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## **Finance and Constitution Committee Comataidh Ionmhais is Bun-reachd**

# **Annual Report 2016-2017**



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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 Finance and the Constitution



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# Committee Membership



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



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



**Neil Bibby**  
Scottish Labour



**Willie Coffey**  
Scottish National Party



**Ash Denham**  
Scottish National Party



**Murdo Fraser**  
Scottish Conservative  
and Unionist Party



**Patrick Harvie**  
Scottish Green Party



**James Kelly**  
Scottish Labour



**Liam Kerr**  
Scottish Conservative  
and Unionist Party



**Ivan McKee**  
Scottish National Party



**Maree Todd**  
Scottish National Party

# Introduction

1. This report covers the work of the Finance and Constitution Committee during the parliamentary year from 12 May 2016 to 11 May 2017.

On 27 September 2016 the Chamber [passed a motion](#) to extend the remit of the then Finance Committee to include constitutional matters falling within the remit of the Cabinet Secretary for Finance and the Constitution.

## Membership Changes

2. Previous Members of the Committee during the reporting year:
  - Kate Forbes (from 8 June 2016 until 6 September 2016)
  - Alex Johnstone (from 15 June 2016 until 3 November 2016)
  - Dean Lockhart (from 3 November 2016 until 18 January 2017)
  - Michael Russell (from 15 June 2016 until 27 August 2016)

# Budget Scrutiny

3. The Scottish Government published its [draft budget for 2017-18](#) on 15 December 2016. The Committee's budget scrutiny this year was focussed primarily on the revenue raising aspects of the draft budget.
4. The Committee's [report](#) on the draft budget was published on 27 January 2017 and debated in the Chamber on 2 February as part of the debate on Stage 1 of the Budget (Scotland) Bill.
5. The Committee then considered the Bill at Stage 2 on 8 February. The Scottish Government [responded](#) to the Committee's report on 21 February. The Bill was subsequently debated at Stage 3 and [passed](#) by the Parliament on 23 February.
6. In September 2016, reflecting the devolution of additional tax powers, the Cabinet Secretary for Finance and the Constitution and the Finance and Constitution Committee established The [Budget Process Review Group](#). The Group, which includes Scottish Government and Scottish Parliament officials as well as external experts, has been tasked with recommending a new budget process which addresses the increased level of responsibility within the context of the principles underpinning the existing system. It is expected to report before the summer recess.

## Inquiries and Reports

7. The Committee has carried out a number of inquiries this year on the implications for Scotland's public finances as a result of changes to the financial responsibilities of the Parliament arising from the Scotland Acts 2012 and 2016.

### Land and Buildings Transaction Tax

8. The Land and Buildings Transaction Tax (LBTT) took effect in Scotland from April 2015 and the Committee agreed to scrutinise its first full year of operation. The Committee issued a [call for evidence](#) in July 2016 and 21 submissions were received.
9. The Committee held a series of evidence sessions between September and October 2016, before publishing its [report](#) on 5 December 2016. The Committee also invited the Scottish Fiscal Commission (SFC) to prepare a report on the outturn figures for LBTT for 2015-16.

### A Scottish Approach to Taxation

10. As a result of the devolution of certain taxation powers via the Scotland Acts 2012 and 2016 the structure of devolved public finance will shift from a focus upon expenditure to greater consideration of revenue-raising measures. The purpose of this inquiry was to enable the Committee to initiate a debate on the approach which should be followed in developing a Scottish approach to taxation.
11. The Committee issued a [call for evidence](#) and received 40 submissions. The Committee held a number of oral evidence sessions through November 2016 and April/May 2017 during the inquiry, including evidence sessions with tax professionals, academics and human rights experts. The inquiry is ongoing.

### Scotland's Fiscal Framework

12. The Committee agreed to closely monitor the implementation and operation of the framework throughout the current parliamentary session. The Committee held an oral evidence session on 10 May with the Cabinet Secretary for Finance and the Constitution regarding the Scottish Government's Scotland Act 2012 and 2016 Implementation Report. A UK Treasury Minister had agreed to give evidence on the UK Government's Implementation Report. Due to the "purdah" period before the UK General Election it has not been possible to do this to date.

## Constitution

13. The Committee now has responsibility for considering and reporting on constitutional matters falling within the remit of the Cabinet Secretary for Finance and the Constitution. The Committee held a Business Planning day in April and agreed to hold a number of oral evidence sessions to examine upcoming constitutional changes affecting Scotland including -
- The role of the Sewel Convention in relation to a Great Repeal Bill and any subsequent primary and secondary legislation.
  - The concepts of a 'UK internal market' and 'UK common frameworks' referred to in the White Paper and the implications for the devolution settlement.
  - The effectiveness of the current inter-governmental relations structures in the context of Brexit and options for improved inter-parliamentary co-operation.
  - The scale of the legislative challenge arising from the proposed Great Repeal Bill and how best to ensure robust parliamentary scrutiny of this process.
  - Funding issues arising from Brexit including the implications for regional policy, agriculture, State Aid and public procurement.

# Bills

## Air Departure Tax (Scotland) Bill

14. The Committee is lead committee for the Air Departure Tax (Scotland) Bill. The Bill makes provision for a tax to be charged on the carriage of passengers departing from airports in Scotland following the devolution of the existing UK Air Passenger Duty.
15. The Committee issued a [call for evidence](#) on the Bill on 13 January in response to which 22 submissions were received. The Committee took oral evidence on the Bill in February.
16. The Committee published its [Stage 1 Report](#) on 1 April and the Government [response](#) was received on 21 April. The [Stage 1 debate](#) was held on 25 April. The Committee considered the Bill at Stage 2 on 17 May.

## Scrutiny of Financial Memorandum

17. The Finance Committee scrutinises the Financial Memoranda (FM) that set out the estimated financial implications of legislation. Each public Bill that is introduced in the Parliament must be accompanied by a FM.
18. In the course of this year, the Committee considered [six FMs](#). In-keeping with previous sessions, the volume of Bills and therefore FMs has been relatively low at the start of the session. Consideration involved inviting written submissions from stakeholders and then assessing whether the Committee should take any further action, depending on the issues identified in these submissions.
19. Where the Committee has not taken oral evidence, conclusion of scrutiny has involved passing on the written views to the lead committee.

## Subordinate Legislation

20. The Committee considered 5 affirmative Scottish statutory instruments during this year. These instruments included the Autumn and Spring Budget Revision Orders, expansion of the functions of the Scottish Fiscal Commission and increasing rates of Landfill Tax in line with inflation.

# Engagement and Innovation

21. The Committee considered the Budget Process Review Group's interim report at its meeting on 22 March. The Group has been asked to develop proposals that will result in transformational change to the budget process. This will require the Scottish Government and Scottish Parliament to work together and across the public sector and civic Scotland if we are to deliver a world class financial scrutiny process.
22. During the year, the Committee met 31 times. Five meetings were held entirely in private and 11 meetings included items taken in private. The items taken in private included consideration of draft Committee reports and work programme plans. All [Committee meetings](#) were held at the Scottish Parliament.
23. As part of its budget scrutiny, the Committee put questions which had been suggested by the public via social media to the Cabinet Secretary for Finance and the Constitution on [16 January](#).

# Equalities

24. The Committee took evidence from organisations such as the Scottish Human Rights Commission, the STUC and Tax Justice Network on the impact of taxation on disadvantaged groups during its inquiry into a Scottish Approach to Taxation.

