Finance Committee

Annual Report 2015-16
# Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Introduction</td>
<td>1</td>
</tr>
<tr>
<td>Budget scrutiny</td>
<td>1</td>
</tr>
<tr>
<td>Inquiries and reports</td>
<td>1</td>
</tr>
<tr>
<td>Scotland's Fiscal Framework</td>
<td>2</td>
</tr>
<tr>
<td>Prevention</td>
<td>2</td>
</tr>
<tr>
<td>Post-Legislative Scrutiny - Flood Risk Management (Scotland) Bill's FM</td>
<td>2</td>
</tr>
<tr>
<td>Bills</td>
<td>3</td>
</tr>
<tr>
<td>Scottish Fiscal Commission Bill</td>
<td>3</td>
</tr>
<tr>
<td>Land and Buildings Transaction Tax (Amendment) (Scotland) Bill</td>
<td>3</td>
</tr>
<tr>
<td>Scrutiny of Financial Memoranda</td>
<td>4</td>
</tr>
<tr>
<td>Subordinate legislation</td>
<td>4</td>
</tr>
<tr>
<td>Engagement and innovation</td>
<td>5</td>
</tr>
<tr>
<td>Equalities</td>
<td>5</td>
</tr>
</tbody>
</table>
Finance Committee

1. The remit of the Finance Committee is to consider and report on-
   a. any report or other document laid before the Parliament by members of the Scottish Government containing proposals for, or budgets of, public expenditure or proposals for the making of a tax-varying resolution, taking into account any report or recommendations concerning such documents made to them by any other committee with power to consider such documents or any part of them;
   b. any report made by a committee setting out proposals concerning public expenditure;
   c. Budget Bills; and
   d. any other matter relating to or affecting the expenditure of the Scottish Administration or other expenditure payable out of the Scottish Consolidated Fund.

2. The Committee may also consider and, where it sees fit, report to the Parliament on the timetable for the Stages of Budget Bills and on the handling of financial business.

3. In these Rules, “public expenditure” means expenditure of the Scottish Administration, other expenditure payable out of the Scottish Consolidated Fund and any other expenditure met out of taxes, charges and other public revenue.
### Committee Membership

<table>
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<th>Convener</th>
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<tr>
<td>Kenneth Gibson</td>
<td>John Mason</td>
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<td>Scottish National Party</td>
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<th>Jackie Baillie</th>
<th>Lesley Brennan</th>
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<td>Scottish Labour</td>
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<th>Gavin Brown</th>
<th>Mark McDonald</th>
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<td>Scottish Conservative and Unionist Party</td>
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<th>Jean Urquhart</th>
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</tbody>
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Note: The membership of the Committee changed during the period covered by this report, as follows:
Introduction

1. This report covers the work of the Finance Committee during the parliamentary year from 11 May 2015 to 23 March 2016.

Budget scrutiny

2. The Scottish Government published its draft budget for 2016-17 on 16 December 2015. In 2016-17 the Government will be responsible for three taxes, Land and Buildings Transactions Tax (LBTT), Scottish Landfill Tax (SLfT) and the Scottish Rate of Income Tax (SRIT). LBTT and SLfT are fully devolved taxes administered and collected by Revenue Scotland and have been in force since 1 April 2015. SRIT, to be introduced from 6 April 2016, will apply to the non-savings non-dividend income of Scottish taxpayers from 6 April 2016.

3. As part of its consideration of the draft budget the Committee issued three calls for written evidence as follows.

4. The Committee issued a call for evidence\(^1\) in August 2015 inviting views on what the rates for SRIT should be. Twenty seven responses were received which assisted the Committee in identifying a number of key themes and issues which it explored further in oral evidence from stakeholders.

5. The Committee issued a call for evidence\(^2\) in August 2015 inviting views in relation to LBTT in response to which 14 responses were received. Key parts of the Committee’s scrutiny of LBTT related to outturn figures and behavioural responses to changes in rates.

6. Finally, the Committee issued a call for evidence\(^3\) inviting views on the effectiveness of the Scottish Futures Trust (SFT) in achieving its aims. 44 submissions were received and the Committee took oral evidence from the SFT in January.

7. The Committee’s report\(^4\) on the draft budget was published on 29 January 2016 and debated in the Chamber on 3 February as part of the Stage 1 budget debate.\(^5\)

8. The Committee then considered the Bill at Stage 2 on 10 February.\(^6\) The Scottish Government responded to the report on 22 February.\(^7\) The Bill was subsequently debated at Stage 3 and passed by the Parliament on 24 February 2016.\(^8\)

Inquiries and reports

9. In addition to its scrutiny of the draft budget, the Committee’s main area of interest during the reporting year related to the Scotland Bill 2016, and in particular, the negotiations between the Scottish and UK governments in relation to Scotland’s Fiscal Framework.
Scotland’s Fiscal Framework

10. Following publication of the Smith Commission’s report and the UK Government’s subsequent UK Government command paper: Scotland in the United Kingdom: An enduring settlement⁹, the Committee agreed to conduct an inquiry into Scotland’s Fiscal Framework. The purpose of this inquiry was to enable the Committee to contribute to the wider debate on the devolution of further financial powers to the Scottish Parliament and the impact on the block grant of any such devolution. The inquiry also served to ensure that the Committee was fully conversant with issues relating to the fiscal framework to enable it to give it proper scrutiny once agreed. Issues considered during the inquiry included the Barnett formula, the block grant adjustment, borrowing powers, fiscal institutions and intergovernmental machinery.

11. The Committee published its Report¹⁰ on Scotland’s Fiscal Framework on 29 June 2015. The Government response¹¹ was received on 28 August 2015.

12. The agreement between the Scottish and UK Governments¹² on the Scottish Government’s fiscal framework was then published on 26 February 2016. Following its publication, the Committee took oral evidence from the Chief Secretary to the Treasury and the Deputy First Minister (DFM) before setting out its conclusions in a letter¹³ to the Devolution (Further Powers) Committee.

Prevention

13. The Committee also continued to monitor the progress being made in delivering the decisive shift to Prevention. A call for evidence¹⁴ was issued in September 2015 seeking views on the progress being made in reforming Scotland’s public services. Forty three responses were received and the Committee took oral evidence from stakeholders and the DFM before writing to the Government to set out¹⁵ its conclusions.

Post-Legislative Scrutiny - Flood Risk Management (Scotland) Bill’s FM

14. The Committee issued a call for evidence¹⁶ in June 2015 as part of its Post-Legislative Scrutiny of the Financial Memorandum (FM) accompanying the Flood Risk Management (Scotland) Bill.¹⁷ Twenty four responses were received.

15. Having considered the submissions, the Committee wrote¹⁸ to the Minister for Environment, Climate Change and Land Reform. The Minister’s response¹⁹ was received on 29 October 2015.
Bills

Scottish Fiscal Commission Bill

16. The Committee was lead committee for consideration of the Scottish Fiscal Commission Bill. The Bill puts the Scottish Fiscal Commission on a statutory basis and makes provision for its functions and resourcing. The Committee had previously conducted an inquiry into proposals for an independent fiscal body during 2013-14.

17. The Committee issued a call for evidence on the Bill on 9 October 2015 in response to which it received 13 submissions. The Committee took oral evidence from members of the Scottish Fiscal Commission on 25 November before hearing from the DFM on 2 December.

18. The Committee carried out two fact-finding visits as part of its work on the Bill. In June three Members visited Stockholm where they met with the Swedish Fiscal Policy Council and in November two Members visited Dublin where they met with the Irish Fiscal Advisory Council.

19. The Stage 1 Report was published on 5 January 2016 and the Government response was received on 11 January.

20. The Committee considered the Bill at Stage 2 on 10 February. The Bill was then debated at Stage 3 and passed by the Parliament on 9 March 2016.

Land and Buildings Transaction Tax (Amendment) (Scotland) Bill

21. The Committee was lead committee for the Land and Buildings Transaction Tax (Amendment) (Scotland) Bill. The Bill amends the LBTT (Scotland) Act 2013 to provide for an additional 3% tax to be chargeable on the purchase of second homes. Timescales for consideration of the Bill were truncated as the Government was clear that the charge should take effect from the start of the 2016-17 financial year.

22. The Committee issued a call for evidence on the Bill on 6 January in response to which 56 submissions were received. The Committee took oral evidence on the Bill on 3 February.

23. The Committee published its Stage 1 Report on 12 February and the Government response was received on 22 February.

24. The Committee considered the Bill at Stage 2 on 2 March. The Bill was later debated at Stage 3 and passed by the Parliament on 8 March 2016.
Scrutiny of Financial Memoranda

25. The Finance Committee scrutinises the Financial Memoranda (FMs) that set out the estimated financial implications of legislation. Each Bill that is introduced in the Parliament must be accompanied by a FM.

26. In the course of this year, the Committee considered 15 FMs, inviting written submissions from stakeholders and, depending on the issues arising, taking oral evidence from stakeholders and the Scottish Government. Where the Committee did not take oral evidence, conclusion of its scrutiny involved forwarding the submissions to the lead committee or writing to it to highlight some of the key themes to arise. Where the Committee took oral evidence, a formal report was normally submitted to the lead committee.

27. The Committee published the following formal reports on FMs during the reporting year—

- Report on Transplantation (Authorisation of Removal of Organs etc.) (Scotland) Bill's Financial Memorandum
- Report on the Private Housing (Tenancies) Bill's Financial Memorandum
- Report on the Alcohol (Licensing, Public Health and Criminal Justice) (Scotland) Bill's Financial Memorandum
- Report on the Land Reform (Scotland) Bill's Financial Memorandum
- Report on the Higher Education Governance (Scotland) Bill's Financial Memorandum
- Report on the Community Justice (Scotland) Bill's Financial Memorandum
- Report on the Health (Tobacco, Nicotine etc. and Care) (Scotland) Bill's Financial Memorandum
- Report on the Education (Scotland) Bill’s Financial Memorandum

Subordinate legislation

28. The Committee considered 5 affirmative and 2 negative Scottish Statutory Instruments (SSIs) during this year. These instruments related to the devolved taxes, the biannual budget revision orders and the Public Services Reform
(Scotland) Act 2010. The Committee published the following reports on affirmative SSIs—

- 10th Report, 2015 (Session 4): Report on Subordinate Legislation
- 14th Report, 2015 (Session 4): Budget (Scotland) Act 2015 Amendment Regulations 2015
- 4th Report 2016 (Session 4): Subordinate Legislation

**Engagement and innovation**

29. During the reporting year, the Committee met 30 times. Four meetings were held entirely in private, whilst 20 meetings included items taken in private. The items taken in private included consideration of draft reports, approaches to FM scrutiny, proposed contingent liabilities and work programme planning. All Committee meetings were held at the Scottish Parliament other than the external meeting in Pitlochry.

30. As part of its scrutiny of the draft budget, the Committee held a formal meeting at Pitlochry Festival Theatre in January 2016. This was preceded by informal workshops in which members heard from local businesses, third sector organisations and community representatives about local priorities and the impact of public expenditure on their community.

31. After the workshop the Committee took oral evidence from the Scottish Futures Trust and then from the DFM. This provided an opportunity for the audience to see how the views of local people were used by the Committee in scrutinising the draft budget.

**Equalities**

32. The Committee notes that the new tax and welfare powers are likely to have a differential impact on various groups. For example, in our scrutiny this year of possible changes to SRIT one of the key issues was whether such changes would be progressive or regressive and how this would impact on various socio-economic groups. The Committee has supported in our legacy paper the Equal Opportunities Committee recommendation that improved distributional analysis is required.