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31 January 2019

Dear Patrick

Thank you for your engagement and constructive dialogue about the 2019-20 budget since the autumn of last year.

The Scottish Government has consistently made clear that as a minority Government we will engage constructively with any opposition party that is prepared to participate in open and constructive discussions about our budget plans - to ensure that the Parliament can support a budget that provides investment in our economy, communities and key public services. I once again welcome the constructive approach the Scottish Green Party has taken.

On 12 December 2018, I introduced a Scottish Budget for 2019-20 that provides substantial investment in our economy and key public services, at a time when we see continuing UK Government austerity.

The Scottish Government have been able to mitigate these UK austerity cuts, to an extent, through our tax policy decisions, which have provided £271 million of additional revenues as part of the Scottish Budget 2019-20.

The Scottish Budget also proposes a local government settlement for 2019-20 that will allocate £11.1 billion to local authorities next year – a real terms increase in both resource and capital funding for local government. In addition to this the published budget gave local authorities the ability to increase Council Tax by up to 3%, which would have generated around £80 million of additional resources for local authorities.

Our total package of budget proposals for 2019-20 includes significant additional investment of almost £730 million in Health and Care; a real terms increase in funding for the Education and Skills portfolio; and over £5 billion of infrastructure investment across Scotland. This will provide a total of £42.5 billion of investment in Scotland through the Scottish Budget in 2019-20 – almost £2 billion more than in 2018-19.

However, I have carefully listened to the points that you and the Scottish Greens have raised as part of our budget discussions over recent months and I can confirm that as a result of those discussions I will be putting forward a number of proposals in response.

This includes what I believe will be the biggest empowerment of local authorities since devolution.

I have set out below my key proposals.

Local Taxation

In coming to an agreement to secure your support for the Scottish Budget, the Scottish Government has committed to make a number of changes to local government taxation between now and the end of the parliament. In some cases these changes have also been argued for by individual local authorities and by COSLA.

As part of that, we have agreed:

- to consult, in 2019, on the principles of a locally determined tourist tax, prior to introducing legislation to permit local authorities to introduce a **transient visitor levy**, if they consider it appropriate for local circumstances;
- to support an agreed Scottish Green Party amendment to the Transport (Scotland) Bill that would enable those local authorities who wish to use such a power, to introduce a **workplace parking levy**. Scottish Government support will be contingent on the exclusion of hospitals and NHS properties;
- to devolve Non-Domestic Rates **empty property relief** to local authorities in time for the next revaluation; and
- to bring forward a **three year funding settlement for local government** from 2020-21 budget onwards; and to develop a **rules based framework** for local government funding in partnership with COSLA that would be introduced for the next parliament.

Both the Scottish Government and the Greens supported the recommendation of the Commission on Local Tax Reform that the present council tax system must end. In order to make progress the Scottish government will convene cross-party talks on a replacement for council tax with a view to publishing legislation – should cross-party agreement on a replacement be reached - by the end of this parliament, with that legislation taken forward in the following parliament.

Environmental Measures

In addition to the proposals above on local taxation, we have also discussed a small number of environmental measures.

We recognise the success of the single use carrier bag charge in reducing their use, and note that some retailers have begun to increase charges to 10p. We agree to take action on increasing the minimum amount of the single use carrier bag levy from 5p to a minimum of 10p at the earliest opportunity and aim to introduce legislation before the end of 2019-20. We will explore the possibility of providing some of the revenue generated by this increase to local government, whilst recognising that significant benefits are currently directed to charities from the proceeds of the charge.

As part of the Programme for Government (2017-18) we established an expert panel to advise on the use of charging to reduce single use disposable drinks cups. We agree that environmental charges have a role to play in influencing consumer behaviour, in the way we have seen with the charge on single use bags, and agree in principle to the use of charging in relation to disposable drinks cups, alongside other measures to promote the changes that we want and need to see in Scotland.

We will consider the recommendations of the panel – which are due later this year – and bring forward proposals in 2019-20 for legislation and other measures to implement the Panel's recommendations. This will include consideration of whether revenue from any charge can be placed under the control of local authorities.

Teachers' Pensions

Local authorities (and other public bodies) will face increased costs as a result of changes made by the UK Government to employer contributions for public sector pensions, including for Teacher pensions. The UK Government has committed to part fund these costs.

Local authorities were assuming a shortfall of 33% in the funding for these costs. Scottish Government analysis is that this shortfall is likely to be closer to 21%. This difference amounts to around £15 million for local authorities and this revised assumption will allow local authorities to plan with greater certainty. We have advised local government of our current understanding of this position in order that they do not make unnecessary savings on the back of uncertainty caused by the UK Government.

We will not have formal confirmation of the impact of these changes to the Scottish Budget until the UK Spring Statement on 13 March 2019. We are continuing to press the UK Government to meet the full cost of these changes to avoid damaging impacts on the delivery of public services across Scotland. Whatever decision the UK Government eventually takes, the Scottish Government will commit to pass on to local government the full consequential that we receive towards the employers' cost increase for local government Teachers' Pension schemes.

This change to employer contributions will have no impact on individual pensions.

Local Government Funding

As outlined above, the Budget that I presented to Parliament in December provides a real terms increase in both revenue and capital funding to local government and maintains local government's share of the Scottish budget at around 27% (despite continued real terms reductions in our overall resource block grant).

While in previous years your focus has been on the totality of resource going to local government – and which you have acknowledged receives a real terms increase in this budget, you have made the case during our discussions for increases to be made to the 'core' local government settlement.

While the Scottish Government maintains the position that money for education, social care and early learning and child care are core functions of local government, we have listened to your arguments that local government requires increased funding and flexibility.

We are therefore prepared to make a revised offer to local government that will:

- increase the core resource local government settlement by £90 million;
- Continue to provide an earmarked £160 million from the Scottish Government for health and social care investment in local authorities to support social care and mental health measures – including those delivered by integrated Joint Boards – whilst, as part of this package allowing local authorities the flexibility to offset their own adult social care contributions in 2019-20 by 2.2% compared to 2018-19 or up to £50m across all authorities to help them manage their own budgets.
- allow local authorities the flexibility to increase the Council tax by 3% in real terms, which equates to 4.79% next year (or an additional £47 million beyond the position in our December budget) - remaining below maximum permitted increases in the rest of the UK of 5%.

Taken together this enhanced package offers up to £187 million of increased funding and flexibility to local authorities. Including the additional certainty around teachers' pension contributions and the £80 million for increasing the council tax by 3% the additional funding and flexibility available to local authorities will be £282 million.

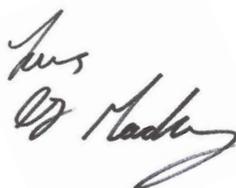
In addition to this, and subject to the successful outcome of negotiations with teachers, the Scottish Government will fully fund its contribution to the cost of the Teachers' Pay deal, providing local authorities with the funding required to meet our share of the pay offer.

Conclusion

Reaching an agreement on the 2019-20 Budget has required compromise on both sides and I appreciate your constructive engagement on the issues set out above.

I am offering the proposals above in exchange for the support of the Scottish Greens on Stage 1, Stage 2 and Stage 3 of the Budget Bill, as well as support for the Local Government Finance Order, and your role in ensuring that the Scottish Rate Resolution and Non-Domestic Rates orders pass successfully through parliament. In addition your support will be required for any necessary legislation to deliver the proposals above.

I would welcome your confirmation of this agreement.



DEREK MACKAY

Annex

SECURING MEANINGFUL PROGRESS ON LOCAL TAX REFORM

This note provides further information on work the Scottish Government will take forward to deliver reforms to local taxation, reflecting our endorsement of the primary conclusion from the Commission on Local Tax Reform's 2016 report that 'the present council tax system must end'. This comprises measured steps in the short, medium and longer terms. Some of these are initiatives already under way, but taken together, they provide a route map for the delivery of meaningful reform.

In progressing these actions, we will continue our close partnership working with COSLA. Changes to local taxation, or indeed the wider means of financing local government, will need to support the outcomes of our Local Governance Review that we are taking forward jointly with COSLA, whilst also being informed by the conclusions of COSLA's own cross party working on local tax reform.

Short Term Measures – already underway

- **Land Value Tax**
The Scottish Land Commission's report on the potential for a land value tax, published on December 10th, 2018, highlights the potential role a land value tax might have in progressing our land reform policies, but details significant practical issues to be resolved before it could be realised. We have therefore tasked the Scottish Land Commission with progressing these issues where they fall within their remit and capability.
- **Bringing Vacant and Derelict Land into Use**
The Scottish Land Commission and SEPA are working in partnership to transform Scotland's approach to vacant and derelict land. This includes the creation of a dedicated new taskforce that has the goal of halving the amount of Scotland's derelict land by 2025 and eradicating it entirely by 2028.

Medium Term Measures (2019 calendar year and into budget process for 2020-21)

- **Transient Visitor Levy**
We will consult, in 2019, on the principles of a locally determined tourist tax, prior to introducing legislation to permit local authorities to introduce a transient visitor levy, if they consider it appropriate for local circumstances
- **Broker Cross Party Talks In The First Half Of 2019**
There is a majority in Parliament in favour of replacing the current Council Tax, but there is no consensus about what the replacement should be. We will therefore convene talks in the first half of 2019 with all parties to identify options for the replacement of the present council tax that would be supported by Parliament.

- **A Three Year Funding Settlement for Local Government**

We will work jointly with COSLA to agree a three year funding settlement for local government, along with a supporting rules-based framework. This will necessarily need the agreement of Parliament, and must also support the outcomes of the Local Governance Review as well as key Scottish Government commitments, such as in relation to Health spending.

- **Workplace Car Parking Levy**

We will support an agreed amendment to the current Transport (Scotland) Bill that would provide Councils with the power to apply a levy on work place car parking spaces subject to the exclusion of hospitals and NHS properties from its provisions.

Long Term Measures(Calendar years 2020, 2021 and beyond)

- **Devolve Non Domestic Rates Empty Property Relief to Local Authorities**

The Scottish Government will devolve the funding currently allocated to Empty Property Relief to individual local authorities as part of the next revaluation on 1st April 2022. Earlier devolution would undermine a number of Barclay recommendations which seek to reform the Relief. Primary legislation planned for introduction in early 2019 to implement the recommendations are estimated by the Barclay Review to reduce the costs of the relief by between £15m-53m upon passage of the Bill. Devolution prior to those reforms forego those revenue savings.

- **Prepare Legislation To Implement The Replacement Of The Present Council Tax Before The End Of The Next Parliament**

We will prepare the necessary legislation to implement the reforms agreed in the cross party talks before the end of the next Parliament.

The Scottish Government
31st January 2019.