of the full package. Parliamentary approval to pay out the remaining amount will be sought in March 2014 once all councils have set their budgets and their council tax rates for the year ahead.

Failure to deliver sufficient FTE teachers in 2014-15 as reported in the annual census may invoke collective and/or individual sanctions in the shape of corresponding reductions in the local government settlement for future years. Scottish Government and COSLA will agree these numbers in the context of on-going discussions on the effective delivery of school education. For 2015-16, our priority is to continue to maintain teacher numbers in line with pupil numbers. However, in recognition of the on-going concerns from Local Government around this input measure, I have agreed that the Government will have a dialogue with COSLA, and engage with other partners, on the possibility of adopting outcome measures using existing resources to improve attainment for children and young people.

I can confirm that for 2014-15 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 2014-15). Any Council not taking up the offer will not receive their share of the monies held back to be distributed later in March 2014 for the Council Tax freeze and steps will be taken to recover £39m for the Teacher commitments in 2014-15 (£109 million in total).

The total funding as set out in the Draft Budget 2014-15 document, including provision for the council tax freeze and the support for teacher employment, which the Scottish Government will provide to local government is as follows:

Year	£m
2014-15	10,531.4
2015-16	10,608.2

This total includes the Government's estimate of non domestic rate income over the period. The sums include a further £80.7m in 2014-15 and £111.9m in 2015-16 to deliver on the Scottish Government's commitment to fully fund the additional costs of the early learning and childcare provisions; £4.5m in 2014-15 and £6m for 2015-16 for Free Personal and Nursing Care in return for uprating of these fees in line with inflation, £2.5m in both 2014-15 and 2015-16 to baseline the funding provided in 2013-14 for the National Care Home Contract fee uplift; £0.4m in both 2014-15 and 2015-16 to adjust the Police transfer total and £0.8m in both years for the transfer of responsibility for Oban Airport.

Other changes included are the transfer of £320 million from DWP following the abolition of Council Tax Benefit which is being passed on in full for both 2014-15 and 2015-16, and in

order to maintain funding for the Council Tax Reduction scheme, the Scottish Government are rolling forward our contribution of £23 million to fill the gap left by the UK Government for the Council Tax Reduction Scheme, with an expectation that local authorities will again contribute £17 million.

These 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. These include:

- A further £12 million which will be added in-year to these sums for both 2014-15 and 2015-16 following a transfer from the Enterprise budget to meet the anticipated costs of the Enterprise Areas business rates relief scheme.
- Subject to formal approval of the proposed pay agreement, which I am aware the Scottish Negotiating Committee for Teachers (SNCT) is considering, a contribution from the Scottish Government of £1.5m per annum will be baselined into the local government settlement to reduce the shortfall arising from the application of the new supply teacher pay rates.
- Early Years (£1.5m/£1.5m); Early Years Task Force (£3m/£3m); and the Blue Badge Scheme (£0.72m/£0.72m); £0.15m/£0.15m for Fresh Talent and the Scottish Welfare Fund (tbc).

Within the total funding package, revenue funding will amount to £9,758.2m/£9,790.9m, including the funding to deliver a council tax freeze, and capital £773.2m/£817.3m over the period. The capital allocation takes into account the re-profiling of the LG capital budgets and I can confirm that £94.2m has been added and Local Government's capital share (net of the police and fire component) has been maintained for 2015-16.

The partnership working between the Scottish Government and local government remains a hallmark of our approach to public service reform and will ensure that a preventative approach to the delivery of outcomes is embedded in the new Single Outcome Agreements (SOAs). The Agreement on Joint Working, which forms part of the Budget announcement, places clear expectations on the public sector to share their budget and resource planning assumptions at an early stage and to work together, through Community Planning Partnerships (CPPs) to deploy resources towards the jointly agreed priorities set out in each CPP's SOA. Local Government, NHS Boards and other partners will be expected to show a demonstrable commitment to the Agreement on Joint Working.

That preventative approach is also demonstrated by the actions we have taken with COSLA for the integration of adult health and social care planning and provision. To support the integrated funding arrangements for health and social care additional resource of £100 million will be available to be allocated via Health Boards in 2015-16 to help drive the shift towards prevention, and a further £20 million which will be held centrally within Health to support national initiatives. This additional resource replaces the Change Fund for older people's services and will be a partnership resource accessible to local authorities, working in partnership with Health Boards and the third and independent sectors, in 2015-16 to support investment in health and social care services as arrangements for integration of health and social care are implemented under the Public Bodies (Joint Working) Bill.

This settlement package for 2014-15 and 2015-16 remains the strongest possible outcome that can be achieved in the continuing challenging financial circumstances. The package is 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.

Yours,



JOHN SWINNEY