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## **LOCAL GOVERNMENT SETTLEMENT 2026-27**

Earlier today I formally set out the Scottish Government's proposed Budget for 2026-27 to the Scottish Parliament. Next year's budget is accompanied by the results of the Scottish Spending Review, providing a forward planning horizon of three years for resource and four for capital.

Focusing on four priorities set out in the Programme for Government, the Budget invests in the wellbeing of our society and seeks to ease the pressure on families and family budgets by continuing and expanding the best cost-of-living support package available anywhere in the UK.

At the very heart of that is a commitment to more effective and more efficient policy delivery. It will mean a smaller, more modern public sector, with smarter use of technology, including digital delivery, making it easier for citizens to access the services they need.

Our ambition is clear – a Scotland where public services work seamlessly for people, modern in their design and delivery, accessible where and when they are needed, flexible in how they respond, and consistently focused on the best outcome. In short,

public services that are centred on the needs of the person, not the needs of the system.

Local Government are central to that ambition. As I outlined to COSLA political group leaders last week, in some areas my statement set out a direction of travel and funding allocation on key themes – such as child poverty - and Local Government will remain key partners in how those propositions are further developed and ultimately delivered, alongside our valued third sector and communities themselves. Examples include our proposals around expanding Breakfast Club provision; enhancing wrap-around childcare; and sporting opportunities for young people, capitalising on Scotland's summer of sport.

Over recent months, the First Minister and I, as well as my officials, have engaged extensively with Local Government and I am proud that we were able to work with you to agree and put into practice the first Fiscal Framework between Scottish Government and Local Government.

The Budget today reflects the evidence gathered throughout that engagement and, further to my budget statement, here are the details of the Local Government Finance Settlement for 2026-27.

The Budget delivers record funding of almost £15.7 billion through the Local Government Settlement. That represents a £650 million uplift since the last Budget publication. As you are aware, additional funding was made available to support the costs of the UK Government's changes to employer National Insurance Contributions through the budget process last year and I have baselined this funding as part of that figure.

Even adjusting for the eNICs funding, the Local Government Settlement overall has increased by £506.9 million – a 3.3% cash increase or a 1.0% increase in real terms. The revenue settlement budget to budget increases by £746 million, including the eNICs funding. Whilst the capital settlement falls by £95.7 million, this is wholly explained by the expiration of time-limited funding and agreed profiling of flood prevention funding to better align with councils' spending requirements.

The settlement includes:

- an additional £253 million of General Revenue Grant to provide a meaningful contribution to the second year of the local government pay deals and to support other local priorities, including Adult Social Care;
- baselines £79.7 million and £30 million that was previously provided in-year from non-recurring sources to support the pay deals;
- allocates a further £17 million to reflect the legacy costs of the first year of the SNCT pay deal;
- baselines a further £773.8 million of funding previously provided as in-year transfers, taking the total funding baselined since the Verity House Agreement was signed to almost £2.3 billion;
- an additional £160 million and £22 million to fund the Real Living Wage uplift for commissioned services across adult social care and early learning and childcare respectively;
- £7 million to support an inflationary uplift in free personal nursing care;
- £0.7 million increase to the School Clothing Grant;
- £3 million to support expansion of Free School Meals;
- enhanced revenue and capital support for inter-island connectivity;
- extended support for the Climate Emergency with a further £20 million of one-off capital funding; and
- Local Authorities will retain all the funding paid to local authorities by PackUK under the Extended Producer Responsibility scheme with no adjustment to the Settlement.

The Settlement also provides councils with full discretion over decisions on council tax, with no freeze and no cap. The Scottish Budget prioritises cost of living measures and, with over a quarter of a billion of additional General Revenue Grant in the Settlement, it should also enable councils to protect family budgets by minimising any proposed increases in council tax.

Having listened carefully to the arguments set out in 'Strong Councils, Strong Communities', I have sought to balance the desire to ringfence additional funding towards social care with the Verity House Agreement commitment to maximise fully

flexible funding. In conclusion, I have allocated as much as possible of the additional revenue funding as General Revenue Grant for Councils to allocate as they see fit.

I do, however, recognise the importance of sustainable adult social care services and as I set out in my statement, the government is committed to working together with local authorities on the delivery and improvement of social care. The Cabinet Secretary for Health and Social Care will be engaging with local government and health and social care partners over the coming weeks on proposals to strengthen our response to complex care and delayed discharge. While there is not a specific allocation within the settlement for this work at this time, we want to develop proposals together to deliver new approaches which could improve our collective endeavour to support people with complex needs who require specialist support and services. If proposals can be collectively developed at pace, I will consider with the Cabinet Secretary for Health and Social Care how these may be supported.

In providing £160 million for the Real Living Wage in Adult Social Care and £22 million for children services, I am acknowledging that employers, including Local Authorities where appropriate, are subject to statutory duties to meet increases in the National Living Wage. I have therefore fully funded the difference between the National Living Wage and the Real Living Wage in those services in recognition of our shared commitment to paying valued care workers at least the Real Living Wage.

Following our engagement work over the autumn, I am confident that Local Government will pass more in total to IJBs than is provided as an in-year transfer by Scottish Government. However, I do acknowledge that partnership working will be even more critical this year to ensure that the technical changes applied to the Adult Social Care GAEs are appropriately reflected locally. Recognising the impact of this exceptional change in distribution and to balance the needs of councils who stand to receive more funding through this change with those seeking to ensure sustainable delivery locally, I have taken the decision to increase the funding floor in 2026-27 to 0.5% below the average change. This is up from the current level of 0.75%.

In addition to the Real Living Wage funding, the budget honours the historic commitments to support local government pay deals. However, in light of the

decision by the Cabinet Secretary for Education & Skills, Jenny Gilruth MSP, to extend the Scottish Attainment Challenge Programme, including Pupil Equity Funding, at current levels into 2026-27, I would offer assurance in line with the original agreement that the £30 million previously re-deployed to support the 2023-24 pay deal will now be refunded in full following the revised timeline for expiration of the scheme, rather than in 2026-27 as originally envisaged. Similarly, the £79 million of capital funding for flood prevention has been reprofiled in full over the course of the Spending Review to align more accurately with the evidence on spending requirements provided through the Joint Scottish Government and COSLA Flood Risk Management Funding working group rather than in a single year.

Having fulfilled our commitments on local government pay deals, the Budget I have set out today is designed to build on the increase in teacher numbers and the improved pupil teacher ratio in 2025, which were the result of most councils making positive choices to invest the additional funding I announced in last year's budget. This uplifted the ring-fenced funding for teacher numbers and provided our councils with extra funding specifically to support additional support needs. I am pleased to maintain that investment this year, allowing councils to maintain and build on those additional teachers in 2026/2027.

The Education and Skills Portfolio budget also includes an additional £1m to support pilot approaches to implement a reduction in class contact time, as a catalyst for deeper professional engagement, improved workload, and better outcomes for every learner. It is the intention of this government that this will lead to wider agreement, including on the use of the 90 minutes, through the SNCT.

The Fiscal Framework between Scottish Government and Local Government agreed in the autumn, is not only the first such arrangement since devolution but it is unique across the UK.

As previously communicated to Directors of Finance, it remains our aspiration to issue council by council allocations today (13 January 2026). My officials have provided officers with a full reconciliation of the funding announcements set out in

the Budget today and briefing sessions are planned for Chief Executives and Directors of Finance over the course of tomorrow.

The £281.4 million of new General Revenue Grant in the settlement compares favourably with the £307 million of resources consequentials accruing from the UK Budget in November and is materially more than the £5.7 million of consequentials accruing from increased expenditure on Local Government in England. Successive budgets since the Verity House Agreement was signed have baselined almost £2.3 billion into the core local government budget. We have delivered powers for a Visitor Levy, made council tax more progressive (focusing to date on second and empty homes), and have now funded for the preliminary work necessary to progress two new high value council tax bands from 01 April 2028 in order to increase local revenues. As the design and legislation for those new bands progresses, this government will continue to work in partnership with COSLA and local authorities on the detail, including design considerations which may arise from the results of the live consultation on council tax reform.

The Spending Review sets out multi-year planning assumptions for local authorities with provisional resource allocations up to 2028-29 and provisional capital allocations available to 2029-30. I fully anticipate that trajectory will change going forward as was the case with the 2022 Spending Review – the original 2026-27 core revenue allocation of £10,716 million is now £13,917 million – and further discussion with local government in future years will inform that.

Alongside the Scottish Budget, I have also published a number of other supporting documents including Portfolio Efficiency and Reform Plans and an integrated pay and workforce policy statement. Whilst these documents have been developed and published by Scottish Government, it is clear that the policy intent set out in each will only be achievable for the public sector as a whole if local government and the Scottish Government work in partnership with one another. I would therefore intend to prioritise these matters through my engagement, and to support the prioritisation of discussion of these matters through engagement with all relevant Cabinet Secretaries and Ministers.

The Budget invests in the wellbeing of our society and following significant joint investment in the engagement process throughout the financial year, the Local Government Settlement now delivers a strong outcome for Councils. I hope this is recognised locally and I look forward to further engagement with COSLA for the remainder of this Parliamentary session.

Yours sincerely,

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