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Rt Hon Rishi Sunak MP
Chancellor of the Exchequer
HM Treasury
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27 February 2021

Dear Rishi,

As you will recall, I wrote to you on 27 January ahead of the Scottish Budget to set out my views on the key measures that the UK Government should commit to in the forthcoming UK Budget, if not before, to support both the Scottish and wider UK economy and public finances. The UK Budget will of course be a key point for the UK Government to set out the positive steps for recovery from the COVID-19 crisis and provide confidence in the economy. There is much to be positive about: over the past weeks we have seen the successful roll-out of vaccinations to the most vulnerable across the UK and have been able to provide our citizens with the much needed reassurance of roadmaps out of lockdown.

However, Scotland and the UK are only at the beginning of the journey to recovery. In Scotland the First Minister has set out a careful and evidence-based approach to easing lockdown measures, and it is vital that the Scottish Government has the appropriate funding and fiscal levers to manage this approach and our ongoing support for recovery and renewal. The UK Government has provided welcome support during the crisis, but this needs to continue and to be flexible to support the public health decisions taken in Scotland. At present the Fiscal Framework does not allow Scottish Ministers to appropriately manage the public finances to effectively facilitate our national roadmap. This is compounded by a lack of clarity on continued funding for business support measures and the continuation of furlough. In order to make this situation workable and avoid undermining the autonomy and devolved powers of the Scottish Government to manage this public health crisis, there are a number of additional measures that I believe that the UK Government should take in the UK Budget to enable this.

The UK Budget is still the single biggest driver of funding for the Scottish Budget, and only the UK Government has the power to borrow sufficiently to respond to challenges of the scale we face. There is a pressing need to ensure our public services, businesses and citizens have the resources they require to ensure a robust recovery from COVID-19.

Rejecting austerity

In every pre-budget letter since 2010 the Scottish Government has called on the UK Government to abandon its harmful and counterproductive austerity agenda. Scotland has suffered under a decade of austerity that has disproportionately hurt the poorest and most vulnerable in society. The detrimental impact of austerity on our citizens and public services has been brought into sharp focus by the pandemic, highlighted especially by the unequal distribution of associated harm across society.

The UK Spending Review in November set out plans to reduce non-COVID related spend by up to £13 billion a year. Such a return to austerity at this pivotal moment in recovery would be devastating for the most vulnerable in society and completely undermine economic recovery for the whole of the UK. At a time when governments across the world are committing to additional support, the UK Budget must demonstrate extended fiscal support until economic recovery is well underway. Effective government support is crucial in restoring confidence in the economy and accelerating recovery.

Fiscal flexibilities

I welcome the additional £1.1 billion of funding applied as part of the recent UK Supplementary Estimates and, given the late notice for the 2020-21 financial year, the flexibility to carry these funds into 2021-22 outside of our Reserve to support Scotland's ongoing response to the virus. This additional flexibility was necessary in order for me to effectively manage Scotland's public finances and the response to the crisis. In this vein, the pandemic has brought into sharp focus the wider need for additional fiscal flexibilities for the devolved administrations, including greater borrowing powers, reserve limits and year-end flexibility. Such additional flexibilities would allow the Scottish Government to mobilise and deploy funding in the most effective and efficient way to support our citizens.

Although I welcome the additional funding provided it is clear that, in addition to fiscal flexibilities, further support will be required to enable both the Scottish and UK Governments to safely progress their roadmaps out of lockdown and offer sufficient support to the NHS, economy and our citizens. If you choose to continue with the current last-minute funding model then you will seriously hamper the devolved administrations' data-led approaches to alleviating restrictions. Given the severity of the situation we face, I would welcome urgent discussions on further fiscal levers for the devolved administrations with a view to informing proposals for your upcoming Budget announcement.

COVID-19 consequentials

In order to enable effective planning for the 2021-22 financial year, I once again urge you to provide the Scottish Government with certainty in your 3 March Budget. As I noted in my letters of 12 and 27 January, it is imperative that Scotland is allocated its share of the £21 billion COVID-19 funding that was held in reserve in your Spending Review in November. The lack of clarity on this funding has caused undue issues for both the development and scrutiny of the Scottish Budget, which is currently progressing through the Scottish Parliament. Furthermore we still face an unprecedented demand for funding from across the public sector to support the response. Confirming Scotland's share of this reserved funding will allow us to

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effectively develop our response and give confidence to our stakeholders. The funding guarantees that were introduced this year have been a much needed source of stability in lieu of increased funding flexibilities. These guarantees should continue and, to avoid repeating the situation where we were only informed of more than £1 billon of consequentials in mid-February, I ask that you commit to updating the guaranteed funding on a monthly basis.

Health

Both the Scottish and UK Government roadmaps out of lockdown acknowledge the importance of and threat to the NHS. Accordingly it is essential that the UK Budget delivers on your commitment that the NHS will receive whatever it needs in terms of financial support.

While I welcome the additional resources that have already been committed for 2021-22, I do not consider it adequate to meet the ongoing needs of Scotland's NHS. It is vital there is a comprehensive package of support for health and social care, including in relation to the recovery and remobilisation of services. In addition I would ask that there is transparency of UK Government spending so that the Scottish Government can take forward its arrangements for planning and delivery of critical activities, such as our vaccinations and Test and Protect programmes. I would also request that your approach makes the necessary allowance for each of the Devolved Administrations to utilise resources flexibly as required in responding to Covid, recognising that each of the UK nations will have inevitable differences in specific needs and spending profiles.

Job Retention Scheme

I recognise that the Job Retention Scheme has provided a much needed lifeline to Scotland's citizens and those of the wider UK, making a huge difference to the potential levels of unemployment and increased inequalities that we may otherwise have seen. This scheme will continue to be of great importance as we navigate out of lockdown and get businesses back on their feet. However it is clear that the scheme needs to be extended beyond the present end date of April 2021. Whilst the rollout of vaccines provides hope that we will soon be able to return to normal, there remains a high level of uncertainty over how quickly public health restrictions can be lifted. It is clear that furlough remains the appropriate support for businesses that are not able to fully open, and it is essential that the UK Government commits to it remaining available to businesses in Scotland as long as restrictions remain in place.

It is also increasingly apparent that, even if domestic restrictions are able to be lifted, the economy will still need time to adapt. Businesses must not face a sudden cliff-edge withdrawal of support schemes, which would weaken the recovery before it has taken hold. As it will take time for consumer confidence to return, and restrictions on international travel may have to remain in place for longer, it is essential for support to be withdrawn gradually, conditional on the data showing progress in combatting the virus, and flexibly, to meet local needs and reflect any different levels of restrictions in devolved administrations. As part of this, the VAT cut for hospitality should be further extended, to give much needed targeted support to one of our hardest hit industries.

The cut-off date for entry into the JRS should also be revised together with any extension, to ensure that this support is available to the growing number of people who have started new jobs since the end of October.

Self-Employment Income Support Scheme

In a similar vein to the Job Retention Scheme, the Self-Employment Income Support Scheme has offered a vital lifeline to many citizens. However, as the pandemic has continued, gaps in the support the scheme provides have become increasingly apparent, including in relation to targeting and eligibility for the more recently self-employed. Entry to the scheme still requires people to have been self-employed in the 2018-19 financial year – this excludes a lot of self-employed people from the scheme. We have introduced a Newly Self-Employed Hardship Fund to address some of these gaps but, in order to continue to support our self-employed citizens, I urge you to outline a revised set of entry criteria for the scheme to allow the more recently self-employed support, and to confirm funding for the scheme for 2021-22.

Non-Domestic Rates

The recovery and renewal of both the Scottish and the wider UK economies will be essential in the coming years. We have taken the view that, irrespective of how swiftly we emerge from lockdown and begin to adopt the 'new normal', trading conditions for all sectors but particularly for the retail, hospitality and leisure sectors will continue to be hugely challenging and uncertain throughout 2021-22. That is why we have acted to offer early confirmation that we will extend our Non-Domestic Rates relief by for the whole of 2021-22. This has been universally welcomed by stakeholders in Scotland. To support our businesses and wider economy, action is required in the UK Budget to ensure such reliefs can be delivered and broader economic support is available for those who may need help in transitioning their business models to the new landscape.

I also note that you have opted to delay until Autumn 2021 the final report on the Fundamental Review of Business Rates launched in July 2020 in light of the lack of clarity on the long-term state of the economy and public finances. Whilst Non-Domestic Rates are fully devolved in Scotland, the remit of the review covers a number of issues that will likely be of interest and potentially direct relevance to all four nations. Scotland had its own review of rates in 2016-17 in the form of the independent Barclay Review, and my officials are continuing to engage openly and constructively with their counterparts in England, Wales and Northern Ireland as we implement the accepted recommendations of this review. Equally I am aware that my officials provided a candid assessment of our tax proposals ahead of the Scottish Budget, and I would invite you to offer the same encouragement to Whitehall officials with regards to the progress of your review, as well as the forthcoming outcome of the appeals on the grounds of a Material Change of Circumstance appeals in England.

Infrastructure investment

In your Spending Review you announced a £27 billion increase in UK capital expenditure, at the same time as Scotland's capital grant and Financial Transactions funding was cut by 5 per cent. Within the total capital settlement for Scotland, HMT figures have signalled that the reduction in Scottish funding has been due to the consequences of decisions in relation to investment in England by the Ministry for Housing, Communities and Local Government, especially relating to housing. This includes a £321 million cut in Financial Transactions block grant funding for Scotland.

We have mitigated this cut as far as possible in our 2021-22 Budget, but require clarity from the UK Government on the future profile of FTs. Cuts of this magnitude would substantially undermine our investment in the delivery of affordable housing and support for the wider economy. The reduction in Scotland's capital budget must be reversed and additional funding provided in line with the increase in UK capital funding to ensure that Scotland is not placed at a disadvantage and our recovery risked by cuts to our budget..

An Infrastructure Investment Bank was announced at the UK Spending Review in Autumn. More information on this Bank is also promised in the UK Budget and I would look for this Budget to cover what funding the Bank will receive, how this can be accessed to support the policy aims of the Scottish Government, and what the governance around this body will be. I would welcome further discussion between our officials on each of these points.

Social security

The Scottish Government has consistently called on the UK Government to make the £20 uplift for Universal Credit and Working Tax Credits permanent, and to extend it to legacy benefits. As I outlined in my previous letter to you on 27 January, making the uplift permanent and extending it to legacy benefits is crucial to strengthening the social security system at this time of crisis and for the recovery that follows.

Research carried out by the Joseph Rowntree Foundation shows that ending the uplift in April would push 500,000 people across the UK into poverty. Implementing a temporary six-month extension to the uplift from April would mean that the eventual removal of this uplift would come in October, the same period in which the Office for Budget Responsibility expects unemployment levels in the UK to peak. Removing this support when it is needed the most is indefensible, and it would put thousands at risk of poverty and financial hardship.

I therefore reiterate my call for the UK Government to do the right thing and make the uplift permanent and extend it to legacy benefits in order to provide meaningful and effective long-term support as the effects of the pandemic continue to be felt.

Local Government Funding

Local Government has been a critical partner to both the Scottish and UK Governments throughout the pandemic and this will continue to play a crucial role throughout recovery and renewal. Given the rightly cautious and gradual approach out of lockdown, local authorities will continue to face pressures on services to support their communities alongside continued loss of income while some revenue generating services remain closed. In particular, I note that the UK Government has extended the lost income scheme for councils in England until the end of June 2021. In order to provide Scottish local authorities with similar support I ask that you confirm the level of consequentials that will flow to Scotland as a result of this policy in your upcoming Budget.

There are reports that several councils in England have been granted capitalisation directions to help them address budgets gaps for the coming financial year. I would request confirmation that a similar facility could be extended to councils in Scotland who are also faced with continuing gaps in their financial resilience.

EU funding

We have been clear and consistent in our position that we expect full replacement of EU funds to ensure no detriment to Scotland's finances, and we expect the UK Government to fully respect the devolution settlement in any future arrangements. Regrettably to date we have seen no evidence that full replacement funding will be provided and the UK Government has failed to meaningfully engage with the devolved administrations across a number of EU programmes.

The UK Spending Review provided insufficient allocations for rural and fisheries, and urgent clarity on the detail of the proposed UK Shared Prosperity Fund, including exact funding amounts, operation of funds and when they will be provided, is still needed as there is an unacceptable level of uncertainty still remaining.

The Chief Secretary to the Treasury has confirmed that the Shared Prosperity Fund will be delivered using the powers created by the Internal Market Act. This mechanism bypasses the Scottish Government and undermines the spirit of devolution. Furthermore, taking this approach will sow confusion with citizens, organisations and businesses around the respective roles of the UK and Scottish Governments, disrupting the productive relationships that the Scottish Government has formed with stakeholders over many years. It will also create additional and unnecessary bureaucracy for Scottish recipients of funding who will now have to work across different administrative and policy environments, which is the opposite of what was intended when the Shared Prosperity Fund was first announced.

Our participation in a number of EU programmes, including Erasmus, came to an end in December, which is an unacceptable outcome. Some programmes have not been replaced by the UK Government resulting in no funding being made available for a Scottish alternative. This will have serious consequences for those communities, individuals and organisations who reply on these funding streams.

The UK Budget must now provide urgent clarity that Scotland will not lose out from these vital EU funding streams and that all funds are directly allocated to the Scottish Government. To do otherwise directly undermines devolution and the Scottish Government's autonomy.

Levelling Up fund

The Shared Prosperity Fund is not the only programme which will be in breach of both devolution settlements and UK promises. In the Spending Review, there was a commitment to provide consequentials from the England only Levelling Up Fund. Scotland expected to receive around £400 million from this. It is therefore disappointing that this decision has been overturned and that the UK Government has decided to retain this money and disburse across the UK it in a similar manner to the Shared Prosperity Fund. It is also disappointing that my officials and I had to learn about this through a news release.

I have built my budget around reasonable expectations that UK Government expenditure in devolved areas in England would generate Barnett consequentials, and so I would be grateful for assurances that this £400 million gap in the Scottish Budget will be filled. Scottish Government funding should not be cut to pay for UK Government policies that are designed to undermine the devolution settlement.

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2021 UK Spending Review

Finally, looking further into the future I strongly recommend that, by the end of 2021, the UK Government concludes a multi-year spending review. The history of single-year UK Budgets has created significant issues in planning for the devolved administrations. The Scottish Government is unable to provide our own partners, such as the NHS and local authorities, with more than single-year budgets without a multi-year settlement from the UK Government. This is all the more unsatisfactory when both the Scottish Government and our partners are expected to provide a long-term strategic route-map for recovery. I hope that you can confirm the proposed timeline and scope for a future UK Spending Review as part of your Budget statement.

I trust that you will consider the suggestions made above and reflect them in your Budget on 3 March in order to provide certainty to the wider public sector, boost the economy and support our most vulnerable at this challenging time.

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