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24 June 2020

Dear Steve

COVID-19 FUNDING AND FISCAL FLEXIBILITIES

Thank you for your letter of 1 June 2020, in relation to COVID-19 funding. I welcome our continued open and constructive dialogue on these matters, including through our regular discussions at the Finance Ministers' Quadrilateral, working in collaboration with our Welsh and Northern Irish counterparts.

I welcome the estimated funding that the UK Government has notified to date in respect of COVID-19, and the efforts to minimise the fiscal uncertainty that the devolved administrations have to manage. I am also grateful for your recognition that, as we move towards the recovery phase, there remain significant economic and fiscal challenges ahead for the devolved governments. Given the nature and scale of this crisis, and the economic impact it is having, I believe there is a strong case for temporary additional powers and flexibilities beyond those currently set out in the Fiscal Framework, alongside continued discussions on establishing clear and certain levels of consequential COVID-19 funding.

To be clear, this request is not about permanently revising the existing Framework. Rather, it is about providing enabling relatively minor flexibilities given the extraordinary pressures that the devolved governments are currently under, to ensure that our fiscal powers are commensurate with the risks we face. The Scottish Government has already reprioritised £255m at the Summer Budget Revision in order to deploy greater resources to combat coronavirus. Since then I have identified around £600m in further savings, including £450m of Capital and Financial Transactions. However, our fixed budget could respond more effectively with some relatively minor fiscal flexibilities.

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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I cannot emphasise how critical these are to our ability to support recovery. This principle has achieved cross-party support in the Scottish Parliament, following a resolution on 16 June 2020.

To assist with our Quad discussion later this week, I am setting out the detail on the specific flexibilities that I believe the Scottish Parliament and Government need:

1. Ability to offset capital underspend against resource expenditure.

As current HMT budgeting rules do not allow capital underspends (grant and financial transactions) to be redeployed to support resource expenditure, I am seeking the ability to switch up to £500 million of annual capital underspend to support our COVID-19 response. This would allow us to use our total existing budget most effectively in responding to the current crisis. In order to support this, a guarantee of no negative capital consequentials in-year would be required.

2. Flexibility over resource borrowing.

In the current circumstances, I believe that the Scottish Government should have flexibility to borrow up to £500 million to support the COVID-19 response this year. I propose that this would effectively substitute for the existing power to borrow for cash management, which I do not expect to need.

This would be in addition to the already planned resource borrowing of £207 million to fund the tax reconciliation impact, and so would also require a one-off extension of the total annual limit of £600 million for all resource borrowing set out in the Fiscal Framework.

In addition, repayment periods for borrowing this year should be extended to 10 years (from the 3-5 years currently in the Fiscal Framework), to allow the repayments of this larger sum to be managed in a way that limits the annual impacts of this additional borrowing on planned spending.

These proportionate flexibilities to the annual limits and restrictions could be accommodated within the existing overall cumulative limit of £1.75 billion.

3. Greater flexibility in relation to reserve for capital.

In light of the exceptional circumstances presented by COVID-19, the limits on carry over and drawdown of capital should be increased. The current limit of £100m for Capital and Financial Transactions together is too small to allow access to the current accumulated balance of Capital and Financial Transactions within the Reserve.

Increasing the limit to £220 million would allow full access to all existing Capital/FT balances. I would also welcome any possible extension to drawn down limits beyond 2020-21, should that prove necessary, to allow maximum possible access to this funding to support an economic stimulus beyond 2020-21. For example, increasing the annual drawdown limit to match the total of any Capital and FTs deposited to allow maximum flexibility in their future deployment.

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While these represent the minimum short-term flexibilities that I believe are needed to address the exceptional economic and fiscal challenges brought about by COVID-19, I continue to monitor the potential for the Scottish Budget to be negatively impacted through the operation of the Fiscal Framework as a result of a different impact of COVID-19, either in terms of health impacts or because of differences in the underlying structure of the economy.

I believe that the Scottish Budget should not face the risk of a negative impact through the Fiscal Framework if the impact of COVID-19 were to impact on the Scottish economy differently to other parts of the UK. I am therefore seeking your commitment to explore options to avoid this.

In addition, as we move towards the recovery phase, I welcome continued dialogue on how we can work together to support economic stimulus, including through increased capital investment.

While I am clear that these additional flexibilities are not about permanently revising the current Fiscal Framework, I believe that the COVID-19 crisis makes clear the need for the upcoming review of the Fiscal Framework not only to robustly consider the case for revisions to the existing arrangements (such as increased reserve and borrowing flexibility), but also to examine whether the Scottish Parliament's existing powers are sufficient to manage the budgetary risks we face in operating the additional powers devolved in the Scotland Act 2016 and the Fiscal Framework, and to tackle the many challenges of the post-COVID-19 world, in line with its devolved responsibilities. I would welcome a discussion with you in due course on how our governments can work together to deliver this robust review.

I recognise that the UK Government will expect us to consider all options to use our budget as effectively as possible to respond to the cost pressures of COVID-19. We are fully committed to doing that, and indeed have already identified significant reprioritisation to support our response. These flexibilities will make a significant difference to our ability to manage both potential funding volatility and the very real pressures we face in correctly calibrating our response.



KATE FORBES

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