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Kevin

This letter contains the terms of the settlement to be provided to local government for 2012-15 under the 2011 Spending Review. This settlement has been established against the background of the tightest financial constraints for a generation and represents the best that can be achieved in these circumstances. COSLA is invited to agree the terms of the settlement set out below on behalf of local authorities.

This settlement is firmly anchored in the ongoing relationship 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 that matter to the people of Scotland.

The Scottish Government's total budget for 2012-13 under Spending Review 2011 is £34 billion. In assessing the settlement, the Scottish Government has taken account of the unique position of local government in the governance of Scotland and its commitment to the delivery of Joint Priorities and has accordingly committed to maintain local government's share of DEL plus NDRI above that inherited in 2007-08.

How the level of funding support will be distributed to individual authorities will be the subject of consultation through the jointly chaired Settlement and Distribution Group and set out in a Scottish Local Government Finance Circular in early December.

The detail of the settlement is described below.

Under the settlement, all local authorities will 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 *Renewing Scotland: the Government's Programme for Scotland 2011-12* and the *Government Economic Strategy*.

As part of this, local authorities, together with their community planning partners, are encouraged to increase their focus on prevention in making decisions about the use of resources. In particular, they are encouraged to contribute funding to change funds to support the greater alignment of budgets on a preventative basis. The level of funding deployed on this basis and the activities that it will support should be determined locally in line with a framework established at a national level by the existing joint Ministerial Group on Health and Social Care and a new Early Years Taskforce, which is to be established.

The Scottish Government recognises the significant pressure upon local authorities' capital budgets. However, capital expenditure is critical to economic recovery and I very much hope that we can work together to see to what extent the ability of local government to borrow can sensibly be used to maximise capital expenditure, whilst recognising that decisions to borrow are a matter for individual local authorities.

In addition to the pursuit of Joint Priorities, individual local authorities will, in return for this settlement, deliver certain specific commitments. 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.

Maintain a council tax freeze in each of the three years of the Spending Review. As in previous years, the Scottish Government will hold back £70 million from the Local Government Finance Order put to Parliament in early February (representing the amount to be made available to councils which freeze their council tax). Parliamentary approval to pay out the remaining amount will be sought in March of each year of the Spending Review, once all councils have set their budgets and their council tax rates for the year ahead.

Maintain teacher numbers in line with pupil numbers and secure places for all probationers who require one under the teacher induction scheme. Failure to deliver sufficient FTE teachers 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.

Individual local authorities to pass on their full share of funding to Police Boards in line with the existing agreed level for 2011-12 as a contribution to maintaining the number of police officers at least at 17,234 throughout the Spending Review period 2012-15.

In addition, a working group between Scottish Government and local government will be established to ensure that within the police and fire services there is a focus of spend on jointly agreed central and local government priorities.

The settlement for local government in each year of the Spending Review period will be at a level of revenue funding maintained at that of 2011-12, inclusive of resources being provided to fund the maintenance of the council tax freeze (£70m). In addition to this amount, revenue funding will be provided in line with that provided in 2011-12 to support the maintenance of teacher employment. Local government's share of capital funding represents a continued share of 28% of the total capital resource in the Scottish budget profiled over a four year period to 2015-16.

Further resources (estimated at £25m) will also be provided in each year to deliver the Scottish Government's commitment that no individual local authority should receive less than 85% of the average level of distributed funding to each local authority.

The total funding, including provision for the council tax freeze, the support for teacher employment and the new 85% funding floor, which the Scottish Government will provide to local government is as follows:

Year	£m
2012-13	11,477.7
2013-14	11,441.9
2014-15	11,702.3

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

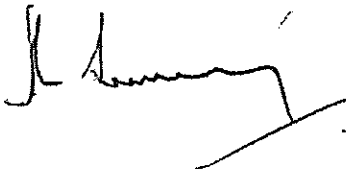
Within this total, revenue funding will amount to £10,914.7m/£10,924.6m/£10,924.6m, including the funding to deliver a council tax freeze, and capital £563m/£517.3m/£759.7m over the period. This takes into account the re-profiling of -£120m/-£100m/+£120m/+£100m in capital budgets and comes with a commitment that £100m will be added to Local Government's capital share in the next Spending Review for 2015-16.

The £11,702.3 million represents 37.2% share of the Scottish Government's total DEL plus NDRI budget in 2014-15. As noted above, this maintains local government's share of resources above the level set in 2007-08. The capital settlement also maintains local government's share of the Scottish Government's capital budget at the level it was in 2009-10, as agreed last year between the Scottish Government and COSLA.

As part of the ongoing partnership and shared commitment to Joint Priorities, the Scottish Government stands ready to take such steps as may be required to maintain the effectiveness of local government in its central role in the delivery of better outcomes at a local level and strengthening the framework for partnership working around community planning partnerships where a compelling case for change is made. All such measures should be grounded in the partnership based approach to public service reform in line with the agenda set out in the report of the Christie Commission.

In addition, and on the basis of a revised business case that you may wish to present, the Government will explore what savings could be realised if proposed legislation were reintroduced to remove the need for authorities to advertise public information notices in printed media.

This settlement for 2012-15 provides the best outcome that can be achieved in the challenging financial circumstances. Notwithstanding the challenges that it brings, it also provides a robust platform for building on the successes achieved to date under our partnership to continue to deliver better outcomes to the people of Scotland.

Yours sincerely,

JOHN SWINNEY

