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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 the Constitution, Europe and External Affairs.



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



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Angela Constance
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Scottish Labour

Introduction

1. This report covers the work of the Finance and Constitution Committee during the parliamentary year from 12 May 2019 to 11 May 2020.
2. Throughout this challenging year, the Finance and Constitution Committee ("the Committee") has focused on matters largely related to the implications for Scotland of Brexit, the devolved revenue raising powers and our ongoing work in relation to the operation of the Fiscal Framework. This has also been the second year of the new Budget scrutiny process where the Committee has been involved in pre-budget and budget scrutiny processes. The Committee also considered the Coronavirus Bill Legislative Consent Memorandum and the Referendums (Scotland) Bill.

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 were:
- Neil Bibby MSP (29 September 2016 – 1 May 2020) ;
 - Willie Coffey MSP (29 September 2016 - 3 September 2019) ;
 - Emma Harper MSP (7 November 2017- 3 September 2019) ;
 - James Kelly MSP (29 September 2016 – 5 September 2019) ;
 - Gordon MacDonald MSP (3 September 2019 – 25 February 2020); and
 - Adam Tomkins MSP (16 November 2016 – 25 February 2020).

Meetings

4. The Committee met on twenty-eight occasions.
5. All meetings were held in the Parliament building and varied between private, private and public, or public settings. Five meetings were wholly in private; thirteen wholly in public; and ten held partly in private and public. The majority of the Committee's business took place in public. The other meetings in private were to consider draft reports, contingent liabilities and the work programme.

Statistics



of time committee
met in public



28

Committee meetings



110

Number of people
who gave evidence



Reports published



SSIs considered

Source:

Constitution

6. A significant portion of Committee business has centred around the Constitution and the implications of Brexit, continuing on the previous year's work on the Trade Bill and common frameworks including its ongoing inquiry into the replacement of EU structural funding and a new inquiry into the UK internal market. The Committee also scrutinised the Scottish Government's Legislative Consent Memorandum (LCM) on the EU (Withdrawal Agreement) Bill.

Referendums (Scotland) Bill

7. The Scottish Government introduced the [Referendums \(Scotland\) Bill](#) on 28 May 2019. The Policy Memorandum explained that the Bill covered a range of issues which can be broken down into three main headings—
 - The framework
 - Conduct of polls and counts
 - Campaign rules
8. The Committee issued a call for views on the Bill, received 16 [responses](#) and agreed to appoint Dr Alistair Clark, Reader in Politics at Newcastle University, as its Adviser on the Bill at Stage 1.
9. The Committee took evidence at Stage 1 at its meetings in June and September 2019 and published its [report](#) in October 2019. It supported the policy objective of the Bill to put in place a generic framework for referendums on the basis that the Bill was amended to reflect the weight of evidence received by the Committee.
10. The Committee considered the Bill at Stage 2 on 27 November 2019 and 4 December 2019 and the Bill as amended was passed at Stage 3 on 19 December 2019.

EU (Withdrawal Agreement) Bill Legislative Consent Memorandum (LCM)

11. The UK Government introduced the amended [EU \(Withdrawal Agreement\) Bill](#) in the House of Commons on 19 December 2019. The Bill sought “to implement, and make other provision in connection with, the agreement between the United Kingdom and the EU under Article 50(2) of the Treaty on European Union which sets out the arrangements for the United Kingdom’s withdrawal from the EU.
12. Prior to the introduction of the Bill, the Committee took evidence from Rt Hon Michael Gove, Chancellor of the Duchy of Lancaster on Brexit in [October 2019](#).
13. The Scottish Government lodged a [LCM](#) on the Bill on 20 December 2019. The Committee took evidence from Michael Russell, Cabinet Secretary for Government Business and Constitutional Relations at its meeting on 8 January 2020 and,

following this, [wrote](#) to the Cabinet Secretary and the Secretary of State for Exiting the European Union setting out the Committee's views. The Parliament debated the LCM in the Chamber on 8 January. The Parliamentary Under Secretary of State [responded](#) to the Committee on 29 January 2020 and the Cabinet Secretary [responded](#) on 5 February 2020.

UK Internal Market

14. The Committee launched an inquiry into the UK Internal Market to understand what it is and how it might operate, post-Brexit. During its previous inquiry into Common Frameworks, the Committee heard that when the UK leaves the European Union (EU) then EU internal market and its principles (such as proportionality, fundamental rights, equality before the law and subsidiarity) will no longer apply. Whilst at EU level the internal market is defined through treaties and legislation it is not clear what the UK equivalent is.
15. The Committee held an initial discussion to explore aspects of the UK internal market at its meeting on 19 June 2019 and commissioned external research on how internal markets operate in [Canada](#), [Switzerland](#) and the [United States](#) and produced a [summary](#) of this research.
16. The Committee issued a call for views which closed on 28 February 2020 and received eleven [responses](#). The Committee expects to take oral evidence on this inquiry at future meetings.

Funding of EU Structural Fund Priorities in Scotland, post-Brexit

17. Last year, the Committee received 40 responses to its call for views into the funding of EU structural funds in Scotland, post-Brexit and this year the Committee continued its work on this inquiry. The current structural funds programme is worth about €10.7 billion to the United Kingdom and up to €872 million to Scotland across the seven year European Union budget period to the end of 2020.
18. The UK Government has proposed that it will replace European structural funding with a UK Shared Prosperity Fund (UKSPF) which will "respect the devolution settlement" and aimed at reducing inequalities between communities across the UK. The Committee explored the experience of lead partners, delivery agents and beneficiaries to help inform the design of any future funding of structural priorities in Scotland post-Brexit.
19. In June 2019, the Committee held stakeholder engagement workshops to discuss experiences of EU funding to date and how any future replacement of funding should be approached and took evidence from Stakeholders and the Minister for Trade, Investment and Innovation at its meetings throughout June 2019.
20. The Committee published its [report](#) in October 2019 which set out its views on the proposed UKSPF and its views more widely on the preferable options for any post-

Brexit replacement funding in Scotland. The Scottish Government [responded](#) to the report in November 2019 saying that the report's findings would be "instrumental in helping the Scottish Government to develop its position on a replacement vehicle for the EU structural funds."

21. The Scottish Government [wrote](#) again in December 2019 and in January 2020, the Committee wrote to the [UK Government](#) . The Committee will continue to monitor developments with the UKSPF Fund in the coming year.

Budget scrutiny

22. This was the second year of the new Budget scrutiny process and the Committee continued to invest time into taking forward the recommendations from the Budget Process Review Group and provided subject Committees with [revised guidance](#) on the new process .

Budget Scrutiny 2020-21

23. The Scottish Government published its [Budget for 2020-21](#) on 6 February 2020. There was a UK General Election in December 2019 and the UK Government did not publish its Budget until March 2020 which meant that there was no UK fiscal event in the Autumn and, therefore, there were no corresponding economic and fiscal forecasts from the Office for Budget and Responsibility (OBR). This increased the risks which the Scottish Government had to address when setting its budget as there was no clarity on the size of the block grant and block grant adjustments and uncertainty around the impact of any UK policy changes.
24. The Committee noted that there was some risk arising from the Scottish Budget being agreed before the UK Budget especially regarding the possibility of tax policy changes in devolved areas and that a further risk was the limited time available for scrutiny of the Budget.
25. The Committee published its [report](#) on the Scottish Government's Budget 2020 -21 on 21 February 2020. The report considered the risks and opportunities arising from—
- Continued economic uncertainty and subdued GDP growth arising from Brexit, the global economic downturn and low productivity growth;
 - The transfer of full financial responsibility of all devolved social security benefits in April 2020;
 - The management of increased Budget volatility including the management of reconciliations; and
 - Ongoing uncertainty regarding replacement EU funding.
26. The Committee then considered the Bill at Stage 2 on 4 March 2020 and the Bill was passed at Stage 3 on 5 March 2020.

Pre-budget Scrutiny 2020-21

27. The new budget process is based around four key objectives—
- To have a greater influence on the formulation of the budget;
 - To improve transparency and raise public understanding and awareness of the budget;

- To respond effectively to new fiscal and wider policy challenges; and
 - To lead to better outputs and outcomes as measured against benchmarks and stated objectives.
28. Building on the previous year's work, the Committee focused its pre-budget scrutiny on the operation of the Fiscal Framework and potential risks to Scotland's public finances.
29. The Committee held evidence sessions in September and October 2019 with the Scottish Fiscal Commission and the Cabinet Secretary for Finance, Economy and Fair Work respectively. In addition, by adopting the new full year approach to scrutiny, the Committee's pre-budget scrutiny covered scrutiny work already undertaken on the following areas—
- Earnings in Scotland;
 - Additional Dwelling Supplement;
 - VAT assignation; and
 - Policy spillover provisions within the Fiscal Framework.
30. This year was the first time a full year of outturn data for Scottish income tax was available since the power to set rates and bands for non-saving, non-dividend income tax was devolved to the Scottish Parliament and therefore, also the first year of the operation of the reconciliation process for income tax. The Committee's [report](#), which was published in November 2019, focused on the operation of this process. The Scottish Government [responded](#) to the report in February 2020.

Scrutiny of Financial Memoranda

31. 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.
32. In the course of this year, the Committee considered 12 FMs.

Coronavirus Bill Legislative Consent Memorandum

33. The UK Government introduced the [Coronavirus Bill 2019-21](#) in the House of Commons on 19 March 2020 and the Scottish Government lodged a [legislative consent memorandum](#) on the Bill on 20 March 2020.
34. The Committee held an evidence session with the Cabinet Secretary for the Constitution, Europe and External Affairs on 24 March 2020. Following the evidence session, the Committee published its [report](#) ahead of the Chamber Debate in the afternoon of 24 March 2020.

Engagement

35. As part of its inquiry into the funding of EU structural funds in Scotland, post-Brexit, members of the Committee met with delegates from a range of public and third sector organisations to discuss experiences of the current EU structural funding approach as well as future options for the design of funding for structural priorities in Scotland, post-Brexit. The Committee held engagement workshops from 3 to 4 June 2019 in [Inverness](#), [Dunfermline](#) and [Paisley](#).

Equalities

36. As part of its budget scrutiny, the Committee scrutinised the Scottish Government's wellbeing approach to the budget which is a main feature of the [Equality and Fairer Scotland Budget Statement](#) (EFSBS). The Committee scrutinised to what extent the Scottish Government's wellbeing approach had resulted in a shift in policy direction and expenditure from previous Budgets.
37. In addition, throughout the year when considering budgetary issues and the operation of the fiscal framework, the Committee explored a number of areas of interest including the gender pay gap and changes to earnings inequalities in Scotland.
38. As outlined earlier in this report, the Committee also undertook an inquiry into Funding of European Union Structural Fund Priorities in Scotland, post Brexit following the UK Government's intention to establish a UK-wide Shared Prosperity Fund (UKSPF) to replace the European Regional Development Fund (ERDF) and the European Social Fund (ESF), aimed at tackling inequalities between communities.
39. In [our report](#), we recommended that—
 - ” a robust and proportionate approach to audit of the UKSPF in Scotland such as utilising the existing Scottish public audit regime and that effective evaluation should be built into the UKSPF from the start so that its impact on tackling inequalities is evidence based.

