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# Finance and Constitution Committee Comataidh Ionmhais is Bun-reachd

## Annual report 2018-19



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# Contents

<b>Introduction</b>	<b>1</b>
<b>Membership changes</b>	<b>2</b>
<b>Meetings</b>	<b>3</b>
(Untitled)	4
<b>Constitution</b>	<b>5</b>
Trade Bill LCM	5
Common Frameworks	5
<b>Budget Scrutiny</b>	<b>7</b>
Pre-budget Scrutiny 2019-20	7
Budget Scrutiny 2019-20	7
Replacement of EU Structural Funds	8
Scottish VAT Assignment	8
Earnings in Scotland	8
Scrutiny of Financial Memoranda	9
<b>Engagement</b>	<b>10</b>
<b>Equalities</b>	<b>11</b>
<b>Bibliography</b>	<b>12</b>

# Finance and Constitution Committee

To consider and report on the following (and any additional matter added under Rule 6.1.5A)—

(a) any report or other document laid before the Parliament by members of the Scottish Government containing proposals for, or budgets of, public revenue or expenditure or proposals for the making of a Scottish rate 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 revenue or expenditure;

(c) Budget Bills; and

(d) any other matter relating to or affecting the revenue or expenditure of the Scottish Administration or other monies payable into or expenditure payable out of the Scottish Consolidated Fund.

(e) constitutional matters falling within the responsibility of the Cabinet Secretary for Government Business and Constitutional Relations.



<http://www.parliament.scot/parliamentarybusiness/CurrentCommittees/Finance-Constitution-Committee.aspx>



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# Committee Membership



**Convener**  
**Bruce Crawford**  
Scottish National Party



**Deputy Convener**  
**Adam Tomkins**  
Scottish Conservative  
and Unionist Party



**Tom Arthur**  
Scottish National Party



**Neil Bibby**  
Scottish Labour



**Alexander Burnett**  
Scottish Conservative  
and Unionist Party



**Willie Coffey**  
Scottish National Party



**Angela Constance**  
Scottish National Party



**Murdo Fraser**  
Scottish Conservative  
and Unionist Party



**Emma Harper**  
Scottish National Party



**Patrick Harvie**  
Scottish Green Party



**James Kelly**  
Scottish Labour

# Introduction

1. This report covers the work of the Finance and Constitution Committee during the parliamentary year from 12 May 2018 to 11 May 2019.
2. Throughout this highly productive year, the Finance and Constitution Committee ("the Committee") has focussed on matters largely related to Brexit and the newly devolved revenue raising powers. This has also been the first year of the new Budget scrutiny process where the Committee has been heavily involved in pre-Budget and Budget scrutiny processes.

## Membership changes

3. The Committee is made up of eleven Members; however, there have been changes to the Membership in the past year. Previous Members of the Committee:
  - Ash Denham MSP, 29 September 2016 to 28 June 2018; and
  - Ivan McKee MSP, 29 September 2016 to 29 August 2018.

# Meetings

4. The Committee met on twenty-four occasions.
5. All meetings were held in the Parliament building and varied between private, private and public, or public settings. Three meetings were wholly in private; seven wholly in public; and fourteen held partly in private and public. Meetings were primarily held in public. The other meetings in private were to consider draft reports, contingent liabilities and the work programme.
6. It is worth noting one of the meetings listed above was a joint meeting of the Committee with the Culture, Tourism, Europe and External Affairs Committee. The meeting was wholly in public and took evidence from the Rt Hon David Lidington, Minister for the Cabinet Office, UK Government on the EU Withdrawal Agreement.

## Committee statistics



of time committee  
met in public



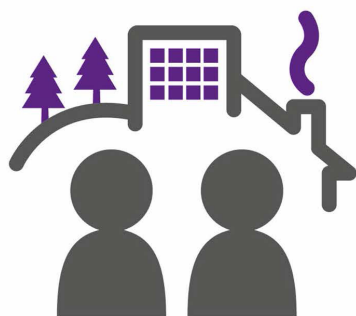
SSIs considered



Reports published



Number of people  
who gave evidence



Fact finding  
visit



Engagement  
activities



Committee meetings

# Constitution

7. A significant portion of Committee business has centred around Brexit. This led to the continuation of the previous year's work on the Trade Bill and this work identified other areas of scrutiny for the Committee including new inquiries into the replacement of EU structural funding and common frameworks.

## Trade Bill LCM

8. The Committee continued its scrutiny of the Trade Bill and associated Legislative Consent Memorandum (LCM).
9. The Trade Bill was introduced by the UK Government in the House of Commons on 7 November 2017. The Bill sets out a number of "measures that are required to build a future trade policy for the UK" in the event of the UK leaving the European Union.
10. The Scottish Government lodged a LCM to the Bill on 20 December 2017 and the Committee was the designated lead Committee.
11. The Committee took evidence in September from Rt Hon George Hollingberry MP, Minister of State for Trade Policy, UK Government; and, in a separate witness panel, Michael Russell, Cabinet Secretary for Government Business and Constitutional Relations, Scottish Government. The Committee reported in October where it made a number of recommendations in relation to the Sewel Convention and the implementation of trade agreements <sup>1</sup>.
12. This work has continued through regular exchange of correspondence between the Committee and the Cabinet Secretary for Government Business and Constitutional Relations, the Minister of State for Trade Policy and the Rt Hon David Mundell, Secretary of State for Scotland.

## Common Frameworks

13. The inquiry into common frameworks arose from a recommendation in the Committee's report on the EU Withdrawal Bill which emphasised the need for further work on the scrutiny of developing and agreeing common frameworks <sup>2</sup>.
14. To aid its scrutiny, the Committee gathered evidence through a range of means. Written and oral evidence was taken throughout 2018 and 2019, including a session with the Cabinet Secretary for Government Business and Constitutional Relations. Research on agreement making with Canada, Germany, Norway and Switzerland was also commissioned. The Committee undertook a fact-finding visit to Brussels in September 2018 and discussed their experience at engagement workshops hosted by the Royal Society of Edinburgh and Scotland's Futures Forum.
15. This work helped to follow up on some of the issues in the Committee's report on the European Union (Withdrawal) Bill Supplementary Legislative Consent Memorandum and highlighted how common frameworks might work in practice. The

Committee subsequently published a report on 25 March 2019 which received an interim response from the Scottish Government and responses from the UK Government and the SPCB.<sup>3</sup>

## Budget Scrutiny

16. This has been the first year of the new Budget scrutiny process and the Committee has invested time into taking forward the recommendations from the Budget Process Review Group and has provided subject Committees with guidance on the new process<sup>4</sup>.

## Pre-budget Scrutiny 2019-20

17. The new budget process is based around four key objectives:
  1. To have a greater influence on the formulation of the budget;
  2. To improve transparency and raise public understanding and awareness of the budget;
  3. To respond effectively to new fiscal and wider policy challenges; and
  4. To lead to better outputs and outcomes as measured against benchmarks and stated objectives.
18. This new full year and outcome based approach enables a greater opportunity for committees to influence the Budget. This year, the new process involved pre-Budget scrutiny where the Committee published a report in November, and a pre-Budget debate, which took place in January 2019, where Conveners suggested how the Budget should be spent in their Committee policy area<sup>5</sup>.
19. The Committee focussed its pre-Budget scrutiny on the operation of the Fiscal Framework and potential risks to Scotland's public finances. This included evidence sessions taking place between September and October 2018 with: the Scottish Fiscal Commission; Office for Budget Responsibility; Chief Secretary to the Treasury; HMRC; and the Cabinet Secretary for Finance, Economy and Fair Work. These sessions addressed issues relating to forecast errors, risks and opportunities arising from increased powers especially in light of uncertainty surrounding Brexit.
20. The report included a number of recommendations to mitigate implications arising from forecast errors and to prepare the Fiscal Framework for additional revenue raising powers, including VAT assignment in Scotland<sup>6</sup>.

## Budget Scrutiny 2019-20

21. The Committee's pre-Budget scrutiny provided a solid foundation for the Committee to address the Scottish Government's Budget 2019-20. In particular, the pre-Budget report recommended further scrutiny is required on the Scottish Government's approach to new revenue raising powers included within the Budget - for example, taxation - and any potential risks arising from forecasting errors.
22. To aid its scrutiny on these topics, the Committee took evidence from stakeholders following the publication of Scottish Government Budget documents in early

December 2018<sup>7</sup>. Evidence was heard from: the Office for Budget Responsibility; Scottish Fiscal Commission; Audit Scotland; ICAS; CIPFA; Equality and Budget Advisory Group; Institute for Fiscal Studies; Scottish Human Rights Commission; the Chartered Institute of Taxation; and the Cabinet Secretary for Finance, Economy and Fair work. These sessions provided a well-rounded insight into the Scottish Government's approach to taxation, forecasts of taxes - and risks of forecasting errors, and the accessibility of the Budget to a wider audience.

23. As a result, the Committee produced a report on the Scottish Government's Budget 2019-20 which was published on 25 January 2019<sup>8</sup>.
24. The Committee then considered the Bill at Stage 2 and the Bill was passed at Stage 3 on 21 February 2019.
25. In addition to reporting on the strategic context for the Budget and the operation of the Fiscal Framework, the Committee also considered the designation of Scottish taxpayers by HMRC and continues to monitor this issue.

## Replacement of EU Structural Funds

26. The Committee's inquiry into Common frameworks identified further scope for scrutiny into the funding of EU structural funds in Scotland, post-Brexit. The Committee launched a call for views in March and obtained over forty written submissions between then and April 2019. This inquiry will continue into the next parliamentary year with stakeholder engagement workshops scheduled to discuss experiences of EU funding to date and how any future replacement of funding should be approached.

## Scottish VAT Assignment

27. The Committee's pre-Budget and Budget report suggested the methodology for VAT assignment in Scotland could be a source of volatility in Scotland's public finances. To address this, the Committee held a roundtable session in March and took evidence from the Cabinet Secretary for Finance, Economy and Fair Work in May, where he agreed with the Committee's findings and said the methodology needs to be developed further before the assignment of VAT in Scotland can take place. The Committee will continue to monitor this issue.

## Earnings in Scotland

28. The last inquiry of the year entitled "Earnings in Scotland" focussed the Committee's work on pay in Scotland. This inquiry is centred on four themes:
  1. How public sector pay compares with the private sector
  2. How pay in Scotland compares with the rest of the UK

3. Changes in the labour market and impacts on earnings
  4. Distribution of earnings and implications for revenues
29. To inform this work, oral evidence was heard from a range of stakeholders in April 2019 and a follow-up evidence session with Derek Mackay, Cabinet Secretary for Finance, Economy and Fair Work, in May 2019. The Committee will continue to monitor this issue.

## **Scrutiny of Financial Memoranda**

30. The Committee scrutinises Financial Memoranda (FM) that set out the estimated financial implications of legislation. Each Bill that is introduced in the Parliament must be accompanied by a FM.
31. In the course of this year, the Committee considered 13 FMs.

# Engagement

32. The Committee engaged with wider stakeholders in June 2018 where the Committee co-hosted an event with the Futures Forum and the Royal Society of Edinburgh on the long-term sustainability of Scotland's public finances.
33. The Committee then participated on a fact-finding visit to Brussels in September 2018 to broaden their knowledge on how common frameworks could work in practice. Following this, the Committee co-hosted a second event with the Royal Society of Edinburgh and Scotland's Futures Forum in November 2018 on common frameworks.

# Equalities

34. Equalities issues were a key consideration for the Budget Process Review Group and will be a core element of the new budget process. The recommendations of the Group were informed by the OECD Gender Budgeting Toolkit and IMF paper on Gender Budgeting in G7 countries.

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