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Convener
Local Government, Housing and Planning Committee
Scottish Parliament
By email

4 December 2024

Dear Ariane

Pre-Budget Scrutiny 2025-26: Sustainability of local government finance

I am writing to provide a response to the points set out in your letter of 5 November concerning the Local Government, Housing and Planning Committee's pre-budget scrutiny 2025-26.

UK Autumn Budget

The £1.5 billion of funding announced by the UK Government for 2024-25 is broadly in line with our planning assumptions and is already factored into our spending plans this year. Despite the increase in funding for 2025-26, we are still faced with significant cost pressures going forward.

As noted in your letter, the impact of the increase in employer National Insurance Contribution remains the great unknown from this UK budget. We estimate this could reduce the funding available for public services in Scotland by at least £500 million unless it is fully reimbursed, rising to £750 million when indirect employees such as those in childcare, colleges or social care are factored in.

It is inappropriate for the UK Government to fail to fully reimburse Scotland for the full costs of their decision. To date, they are offering to reimburse less than half of this sum – no one in Scotland is celebrating and their actions show a complete disregard for public services in Scotland

Clearly the UK government expects the public sector in Scotland to absorb the shortfall of hundreds of millions of pounds. That is nothing less than Westminster austerity through the back door and could cause irreparable damage to Scotland's public services, and especially

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the many third sector organisations and charities which provide and support statutory services nationally and locally.

In stark contrast, the Scottish Government is committed to working in partnership to ensure the people of Scotland continue to receive the high quality public services that they expect and deserve. This commitment has been reflected in the Local Government Finance Settlement for 2025-26.

The Settlement provides record funding of over £15 billion, an increase of £1,008 million on last year's settlement for 2024-25 – equating to a 7.2% cash terms increase and a real terms increase of 4.7%. This has provided real terms protection of the General Revenue Grant through an additional £289 million to support local priorities.

Capital investment and borrowing

Whilst I welcome the increase in capital funding from the UK Government, it will take more than one year to rebuild and recover following the profound impact capital funding reductions have had for both Scottish and Local Government. The flat and falling trajectory of capital funding has not only impacted the Scottish Government's ability to deliver on our capital infrastructure commitments, but has also constrained the capital grant funding we have been able to make available to Local Government.

The Scottish Government fully recognises the importance of investing in our infrastructure to help facilitate the effective delivery of our services. We have therefore increased the Local Government Capital Funding for 2025-26 to £777.1 million. This will provide a cash terms increase in funding of £139.1 million compared to 2024-25 – equating to a 21.8% cash terms increase and a real terms increase of 19%.

During my evidence session at Committee on 8 October, I stressed the importance of considering more innovative measures to fund capital projects. Under the auspices of the Verity House Agreement (VHA) and Fiscal Framework, it remains our ambition that meaningful budget engagement continues throughout the year rather than solely ahead of the Scottish Budget. In that context, my officials continue to work with COSLA, Directors of Finance and SOLACE to explore the potential for more innovative infrastructure funding approaches and I hope to discuss those with the COSLA Resources Spokesperson in due course. In the interim, as part of the Budget, I announced our intention to work with Edinburgh City Council to explore options to unlock their investment site at Granton, in an illustration of the opportunities of partnership working between national and local government.

Your letter noted the Committee's views that schools built under Public Private Partnerships (PPP) whose contractual maintenance agreements are coming to an end must continue to be adequately maintained. Although it is the statutory responsibility of local authorities to manage and maintain their school estate, the Scottish Government is committed to working with local government to improve the condition of the school estate through our £2 billion Learning Estate Investment Programme. We will support local authorities via an outcomes-based funding model to keep selected schools in good condition. This funding is intended to augment, not replace, local authorities' own investment in their school estate.

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Furthermore, alongside the substantive increases in both resource and capital, we will continue to work with COSLA, local authorities and Scottish Futures Trust to explore how we can deliver further improvements in the school estate.

Council reserves

As I highlighted in my evidence to the Committee on 8 October, local authorities must use the financial resources available to them as efficiently as possible to ensure best possible value, and as appropriate, ensure there is greater transparency and consistency in the reporting of reserves.

Ring-fencing / Directed spend

We will continue to abide by our commitment in the VHA to review ring-fenced funding. It is important to note, however, that ring-fenced funding accounts for a very small proportion of the overall grant funding received by Local Government. Where ring-fenced or directed funding has been considered appropriate, additional funding has been made available by portfolios to support specific national priorities that are also shared by Local Government. Whilst the ambition remains to reduce such directed expenditure, issues around accountability and assurance remain.

The 2024-25 Scottish Budget notably invested in the VHA by baselining almost £1 billion of funding across Health, Education, Justice, Net Zero, and Social Justice. Reaching an agreement with Local Government on an assurance and accountability framework is likely to be required to achieve further material progress on reducing ring-fenced funding.

We will keep the Committee informed of the progress on the Assurance and Accountability Framework, further work on this will continue following the Scottish Budget.

Revenue raising powers

The Scottish Government is committed to enabling reform to improve existing local fiscal levers and to identify new approaches. The VHA commits us to develop a Fiscal Framework with Local Government that includes development of local revenue raising and fiscal flexibilities. This commitment was reiterated in the progress report on the Fiscal Framework published alongside the 2024-25 Scottish Budget - [Progress Publication, December 2023: Fiscal Framework between Scottish Government and Local Government \(www.gov.scot\)](#). There has already been notable progress on delivering these commitments, in particular, the development of the Visitor Levy and Cruise Ship Levy.

Further, in the New Year, I intend to consult over 12 weeks on the General Power of Competence. The consultation aims to seek clarity on the greater statutory freedoms local authorities wish to see.

Multi-year budgeting

The Scottish Government recognises that certainty over the medium term would help Local Government to plan ahead. Indeed, it would assist the Scottish Government and other public bodies too. As the majority of funding available to the Scottish Government is determined by

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UK Government decisions, this continues to impact on the certainty that we can offer to the public sector in Scotland.

Despite these uncertainties, I agree with the Accounts Commission's suggestion that medium-term strategies should still be produced by local authorities on the basis of stated assumptions. Ultimately, it is for Local Government to consider how, and if, they do this, including to determine the assumptions made to develop them but the Scottish Government's Medium Term Financial Strategy (MTFS) can help to inform those assumptions.

The Scottish Government intends to publish the 2025 MTFS after the conclusion of the UK Government's multi-year spending review. Our 2025 MTFS will be accompanied by a five-year fiscal sustainability delivery plan which will outline the specific actions being undertaken under each of the three pillars to deliver sustainable finances. The delivery plan will build off the opportunity we have with the upcoming UK spending review, and will help support a future Scottish Government spending review.

I am currently reviewing options for a Scottish Government spending review and will update Parliament in due course.

Public service reform: prevention and localism

The Scottish Government has a clear programme for Public Service Reform (PSR) that recognises the centrality of prevention. Ministers are also committed to the principle of subsidiarity and strengthening local democracy. The Committee will be aware of our joint work with COSLA on the Local Governance Review. Proposals for a move towards single authority models in three authority areas reflect the potential of place-based approaches to enable systems reform. Alternative local governance arrangements would enhance local leaders' ability to shape service provision in light of local circumstances and deploy budgets in ways which support a vital shift towards prevention. Closer integration across key service areas within these geographies also presents opportunities to secure back-office efficiencies and redirect resource to front-line services.

The findings from nationwide Democracy Matters engagement made clear the importance of empowering our towns, villages and neighbourhoods. I have asked the Minister for Public Finance to develop plans which respond to community aspiration for greater control over decisions which affect them the most. This work will look across a wide range of outcomes and I welcome the COSLA Vice-President's joint role in overseeing policy development on this important endeavour.

The Scottish Government has established a range of reform programmes to save money from corporate expenditure that could be used to improve services, including our Single Scottish Estate, National Collaborative Procurement, Central Government Procurement Shared Services, and Digital programmes – collectively, these have saved £35m to date.

Another notable example of this is the Shared Services Programme. Phase one of this work has recently delivered a successful transition of core Scottish Government and thirty-two public sector organisations onto the Oracle Cloud platform, transferring our HR, finance and purchasing capability. This shift will drive operational and cost efficiencies through economies of scale, enhance service quality, and foster innovation and long-term collaboration across the public sector.

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Sharing and co-operating in delivering services is to be encouraged to ensure investment is used efficiently and sustainably across the public sector. We will continue to focus spending on achieving priorities, and on embedding and expanding our public service reform programme.

Scottish Government recognises the need for collective leadership for PSR and prevention. A partnership approach to reform is core to the VHA. I, and the Minister for Public Finance, look forward to continued and further collaboration to deliver on PSR. For example, the commitment in the Programme for Government to Whole Family Support sets out our commitment, and joint action, to make the move to place-based, preventative and relational service delivery to improve outcomes, reduce inequalities and ensure public services remain fiscally sustainable.

PSR is a key component of the First Minister's and this government's priority to improve public services. Our commitment to reform is clear and strategic, as evidenced by our vision and 10-year programme for PSR and underpinned by reporting to Finance and Public Administration Committee. In doing so we recognised the need for a renewed focus on PSR. As part of the PSR programme, we are taking forward work on preventative spend. This work will include developing case studies examining post devolution examples of prevention that have resulted in improved outcomes, cost savings and / or reduced demand. We are committed to working in partnership with Local Government, public bodies, third sector and others to realise the ambition of reform.

Verity House Agreement

We recognise that local government is on the frontline of design, development and delivery of many of the actions that will contribute to the achievement of our shared values, vision and ambition for Scotland as a nation.

The Scottish Government remains committed to the VHA, an agreement which demonstrates the desire of both local and national government to seek new ways of working more closely together to deliver on our shared priorities for communities across Scotland.

The Scottish Government committed to developing a Fiscal Framework with Local Government as part of the VHA. As acknowledged in your letter, there has been significant progress on delivering and implementing this Framework. It may, however, be unhelpful to consider a final version of the Framework to be a desirable objective. Instead, the Framework should be viewed as an evolving document that will likely change over time to ensure both Scottish and Local Government continue to benefit from its core objectives.

The foundations of the Framework are being applied in practice and in visible actions, through the simplification and consolidation of the Local Government Settlement, development of clear routes to deliver local revenue streams such as the Visitor Levy and Cruise Ship Levy, and establishing more frequent and meaningful budget engagement.

That engagement has been instrumental in informing the decisions set out in the Budget, including those relating to Council Tax, and we continue to work with Local Government to progress the Fiscal Framework. We will also continue to keep the Committee informed on that progress.

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Scottish Local Authorities Remuneration Committee (SLARC)

As you note in your letter, the Scottish Government will lay regulations early in 2025 to implement the pay and banding related changes recommended by SLARC with effect from 1 April 2025. More frequent and meaningful budget engagement has been a cornerstone of the 2025-26 budget process, and the substantive uplift in General Revenue Grant subsequent to that engagement ensures that the recommendations are affordable within the Local Government Settlement.

Recommendations relating to expenses and the introduction of a severance payment better sit with local government. My officials are engaging with COSLA on these recommendations and will make any required regulations to implement any changes when required and before the next planned local elections.

I hope this letter provides you with a sufficiently detailed response to the points you raise.

Yours sincerely,

SHONA ROBISON

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