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| **Cabinet Secretary for Finance and the Constitution**  Derek Mackay MSP  T: 0300 244 4000  E: scottish.ministers@gov.scot |  |
| Rt Hon David Gauke MP  Chief Secretary to the Treasury  HM Treasury  1 Horse Guards Road  London  SW1A 2HQ |  |

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20 January 2017

Dear David,

At today's meeting of devolved Finance Ministers, we agreed to write to you setting out a number of points that we wish to discuss at the next Finance Ministers Quadrilateral, which we would ask be scheduled to take place in good time before the UK Budget on 8 March 2017.

Foremost of these is the need for the UK Government to engage meaningfully with the devolved administrations on the emerging economic and financial implications of exiting the EU. The Prime Minister’s speech this week confirming the UK Government’s intention to leave the European single market and the Customs Union are a cause for significant concern, given the risks this presents to our economy. Risks which the UK Government’s own analysis estimates could reduce UK GDP by 6.2% compared to 2015, even in the case of a negotiated bilateral agreement, and that impact could be greater still if no such agreement was reached and the UK had to rely on WTO rules alone.

We seek greater clarity about your intentions for managing the economy and public spending over the coming period and how the UK Government plans to arrive at decisions about the post-2020 future for programmes currently supported through EU ‎funding. Many of these relate to devolved areas of responsibility.

We also remain very concerned about the potential impact of the further cuts to public spending that you intend to make in 2019-20. We seek reassurances that you will not pass on further austerity and make additional budget cuts on top of the real terms reductions in spending power that the devolved administrations are already facing.

Your decision to move the date of the Budget to an annual Autumn publication has implications for the budget cycles of the devolved administrations. We would welcome a commitment to engage ‎with us in developing your approach to the new budget timetable and ensuring that steps are taken to support and respect devolved budget processes. This is particularly relevant given the further devolution of tax and social security responsibilities.

Two positive steps you could take would be to announce the Budget earlier in the Autumn than has been the case for recent Autumn Statements, which would allow greater time for devolved administrations to consider the impact of the Budget on their finances, and to strengthen arrangements for consulting the devolved administrations in advance of the Budget.

In particular, at our last meeting we emphasised the need to engage more effectively with the devolved administrations in advance of decisions being taken about UK tax policy where there are significant implications for devolved budgets, policies and stakeholders. We would welcome an update on how you propose to respond.

Yours sincerely,

**DEREK MACKAY MARK DRAKEFORD mairtin o muilleoir**