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Rt Hon Liz Truss MP
Chief Secretary to the Treasury
HM Treasury
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20 September 2017

Dear Liz

Since our meeting last week while you were in Scotland, I have also had the opportunity to meet with Professor Drakeford on 11 September 2017 during his visit to Glasgow to discuss a range of topics where we have a shared interest.

As part of our introductory telephone call on 21 June 2017 you confirmed that you were committed to continuing with a series of Finance Quadrilaterals and that your office would take forward arrangements to schedule the next one. At my meeting with Professor Drakeford, we agreed that the next Finance Ministers Quadrilateral should be convened as a matter of urgency and to take place ahead of the UK Autumn Budget, to provide us with the opportunity to discuss areas of mutual interest.

I note that the Chancellor confirmed that the Autumn Budget publication date on 12 September 2017 and, with that date now public, I would request that we agree a date for a Quadrilateral in late October/early November and I would ask that our offices could urgently work together over the course of the next week to agree and fix a date in our respective diaries.

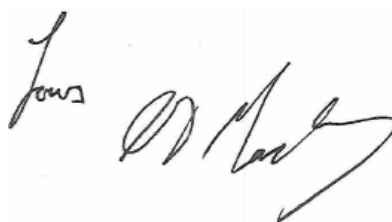
At our meeting last week we also discussed the inequitable situation with regards to Police and Fire VAT. I warmly welcome your willingness to review the position again as I'm sure you will conclude that the current position is unjustified given the similar amendments that the UK Government has made to the VAT Act to support UK Government policy around, for example, Academy schools and Highways England. In order to assist with your review, I would be content to make my officials available to discuss the inequities with a view to achieving a mutually agreeable outcome ahead of the budget later this year.

Finally, on the subject of EU funding guarantees, I again welcome your commitment to guarantee LFASS payments for applications made in 2019 but, as I emphasised when we met, it is clear that further details are needed on how this and the other guarantees will actually operate in practice, and on what the replacement funding arrangements will be for EU schemes once the UK has left the EU. This is especially important given the increasing and unacceptable risk of a 'no-deal' situation.

Any agreement on future UK funding arrangements to replace current EU funding streams must be based on respect for the devolution settlement, and confirmation that there will be no new constraints placed on the powers of Scottish Parliament. The present exclusion of the Scottish Government from any meaningful influence over UK Government negotiating positions is unacceptable, and risks undermining devolution in a substantial and quite possibly irreversible way. It will be for the Scottish Government to deliver on the outcome of decisions made in this process that fall within devolved competence, including on future funding arrangements, and therefore our involvement in them is both a matter of principle and practicality.

On a related EU funding matter, I wish to record my concerns about the recent reports of a lending moratorium on UK applications being imposed by the European Investment Bank. The EIB is an important and strategic partner for projects in Scotland and has provided more than £3 billion for direct investment since 2006. Brexit raises a number of questions about the future prospects for EIB investment and presents a significant future risk for Scotland in terms of access to financing required for investment projects. The reported moratorium on long-term lending has caused concern amongst stakeholders and I understand from my officials that HM Treasury is working with the EIB to ensure that UK projects are able to access funding from the EIB whilst the UK remains a member of the EU. I would welcome any further assurances you are able to provide on this point in view of statements previously made by the Chancellor on the importance of continued access to the EIB.

I look forward to a response on these issues in due course although prompt agreement on a date for a Finance Ministers Quadrilateral would be appreciated.



DEREK MACKAY