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<b>Report To:</b>	<b>Inverclyde Council</b>	<b>Date:</b>	<b>23 January 2025</b>
<b>Report By:</b>	<b>Chief Financial Officer</b>	<b>Report No:</b>	<b>FIN/3/25/AP</b>
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<b>Subject:</b>	<b>2025/26 Budget Update</b>		

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## **1.0 PURPOSE AND SUMMARY**

- 1.1  For Decision  For Information/Noting
- 1.2 The purpose of this report is to provide an update on the position of the 2025/26 Budget following the receipt of the draft 2025/26 settlement for Inverclyde Council, and to thereafter seek a number of decisions regarding the Council's 2025/26 Budget.
- 1.3 In line with all 32 Local Authorities, Inverclyde received an improved settlement compared to recent years including a share of a "non-earmarked" extra £289 million. Whilst figures continue to be reviewed by all Councils and re-distributions may occur, officers estimate that the year-on-year increase in grant is £7.0 million with £3.2 million remaining after removing ring-fenced / earmarked sums. This represents a 1.6% grant increase and is approximately £4.4 million better than the position included in the December Finance Strategy.
- 1.4 It is not expected that the Scottish Budget will be formally approved until early March, but it is hoped there will be sufficient confidence in the overall figures to allow the Council to approve the 2025/26 Budget and Band D Council Tax for 2025/26 by the 6 March, which is the last possible date whilst allowing sufficient time for Council Tax bills to be issued on time.
- 1.5 The report highlights several existing or new pressures which members require to consider as part of finalising the 2025/26 Budget, the largest of these being in relation to employers' national insurance. The level of support towards these costs from the UK/Scottish Governments will be key to understanding the level of the funding which the Council requires to set aside.
- 1.6 The report includes further detail in respect of proposed write back from earmarked reserves, an update in respect of savings workstreams, recommendations around proposed savings and short updates in respect of the 2025/28 Capital Programme and 2025/26 IJB contribution.
- 1.7 Whilst figures used in this report will undoubtedly evolve as matters are clarified, both locally and nationally, the various decisions taken today will help firm up several key aspects of the 2025/26 Budget and allow elected members to focus on the remaining decisions at the Budget Setting meeting which needs to take place no later than 6 March.

## **2.0 RECOMMENDATIONS**

- 2.1 It is recommended that the Council note the contents of this report including the improved funding settlement for 2025/26 plus associated conditions and that the figures in this report are expected to be firmed up as matters are clarified at both a local and national level.
- 2.2 It is recommended that the Council note that clarity is awaited on the level of Scottish Government support to offset the costs associated with the increase in employers' national insurance and note the interim assumption factored into the 2025/26 Budget meantime.
- 2.3 It is recommended the Council agree that, due to the advised timescales for the Scottish Parliamentary process, the need for a special Council meeting on 6 March to approve the 2025/26 Budget and Band D Council Tax be delegated the Chief Executive in consultation with the Provost.
- 2.4 It is recommended that the Council approve the allocation of the £700,000 Budget Pressures allowance set out in appendix 3 and also agree the allocation of a further £500,000 to address existing budget pressures within ASN Transport (£400,000) and Winter Gritting (£100,000).
- 2.5 It is recommended that the Council note that the Chief Executive will present proposals relating to Phase 3 of the Management Restructure to the next meeting of the Council.
- 2.6 It is recommended that the Council approve the write-back from earmarked reserves totalling £1.368 million listed in appendix 4 and note that decisions on the use of any remaining unallocated reserves will be taken at the Budget Setting Council meeting.
- 2.7 It is recommended that the Council note the latest position of the savings workstreams set out in appendix 5 and note that the £520,000 saving relating to teachers will now be substituted by an equivalent amount from the £41 million increased funding for teachers announced as part of the 2025/26 Scottish Budget.
- 2.8 It is recommended that the Council approve the savings listed in appendix 6 for which elected members received detailed savings sheets and equality impact assessments on 17 December.
- 2.9 It is recommended that the Council note that a decision in respect of the CLD review was due to be taken at the Education & Communities Committee on 21 January and an update on that decision will be advised at this meeting.
- 2.10 It is recommended that the Council note that the Head of Legal, Democratic, Digital & Customer Services will present a report to the February Council meeting seeking approval to implement the SLARC recommendations in respect of elected member remuneration.
- 2.11 It is recommended that the Council note the latest position of the 2025/28 Budget, as set out in appendix 7.

**Alan Puckrin**  
**Chief Financial Officer**

### **3.0 BACKGROUND AND CONTEXT**

3.1 On the 19 November, the Policy & Resources Committee approved several matters relating to the 2025/26 Revenue Budget including the addition of £700,000 to the Budget Pressures allowance and changes to the Savings Workstream programme. On 18 December, an All-Member Briefing took place covering the 2025/26 Draft Local Government Settlement including an initial assessment of the impact on the Council's 2025/26 Budget.

3.2 This report pulls together the different strands of the 2025/26 Budget based on the latest information, provides an estimate of the current funding gap, seeks several decisions and thereafter sets out the proposed timescales for any remaining decisions.

#### **3.3 Draft Scottish Government Budget**

The Cabinet Secretary for Finance and Local Government set out the proposed 2025/26 Budget to the Scottish Parliament on 4 December and within this set out the funding package and any associated conditions for Local Government. The letter sent to the Cosla President and all Council Leaders at the time is attached as appendix 1.

3.4 The main messages in the letter in appendix 1 include:

- Overall settlement is over £15billion for the first time
- An additional £289million to support local priorities
- Increased funding for the Real Living Wage in Social Care/Early Years sectors
- Requirement to achieve 2023 Teacher census numbers by the 2025 census
- Increase in Capital Grant of over 20%
- No provision made at this time to help fund the employers' national insurance increase

3.5 In line with recent years, Cosla produced a "Budget Reality" document the same day which concluded that, after accounting for funding which related to 2024/25 funding commitments eg: Pay-awards and teachers' pensions, then the 2025/26 revenue funding increase was £561m (4.1%) of which £271m (1.9% is earmarked/ringfenced). Even so, a 2.2% increase in uncommitted funding represents a material improvement on recent years.

#### **3.6 Draft Inverclyde Council Settlement 2025/26**

On 12 December the detailed settlement for all 32 Scottish Councils was issued and reflected the overall settlement quantum and specific allocations highlighted on the 4 December. Whilst the consultation on the draft settlement is on-going, it can be seen from appendix 2 that the draft settlement for Inverclyde is significantly better than anticipated prior to the 4 December announcement.

3.7 Appendix 2 shows a net funding increase of £3.2 million in 2025/26 compared to the estimated £1.2 million net grant reduction used in the December 2024 Financial Strategy, a £4.4million improvement. However, as outlined at the All-Member Briefing on 18 December, there are several potential calls on/expectations around this funding on which decisions will be required:

- The December Financial Strategy showed a £1.0million funding gap assuming all savings workstreams are delivered and after a Council tax increase of 7.0%
- Councils have agreed to maintain teachers as per the 2023 census unless there are specific mitigations. This will require the removal of the £0.520million/8fte proposed teachers workstream saving.
- SLARC (Scottish Local Authority Remuneration Committee) recommended increases to elected member remuneration from April 2024. The Scottish Government have advised that, due to the increased funding for Local Government, they expect councils to implement the recommendations. Whilst the implementation date is to be confirmed, the increased annual cost for the Council is estimated to be almost £0.18million.

- The Council currently plans to fund two known pressures from reserves in 2025/26, ASN transport and winter maintenance. The pressures total £0.5million and if addressed in 2025/26 will reduce the funding pressures in 2026/27.
- The IJB Chief Officer is flagging up pressures, specifically within Children's Services, which may be able to be managed using reserves for 2025/26 but thereafter, unless there is a significant reduction in demand/costs, will require increased funding from the Council.
- The 2025/26 Budget currently has an assumed use of reserves of over £2.8million. Elected members accepted that this is a temporary solution to balancing the revenue budget. Any reduction in the use of reserves in 2025/26 will reduce the level of savings required in future years.
- The Scottish Government pay policy for 2025/28 assumes a 9% pay increase over the 3 year period compared to the Finance Strategy allowance being 8%. Whilst councils are not bound by the SG Policy, in recent years the LG pay-awards have been in excess of the SG Policy. 1% on the pay bill for all Council employees is £1.7 million.

3.8 Within the settlement there are several new identified funding streams which provide opportunities for substitution. Specifically, officers would highlight the £245,000 increased funding for P6/7 Free School Meals, a yet to be distributed share of an extra £28million for Additional Support for Learning plus the Council's share of an extra £41million for the maintenance of teacher numbers. An opportunity in relation to the last of these is set out in 3.16 below.

### 3.9 Employers' National Insurance increase

All of the above excludes probably the largest area of uncertainty for the Council's 2025/26 Budget, funding for the increase in Employers National Insurance. Officers estimate the increased cost for Council employees, ie including social care, will be £3.5million. In addition, there are expected to be cost increases in excess of £1.5 million from external providers particularly within the social care and childcare sectors.

3.10 Whilst discussions are on-going between the UK and Scottish Governments regarding increased funding, it is clear there is a significant gap between the estimated increased cost and the funding currently being reported in the press. It is understood that a final figure is likely to be confirmed in the Spring Statement later in February and as such the Council will need to take a view on how much funding it assumes it will receive prior to approving the 2025/26 Budget/approving Band D Council tax. Currently the 2025/26 Council Budget assumes that only 50% funding will be received.

### 3.11 Council Tax

Statements made by the Cabinet Secretary on the 4 December and thereafter have confirmed that there are no restrictions on increases in Council tax in 2025/26 but that the Scottish Government expectation is that, due to the improved grant settlement, councils show "restraint".

3.12 The latest day which officers believe that the Council could approve the 2025/26 Council Tax and meet the billing deadlines is Thursday 6 March which is 7 days after the next scheduled Council meeting. The Parliamentary process for scrutinising the 2025/26 Budget is as follows:

- 1<sup>st</sup> Reading – 4 February
- 2<sup>nd</sup> Reading – 18 February
- 3<sup>rd</sup> Reading – 25 February
- Debate and approve Finance Order – Around 7 days after.

It would be prudent for elected members to delay approval of the Budget/Band D Council Tax until the latest possible date.

### 3.13 **Budget Pressures**

At the November Policy & Resources Committee it was agreed to set aside a further £0.7million as a Budget Pressures allowance and that proposals to utilise this allowance would come to the Council in January. Appendix 3 contains the recommendations from the CMT which fully utilise the allowance. The proposed allowance to increase senior officer capacity will form part of a report by the Chief Executive to the February Council meeting.

### 3.14 **Reserves**

In line with previous years the CMT reviewed existing reserves. The proposed write backs totalling £1.368 million are listed in appendix 4 along with any estimated impact. The December Council agreed, as part of the Financial Strategy to allocate £600,000 to two funding models in lieu of the proposed write backs. On the basis that elected members approve the proposals in appendix 4, officers will advise of any remaining available reserves as part of the 2025/26 Budget Setting report after considering the latest 2024/25 Budget projections.

### 3.15 **Savings Workstreams**

The Programme Board have received updates from the CMT on progress on each of the approved savings workstreams. The latest position is attached at appendix 5. Since the update to the November Policy & Resources Committee there has been projected slippage of £300,000 in the Asset Management workstream, partly offset by a £100,000 increase in the projected 2025/26 Energy workstream saving and a small increase in the Management Restructure saving.

3.16 Considering the requirement for councils to at least match their 2023 teachers census numbers, officers propose to substitute the Teachers workstream saving of £520,000 from the Council's estimated share of the extra £41 million teachers funding. In addition, officers will examine whether any of the teacher reduction mitigations apply to Inverclyde and if so, will advise elected members at the earliest opportunity.

### 3.17 **Specific Savings Proposals**

On 17 December, elected members were issued with hard copies of savings totalling £1.245million. Within this there were £270,000 of non-workstream savings impacting on 4.9FTE. These savings are summarised at appendix 6 and a decision regarding these proposals is sought at today's meeting to optimise the saving in 2025/26.

### 3.18 **Capital Programme 2025/2028**

In February 2024 the Council agreed a 4 year capital programme to take it up to the next local government elections. The 2025/26 draft Capital Grant for Inverclyde shows a £0.6million increase compared to 2024/25 on a like for like basis due to increases in "non-earmarked" allocations. The figures are still under review as part of the Scotland wide checking process, and it is intended to ask the Council to confirm the 2025/28 Capital Programme as part of the Budget Setting meeting.

### 3.19 **Integration Joint Board**

The Chief Executive and Chief Financial Officer have met with the Chief Officer and Chief Financial Officer of the IJB to discuss any potential impact on the 2025/26 Council Budget and IJB Budget arising from the draft settlement, existing pressures, potential savings etc. The employer's national insurance increase and its impact on employee costs and also on several key providers has been highlighted along with the considerable continuing pressures in Children's Services.

3.20 These discussions will continue, and the Council will consider the 2025/26 IJB contribution as part of the Budget Setting meeting late February/early March.

## 4.0 PROPOSALS

- 4.1 The Council's draft settlement for 2025/26 is significantly better than was being anticipated in October/November. There are however a number of matters which the Council needs to consider, and the Chief Financial Officer would recommend that, after addressing any unavoidable new cost pressures, any remaining unallocated recurring funding is utilised to reduce previously advised funding pressures in 2026/27 and beyond.
- 4.2 The major downside risk for the 2025/26 Budget relates to costs to the Council, including social care, in relation to employers' national insurance increase which could be as high as £5.0million. Whilst officers believe that part of this pressure will be funded by extra funding from the Scottish Government allocated from the UK Government, an estimated pressure of £2.5million has been built into current 2025/26 figures. It is hoped that a firmer position on the level of support allocated to the Council will be known before the 2025/26 Budget/Council tax are approved.
- 4.3 It is proposed that adequate time is left between the 3<sup>rd</sup> Reading of the Budget Bill and the Council approving the Budget and setting Council Tax for 2025/26. It is proposed therefore that 6 March is provisionally agreed as the date when the Council will set the 2025/26 Budget and set the Band D Council tax. This will also maximise time for clarity regarding the level of Scottish Government funding support for employers national insurance contributions increases.
- 4.4 It is proposed that the Council approve the Budget Pressure proposals in appendix 3 and that in addition that the two previously identified 2026/27 pressures relating to ASN Transport and Winter Gritting be addressed as part of the 2025/26 Budget.
- 4.5 It is proposed that the Council approves the write back of earmarked reserves set out in appendix 4 and that elected members will have an opportunity to allocate any remaining free reserves as part of the 2025/26 Budget Setting report.
- 4.6 It is proposed that the Council approve the savings listed in appendix 6 whilst noting that the CLD Review proposals were considered by the Education & Communities Committee on 21 January.
- 4.7 It is proposed that the teachers saving workstream be held in abeyance at this time on the basis that the full foregone saving can be funded from the Council's share of the extra £41 million linked to the maintenance of teacher numbers. Officers however will discuss potential mitigations with the Scottish Government and if any opportunities arise to reduce teaching posts, this will be reported back to elected members.

## 5.0 IMPLICATIONS

- 5.1 The table below shows whether risks and implications apply if the recommendations are agreed:

SUBJECT	YES	NO
Financial	x	
Legal/Risk	x	
Human Resources	x	
Strategic (Partnership Plan/Council Plan)	x	
Equalities, Fairer Scotland Duty & Children/Young People's Rights & Wellbeing	x	
Environmental & Sustainability		x
Data Protection		x

## 5.2 Finance

There are several decisions requested which have financial implications and these are summarised in the finance boxes below. On the basis that all the proposals are agreed then appendix 7 highlights the position of the 2025/28 Budget and key assumptions.

### One off Costs

Cost Centre	Budget Heading	Budget Years	Proposed Spend this Report	Virement From	Other Comments
Earmarked Reserves	Various	2024/25	(£1.368m)		Details in appendix 4
	Budget Delivery	2025/26	(£0.500 m)		Previously allocated to 2025/26 ASN Transport/Gritting Pressures

### Annually Recurring Costs/ (Savings)

Cost Centre	Budget Heading	With Effect from	Annual Net Impact	Virement From (If Applicable)	Other Comments
Various	Budget Pressures	2025/26	£0.700 m		See appendix 3
ASN	Transport	2025/26	£0.400 m		Hold centrally until service review is finalised
Roads	Winter Gritting	2025/26	£0.100 m		
Various	Various	2025/26 2026/27	(£0.601 m) (£0.156 m)		See appendix 6- 12.8 FTE posts
Services to Members	Remuneration	2025/26	£0.180m		Subject to report to February Council

## 5.3 Legal/Risk

Until the Scottish Parliament approve the 2025/26 Scottish Budget and far greater clarity can be provided on the level of support to councils to mitigate the increase in employers' national insurance, there remains material risk and uncertainty around the 2025/26 Council Budget. These risks are over and above the usual risks around pay and non-pay inflation for 2025/26.

## 5.4 Human Resources

The proposals in this report will require the deletion of 5.9 FTE vacant posts and the early release of 6.9 FTE employees. This is over and above any employee impacts arising from the IJB 2025/26 Budget which are reported to the IJB separately.

## 5.5 Strategic

In developing savings, the CMT have considered the priorities in the Council Plan.

## 5.6 Equalities, Fairer Scotland Duty & Children/Young People

Individual EqIAs have been carried out for all savings proposals and these have been shared with and reviewed by elected members prior to arriving at any decisions as part of this report.

### (a) Equalities

This report has been considered under the Corporate Equalities Impact Assessment (EqIA) process with the following outcome:

X	YES – Assessed as relevant and an EqIA is required, a copy of which will be made available on the Council website: <a href="https://www.inverclyde.gov.uk/council-and-government/equality-impact-assessments">https://www.inverclyde.gov.uk/council-and-government/equality-impact-assessments</a>
	NO – This report does not introduce a new policy, function or strategy or recommend a substantive change to an existing policy, function or strategy. Therefore, assessed as not relevant and no EqIA is required. Provide any other relevant reasons why an EqIA is not necessary/screening statement.

## 6.0 CONSULTATION

6.1 The report is supported by the Members Budget Working Group and has been discussed with the Joint Budget Group who have raised no specific concerns. Any consultation relating to the savings has been set out in the individual EqIAs.

## 7.0 BACKGROUND PAPERS

7.1 Local Government Finance Circular 10/2024.



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The Leaders and Chief Executives of all Scottish  
local authorities

4 December 2024

## **LOCAL GOVERNMENT SETTLEMENT 2025-26**

Today I formally set out the Scottish Government's proposed Budget for 2025-26 to the Scottish Parliament. Further to my budget statement, here are the details of the Local Government Finance Settlement for 2025-26. As previously agreed by the Settlement and Distribution Group, council by council allocations will follow on 12 December 2024 following the publication of the Summary Statistics for Schools in Scotland 2024.

The Budget builds upon the investments we have already made as a Government and ensures we focus resources on the four priorities set out in the Programme for Government:

- eradicating child poverty
- growing our economy
- tackling the climate emergency
- improving public services

The First Minister committed, in line with the Verity House Agreement, at the COSLA Conference that there would be substantive engagement between the Scottish Government and Local Government prior to the setting of the Budget. I have welcomed the open and transparent dialogue which has taken place.

Over recent weeks the First Minister has led negotiations with COSLA and Group Leaders to resolve key issues on education and social care policies. The Budget I have set out today is designed to support the way forward which has emerged from that dialogue, much of which you will recognise and agree with.

On the basis of the funding envelope and broader package set out below, I invite you to agree at your meeting on 6 December to the approach set out on education and social care in Annex A.

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As a result of the political engagement, and especially the intense engagement among officials and officers, we all now have a better shared understanding of the fiscal environment facing both spheres of government in Scotland and I very much welcome that.

That better understanding includes the open book analysis of the UK Budget which confirmed that the increased funding announced at the Autumn Budget, whilst welcome, was largely in line with internal planning assumptions. Consequently, the 2025-26 block grant only represents an increase in resource of around 1% in real terms against our 2024-25 allocation.

The Settlement I outline today does not make provision for the UK Government's increases to employer National Insurance Contributions. I remain committed to working constructively with COSLA to ensure that the UK Government provide the funding necessary to support public services in Scotland. There have been communications that indicate we will receive a further £300 million from the UK Government to support the impact of its decision to raise employer National Insurance Contributions on the public sector. However, it is clear that the impact on Scotland's public sector, including local government, as well as commissioned services and third sector organisations which provide statutory services, could be well in excess of £700 million. When the final additional amount is confirmed, I will respond in a way which is fair to all of our valued and proportionally larger public sector in Scotland.

However, I do think we should all continue to press the UK Treasury for additional funding so that the increase in these contributions is fully reimbursed for us all. I would very much welcome a joint initiative, working constructively with COSLA to ensure that the UK Government provide the funding necessary to support public services in Scotland.

Despite the ongoing challenges of fiscal constraint, I am pleased to set out a strong and fair settlement for Local Government.

The total funding which the Scottish Government will make available to Local Government in 2025-26 through the Settlement will be over £15 billion, including additional funding which has been baselined for the recurring costs of 2024-25 pay deals and teacher employer pensions contributions.

That amounts to an increase on last year's Settlement of £1,008 million, including significant real terms increases in both revenue and capital funding.

The Settlement includes:

- providing real terms protection of the General Revenue Grant through an additional £289 million to support local priorities;
- honouring the commitments made as part of the 2024-25 Scottish Joint Council (SJC) and teachers (SNCT) pay deals by baselining an additional £77.5 million and £43 million of resource respectively, alongside reinstating the £26 million of capital funding for flood risk management schemes and the £5 million capital for nature restoration funding which were redeployed in year to support those deals;
- baselining £86.2 million in lieu of higher employers pension contributions for teachers;
- an additional £125 million and £25.7 million to fund the Real Living Wage uplift for commissioned services across adult social care and early learning and childcare respectively;
- £10 million to support an inflationary uplift in free personal nursing care;

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- directly responding to recent engagement on our shared priorities around education by making available a further £41 million of resource to reflect the costs of maintaining teacher numbers at 2023 levels with an additional £28 million to be made available to enhance additional support for learning services, providing a total of £43 million of dedicated funding for ASL alongside councils' own investment;
- maintaining £4 million of support for our island communities to reflect the higher costs of delivering services in island communities in lieu of the conclusion of the ongoing review of the Special Islands Needs Allowance;
- enhanced revenue support for ferry services operated by councils, now totalling £50.3 million, including funding to support the under-22s inter-island fares programme. We will also provide £20 million one-off capital funding for Orkney Islands Council and Shetland Islands Council to enable them to sustain and improve inter-island connectivity;
- an additional £108.1 million of General Capital Grant beyond 2023-24 levels, equating to a 14.2% real terms increase, as well as reinstating £31 million that was used to support the 2024-25 pay deal;
- an additional £10 million, for a total of £25 million, of funding for play parks to ensure all children have access to quality play in their own community; and
- responding to the clear ambition from COSLA and supporting councils to play their part in tackling the climate emergency, by making available £40 million of one-off capital to support local priorities, and an additional £11 million of capital funding including support for flood risk management and coastal change adaptation. Officials will explore how best to ensure the legacy impacts of this investment are clearly evidenced and understood in communities across the country.

Due to presentational changes in the budget document, the local government budget appears to fall due to the increases applied in the 2024-25 Autumn Budget Revision (ABR) – the equivalent changes for 2025-26 will not come into effect until the 2025-26 ABR.

Table 4.12 in the Budget document sets out clearly that once the 2025-26 budget revisions are processed, the overall Local Government Settlement will have increased by over £1 billion since the 2024-25 Budget was published – in addition to the baselined funding to support the council tax freeze.

While we should, and do, account for the £62.7 million reinstatement to support the Council Tax Freeze, 2024-25 pay deals and teacher pension employer contributions, the Settlement still increases by over £707.7 million – equivalent to a 5.0% increase in cash terms and 2.6% in real terms – and significantly exceeds the notional £392.7 million budget gap estimated by the Accounts Commission.

The resource settlement (excluding pay, teacher pension employer contributions and the £62.7 General Revenue Grant reinstatement) increases by £599.6 million or 4.5% in cash terms and 2.0% in real terms.

The capital settlement increases by £108.1 million or 16.9% in cash terms and 14.2% in real terms relative to the 2024-25 settlement, plus the £31 million reinstated to reflect the reprofiling necessary to secure the 2024-25 SJC pay deal resulting in a total increase of £139.1 million.

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This enhanced envelope, with a £707.7 million net increase in the Settlement, is intended to enable councils to deliver the key services and outcomes upon which our communities rely; support the implementation of the Scottish Local Authorities Remuneration Committee recommendations; and to minimise any proposed increases in Council Tax, given the ongoing cost of living pressures affecting people in our communities.

The Budget baselines a further £244.5 million of resource and, as outlined above, includes a further £125 million of funding for the real living wage and £10 million to support an inflationary uplift in free personal nursing care as General Revenue Grant in 2025-26, rather than being added as an in-year transfer as has been the case in previous years.

I consider that we have achieved real progress in implementing the principles of the Verity House Agreement. However, I hope we will continue to work to further simplify and consolidate the Settlement, while continuing to recognise the need for a robust accountability and assurance framework.

In the interim, the additional funding allocated as General Revenue Grant for Integration Authorities, in support of the real living wage uplift in commissioned services and for Free Personal and Nursing Care should continue to be additional and not substitutional to each Council's 2024-25 recurring budgets for delegated adult social care services.

We have also made good progress in exploring additional ways to raise revenue locally and to provide new sources of funding. Local authorities now have the power to introduce a visitor levy and we will soon be formally consulting on a potential cruise ship levy. We commit to continue exploring opportunities for local empowerment, including through our Joint Working Group on Sources of Local Government Funding.

I have welcomed the UK Government's intent to publish a Spending Review in the Spring – although I am sure you share my concerns at media reports that this might be put back to June 2025. Our 2025 Medium Term Financial Strategy will be accompanied by a five-year fiscal sustainability delivery plan which will outline the specific actions being undertaken to deliver sustainable finances. That delivery plan will support a future Scottish Government spending review which will ideally allow for better multi-year planning and funding.

In my view the Fiscal Framework represents a journey not a destination and it is important that we recognise the progress we have made in developing and implementing that Framework to date. On that basis I propose that we mark that progress by publishing an update alongside the Local Government Settlement, formally setting out the draft provisions which have been developed, and which have been put into practice over the last year.

I consider it important for us to commit to, and to act on the commitment, to explore new ways of working for local government in Scotland. To that end, I can advise that I wish to continue to explore the concept of a Local Authority General Power of Competence and intend to launch a consultation on that in January 2025, but I would note that we will need to be cognisant of the risks resulting from equivalent powers in England.

I also want to welcome the ongoing work through the Housing Investment Taskforce to identify actions to unlock existing and new commitments to investment in housing. This is a shared priority for both spheres of government and in parallel I have requested Scottish Government officials explore other potential avenues to provide funding flexibility, including

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the joint work to consider the statutory accounting arrangements for the Housing Revenue Account in relation to the General Fund.

Ministers are under no illusions about the challenging fiscal environment we face across all of our public services, but we have sought to design a budget which delivers progress for Scotland, by Scotland. We have listened carefully to the people of Scotland, including council leaders, and our budget seeks to deliver on those priorities and on the issues people care about most. It also seeks to lay the foundations for Scotland's future success, putting in place the investment that will help deliver the public services people need and deserve. Local Government is key to these aims and the Settlement reflects that.

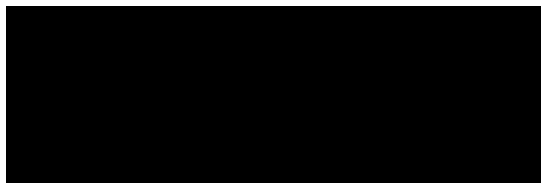
In terms of Local Government, the Budget delivers real terms protection in General Revenue Grant with councils having full discretion on how that funding is allocated alongside a further £310.6 million of resource for shared priorities. It reinstates £37.1 million of capital, following a hugely challenging allocation from the UK Government last year, and offers an additional £11 million General Capital Grant and £40 million of capital to respond directly to the climate emergency.

This Settlement also provides full discretion over decisions on council tax, with no freeze and no cap. However, it is intended to enable local authorities to deliver the key services and outcomes upon which our communities rely. I therefore hope this will enable councils to minimise any proposed increases in the council tax, given the ongoing cost of living pressures affecting people in our communities right across Scotland.

All of these decisions respond directly to the key asks emerging from our meaningful engagement with COSLA over the course of the year. Should COSLA agree to the proposals set out in Annex A, the Budget will signify a marked change in our joint aspirations to ensure the sustainability of local services.

I hope this aspiration is shared and I look forward to continuing to work with COSLA in the year ahead to deliver our shared priorities.

Yours sincerely,



**SHONA ROBISON**

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## **Education**

Local Government and the Scottish Government jointly commit to delivering improved outcomes for children and young people, acknowledging the critical importance of delivering excellence and equity in education. Local Government and the Scottish Government recognise the impact of the pandemic on learning, particularly in terms of school attendance, relationships and behaviour in schools, rising additional support needs and the poverty-related attainment gap. Local Government and the Scottish Government acknowledge that the responsibility for driving implementation of GIRFEC, and improvement of ELC and school education as set out in the National Improvement Framework, is a shared statutory responsibility, and requires a range of professional groups to achieve.

Recognising financial constraints and the increasing costs of service delivery have resulted in pressures in 2024-25 and which will continue for future years, as set out in previous correspondence from COSLA, this agreement is intended to agree a focus for delivery in the area of education, and the investment required to deliver that.

To realise this we will establish a joint Education Assurance Board. The Board will drive activity to achieve our shared objectives to improve attainment, attendance and improve relationships and behaviour. The Board will aim to provide assurance that jointly, Local Government and Scottish Government are supporting improvement, and will draw on a range of data and evidence including independent scrutiny bodies such as HM Inspector of Education.

In the next year we need to create stability to create the space for meaningful dialogue and exploration of the evidence about improving outcomes in the long term, particularly mindful of the challenges faced by our schools post pandemic and as a result of the cost of living crisis. This will mean reaching agreement for 2025-26 to maintain teacher numbers, with appropriate funding in place, to freeze learning hours, and invest in improving the additional support for learning provided across the country.

Recognising the importance of the teaching workforce to achieving improved outcomes in education, local authorities will commit to maintaining or restoring teacher numbers to the 2023 baseline in 2025-26. Acknowledging that the funding provided since 2021 for this purpose no longer has the same purchasing power, the budget uprates the value of this funding to £186.5 million from 2025-26. This funding aims to ensure that teacher numbers, set out in the publication *Summary statistics for schools in Scotland 2023*, published on 12 December 2023, being met or exceeded for each council, in the teacher numbers census of September 2025, due for publication in December 2025, noting that there may be exceptional circumstances outwith a council's control which need to be able to taken into account.

Local Government agree that learning hours will not be reduced in the 2025-26 academic year. Longer term, we will work together on proposals to establish a statutory minimum number of learning hours, to understand the definition of a "learning hour" and the impact of this ambition on local authorities currently providing a lower number of learning hours and timelines for implementation.

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Scottish Government and Local Government recognise the importance of teachers having more time to prepare for lessons, raise standards and undertake professional development as part of wider education reform ambitions and acknowledge calls to reduce teacher workload. We agree to develop a meaningful offer for the Scottish Negotiating Committee for Teachers to consider, of a phased reduction in class contact time, within the scope of 2023 levels of teacher numbers, beginning in the 2025-2026 school year.

The Scottish Government will provide additional funding of £28 million from 2025-2026 to develop the Additional Support for Learning (ASL) education workforce along with an enhanced offer in support, spanning all stages of the curriculum from the early years to the end of secondary. The Scottish Government and Local Government will work together to develop a suite of interventions, including additional ASN teachers, other specialist provision and professionals. This will involve engagement with ADES, building on good practice broadly and upon lessons learned regarding enhancing ASL from use of PEF.

There will also be the opportunity to align this with the provision of holistic whole family support. The Scottish Government will progress our commitment to collaboration across the whole family system, working with and through Local Government and other partners to deliver joined up services, with improved outcomes and a simplified funding approach. Existing examples which enhance whole family support through schools, for instance via family link workers and income maximisation officers, and Whole Family Wellbeing Funding, can be built upon as part of this approach.

The Scottish Government and Local Government agree to undertake medium and long-term joint workforce planning to respond to issues including different local needs, recruitment challenges and teacher/subject shortages across Scotland and the trajectory on teacher education intakes, the impact of demographic change on the pupil-teacher ratio, as well as making the Teacher Induction Scheme work better for all parties.

## **Social Care**

Local Government and the Scottish Government agree on the necessity to deliver high quality care across the country to recognised high standards. Both parties are clear that this is a priority, and further action must be taken to drive further and deeper social care reform from the first quarter of 2025. This is underpinned by a firm recognition that both national and local leadership are fundamental to improving and transforming people's experience of care.

Both parties are committed to securing a route to enhanced national oversight of improvement and performance delivery, in order to facilitate the sharing of best local practice, providing support to local areas where required. Scrutiny of local performance should serve genuine purpose in seeking to improve outcomes for people, be proportionate, and should go hand-in-hand with scrutiny of Scotland's national health and care needs and resource requirement.

This must include whole system collaboration, reporting on national integrated health and social care programmes and building on shared experiences such as the creation of the Collaborative Response and Assurance Group and other shared national improvement activities.

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The inclusion of the voice of lived experience is crucial and must be central to our collective plans.

We must also draw more deeply on independent scrutiny and expertise, including from the Care Inspectorate.

Both parties are agreed that leadership and assurance over improvement arrangements and overseeing any support and intervention to systems is necessary to ensure improved outcomes for people.

We must also understand at a national, and local, level, the future of Scotland's health and care needs, including population trajectories and shift, demand for social care support, changing health inequalities, and the level of investment required to fund current and future need. This necessitates mutual, whole system transparency on the allocation and use of funding to deliver these priorities.

We must make rapid progress with whole system financial transparency and accountability to swiftly improve the availability of data to investigate impact, benchmark investment and to demonstrate the effectiveness of funding allocated across the Health and Social Care system. Part of this will be to understand the current level of investment made across health and social care alongside the projected need.

One area where this leadership, assurance and transparency could be demonstrated quickly would be further work to ensure that effective whole system health and social care arrangements are in place in every local partnership area and that these are adequately resourced to minimise the risk of Delayed Discharge in hospitals.

Further work is required to assess progress on the following areas:

- **Performance and Delivery:** Development and oversight of the implementation of a Support and Improvement Framework to ensure a focus on improvement, exposition of the challenges faced across integrated health and social care delivery, earlier support, with national tools required to provide greater system support to realise improved outcomes, and, where necessary, escalation.
- **Rights, Equalities and Participation:** embracing and enabling the participation, and choice and control, of people with lived experience and unpaid carers and the assessment of enablement of Rights.
- **Strategy, Standards and Quality:** commitment to ongoing development of strategy, implementation of standards and improving the quality of provision and broader outcomes. Exploring opportunities for consolidation of strategies and reporting asks for local systems.
- **Fair Work and Ethical commissioning:** progressing the delivery of Fair Work Ethical Commissioning and social services workforce development.
- **Culture, Governance and Finance:** leading the improvement of financial transparency, scrutiny of national and local resource provision for integrated health and

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social care, clarity of governance and accountability and improving integrated approaches.

- **National programmes:** creating deeper national oversight and support for specific priority areas which may include areas like delayed discharge, the Drugs Mission and Coming Home.

Discussions have been positive and both Scottish Government and Local Government are committed to securing an agreement on social care reform.

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## Appendix 2

2025/26 Settlement Assessment - As at 9.1.25

	<u>£m</u>	<u>£m</u>
2025/26 Grant Settlement 10/24 -Issued 12.12.24		222.499
2024/25 Grant Settlement 2/24 (29 Feb 2024)		212.046
Increase in Grant Funding between Circulars		10.453
<u>New 2024/25 Funding Distributed since Feb 2024</u>		
No One left Behind (£2.5m)	0.063	
Council Tax Freeze £210m	2.844	
ELC Living Wage (£16m)	0.223	
Childrens Services Pay (£19.86m)	0.313	
Teachers Pay (1.8.24-31.3.25)	0.415	
Teachers Pensions	1.267	
LG Pay (Adjusted for £3.0m capital funding)	1.203	
Support for Ukrainians	0.106	
School Milk	0.013	
Temporary Accommodation	0.015	
<u>Items not distributed in Circular 10/24 but in Circular 2/24</u>		
Discretionary Housing Payments (£76m)	-1.429	
CJ Specific Grant	-1.299	
Scottish Disability Assistance	-0.041	3.693
Year on Year Increase in GRG		6.760
<u>Directed/Committed new Requirements in 2025/26</u>		
<u>General</u>		
On-going checking Contingency	0.346	0.346
<u>HSCP</u>		
£10m	FPNC Inflation 25/26	0.145
£15m	Baselined CYP Mental Health Services	0.186
£125m	Living Wage- Adult Care Sector	2.102
£13.14m	Living Wage Childrens Social Care	0.205
		2.638
<u>E&amp;R</u>		
		0.000
<u>E&amp;C</u>		
£14m	Teachers Pay (1.4.25-31.7.25)	0.191
£15m	UFSM P6-7	0.245
	Movement in Gaelic specific grant	0.005
£9.7m	Real Living Wage- Early Years	0.135
		0.576

Total Directed Funding changes	<u>3.560</u>
Net like for like Funding Increase	<u>£ 3.200</u>

Notes

1. This is compared to a £1.2m cash cut in the December Finance Strategy .
2. £441m presently withheld including Teachers £186m/ DHP £99m/ASL £28m/ CJ £86m.
3. The Floor was set at 0.75%. The Council contributed £1.753m to the Floor.
4. Main outstanding issue relates to employers National Insurance for which no funding has been identified to date. Estimated Council and HSCP costs are £5.0million
5. Council to implement SLARC recommendations (Councillor pay) from increased funding. Cost around £0.18 million

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Appendix 3

## 2025/26 Budget Pressures

	Budget	Summary of Pressure	2025/26 £000
1	Pay Inflation Contingency	Approved 24/25 Payaward required Councils to fund 3.2% which was 0.2% (£250k) greater than the amount budgeted.	250
2	Insurance Premiums	At the 5.12.24 Council it was agreed to terminate one of the 2 Insurance Premium "holidays". This will require service insurance budgets to be increased accordingly	100
3	Early Years Partner Providers	As reported to the E&C Committee on 21.1.25, a pressure of £230k exists due to greater use of EY partner providers than built into the 2024/25 Budget. The Committee intends to address £195k of the pressure by deleting vacant posts and delaying the start dates for 3 year olds. This leaves a pressure of £35k.	35
4	Schools Catering Provisions	There is a projected 90,000 increase in the number of primary school meals compared to 2023/24. This is mostly in pupils not entitled to Clothing Grants. In secondary schools there is an increase in uptake but this is largely offset by an increase in income. It is intended to fund the schools catering pressure from increased P6/7 FSM Scottish Government funding	0
5	Use of Agency- Environmental Services	Environmental Services have utilised agency services for many years. Following a review the use has greatly reduced but a pressure of around £110k exists. The service has identified virement to fund part leaving a £60k pressure	60
6	POPS/WUDS	Pressure relates to a change in legislation in 2024 regarding the disposal of foam used in sofas/matteresses. Based on actual costs todate a net pressure of around £100k exists. It is proposed to fund this pressure from the estimated £1.9million due to be received from the UK Government in 2025/26 arising from the Extended Producer Responsibility for Packaging obligations. This will be subject to a detailed report to the E&R Committee.	0
7	Senior Officer Capacity	The Chief Executive is scheduled to present Phase 3 of the Senior Management Restructure to the Council in February 2025. Increased recurring funding will be required and as such the balance of the £700,000 pressures allowance has been provisionally earmarked against this pressure.	255
<b>Totals</b>			<b>700</b>

**Proposed Reserves Write Backs**

Reserve	Impact	£000
Covid - Business Development Interventions	No impact. Remaining balance committed.	50
Covid - Import/Export/Access to Stock Support	No impact as no demand for grants.	50
Budget Funding Reserve	Based on current planned use of reserves over 2024/26. No impact.	534
CFCR - 24/28 Capital Programme	No impact due to unbudgetted one-off capital grant received in 2024/25 relating to P6/7 Free School Meals	514
Project Resource/capacity	No impact. Leaves a small £13k contingency	20
Budget Delivery Reserve	Reduces unallocated balance	200
<b>Totals</b>		<b>1368</b>

Note - £600k of this sum already allocated to Funding Models as part of the December Finance Strategy.

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Revenue Budget 2025/26 - Workstream Savings

	2024/25 £'000	2025/26 £'000	2026/27 £'000	2027/28 £'000	Total £'000	FTE
Income Generation	245	455	0	0	700	0
Procurement	711	164	70	0	945	(2)
Energy	250	700	0	0	950	0
Asset Management <b>(Note 2)</b>	0	100	200	100	400	3.8
Management Restructure PH3	0	135	12	0	147	2.5
Digital & Customer Services	0	59	17	0	76	2
CLD Delivering Differently	40	140	0	0	180	4.3
School Catering Review	0	100	20	0	120	3.4
Teachers <b>(Note 1)</b>	0	0	0	0	0	0
Over Achievement Contingency	0	(194)	0	0	(194)	0
<b>Total</b>	<b>1246</b>	<b>1659</b>	<b>319</b>	<b>100</b>	<b>3324</b>	<b>14</b>

Notes

1- Substituted by extra teachers funding currently held back.

2- FTE relate to closure of Hector McNeil House only at this time

Revenue Budget 2025/26 - Budget Savings Proposals

	2025/26	2026/27	2027/28	Total	FTE
	£'000	£'000	£'000	£'000	
<u>Savings - Other</u>					
Scottish Welfare Fund	40	0	0	40	0
Grounds Foreman Post	35	12	0	47	1
Home Link Workers	126	0	0	126	2.91
Music Tuition	36	21	0	57	1
	<b>237</b>	<b>33</b>	<b>0</b>	<b>270</b>	<b>4.91</b>
<u>Savings - Workstreams</u>					
ICT/CSC Restructure	93	9	0	102	2.5
CES Admin Restructure	27	24	0	51	1
Team Leader - MCMC	74	0	0	74	1
Teachers - Roll Reduction	0	0	0	0	0
Procurement	70	70	0	140	0
Catering	100	20	0	120	3.4
	<b>364</b>	<b>123</b>	<b>0</b>	<b>487</b>	<b>7.9</b>
<b>Total Savings</b>	<b>601</b>	<b>156</b>	<b>0</b>	<b>757</b>	<b>12.81</b>

Note 1

Note 1- Replaced by extra teachers funding currently held back.

Note 2- CLD Review saving decision taken by E&amp;C Committee 21.1.25

**Budget Overview - January 2025**

	2025/26 £m	2026/27 £m	2027/28 £m
Position March 2024 P&R	0	7.2	6.5
<u>Changes to December 2024</u>			
Floor assumptions	0.7	0.6	0.6
Revised Pay Inflation	0.1	(0.7)	-
Pressures	0.7	0	0
Savings/Workstreams	(0.5)	(0.3)	0
December 2024 Finance Strategy	1.0	6.8	7.1
<u>Changes in January 2025 Report</u>			
Better Settlement	(4.4)	0	0
Implement SLARC recommendations	0.18	0	0
ASN Transport/Winter Gritting	0.5	0	0
Workstream Changes:			
- Drop Teachers	0.3	0.2	0
- Rephase Asset Management	0.3	(0.2)	(0.1)
- Increase Energy Saving	(0.1)	0	0
Other Savings (Appendix 6)	(0.2)	(0.05)	0
Substitution - Teachers	(0.5)	0	0
Position if recommendations approved	(2.92)	6.75	7.0
<u>Other matters - March Council</u>			
Employers NIC (Assume 50% Funded)	2.5	0	0
Pay - Match SG Pay Policy	0	0.8	0.9
	(0.42)	7.55	7.9
Council Tax Assumed	7.0%	tbc	tbc
Use of Reserves Assumed	2.8	1.8	0.9

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