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Rt Hon Rishi Sunak MP
Chancellor of the Exchequer
1 Horse Guards Road
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23 November 2020

Dear Rishi,

Ahead of the UK Government's Spending Review announcement on 25 November, I would like to put on record the Scottish Government's serious concerns in relation to the replacement of EU programmes funding.

I echo my Welsh counterpart's disappointment that the Chief Secretary to the Treasury's letter of 13 October did not address our concerns about the way in which the UK Government is proposing to replace EU funding, with insufficient consideration of Devolved Administration (DA) views.

We have been clear and consistent in our position that we expect full replacement of EU funds from the end of December to ensure no detriment to Scotland's finances, and we expect the UK Government to fully respect the devolution settlement in any future arrangements. This is in line with promises made during, and following, the EU referendum campaign, that Scotland would not be worse off as a result of EU Exit.

I am deeply concerned that I am yet to see any evidence that the UK Government are committed to replacing EU funding in full. A clear example of EU funding not being replaced in full is rural support. A paper shared between Her Majesty's Treasury (HMT) and DA Finance officials on 25 September set out the proposal to replace Common Agricultural Policy funding, purportedly meeting the 2019 Conservative manifesto commitment to *guarantee the current annual budget to farmers in every year of the next Parliament*. This funding, as I set out with Fergus Ewing MSP in our letter of 23 October, fails to meet our expectations and in several areas brings us short of what is required to match lost EU funding.

Another key concern is the continued lack of engagement my officials have had, where in some cases Whitehall Departments even in recent days continue to refuse to share information crucial to our own preparations.

Tha Ministearan na h-Alba, an luchd-comhairleachaidh sònraichte agus an Rùnaire Maireannach fo chumhachan Achd Coiteachaidh (Alba) 2016. Faicibh www.lobbying.scot

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The lack of meaningful engagement has been evident across a number of programmes including fisheries, structural funds, and competitive programmes such as Erasmus Plus and Horizon Europe.

On fisheries, my officials continue to wait for sight of a paper from HMT that was promised in late September. Contrary to early discussions with Defra, HMT have indicated that the replacement for EU funding will not be available immediately following the end of the Transition Period, leaving a gap from January to March 2021. It is our understanding that the UK Government's commitment was to meet the multi-year replacement of the European Maritime and Fisheries Fund. Such funding will be available to support competing seafood businesses, the marine environment and coastal communities within the EU. It is therefore crucial that the UK Government provides the necessary multi-year funding from the start of 2021 and this should not be offset against any financial compensation that may form part of a fisheries agreement with the EU that is currently being negotiated.

In relation to structural funds, the UK Government's proposed Shared Prosperity Fund (SPF) is set to replace European Structural Funds post-EU Exit, however we are just over a month away from the end of the Transition Period and the UK Government has failed to meaningfully engage with us. As you know, regional economic development policy is a matter of devolved competence. As a result, we have consulted with our stakeholders to develop concrete proposals on how future funding for this purpose should be deployed. The delays and lack of clarity threaten years of hard work we have undertaken with stakeholders across Scotland to develop new arrangements. It also runs the real risk of undermining our efforts to support economic development in Scotland.

We published Scotland's position on the replacement for structural funding earlier this month. In the past these have been funded by a 7-year European Multiannual Financial Framework. The structural funding, including European Territorial Cooperation, must be replaced in full in regards to funding, scope and governance. Funding should be spread over a duration of at least five years to enable recipients of these valuable funding streams to achieve any real impact.

On competitive programmes, our very strong preference is to continue fully funded participation in EU programmes. We are very concerned that, on programmes that relate to devolved interests, UK Government is currently assessing the VFM case for participation with no involvement from Devolved Governments. The lack of funding clarity and engagement also continues to be evident across the work on potential replacements of competitive programmes. One of several examples of this is in relation to the proposed replacement scheme for Erasmus Plus, currently being developed by Department for Education (DfE) officials. My colleague Richard Lochhead MSP wrote to Michelle Donelan MP on 17 September, giving conditional consent to the DfE proposal, with several caveats. None of the concerns raised have since been addressed, and the separation of the business case for the scheme into the preferred options of HMT, DfE, and then the DAs, implies a pre-judged outcome for this process; namely that HMT's preferred option will be chosen, or at least a scenario that falls short of what is required, and was promised, leading to the launch of a deficient, reduced, poorer imitation of Erasmus Plus should negotiations fail.

My concerns are only exacerbated by provisions in the draft Internal Market Bill and the decision to reduce the Spending Review to a single year.

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The Internal Market Bill represents a clear assault on our devolved spending powers. The provisions presume Whitehall control over the delivery of EU programme funding replacements in Scotland, which Scottish Ministers have delivered successfully for decades. Any attempt to bypass the Scottish Parliament or Government would be unacceptable. The UK Government have so far offered no explanation on why these powers are required.

Finally, a 1-year Spending Review creates significant planning uncertainties for all programmes after the Transition Period which have been funded by a 7-year European Multiannual Financial Framework in the past, and will be again for the 2021-27 period. This decision moves us further away from an understanding of how the UK Government will meet its manifesto commitments on farming, fisheries and structural funds.

It is vital that the UK Government meets its commitment to fully replace EU funding streams and engage meaningfully with the Devolved Administrations to ensure that any decisions fully respect the devolution settlement. I join Rebecca Evans in seeking your commitment to work with the Devolved Administrations to strengthen co-operation across our four nations on areas of shared interest and to ensure the post-EU UK fiscal arrangements operate transparently and in a way that is fair to all parts of the United Kingdom.

I have outlined a number of concerns above and I would welcome your response to these as a matter of urgency, especially where the Spending Review does not address them in full.

I am copying this letter to the Cabinet Secretary for Constitution, Europe and External Affairs, the Welsh Minister for Finance and Trefnydd, and the Northern Ireland Minister of Finance.



KATE FORBES

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