

# Public Audit Committee

## 19th Meeting, 2022 (Session 6), Thursday, 23 June 2022

### Scotland's financial response to Covid-19 and Scotland's economy: Supporting businesses through the Covid-19 pandemic

#### Introduction

1. The Public Audit Committee will take evidence today from the Auditor General for Scotland (AGS) on the following two joint AGS and Account Commission publications—
  - [Section 23 report on Scotland's financial response to Covid-19](#) (published 16 June 2022)
  - [Briefing on Scotland's economy: Supporting businesses through the Covid-19 pandemic](#) (published 17 March 2022)
2. The AGS has prepared a note on the key messages from the publications, which, along with a copy of the report and the briefing, can be found in the **Annexe**.

**Clerks to the Committee**  
**20 June 2022**

# BRIEFING NOTES BY THE AUDITOR GENERAL FOR SCOTLAND

## Scotland's financial response to Covid-19

### Performance Audit by the Auditor General for Scotland

1. The joint Auditor General and Accounts Commission report 'Scotland's financial response to Covid-19' was published on 16 June 2022. The report draws on evidence gathered from across the public sector as well as previous Auditor General and Accounts Commission reports. The report looks at:
  - how decisions were made about Covid-19 funding allocations and spending
  - the challenges around financial decision-making within a fast-paced and high volume spend environment, alongside financial uncertainty and existing policy commitments
  - the effectiveness of the governance and management of the financial response
  - how the money flowed through the system to the end user; and the extent to which the financial response has been evaluated to date.
2. The report draws on evidence gathered from across the public sector as well as previous Accounts Commission and Auditor General reports to make judgements about the overall financial response. This includes the Scotland's Economy: Supporting business through the Covid-19 pandemic briefing, published earlier in the year, also being considered by the committee today. The Covid-19 response and data available has developed over time, and audit reports and briefings were published throughout the pandemic. This report is based on financial data which was available up to December 2021. The Scottish Government will publish provisional outturn information for the year to March 2022 later in June and detailed 2021/22 spending data included in the financial accounts across the public sector will be audited later in the year.
3. Key messages and recommendations from the report are:

**The Scottish Government worked collaboratively and at pace with local and UK government to direct significant public spending in difficult circumstances.**

- During 2020/21 and 2021/22, the Scottish Government made over 300 Covid-19 spending announcements and allocated £15.5bn to its Covid-response. This was mainly funded through £14.4bn of Barnett consequentials from the UK

government, with the remaining £1.1 billion funded from reprioritisations and the Scotland Reserve. Up until the end of December 2021, it had spent £11.8bn on its response to Covid-19. (Key facts)

- It is critical that lessons are learned about what worked well, and what did not to improve the public sector response to any future crises. The Scottish Government and others had not prepared for the unprecedented scale and speed of the financial response required. Existing financial processes were stretched, and some processes needed to be set aside or significantly modified so that money could quickly get to where the Scottish Government considered it was most needed. (KM1)

### **The Scottish Government has managed its overall budget effectively**

- The Scottish Government broadly allocated additional UK funding to Covid-19 measures in Scotland. (KM4) Some Covid-19 funding remains unspent. At the end of 2020/21 over £2 billion was added to reserves by the Scottish Government, councils, and Integration Authorities. Using reserves to manage spending between years is good financial management, yet there is a risk it will not be clear how Covid-19 funding held in reserves is then spent over time. (KM4)

### **It was difficult to see how some financial decisions had been made**

- Records were not collated centrally, and it wasn't always clear how data and evidence had been used to inform funding allocations or the design of individual funds. (KM2) The Scottish Government should review how it could use data better when required to make quick decisions. (Rec 2 - 3)
- The Scottish Government directed a large proportion of funding to councils and other public bodies who had the existing systems and local knowledge to enable them to issue the money quickly. Delivering Covid-19 funding placed a considerable resource burden on them. Councils and other public bodies were involved in designing individual funds but the extent to which they shaped the overall financial response was limited. (KM3)

### **Governance changes provided a framework and useful new processes, but these were not always followed and have not been collated**

- Governance arrangements within the Scottish Government were streamlined so funds could be directed quickly to where it was needed, and a new expenditure and assessment approval process (the Financial Accountability Framework) was introduced. (KM2) The Scottish Government should now identify elements of good practice arising from changes to process that can be maintained (Rec 2 - 1). It should also review and collate the completed finance accountability framework forms to understand the extent to which they were completed, how spending decisions relate to each other and their collective impact alongside UK measures. This will help to inform any future assessment of their success. (Rec 3)

**During the pandemic, the Scottish Government struggled to maintain financial transparency, an ongoing challenge which it recognises**

- It wasn't clear how spending announcements linked to budgets and actual subsequent spending. (KM2) We have recommended the Scottish Government improves transparency by publishing comprehensive Covid-19 financial reporting information which clearly links budgets, funding announcements and spending levels. It should also continue to identify and fill gaps in spending and performance data. (Rec 1)
- It is vital for transparency and financial planning that the Scottish Government and other public bodies are clear about how one-off Covid-19 funding has been spent, including where spending commitments may last for several years. (KM5) We have recommended that the Scottish Government, councils and integration authorities report through their accounts and management information how Covid-19 funding held in reserves is being spent, and the extent to which Covid-19 funded spending commitments will exist in the future. (Rec 4)

**More work is needed by the Scottish Government to show how the wide range of Covid-19 spending measures have worked together to address the harms caused by the pandemic**

- To date, there has been limited evaluation of the financial response to date. Any evaluation of the financial response to Covid-19 will be challenging because information is not always available, and it has not been centrally collated. There is limited information on how quickly money reached those it was meant to help and the difference it has made. (KM6) We have recommended that the Scottish Government and its partners should evaluate whether Covid-19 spending delivered the desired outcomes. (Rec 6)
  - It is critical the Scottish Government collect relevant data to understand the difference its interventions have made, and to plan for a recovery that meets its wider national priorities. (KM6)
  - Public services faced significant financial pressures before the pandemic and the situation has been exacerbated. Covid-19 funding was used to ensure the financial sustainability of councils and other public bodies but now specific funding for Covid-19 from the UK Government has ended, these pressures need to be balanced alongside continuing spending demands related to the Covid-19 response and recovery. (KM5)
4. In March 2022, the Auditor General and Accounts Commission published a joint briefing, 'Scotland's economy: supporting businesses through the Covid-19 pandemic'. The key messages from this paper are:
- The Scottish Government established a range of business support funding schemes, at pace, in response to Covid-19, aimed to help businesses survive, protect jobs and encourage compliance with public health restrictions.

- Between March 2020 and October 2021, the Scottish Government made available around £4.4 billion of grants and non-domestic rate reliefs. The majority of this funding was administered, and paid to businesses by councils, although £0.5 billion of sector specific funds were administered by national bodies (such as Creative Scotland, Visit Scotland and the enterprise agencies).
- To pay out funds and support businesses quickly, the Scottish Government placed reliance on the controls and systems that councils and others already had in place. It has subsequently worked to assess fraud risks across the various support funds. The Scottish Government is also retrospectively assessing how business support funding addressed equalities.
- There was not enough focus on the need for good quality data, below an aggregate level, on the use of the funds when they were initially paid to businesses. This means the quality and completeness of the data currently held by the Scottish Government (supplied to it by councils and others) varied, preventing detailed analysis of how funding has been distributed across sectors of the economy, or information about the pace at which applicants received funding under the different schemes.
- The pandemic has had an unequal impact on specific sectors of the economy, particular regions and different demographic groups. The absence of comprehensive national-level data restricted economic analysis, including how well the funding may have addressed inequalities and supported specific groups. It will be important for the Scottish Government to fully understand how funding was used to support specific economic sectors, geographies and groups, to inform future policy development and delivery.

## **Scotland's economy: supporting businesses through the Covid-19 pandemic**

### **Briefing Paper by the Auditor General for Scotland**

The joint Auditor General and Accounts Commission briefing 'Scotland's economy: supporting businesses through the Covid-19 pandemic' was published on 17 March 2022.

Key messages from the report are:

- The Scottish Government established a range of business support funding schemes, at pace, in response to Covid-19, aimed to help businesses survive, protect jobs and encourage compliance with public health restrictions.
- Between March 2020 and October 2021, the Scottish Government made available around £4.4 billion of grants and non-domestic rate reliefs. The majority of this funding was administered, and paid to businesses, by councils although £0.5 billion of sector specific funds were administered by

national bodies (such as Creative Scotland, Visit Scotland and the enterprise agencies).

- Following the emergence of the Omicron variant of Covid-19 and in response to renewed restrictions on businesses, the Scottish Government announced a further £375 million of support funding in December 2021. Later tranches of funding will be subject to audit in 2021/22.
- To pay out funds and support businesses quickly, the Scottish Government placed reliance on the controls and systems that councils and others already had in place. It has subsequently worked to assess fraud risks across the various support funds. The Scottish Government is also retrospectively assessing how business support funding addressed equalities.
- Although the Scottish Government strengthened governance and oversight arrangements during the period funds were being paid out, there was not enough focus on the need for good quality data, below an aggregate level, on the use of the funds when they were initially paid to businesses.
- This means the quality and completeness of the data currently held by the Scottish Government (supplied to it by councils and others) varies, preventing detailed analysis of how funding has been distributed across sectors of the economy, or information about the pace at which applicants received funding under the different schemes.
- The pandemic has had an unequal impact on specific sectors of the economy, particular regions and different demographic groups. The absence of comprehensive national-level data does not only prevent economic analysis, but a wider analysis of how this funding may have addressed inequalities and supported specific groups. It will be important for the Scottish Government to fully understand how funding was used to support specific economic sectors, geographies and groups, to inform future policy development and delivery.

# Scotland's financial response to Covid-19



ACCOUNTS COMMISSION 

AUDITOR GENERAL 

Prepared by Audit Scotland  
June 2022



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## **Audit team**

The core audit team consisted of:  
Richard Robinson,  
Ashleigh Madjitey,  
Becki Lancaster,  
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Thomas Charman  
under the direction of  
Mark Taylor.

# Key facts

	The amount of Covid-19 Barnett consequentials provided to the Scottish Government by the UK Government since March 2020	<b>£14.4 billion</b>
	The amount the Scottish Government has allocated to its Covid-19 response in 2020/21 and 2021/22	<b>£15.5 billion<sup>1</sup></b>
	The estimated amount spent by the Scottish Government on its response to Covid-19, between March 2020 and December 2021	<b>£11.8 billion</b>
	The number of Covid-19 spending announcements made by the Scottish Government, between March 2020 and March 2022	<b>300+</b>
	Total Covid-19 funding allocated to health and social care in 2020/21 and 2021/22	<b>£5.7 billion</b>
	Total Covid-19 funding allocated to business support in 2020/21 and 2021/22	<b>£5.2 billion</b>
	Total Covid-19 funding allocated to councils by the Scottish Government in 2020/21 and 2021/22	<b>£1.8 billion</b>

## Covid-19: Barnett formula and Barnett consequentials



### Notes:

1. £1.1 billion funded through reprioritisations and the Scotland Reserve.
2. At UK Government spending reviews, the Barnett formula also takes into account the percentage of departmental budgets that relate to devolved spending.

# Key messages

**1 The Scottish Government worked collaboratively and at pace with local and UK government to direct significant public spending in difficult circumstances. It is critical that lessons are learned about what worked well, and what did not to improve the public sector response to any future crises.**

The Scottish Government worked with councils, NHS boards and other public bodies to take financial decisions and distribute funding. They had not prepared for the unprecedented scale and speed of the financial response required. Existing financial processes were stretched, and some processes needed to be set aside or significantly modified so that money could quickly get to where the Scottish Government considered it was most needed.

**2 The Scottish Government streamlined governance arrangements to direct funds quickly, but it is hard to see how some financial decisions were reached.**

Records of decision-making are not collated centrally, and we could not always see how data and other intelligence was used to inform funding allocations. It is also unclear how spending announcements link to budgets and subsequent spending. Once announced, funds were designed using the available data but the extent and quality of data varied.

**3 The Scottish Government directed a large proportion of funding to councils and other public bodies who had existing systems and local knowledge to enable them to spend quickly.**

Although councils and other public bodies were involved in designing individual funds, the extent to which they shaped the overall financial response was limited. Delivering Covid-19 funding placed a considerable resource burden on councils and public bodies.

**4 The Scottish Government has managed its overall budget effectively but some Covid-19 funding remains unspent.**

The Scottish Government maintained a balanced budget and has, to date, broadly allocated additional UK funding to Covid-19 measures in Scotland. Up to December 2021, the Scottish Government spent an estimated £11.8 billion on its Covid-19 response. At the end of 2020/21 over £2 billion was added to reserves by the Scottish Government, councils and health and social care integration authorities. Using reserves to manage spending between years is good financial management, but there is a risk it will not be clear how Covid-19 funding held in reserves is spent over time.

**5 It is vital for transparency and financial planning that the Scottish Government and other public bodies are clear about how one-off Covid-19 funding has been spent, including where spending commitments may last for several years.**

Public services faced financial pressures before the pandemic. Covid-19 funding was used to ensure the financial sustainability of councils and other public bodies. But now Covid-19 specific funding from the UK Government has ended, pre-existing pressures must be balanced alongside continuing spending demands related to the Covid-19 response and recovery.

**6 More work is needed by the Scottish Government to show how the wide range of Covid-19 spending measures have worked together to address the harms caused by the pandemic.**

To date, there has been limited evaluation of the financial response. Such an evaluation will be challenging due to information not always being available or centrally collated. Information on how quickly money reached those it was intended to help and the difference it has made is limited. It is critical the Scottish Government collect relevant data to understand the difference its interventions have made, and to plan for a recovery that meets its wider national priorities.

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# Recommendations

## The Scottish Government should:

- Improve the transparency of public finances to support scrutiny of Covid-19 funding and spending measures by:
  - publishing comprehensive Covid-19 financial reporting information which clearly links budgets, funding announcements and spending levels
  - continuing to identify and fill gaps in spending and performance data in areas such as business support.
- Review financial decision-making processes during the pandemic to:
  - identify elements of good practice from streamlined decision-making procedures to be maintained and integrated into existing processes
  - learn lessons and consider how financial management and budget processes can be reformed to improve in-year financial reporting
  - determine how it can better use data when making financial decisions quickly.
- Review and collate the completed finance accountability framework forms ([paragraphs 38–43](#)) to understand the extent to which they were completed, how spending decisions relate to each other and their collective impact alongside UK measures, and to inform any future assessment of the impact of the financial response.

## The Scottish Government, councils, NHS boards and integration authorities should:

- Improve the transparency of public finances to support scrutiny of Covid-19 funding and spending measures by:
  - collecting, drawing together and analysing Covid-19 funds data to establish how much money was spent, where, and how quickly it was issued and received
  - reporting through their accounts and management information how Covid-19 funding held in reserves has been spent, and the extent to which Covid-19 funded spending commitments will exist in future years

- reviewing their medium-term and longer-term financial plans to reflect the ongoing impact and financial consequences of the pandemic. This should include the longer-term impact on resources and potential costs of continuing to support citizens and restore lost income.
- Continue to monitor and report on fraud and error arising from Covid-19 business support payments to ensure that processes are working in practice, funds are allocated correctly, and steps are taken to recover funds paid in error.
- Work together to learn lessons from the financial response to the pandemic by:
  - collecting and sharing findings from their response, including financial information to demonstrate the impact the spending has had and to allow others to benefit from good practice
  - considering what systems should be in place to enable consistent spending information to be collected while minimising the administrative burden
  - collectively understanding the ongoing challenges and longer-lasting impacts of the pandemic which will allow them to work together to recover
  - developing robust processes which will improve the public sector response to future crises or other cross-cutting issues, such as climate change and child poverty
  - evaluating whether Covid-19 spending delivered the desired outcomes.

# Introduction

## Background

**1.** Covid-19 is the biggest fiscal and policy challenge faced by the Scottish Government, councils, and other public bodies since devolution. The effect on Scottish society has been wide-reaching and unequal, and the impact on public finances unprecedented. Staff across the Scottish public sector have worked hard for over two years to respond to, and minimise the impact of, the pandemic. While the emergency phase has now passed, the Scottish Government, councils and other public bodies continue to direct public spending in response to the pandemic at the same time as developing and implementing plans for funding recovery. The impact on public finances will continue for many years.

**2.** All Auditor General and Accounts Commission work relating to Covid-19 and public finances more generally can be found on our [Covid-19 e-hub](#).

## About this report

**3.** This report outlines the fiscal context in which the Scottish Government, councils and public bodies have been operating since March 2020 and provides a high-level analysis of their financial response to the Covid-19 pandemic. It draws on evidence gathered from across the public sector as well as previous Accounts Commission and Auditor General reports to make judgements about the overall financial response. These reports were published at different points throughout the pandemic and we are aware that the response is continuing.

This report considers:

- how decisions were made about where Covid-19 funding should be spent
- the challenges of fast-paced and high-volume decision-making about public spending, in a context of financial uncertainty and existing policy commitments
- the effectiveness of the governance and management of the financial response
- how money flowed through the system from the UK and Scottish governments to people, public services and organisations, and how the impact of spending has been evaluated.

4. We gathered our evidence from across the Scottish public sector, including the Scottish Government, the Convention of Scottish Local Authorities (COSLA) and a sample of ten public bodies.<sup>1</sup> Because of the large number of Covid-19 spending programmes, we also selected a sample of ten Covid-19 funds to allow a more in-depth look at some areas of Scottish Government spending and to track funding as it flowed through the system to recipients. Further details about the sampling methodology are given in the [Appendix](#).

5. Throughout the report we talk about three aspects of public spending, namely:

- **Announcements** – made by the Scottish Government about how it plans to spend public money in response to the pandemic.
- **Allocated** – the amount set out by the Scottish Government in budget documents or revisions. These are formal authorisations of how the Scottish Government intends to spend its budget.
- **Actual spending** – the money ultimately spent on Covid-19 programmes. The Scottish Government records payment to other public organisations as actual spending. These bodies then direct the funds towards Covid-19 measures. This may mean that these funds have not yet necessarily been paid to the people or organisations they are intended to support. We have reported actual spending to December 2021. The actual spending data we use for 2021/22 is estimated spending for the first nine months of the year.<sup>2</sup> The Scottish Government will publish provisional actual spending data for the full 2021/22 financial year in June 2022.

# 1. Deciding the public financial response

## The Scottish Government responded quickly to a very difficult situation

### The pandemic has required an unparalleled financial response from all levels of government

**6.** The public health crisis caused by Covid-19 has had a profound effect on every aspect of Scottish society. Throughout the pandemic, the Scottish Government, councils and other public bodies have had to make decisions quickly and manage public finances in a fast-moving and unpredictable environment.

**7.** The Scottish Government has allocated £15.5 billion to its Covid-19 response in 2020/21 and 2021/22. So far, it has reported estimated actual spending of £11.8 billion up to December 2021 on measures related to the pandemic.<sup>3</sup> This was funded mainly through additional **Barnett consequentials** arising from UK Government spending on Covid-19, alongside reallocations within its underlying budget. Total spending for all of 2021/22 will be reported by the Scottish Government later this year.

**8.** Since March 2020, the Scottish Government has announced over 300 separate spending measures relating to Covid-19, many of which directly affected the finances of councils and other public bodies.

[Exhibit 1 \(page 11\)](#) shows that more funding was announced immediately ahead of the country entering periods of restriction.



### **Barnett consequentials**

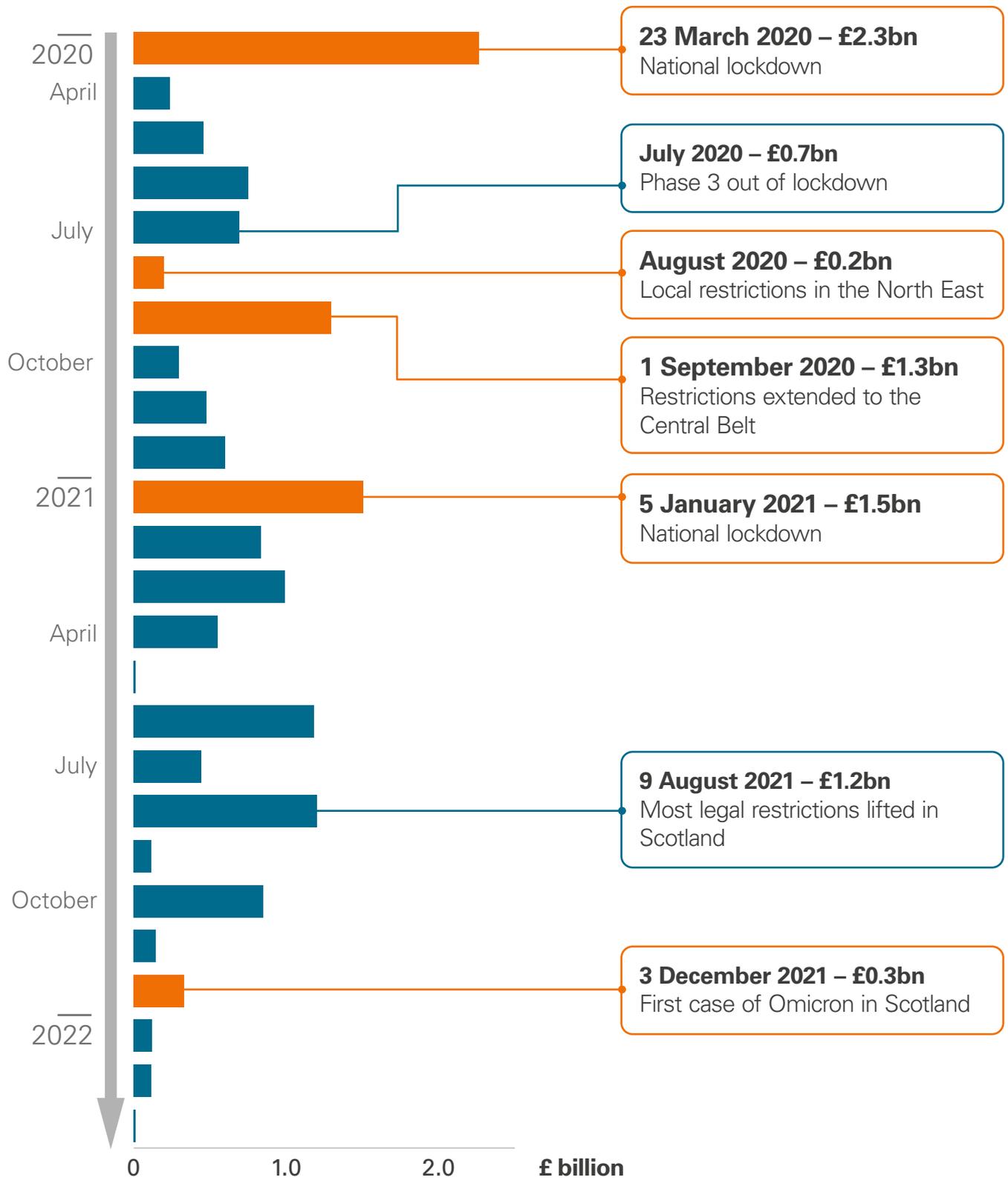
Additional funding comes to Scotland when the UK Government spends money in England in a devolved policy area. The Scottish Government receives this funding in the form of Barnett consequentials and has flexibility in deciding how to allocate this funding.

Our [briefing on the operation of the fiscal framework](#) gives more information on how the Scottish Government is funded.

## Exhibit 1.

### Scottish Government spending announcements

The Scottish Government announced increased levels of Covid-19 spending when the country was entering new restrictions.



Source: Scottish Government announcements, Audit Scotland analysis

## The Scottish Government's decision-making framework focused its pandemic response on four harms

9. In April 2020, the Scottish Government published its [Coronavirus \(Covid-19\): framework for decision-making](#) in which it defined four interrelated harms of the pandemic ([Exhibit 2](#)). This four harms framework set the intention for the Scottish Government's decisions about how to respond to the pandemic, including those with financial implications.

### Exhibit 2.

#### The four harms of the pandemic

The Scottish Government defined four harms of the pandemic which informed its decisions, including those with financial implications.

 <b>The Four Harms</b>	<b>Examples of funding</b>	<b>Actual spending 2020/21, £m</b>
<b>Direct health</b>	Covid-19 has caused direct and tragic harm to people's health, reflected in hospital and intensive care admissions and the number of deaths.	Personal Protective Equipment 448 Test and Protect 130 NHS Louisa Jordan 57
<b>Indirect health</b>	The virus has had a wider impact on health and social care services and how people are using those services in both the short and longer term.	Social care 196 Primary care 62 Mental health services 7
<b>Societal</b>	Restrictions introduced to reduce the direct harms of the virus have caused broader societal harms (eg, the disruption to education and increased levels of mental ill-health).	Communities' hardship fund 50 Free School Meals and Community Food 56 Digital inclusion for learning 24
<b>Economic</b>	All aspects of the economy from the provision of goods and services to taxes to fund public services, employment and income levels have been affected.	Covid-19 business support (including non-domestic rates relief) 3,418 Support for rail 421

Source: Scottish Government, Audit Scotland analysis

**10.** The Scottish Government set out its intentions and priorities for Covid-19 spending through regular briefings to the public and Parliament. These initially focused on health and business priorities. As the pandemic progressed, these briefings increasingly focused on the economy and wider societal harms.

## The UK Government's schemes influenced the Scottish Government's financial response to the pandemic

### The Scottish Government worked closely with the other governments in the UK when developing their response

**11.** When making decisions about the restrictions to impose on their populations, the countries of the UK worked closely together through a four-nations framework. This approach supported some consistency across the UK while allowing each government's response to reflect its judgement on the challenges faced at each point.

**12.** The Scottish Government worked closely with **HM Treasury** to understand the funding available. It sought more certainty on Barnett consequential and discussed additional **fiscal flexibilities** that it considered necessary. At key stages of the pandemic the Scottish Government was having daily calls with HM Treasury.

### UK Government spending programmes were a key component of the pandemic response

**13.** The UK Government has supported Scottish citizens and businesses through UK-wide spending programmes. These have been an important element of the pandemic response and include:

- the Coronavirus Job Retention Scheme (furlough) which ran between March 2020 and September 2021 and supported 911,900 Scottish jobs, affecting 26 in 100 working age people in Scotland
- the Self-Employment Income Support Scheme which provided 175,000 self-employed people in Scotland with grants totalling £1.7 billion
- the Coronavirus Business Interruption Loan Scheme and the Bounce Back Loan Scheme which provided £4.1 billion of loans to 99,792 businesses in Scotland. The Future Fund also provided 23 loans valued at £8.3 million to businesses in Scotland
- the Eat Out to Help Out scheme which helped support 4,775 hospitality businesses in Scotland throughout August 2020, with the value of discount claimed totalling £42.9 million.

#### HM Treasury

UK Government department responsible for delivering public finance policy, including distributing funding to the Scottish Government.

#### Fiscal flexibilities

Financial powers that the Scottish Government and councils have to help them address specific local circumstances.

## **The Scottish Government had to consider UK Government support as it decided how to respond financially to the pandemic**

**14.** We found that consideration of the schemes operating elsewhere in the UK was an important component of the Scottish Government's decision-making. The Scottish Government clearly understood that some restrictions (for example a full lockdown) would be very difficult to implement without related UK Government financial support being in place.

**15.** The needs of the pandemic were similar across the UK and so a similar response was often required. In our [Tracking the impact of Covid-19 on Scotland's public finances](#) report, we describe how the Scottish Government allocated the 2020/21 Covid-19 Barnett consequential broadly in line with the UK spending from which they arose.

**16.** The Scottish Government amended some schemes in ways it considered best suited Scotland's needs. For example:

- The £50 million hardship fund was for councils to use flexibly to support their resilience and hardship funds, whereas in England the funding was intended to support council tax relief.
- The UK Government launched a scheme to compensate councils for the loss of income experienced due to Covid-19. This scheme was delivered slightly differently in Scotland, and COSLA helped to determine how the £200 million fund operated, including how funding was distributed among councils.

**17.** The Scottish Government also developed specific schemes for Scotland to help fill gaps it saw in how existing Covid-19 financial support met local needs. For example:

- **Pivotal Enterprise Resilience Fund** – enterprise agencies delivered this fund to businesses vital to local economies. The enterprise agencies developed the fund to fill gaps in pre-existing UK Government business support funds.
- **Moray and Glasgow Localised Restrictions Funds** – the Scottish Government provided additional support to businesses in Moray and Glasgow while they remained under restrictions for longer than other parts of Scotland.

## **Scottish ministers' overarching commitments to spending Covid-19 funding made budget management more complex**

**18.** The Scottish Government committed to spending all Covid-19 Barnett consequential on its pandemic response and announced:

- in March 2020, that all business support Covid-19 Barnett consequential would be applied to Scottish business support measures

- in March 2020, that all health and social care Covid-19 Barnett consequential allocations would be applied to health and social care in Scotland
- in November 2020, that all funding derived from Covid-19 Barnett consequential allocations would be applied to Covid-19 spending.

**19.** Implementing these commitments meant that the Scottish Government needed to understand the details of the Barnett consequential allocations. The speed of change of the pandemic and the timing of announcements meant that the Scottish Government had to make some decisions based on figures that were provisional or lacked the full details. This made managing budgets and commitments more difficult.

## The Scottish Government and councils streamlined their governance arrangements to help them respond more quickly to the crisis

**20.** In the [Auditor General's report on the audit of the 2020/21 Scottish Government Consolidated Accounts](#), he concluded that the Scottish Government had strengthened aspects of its governance arrangements to allow faster decision-making in response to the Covid-19 crisis.

**21. Internal audit** activity within the Scottish Government was redirected towards the Covid-19 response and some audit and assurance staff were redeployed into key areas (such as health finance and Covid-19 business support). This was to enable internal auditors to advise on new practices and frameworks, support assurance activity and help maintain a clear audit trail of decisions. This redeployment of internal auditors limited the level of internal audit scrutiny of how key spending decisions were made within the Scottish Government, as it prioritised other activities during the emergency phase of the pandemic. Although this is reasonable, given the need to redeploy staff in a pandemic, internal audit should consider how it will retrospectively consider Covid-19 spending in its future plans. Internal auditors in Scottish Enterprise and South of Scotland Enterprise carried out reviews as grants were developed as part of their control arrangements.

**22.** The [Accounts Commission's Local Government in Scotland Overview 2021](#) found that councils made swift changes to governance arrangements at the start of the pandemic. This involved some councils suspending meetings and others creating specific Covid-19 committees. Since then, councils have continued to adapt and now offer online and hybrid meetings.

### Internal audit

carry out a range of tasks in order to provide an independent and objective evaluation of an organisation's financial and business activities.

## The urgency of the pandemic required changes to normal financial decision-making processes

**23.** The necessary speed of the response to the pandemic meant that some standard decision-making processes were not possible, such as the use of governance boards and options appraisals. These processes enable more considered and robust decision-making but take longer. In some cases, the Scottish Government would announce a response to a problem within hours or days of it arising.

**24.** Often **Cabinet** made the high-level decisions about where funding should be directed, drawing on advice from the Scottish Government **executive team**. Government officials then developed the spending proposals in consultation with the relevant Cabinet Secretary. The relevant **accountable officers** (the permanent secretary, directors-general and public body chief executives) were then responsible for delivering the proposal.

### It took too long for the Scottish Government to establish some governance arrangements

**25.** There was no overall Covid-19 expenditure governance board to collate and review the collective impact of financial decisions. Financial decisions were considered through existing governance structures such as management teams, assurance committees and the Scottish Government audit and assurance committee. But it is not always possible to follow how decisions were monitored and scrutinised.

**26.** Some **directorates**, such as health finance, quickly altered existing structures to manage the financial response, while others, such as business support, developed new structures. New structures evolved throughout the pandemic, although some key structures were only formalised almost a year after the pandemic started, including:

- a Covid-19 Business Resilience and Support Directorate in March 2021, to oversee a collective response to Covid-19 and the resulting economic shock
- a Business Support Governance Group and a steering group in early 2021, to assess levels of assurance and improve delivery of business support grants respectively
- an Information Governance Board in summer 2021, to oversee the collection and retention of information on the Covid-19 response.

### The way that public bodies engaged with their stakeholders had to change

**27.** The situation meant that the Scottish Government and public bodies had to change how they engaged with their stakeholders. They needed to build on existing relationships and develop new ones, and the success of this engagement varied. Some bodies and groups felt that their needs

#### Cabinet

The Cabinet is the main ministerial decision-making body of the Scottish Government. Cabinet Secretaries are responsible for different areas of government business.

#### Executive team

The executive team is the senior civil servant group within the Scottish Government. It is responsible for implementing the policies of the Scottish Cabinet.

#### Accountable officers

Officials within the Scottish Government and public bodies who are responsible for the finances and performance of their portfolio.

#### Directorates

The Scottish Government is organised into a number of directorates, each of which has responsibility for a different policy area.

were not addressed and highlighted a need for better engagement with stakeholders when designing future support. The Scottish Government and public bodies should capture what worked well and what didn't to inform future engagement.

- For business support funds the Scottish Government established two groups in March and April 2020. Membership included COSLA, the Improvement Service, SOLACE (Society of Local Authority Chief Executives) and local authority directors of finance. These groups helped shape the guidance and eligibility criteria of early business support. They were formalised from March 2021 through the Business Support Steering Group, which was established to manage and review existing funds and help develop new funds. This group included representatives from COSLA, chief executives of the public bodies delivering the grants, council economic development officers and Scottish Government economists. The Scottish Government told us it also had regular engagement with the business sector.
- The Scottish Council for Voluntary Organisations (SCVO) worked closely with officers and ministers to deliver the Wellbeing Fund. This was developed in partnership with Scotland's 32 **third sector interfaces**.
- In November 2020, the Scottish Parliament's Economy, Energy and Fair Work Committee published a report [Covid-19: Impact on businesses, workers and the economy and pre-budget scrutiny](#). It included feedback from some bodies who felt consultation with businesses by enterprise agencies could have been better. This included Women's Enterprise Scotland, who said they were not asked to contribute to the development of support or the appropriateness of mechanisms in place, and the Highland Food and Drink Club, who felt the consultation process had been poor in comparison to the tourism sector.
- The Scottish Government did not involve relevant stakeholders before allocating funding for parts of the £350 million Supporting Communities Fund.

**28.** The Auditor General and Accounts Commission's [Community empowerment: Covid-19 update](#) reported that community planning partnerships and the voluntary sector were vital in supporting and empowering people and communities to support the most vulnerable in society during the pandemic. In areas where existing relationships were stronger, some communities were able to provide a faster and more targeted response. This enabled rapid allocation of funding to well-established organisations supporting those most affected by Covid-19.

### Third sector interfaces

provide a single point of access for support and advice for voluntary organisations in each local authority area.

## It is difficult to establish a clear and transparent decision-making trail for some funds

**29.** The scale, breadth and pace of funding announcements created challenges for the Scottish Government in maintaining a clear audit trail of decisions. From the start of the pandemic, it told staff that they were bound by existing financial guidance and that all decisions had to be evidence-based, transparent, accountable and legal.

**30.** Despite this, for many of our sample funds we found it difficult to see how some financial decisions were reached because information is held across different parts of the organisation and was not always recorded consistently. The extensive temporary redeployment of staff during the pandemic has also made it difficult to follow past decisions.

### The data available to support quick financial decisions varied

**31.** Some Scottish Government directorates and partners have well-established processes for understanding the costs they will face, and they used data well to help assess the funding needed through the pandemic. For example, health finance drew on its financial monitoring of NHS boards. However, for some of our sample funds it was difficult to see how data was used to determine the overall amount of funding initially directed towards an issue. For example, it is not clear how or if the Scottish Government used data to determine the overall funding allocation for the £350 million Supporting Communities funding package.

**32.** Once the Scottish Government allocated funding to a specific area of support, it then used available data to inform and design funds. At times it was limited by the information available. Looking at a sample of Covid-19 funds we found that:

- the **Settlement Distribution Group** met frequently and used available data to determine individual council funding allocations, for example Department for Work and Pensions (DWP) data to determine individual council funding allocations for managing the Food Fund
- Skills Development Scotland used actual and forecast data on modern apprenticeships, showing a 73 per cent reduction in placements by September 2020, to inform the creation of the Apprenticeship Employment Grant
- the Scottish Government and councils used non-domestic rates (NDR) data to identify over 27,000 businesses that operate in high-risk settings and would be eligible for capital support for ventilation improvements. This helped manage potential over-spending and informed analysis when considering an expansion of the fund
- an evaluation by the Scottish Government of early business support found that a lack of data on smaller businesses fuelled gaps in support and a reliance on the rates system.

### The Settlement Distribution Group

is an existing joint group attended by Scottish Government, COSLA and local authority officials. The SDG considers any new local government funding and distribution, while providing a forum for officials to discuss future issues. Decisions taken at the SDG are then passed to COSLA leaders and Scottish Ministers for approval.

**33.** Effective use of good-quality data is key as the Scottish Government, councils and public bodies plan for a recovery that meets their wider priorities. Good data allows more accurate financial forecasts and makes budget management easier. It can also alert decision-makers to the challenges facing their constituents, the extent of future funds needed and the effectiveness of interventions. The Scottish Government should review its pandemic financial decision-making processes to determine how it can better use data when making financial decisions quickly.

**34.** The Accounts Commission's [Local Government in Scotland: Overview 2022](#) highlights the need for better data to support decision-making and target resources.

**The Scottish Government considered equalities at a high level when deciding how to respond to the pandemic, but did not always clearly document the expected impact of spending decisions on equalities outcomes**

**35.** The Scottish Government expressed a clear overarching intention for Covid-19 spending to be aligned with **National Performance Framework** outcomes. Our analysis of sample funds found that while the intended outcomes of individual funds were clear, there is little mention of specific links to the National Performance Framework, the four harms or equalities priorities.

**36.** The Scottish Government carried out equality impact assessments (EQIAs) for its overall response to the pandemic, for example for the route map out of lockdown in July 2020 and when it moved to local restriction levels in October 2020. These were to assess the impact of restrictions on particular groups rather than the impact of the subsequent spending decisions.

**37.** In March 2022, the Auditor General and Accounts Commission's briefing on [Scotland's economy: Supporting businesses through the Covid-19 pandemic](#) highlighted that the Scottish Government used the overarching EQIA, completed in October 2020, when developing business support grants. In late 2021, the Scottish Government completed a series of EQIAs on individual business support funds. These showed that general business funding supported specific demographic groups – such as younger people working in hospitality, leisure and retail that were over-represented in certain areas of the labour market.

**The Scottish Government introduced a useful process to inform financial decision-making, but it was not used consistently nor was the information collated**

**38.** The Scottish Government had to manage a volatile budget and ensure that it had the funding to meet the commitments it was making throughout the pandemic. To help with this, it quickly introduced a new expenditure assessment and approval process, the Finance Accountability Framework (FAF), in mid-March 2020.

**National Performance Framework**

Launched by the Scottish Government and COSLA in 2018. The NPF sets out 11 long-term outcomes for Scotland, underpinned by 81 indicators against which progress can be measured.

**39.** The FAF applied to the Scottish Government and public bodies but not councils, as these have their own governance arrangements. Central to the FAF is a form that must be completed to record the approval by accountable officers and the Scottish Government's chief financial officer for all spending over £1 million that is not already in the budget. It must then be signed off at a ministerial level by the relevant Cabinet Secretary, the Cabinet Secretary for Finance and the Deputy First Minister.

**40.** We reviewed assessments and approvals for a sample of funds. We found the FAF provided detailed information that supported good financial decision-making and budget management, for example on:

- how spending would be funded and what could be reprioritised to fund it
- the impact if spending did not go ahead
- similar schemes in the UK
- longer-term financial implications.

The FAF does not include a prompt on how the proposal would address the four harms or contribute to National Outcomes that would demonstrate a clearer link between spending and priorities.

**41.** Completed FAFs are retained by the directorate responsible for the spending and are not collated centrally. The forms hold a wealth of information about the intention and expected impact of spending programmes. This could have been better used, for example to inform reviews of the overall impact of Covid-19 spending on particular groups and to allow the Scottish Government to learn lessons for future spending.

**42.** The Scottish Government cannot confirm that all spending over £1 million outside the budget has an associated completed and approved form. An internal audit report, in the summer of 2020, found cases in which FAFs were not completed as required and recommended that the Scottish Government raise awareness of the process. Internal audit also recommended that the Government should monitor FAF completion rates, to provide assurance that the correct processes have been followed. This monitoring has not happened yet.

**43.** The Scottish Government should review and collate the completed FAFs to understand the extent to which they were completed, how budget decisions relate to each other, their collective impact alongside UK measures, and to inform any future assessment of the impact of the financial response.

## 2. Managing overall financial implications

### The Scottish Government managed its overall budget well, but struggled to maintain transparency, which limited scrutiny

**44.** The Scottish Government had to manage an uncertain and quickly changing budget, making sure it could meet the financial commitments made throughout the pandemic. The initial response required large amounts of additional public spending without a clear understanding of how this would be funded. As the pandemic progressed, the Scottish Government monitored expected funding and spending closely, allocating available funding while keeping within overall budget limits.

**45.** In total, over the two years of the pandemic the Scottish Government has allocated £15.5 billion in its budgets to its Covid-19 response. This was funded largely from £14.4 billion of Barnett consequentials arising from spending on Covid-19 in **devolved areas** in England. The remaining £1.1 billion has been funded by redirecting existing budgets and from the **Scotland Reserve**.

**46.** As the Scottish Government moves into the recovery phase of the pandemic, it is becoming increasingly hard to define what is, and is not, Covid-19 spending. Recovery from the pandemic is closely linked to other wider government goals, such as economic development. The UK and Scottish budgets for 2022/23 do not include any specific Covid-19 funding. Nonetheless, transparency over spending and budget management processes will remain vital.

### Episodic budget management and scrutiny processes are not designed for high levels of change

**47.** During the pandemic, the Scottish Government had to adapt its budget to respond to the needs of the pandemic and the additional funding it received from the UK Government. This was challenging for a **budget management** process that operates through episodic updates.

**48.** Since March 2020, the Scottish Government has made over 300 spending announcements on its Covid-19 response. These announcements were not envisaged when the budget was developed in February 2020, so they were subsequently included in formal budget revisions during the year. The Scottish Government published an additional Summer Budget Revision in May 2020, in response to the scale of changes to the budget in early 2020/21.<sup>4</sup>

#### Devolved areas

Areas of spend that the Scottish Government has responsibility over. This includes areas like education, health, and transport.

#### Scotland Reserve

The process whereby any underspend in the Scottish Budget can be carried forward to be used in future years. It is capped at £700 million.

#### Budget management

The Scottish Government publishes its proposed budget in the winter prior to the new financial year. It is then scrutinised by Scottish Parliament through a multi-stage budget process.

The episodic budget revision process allows the Scottish Government to make changes to its spending plans (as set out in the Scottish Budget) during the year. Usually these are produced twice a year, in the autumn and spring.

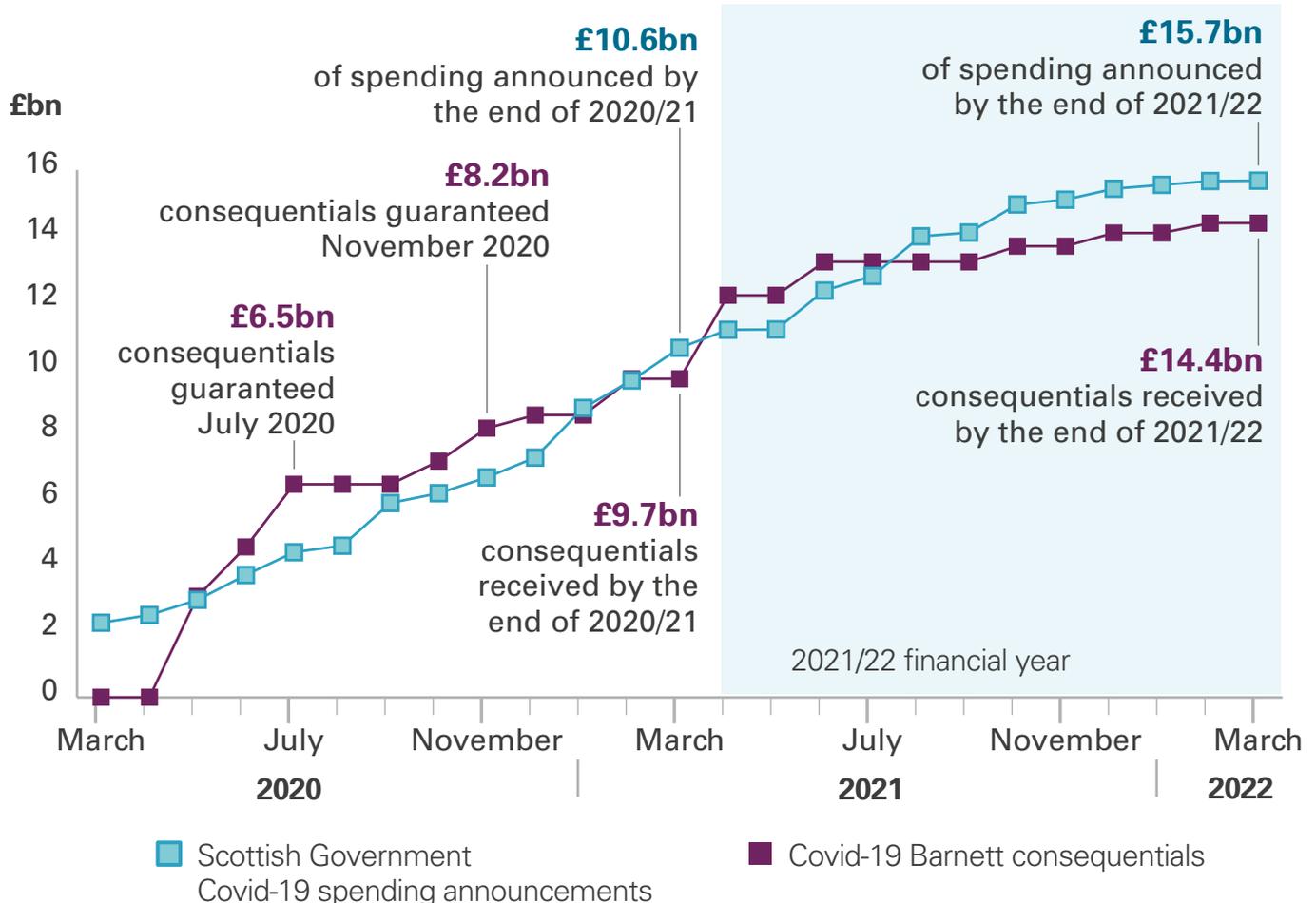
## The Scottish Government has announced more spending than it has received in funding

**49.** In the initial weeks of pandemic, the Scottish Government announced more Covid-19 spending than was covered through Covid-19 Barnett consequentials. Over the summer of 2020, following additional funding from the UK Government, the Scottish Government's spending announcements amounted to less than the confirmed Barnett consequentials received. From January 2021 announcements tracked available funding more closely. The Scottish Government has announced more spending than it has received in additional funding since July 2021, with the difference funded through redirecting some existing budgets and the Scotland Reserve ([Exhibit 3](#)).

### Exhibit 3.

#### Scottish Government spending announcements and Covid-19 Barnett consequentials received since March 2020

The Scottish Government received £14.4 billion in Covid-19 Barnett consequentials during the pandemic and has announced £15.7 billion of spending.<sup>1</sup>



Note 1. The Scottish Government announced slightly more spending than it allocated in its budgets (£15.5bn), this is because some details changed as funds were developed and costs were confirmed.

Source: UK Government Block Grant Transparency, Scottish Government announcements and Audit Scotland analysis

**50.** From July 2020, the UK Government temporarily changed the way it provided funding to Scotland through the Barnett consequential. Instead of Covid-19 Barnett consequential being generated from spending decisions in England, the UK Government guaranteed the amount it would give before confirming the change in UK spending. This gave the Scottish Government more certainty about the funding it would have to respond to the pandemic. Funding was only guaranteed for 2020/21 and was provided through a series of announcements during the year.

## **The Scottish Government, councils and other bodies worked well together to respond to the pandemic**

### **The Scottish Government allocated significant additional funding to public bodies to enable key front-line services to keep operating**

**51.** During the pandemic many services, such as routine medical appointments and economic development work, could not continue, especially during periods of extreme restrictions. Where activity was paused, resources were diverted to the front-line response. The Scottish Government protected existing budgets throughout the pandemic which meant that public bodies retained most of their capacity as restrictions eased. It allocated additional funding to bodies to allow them to keep offering their normal services or do more of what they usually do. For example:

- Significant amounts of funding were directed to the NHS to manage the increase in patients. This was managed through existing systems in the Scottish Government and NHS boards. The Scottish Government provided clear guidance on how spending should be monitored and reported. Detailed reporting and forecasting from NHS boards allowed the Scottish Government to provide funding as required.
- The Scottish Government gave funding to councils and other bodies to allow them to keep operating despite losing income because of the pandemic, for example from leisure centres or parking. Councils could then direct this funding towards their operating costs.

### **The Scottish Government directed a large proportion of funding to partners who had the existing systems and local knowledge to deliver funds**

**52.** Much of the Covid-19 budget was allocated to financial support schemes intended to quickly tackle the four harms. These new funds needed to be developed and distributed at speed. The Scottish Government relied on partners, such as the NHS, public bodies, councils and charities, it considered best placed to manage delivery ([Exhibit 4, page 25](#)). For example:

- NHS National Services Scotland (NHS NSS) had an existing responsibility to source personal protective equipment (PPE) for the NHS; this was expanded to include social care throughout the

pandemic. It also had the expertise to build the NHS Louisa Jordan and operate the vaccination booking system. We have published briefing papers on [PPE](#) and the [vaccination programme](#). The Auditor General's report on the [2020/21 audit of NHS NSS](#) found that the organisation was integral to Scotland's response to the pandemic.

- Business support funding was managed through local government (£3.9 billion) and enterprise agencies (£563 million) that already had details of businesses through the non-domestic rates databases and staff experienced in providing grant funding. We published a [briefing paper on business support funding](#) in March 2022.
- Charities were responsible for distributing more than £115 million of the Scottish Government's £350 million Supporting Communities Fund through their existing networks. The Accounts Commission and Auditor General's [Community empowerment Covid-19 update](#) reported that the voluntary sector was vital in supporting people through the pandemic and existing strong relationships allowed for a faster response.

**53.** Once decisions were made by the Scottish Government to provide additional funding, such spending was managed by councils and other public bodies through existing processes alongside other elements of their budgets.

### **The Scottish Government relied on established systems within councils and public bodies to detect and prevent fraud within its business support schemes**

**54.** The Scottish Government accepted a higher-than-normal fraud risk for its business support grants because of the speed at which they were set up and the need to make payments quickly. It relied on its delivery partners' existing arrangements to manage the increased risk and tasked partners with checking that applicants were eligible for grants. Over the course of the year the Scottish Government worked closely with partners and took action to minimise the fraud risk.

**55.** The Scottish Government estimated that in 2020/21 fraud and error in the business support schemes accounted for approximately £16 million to £32 million, representing no more than one to two per cent of payments. The Auditor General's report on the [2020/21 audit of the Scottish Government Consolidated Accounts](#) concluded that the Scottish Government's estimate of fraud and error was reasonable. It recommended that the Scottish Government:

- regularly assess and improve its estimates of fraud and error in Covid-19 grant schemes
- assure themselves that controls to detect and prevent fraud and error are working in practice
- ensure regular public reporting to satisfy high levels of public interest in this area.

## Councils played an important role in delivering grants on behalf of the Scottish Government, putting a significant strain on their resources

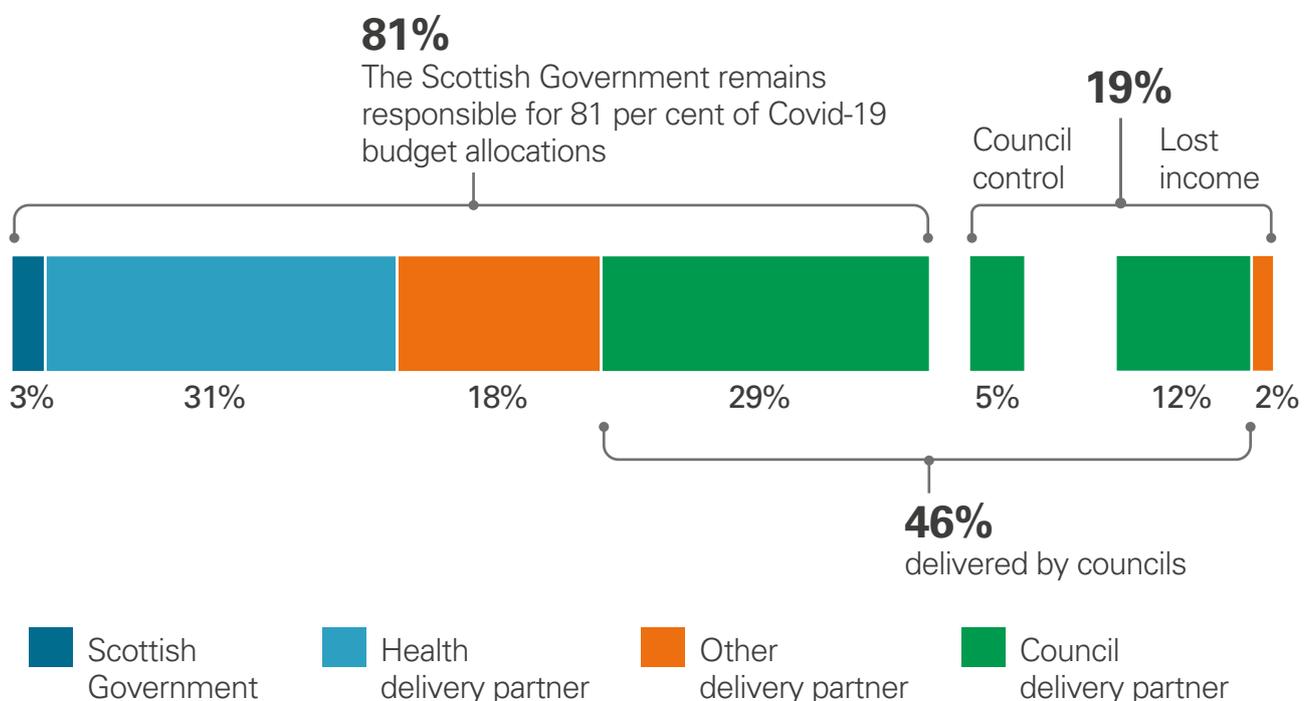
**56.** Councils agreed to administer a wide range of funds announced by the Scottish Government, resulting in significant resourcing challenges. Although the Scottish Government provided support to help cover the cost of administering the funds, the large volume of work required during some stages of the pandemic resulted in a significant increase in councils' workload. This was particularly problematic for smaller councils.

**57.** The need to issue funding quickly meant reporting requirements were lessened and decided upon by different parts of the Scottish Government. This led to differences in the type of management information available. As the Scottish Government and councils review their pandemic spending they should consider what systems should be in place to enable consistent spending information to be collected while minimising the administration burden.

## Exhibit 4.

### Who controlled the Covid-19 financial response in 2020/21?

Although delivered by partners, the Scottish Government was responsible for determining what 81 per cent of Covid-19 funding was used for.



Note: Funding was distributed to councils and other public bodies to support loss of income due to Covid-19. There was limited flexibility in how this could be allocated locally, but it had to go towards recouping any loss of income caused by Covid-19. NDR relief is included in local government lost income.

Source: Scottish Government, Audit Scotland analysis

# 3. Managing Covid-19 public spending programmes

## The Scottish Government had spent £11.8 billion on its Covid-19 response up to December 2021

**58.** The Scottish Government spent £8.8 billion in 2020/21 and an estimated £3.0 billion in the first nine months of 2021/22 on its Covid-19 response. This has been funded mostly through Barnett consequentials ([Exhibit 5](#)).

**59.** The full year data for 2021/22 is not yet available, but the Scottish Government has allocated a total of £6 billion in Covid-19 funding for the whole financial year; it therefore had £3 billion left to spend between January 2022 and March 2022. In 2020/21, the actual amount spent is less than the £9.5 billion allocated in the budgets because of lower-than-projected demand for some support schemes and some Covid-19 Barnett consequential allocations being received towards the end of the financial year.

### Exhibit 5.

#### Scottish Government Covid-19 funding, budgets and actual spending in 2020/21 and 2021/22

 (£bn)	Consequentials	Budget	Actual
2020/21	8.6	9.5	8.8
2021/22	5.8 <sup>1</sup>	6.0	3.0 (to December 2021) <sup>2</sup>
<b>Total</b>	<b>14.4</b>	<b>15.5</b>	<b>11.8</b>

Notes:

1. Includes £1.15 billion that was carried outwith the Scotland Reserve into 2021/22.

2. Estimated actual spend from March 2021 to December 2021. The full 2021/22 spending information will not be available until the Scottish Government publishes its provisional outturn report in June 2022.

Further detail on the 2020/21 position is available in [Tracking the impact of Covid-19 on Scotland's public finances: a further update](#), Audit Scotland, September 2021.

Source: UK Government Block Grant Transparency, Scottish Government, Audit Scotland analysis

**60.** Between March 2020 and December 2021, the Scottish Government estimates it has so far spent:

- £3.6 billion of £6.2 billion (59 per cent) of Covid-19 Barnett consequentials related to UK Government health and social care spending directly to health and social care budget lines
- £4.5 billion of £4.5 billion (100 per cent) of Covid-19 Barnett consequentials related to UK Government business support schemes directly to business support funds.

### **Over time, Scottish Government spending moved from direct, targeted measures to wider public sector support**

**61.** Over time, the Scottish Government's measures have increasingly changed from highly targeted, specific interventions to wider support for public services and recovery measures ([Exhibit 6, page 28](#)). This reflects its assessment of need at different phases of the pandemic. This also means that it has become harder to classify and identify Covid-19 spending over time.

**62.** Initially Covid-19 spending was closely managed and often tied to specific funding (such as individual Barnett consequentials identified by the UK Government). Increasingly, Covid-19 spending and existing spending priorities have run alongside each other. For example, the Scottish Government's spending to support economic recovery from the pandemic sits alongside its wider economic priorities and outcomes, most recently set out in [Scotland's National Strategy for Economic Transformation](#).

**63.** Such an approach recognises the relationship between spending measures across the four harms. For example, supporting a business may also support families, prevent mental health issues, and make it more likely that staff self-isolate if required to do so. This change in approach has emerged over time. In December 2021, the Scottish Government announced £375 million to support businesses through the Omicron phase of the pandemic. It confirmed that £100 million of this was funded from expected Covid-19 Barnett consequentials resulting from health spending in England.<sup>5</sup> This was intended to support businesses affected by cancellations arising from new restrictions and to limit both health and economic harms.

**64.** The Scottish Government announced commitments on how it would spend Covid-19 consequentials early in the pandemic ([paragraph 18](#)). It would help transparency if the Scottish Government explained the changes to these commitments and was clear about its developing approach. This would help Parliament scrutinise how funding was spent throughout the pandemic.

## Exhibit 6.

### The focus of spending through the phases of the pandemic

As spending announcements shifted from direct and immediate targeted measures to wider support for public services and the economy, tracking funds became more complex.

	 Phase	 Nature of announcement
2020	<b>Initial lockdown</b> March – June 2020 The start of the national lockdown in March 2020 through to the first steps out of lockdown.	<b>£3.7 billion</b> Over 94 per cent of spending announced was direct and targeted to respond to the immediate impact of Covid-19. Therefore, it was clearly defined as Covid-19 spending. This included 24 specific business support funds and business rates relief, together totalling nearly £3 billion of the £3.7 billion announced.
	<b>Summer easing</b> July – August 2020 The summer easing of restrictions across the country.	<b>£0.9 billion</b> There were fewer spending announcements over this period, with over 80 per cent of measures announced targeted towards helping businesses.
	<b>Second wave</b> September 2020 – March 2021 Regional restrictions reintroduced at different points culminating in a second national lockdown in January 2021.	<b>£6.0 billion</b> The balance of spending shifts towards supporting health and social care and other public services through just under 80 separate announcements. The tracking of spending becomes more complex as Covid-19 spending increasingly supports services and pay awards, with financial management and discretion over spending arrangements passing to NHS boards, councils and others.
2021	<b>Emerging from the pandemic</b> April – November 2021 Restrictions were gradually relaxed across Scotland with different council areas progressing through the level systems.	<b>£4.5 billion</b> Over 70 per cent of this total amount was allocated to health and social care. It becomes increasingly difficult to distinguish between Covid-19 and non-Covid-19 funding, as public services manage the indirect impact on normal services alongside direct Covid-19 effects. Over 63 per cent of funds announced were geared towards supporting recovery from the pandemic.
	<b>Omicron</b> December 2021 – March 2022 Some restrictions reintroduced over Christmas then gradually eased.	<b>£0.6 billion</b> The majority of this was to support businesses deal with the reintroduction of restrictions with £375 million supporting four different funding announcements.
2022		

Source: Audit Scotland, based around the Scottish Government's announcements

## The Scottish Government does not have complete information on actual spending across the range of its Covid-19 programmes

**65.** The main areas of Scottish Government spending on the Covid-19 response were:

- business support (including sectoral support) – £3.4 billion in 2020/21 and £1.2 billion to December 2021/22
- health and social care – £2.8 billion in 2020/21 and £862 million to December 2021/22
- local government – £1.2 billion in 2020/21 and £502 million to December 2021/22
- transport – £646 million in 2020/21 and £247 million to December 2021/22.

**66.** Much of this funding was delivered by councils and other public bodies, including the £4.6 billion business support funding. [Exhibit 7 \(page 30\)](#) shows how the funding flowed from the Scottish Government to intended recipients, sometimes through delivery partners. For the purposes of comparing its own spending against budget, the Scottish Government treats these funding payments as spending in accordance with established accounting requirements, although at that point the funds will not have reached the recipient.

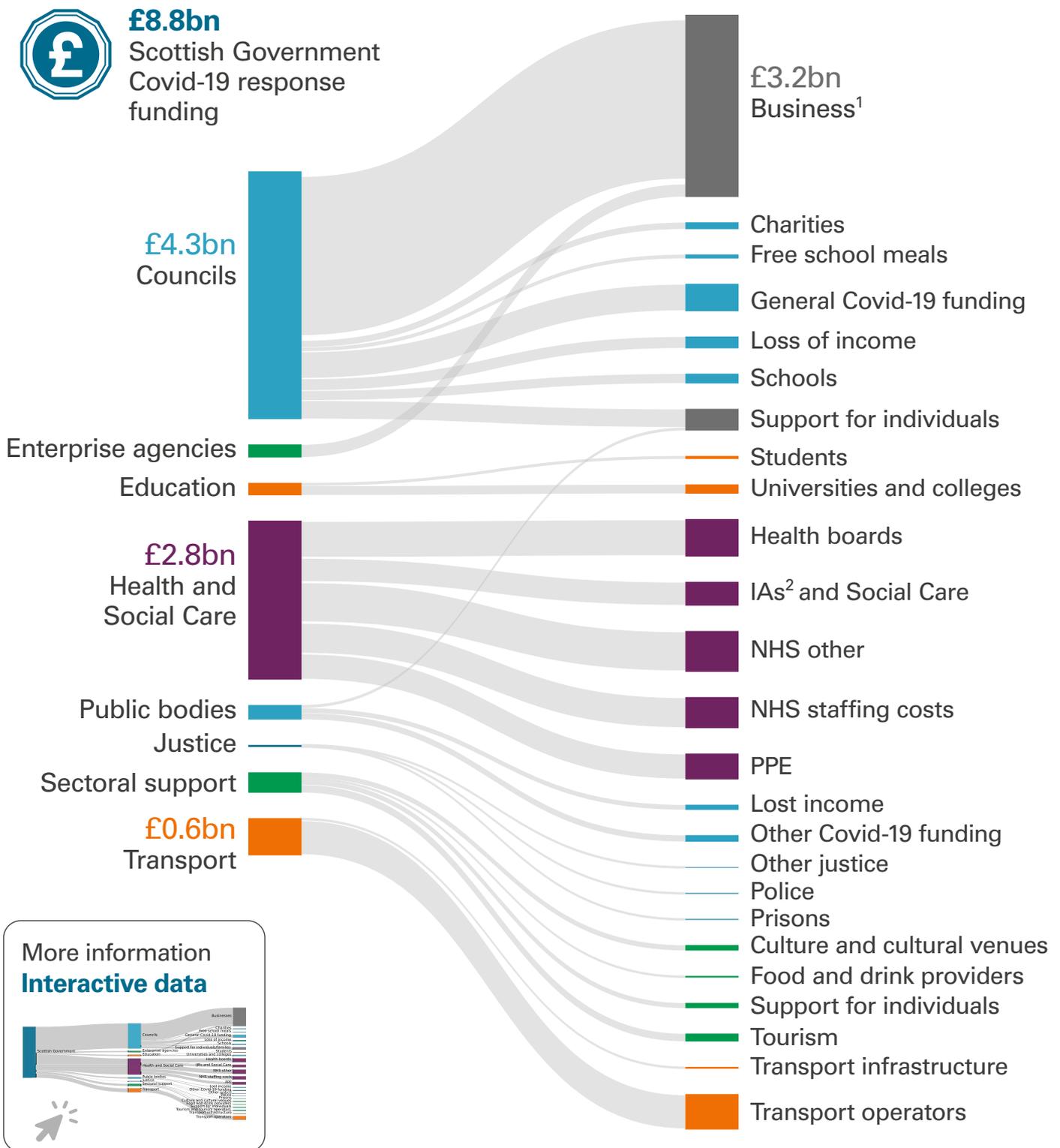
**67.** These timing and classification differences mean that it is not straightforward for the Scottish Government to track how much of the funding provided has ultimately been spent by the public bodies administering it. The Scottish Government's budget management focuses on the funding it has provided. It would need to seek and collate additional information from the relevant councils and other public bodies to know how much of the funding provided has actually been spent at any point in time. While the Scottish Government has compiled such information for some spending programmes, it does not have complete information on actual spending across the range of its Covid-19 programmes. Scottish Government budgets are managed within individual portfolio areas which did not record Covid-19 spending consistently.

**68.** The Scottish Government also had difficulties in tracking actual spending because its budget processes were not designed to separate specific spending in areas across portfolios. Covid-19 funding was allocated to directorates, such as health or the economy, as part of their overall funding. Directorates applied judgement over what constituted Covid-19 spending and managed over- and under-spends as part of their overall spending. Covid-19 spending is not a budgetary or accounting classification and so is not consistently recorded by the Scottish Government.

## Exhibit 7.

### Flow of spending on Covid-19 response by the Scottish Government in 2020/21

The Scottish Government’s main areas of spending in 2020/21 were business support (through councils and other delivery partners), health and social care, and councils.



Note 1. The remaining business support funding is shown as sectoral support in this exhibit

Note 2. IA – integration authority

Source: Scottish Government 2020/21 actual spending data, Audit Scotland analysis

**69.** The Scottish Government has set out priorities which will rely on understanding spending and performance information across several portfolios, for example, tackling inequalities, and addressing climate change. The Scottish Government should consider the lessons learned from Covid-19 for such issues. Priorities that aim to address cross-cutting and deep-seated issues need financial processes that can easily identify and analyse relevant spending programmes across government.

### **The Scottish Government recognises the challenge of financial transparency**

**70.** The Scottish Government recognises many of these issues in its [Scottish Exchequer Fiscal Transparency: Discovery Report](#). It gathered the views of fiscal data users as part of the report with the aim of improving the transparency of the information it publishes. The report found that:

- there are over 40 different regular financial outputs published by ten government departments or public bodies
- information on frontline spending and outcomes is fragmented and poorly signposted with poor linkages between budgets, actual spending and outcomes
- because of differing publication timescales, it is difficult to track decisions between documents
- published data is inconsistent with differing labels, levels of detail, and portfolio-naming conventions.

**71.** The Scottish Government plans to use the information gathered to improve how it presents and publishes existing financial information. This work is ongoing through its commitment to financial transparency in [Scotland's Open Government action plan: 2021 to 2025](#). The ambitions set out in the discovery report will not be implemented until 2025, and we will monitor progress through our audits.

### **The Scottish Government and councils used tools, such as reserves, to smooth Covid-19 funding between years**

**72.** The Scottish Government, councils and **integration authorities** have used tools such as reserves to smooth Covid-19 spending over time. This is partly because some Covid-19 Barnett consequential were received late in the financial year and because the demands placed on available funds will often continue into future years.

**73.** Spreading Covid-19 funding over financial years allows public services to spend money to address the harms caused by the pandemic at the time they judge to be most appropriate. Using reserves to achieve this smoothing is sensible and is an important component of good financial management.

#### **Integration authorities**

The Public Bodies (Joint Working) (Scotland) Act 2014 required councils and NHS boards to work together to deliver health and social care services to local people. The aim of the integration authorities is to ensure services are well integrated and that people receive the care they need at the right time, and in the right place.

**74.** Reserves are used in this way every year, not just when there are exceptional circumstances like a pandemic. Because of this, it is not always possible to clearly separate Covid-19 funding in reserves from other funding moved between years. At a high level, the main measures used to smooth funding between 2020/21 and 2021/22 included:

- the Scottish Government using the Scotland Reserve to carry forward £426 million into 2021/22. This included both Covid-19 and non-Covid-19 funding. The Scotland Reserve is capped at £700 million in total.
- councils adding £1.2 billion to their reserves. This was a 46 per cent increase on the previous year, largely attributable to Covid-19 funding received from the Scottish Government late in the 2020/21 financial year.
- integration authorities increasing their reserves by £437 million. This was an increase of 304 per cent, partly due to unspent Covid-19 funding.

**75.** The Scottish and UK Governments also agreed to defer £1.15 billion of 2020/21 funding to the 2021/22 Scottish budget. This was because the last tranche of additional funding was announced relatively late in the financial year. This was in addition to amounts carried in the Scotland Reserve.

**76.** Some of the estimated £8.8 billion that the Scottish Government spent on Covid-19 programmes in 2020/21 will be held in these reserves to be used in 2021/22 and later years. For example, £145.5 million of Covid-19 funding announced by the Scottish Government for additional teaching capacity to support Covid-19 would be recorded as Scottish Government spending when it is passed to local councils, albeit that some councils might not spend it until a later date. As a result, we cannot confirm that all Covid-19 funding was spent on the Covid-19 response. The amount of Covid-19 funding being carried from 2021/22 to 2022/23 in reserves will not be known until later this year.

### **It is important that the Scottish Government and local government explain clearly how they are using Covid-19 funding in reserves**

**77.** Of the £2.1 billion Covid-19 funding carried from 2020/21 into 2021/22 and beyond, £900 million has been earmarked for continuing Covid-19 spending programmes ([Exhibit 8, page 33](#)). But it is not always clear how reserves will be used:

- In their accounts, councils have earmarked at least £650 million and integrated joint boards £149 million of their reserves for the continuing Covid-19 response. The level of detail in the accounts varies and so we consider this to be an underestimate. COSLA report that funding is fully committed for 2021/22 and 2022/23.
- We have previously reported that the £237 million **capital funding** and £41 million of **financial transactions** from the UK Government

#### **Capital funding**

For spending that in the main results in a physical asset, for example a new building.

#### **Financial transactions**

A form of capital expenditure that can only be used for loans and equity investments to the private sector.

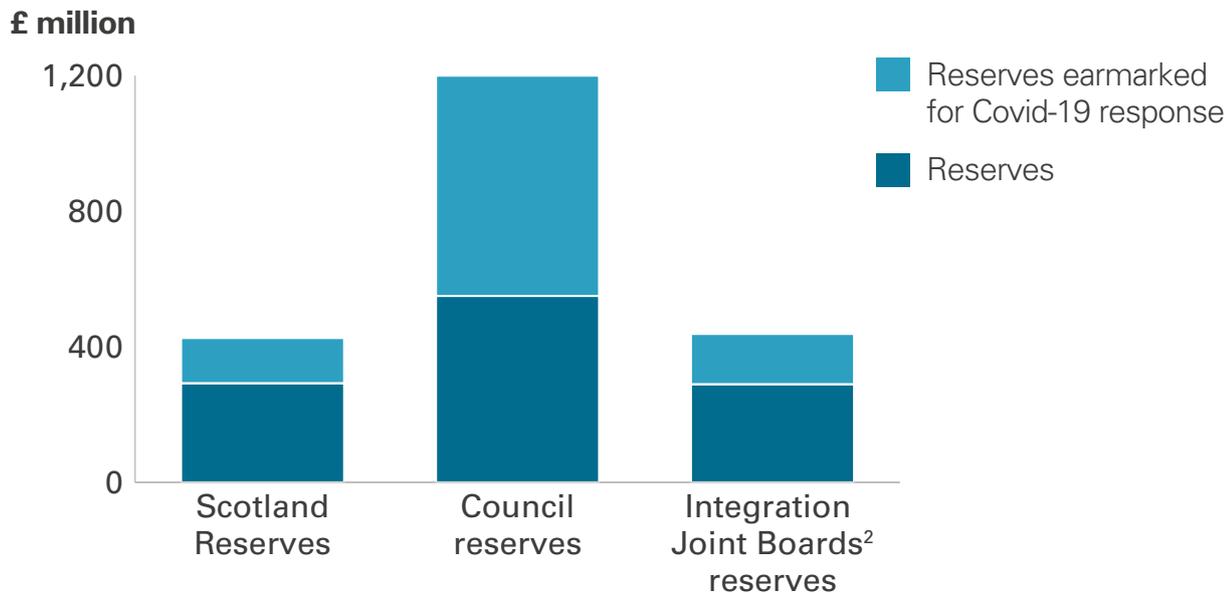
held back to 2021/22 will be used to support the overall capital budget rather than specific Covid-19 spending.

**78.** Tracking how Covid-19 funding is ultimately spent will become more difficult over time. Nonetheless, the Scottish Government, councils, integration authorities and others should set out clearly in their annual reports and accounts and other publications how Covid-19 funding carried forward through reserves is being spent. This is essential to maintain transparency and to enable effective ongoing democratic and public scrutiny.

## Exhibit 8.

### Covid-19 funding in reserves at the end of 2020/21

It is difficult to see how over £1.1 billion of Covid-19 funding was spent after it was put into reserves.<sup>1</sup>



Notes:

1. £1.15 billion of deferred Covid-19 Barnett consequentials were carried over from 2020/21 to 2021/22 outwith the Scotland Reserve.
2. Integration Joint Boards are integration authorities which can hold reserves. This covers 30 of the 31 integration authorities in Scotland.

Source: Audit Scotland

### Not all funding that the Scottish Government allocated to councils had reporting requirements which makes tracking Covid-19 funding more difficult.

**79.** Late allocations of £800 million of Covid-19 funding between February and March 2021 from the Scottish Government to councils contributed to the substantial increase in reserves. Some of this was for specific purposes, such as free school meals, while some was for councils to spend on general Covid-19 support or to cover lost income.

**80.** Although the Scottish Government can describe what the money was provided for, it was not directed in the same way as specific grant funding. COSLA monitoring data shows that less than half of funding provided to councils in the second wave of the pandemic had reporting requirements attached, compared to over 80 per cent during the initial lockdown and close to 100 per cent at other points.

**81.** Councils and integration authorities are often best placed to understand and respond to need in their local communities. It is likely that as the recovery from the pandemic continues, needs will differ between areas and spending measures to support Covid-19 recovery will vary. It is important that councils and integration authorities are clear in their accounts about how money is spent and the rationale for decisions.

### **Understanding how Covid-19 spending works alongside ongoing spending commitments is critical to financial sustainability**

**82.** Increasingly, as Scotland moves into the recovery stages of the pandemic, the Scottish Government, councils, and public bodies will need to understand how one-off, non-recurring Covid-19 funding has worked alongside the rest of their budgets. This will help them to understand and respond to the financial risks ahead, as significant Covid-19 funding is no longer present.

**83.** Additional Covid-19 spending programmes have protected the financial position of public services in the short term. The Scottish Government largely maintained existing budgets and directed additional funding to areas it considered to be facing significant additional demands. However, the underlying financial sustainability pressures previously facing many public services remain and have undoubtedly been exacerbated by the pandemic. Given the underlying financial pressures, it will be critical that the available funding is managed closely to enable recovering public services to operate sustainably.

### **Some spending decisions have created ongoing commitments which will continue without additional Covid-19 funding**

**84.** The UK Government's 2022/23 budget did not include any specific Covid-19 funding for Scotland, although total funding was higher than pre-pandemic years. This means that the Scottish Government will need to continue to fund commitments that were initially funded from Covid-19 moneys from its core budget, including:

- £145.5 million annually for 2,400 new teachers and 750 support staff who were recruited during the pandemic to be offered permanent positions
- £120 million for mental health recovery and renewal in 2021/22, including recruiting new staff

- £17.3 million to provide free bus travel to all under 22s from 31 January 2022, benefiting 930,000 young people
- £53.2 million to support continuing costs arising from the pandemic for the police, prisons, community justice, and courts services in 2022/23.

**85.** These commitments will sit alongside any spending on recovery and other priorities. The Scottish Government will need to make difficult decisions about how to prioritise its spending and address any underlying sustainability issues through its upcoming financial planning.

### **Financial sustainability challenges remain in NHS boards and councils**

**86.** The Auditor General's [NHS in Scotland 2021](#) highlights that the NHS was not financially sustainable before the pandemic and rising costs of delivering services and additional spending commitments have added to these pressures.

**87.** Dealing with the pandemic had an impact on NHS boards' ability to make efficiency savings. The Scottish Government allocated £102 million to 14 NHS boards in 2020/21 to enable them to break even. It has also committed to providing additional funding for NHS boards in 2021/22. While this ensured that the NHS achieved a financial balance throughout the pandemic, it has not addressed the underlying issues.

**88.** Similarly in councils, the challenges that existed before March 2020 continue but with more intensity as inequalities have widened and financial pressures have increased. The Accounts Commission's [Local Government in Scotland: Financial overview 2020/21](#) highlights that, excluding additional Covid-19 funding, councils have seen a real terms reduction in funding from the Scottish Government of 4.2 per cent since 2013/14. The rest of the Scottish Government budget has seen an increase in funding over the same period.

**89.** Council accounts show that they received £500 million less income from sources such as leisure trusts, parking and school meals because of Covid-19 restrictions. The Scottish Government provided one-off funding to local government to offset any reductions in councils' income arising from non-domestic rate reliefs (£972 million) and other sources (£200 million). As the economy recovers post-Covid-19, it will be important for councils to understand and continue to report on the underlying effect on their local economy and income.

**90.** The Scottish Government, NHS boards and councils should work to understand which costs incurred because of the pandemic will continue into future years, and what impact the pandemic and subsequent removal of Covid-19 funding will have on their medium-term and longer-term financial plans.

## **It is important that the Scottish Government evaluates its overall financial response to the pandemic, including collecting the necessary information**

### **There has been some evaluation of individual Covid-19 spending programmes**

**91.** Evaluation of programmes is important to help the Scottish Government and public bodies to understand the impact Covid-19 spending has had, and what challenges remain as the country moves into recovery. We found that three of the ten sample spending programmes had been evaluated to some extent:

- The Scottish Government produced an interim report on the findings of a lessons learned exercise on business support between April 2020 and April 2021, reflecting on the things that worked well and that could be improved. A separate monitoring and evaluation report considered UK and Scottish Government support for businesses in Scotland. It found that a higher proportion (82 per cent) of businesses who received additional Scottish Government support felt that it helped them continue trading compared with those that received only UK Government support (65 per cent).
- The Scottish Government interviewed councils delivering the council element of the Food Fund (£15 million) in May 2020. This work highlighted concerns about rural issues, volunteer availability issues and a desire to be better informed about other Scottish Government funds. This learning informed the development of a further fund to support low-income families.
- The Scottish Government and voluntary sector partners evaluated the open application process part of the Wellbeing Fund (up to £34 million). It detailed the types of projects, their locations and the type of communities helped. Feedback from respondents highlighted the benefits of existing relationships and a need for better coordination across the emergency funds.

### **The amount and quality of the information from these evaluations is variable and was often not considered when the schemes were developed.**

**92.** Given the number of initiatives and tight timescales involved, it was not practical for the Scottish Government to implement the normal reporting and monitoring arrangements. These would have placed additional strain on public sector capacity.

**93.** In March 2022, the Auditor General and Accounts Commission published the briefing [Scotland's economy: Supporting businesses through the Covid-19 pandemic](#) which provided an overview of how Covid-19 business support funding was delivered during the pandemic. It found that there was not enough focus on the need for good-quality data, below an aggregate level, on the use of funds when they were initially paid to businesses. As a result, and because some businesses received funds from more than one funding stream, it is not currently possible to determine the exact number of businesses that received support below an aggregate level.

**94.** The Scottish Government is currently undertaking a data-cleansing exercise which should improve its ability to analyse business support data. This exercise has so far resulted in the Scottish Government publishing additional data on the number of grants over £100,000 and a breakdown of some schemes by payment date and local authority.<sup>6</sup>

**95.** We have seen from our sample funds that the extent to which the Scottish Government monitors individual Covid-19 spending varies. Some programmes reported daily, weekly, monthly or at the end of the project. The type of data required from the Scottish Government varies over time and by body. The information is collated by the business area responsible for the fund.

**96.** It is important that the Scottish Government collates the information it has collected and uses it to make better decisions about how to direct future funding.

**The need to spend quickly to respond to the pandemic was a key driver of decisions, but information on how quickly money was spent is limited and not collated**

**97.** Officials and stakeholders across government worked hard to quickly develop Covid-19 funding streams and were challenged by ministers to open access to support funds as quickly as possible. Business groups have highlighted to us that the time it took to receive funding varied across council areas depending on the systems and resources available.

**98.** Information on the time taken between applying for funding and receiving support was not centrally collated by the Scottish Government. Where it does exist, it is held by the directorate or public body responsible for the fund. From the information we have received we have been unable to determine any overall statistics about the time taken for funds to reach recipients. For example, it is not possible to determine the time taken for applications for the Pivotal Enterprise Resilience Fund to be processed because the information allowing that analysis was deleted for data protection reasons. The contract between the technical platform operator and Scottish Enterprise included a standard clause specifying that data, which included time stamps, was deleted when the fund closed.

**99.** Seven of our ten sample funds included an application process. We established the time between ministers announcing the funding and the applications process opening, and reviewed the limited information held on the time it then took applicants to receive funding ([Exhibit 9, page 39](#)). The time between an announcement and the application process opening varied from zero to 49 days. Six of the seven funds had information on time between application and the first recipient receiving support, but only the Business Ventilation Fund had information on the average application process period. In April 2022, as part of its ongoing business support data-cleansing exercise, the Scottish Government published some payment date information for business support funding.<sup>7</sup> This information is now available for around £988 million of the £4.6 billion spent on business support.

**100.** The pace at which recipients were able to access Covid-19 support should be a key component of any evaluation by the Scottish Government and its delivery partners. This will provide assurance that the higher-level risk accepted to distribute funds quickly was worth while. Public bodies should consider that any contracts for future urgent spending include the ability to collect and keep data on speed of spending.

**It is important that the Scottish Government evaluates the overall effectiveness of its Covid-19 spending programmes as the uncertainty of the pandemic subsides.**

**101.** Although Scottish Government support has been essential for the NHS, businesses, and individuals, the Government has not carried out an overall assessment of its spending on Covid-19. This means that it does not yet have a full understanding of how well it directed its funding to those who most needed it and the impact this had. Some information may be held at a directorate or fund level, and it is important that this is pulled together to provide a better understanding of overall impact.

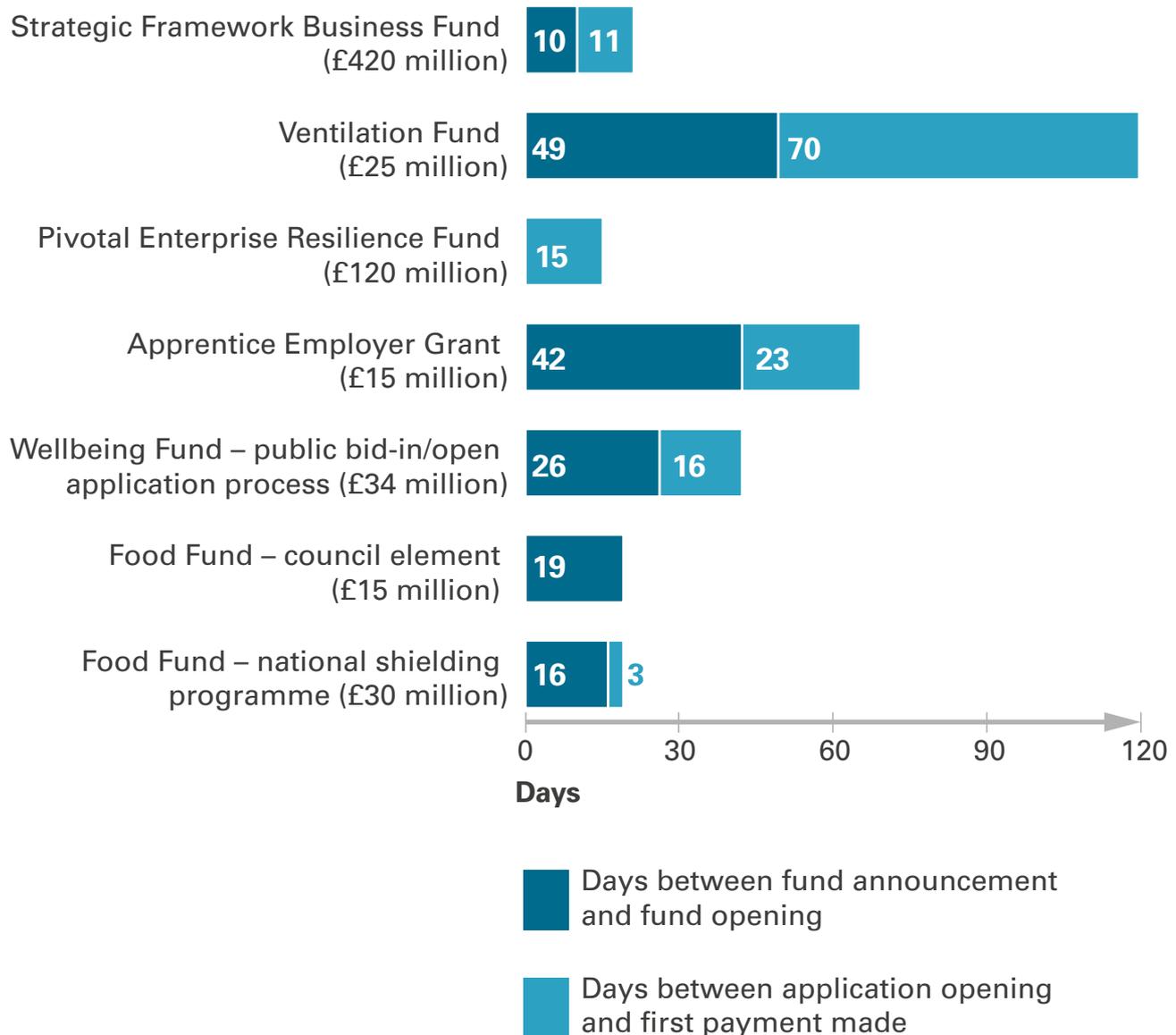
**102.** In December 2020, the Scottish Government reported on the impact of Covid-19 on the long-term trends in the National Performance Framework. The pandemic has slowed and, in some cases, reversed progress across many of Scotland's National Outcomes. The impact on National Outcomes is likely to be long term. The Scottish Government was already facing a significant challenge to improve outcomes in Scotland and Covid-19 has made this more difficult, having exacerbated inequalities and put additional pressure on public finances.

**103.** As Scotland emerges from the pandemic, the Scottish Government will need to understand which interventions were successful and which were less so. Being able to understand the themes of, and lessons from, Covid-19 spending will be vital in developing its response to recovery.

## Exhibit 9.

### Time between Covid-19 support announcements, funds opening and first payments

In most cases, Covid-19 funds did not start accepting applications on the day the Scottish Government announced support.



Notes:

1. The exhibit shows the initial value of sample funds and not final expenditure.
2. The Business Ventilation Fund was an adaptation fund, rather than emergency support in response to restrictions. Claimants were reimbursed for costs after work was completed. It was paid retrospectively to businesses.
3. The council element of the Food Fund started issuing support before funding was allocated, with councils using their resources to support those in food poverty.

Source: Audit Scotland sample fund analysis

# Endnotes

- 1 We sought information from Creative Scotland, Highlands and Islands Enterprise, Skills Development Scotland, Scottish Enterprise, South of Scotland Enterprise, Transport Scotland, VisitScotland, Scottish Funding Council, Sportscotland and Historic Environment Scotland.
- 2 [Finance and Public Administration Committee: Finance Update](#), Scottish Government, April 2022.
- 3 Ibid.
- 4 [Summer Budget Revision 2020 to 2021](#), Scottish Government, May 2020.
- 5 [Letter from the Cabinet Secretary for Finance and Economy to the Convener](#), December 2021.
- 6 [Coronavirus \(COVID-19\): business support funding interim experimental statistics – number of grants of £100,000 or over](#), Scottish Government, March 2022
- 7 [Business support payment date data](#), April 2022.

# Appendix

## Sample funds methodology

The Scottish Government announced over 300 funding packages to help support individuals and businesses during the pandemic, covering all ministerial portfolio areas. Overall, an audit of this nature can only provide generalised conclusions about the overall management of funds, rather than detailed conclusions on the management of all individual funds.

To enable a more in-depth analysis of how decisions were made and how funds were managed we selected a sample of ten individual funds. We looked at how the fund was developed, how decisions were made, spending versus announcements, delivery partner arrangements, reporting and risk management.

The funds were selected to ensure a spread of portfolio areas, delivery partners, and value. The funds selected were from a range of points in time across the pandemic.

Fund	Date announced	Value <sup>1</sup>	Spending area	Partners
<b>Additional funding for health</b>				
Additional funding to NHS boards to help deal with the health impact of Covid-19.	2020/21 Autumn and Spring budget revision	£1.6bn <sup>2</sup>	Health	NHS boards
<b>Additional funding for Lost Income Fund</b>				
Funding to compensate councils and council trusts for lost sales, fees and charges from services such as sports centres and parking charges.	8 October 2020 <sup>3</sup>	£200m	Communities and local government	Councils
<b>Food Fund (national programme)</b>				
National contractor appointed to deliver food packages to individuals who were advised to shield to protect them from Covid-19.	18 March 2020	£30m	Communities and local government	National contractor
<b>Food Fund (councils)</b>				
Funding to councils to support households struggling to access food because of the pandemic. Councils were given some flexibility over how funding was used.	18 March 2020	£15m	Communities and local government	Councils
				<b>Contd.</b>

Fund	Date announced	Value <sup>1</sup>	Spending area	Partners
<b>Wellbeing Fund (public bid-in)</b>				
Fund administered by a coalition of third sector partners to distribute grants between £5k and £10k to small and local organisations for projects improving mental and physical health, addressing food and financial insecurity, and increasing employment opportunities.	18 March 2020	Up to £34m	Communities and local government	Voluntary sector partners
<b>Additional funding for rail services</b>				
Funding to the rail franchises to help deal with the loss of revenue because of the impact restrictions had on passenger numbers.	1 March 2020	£441m	Transport	Transport Scotland
<b>Apprenticeship Employer Grant</b>				
Grants of between £3.5k and £5k to encourage employers to recruit young apprentices.	1 December 2020	£15m	Business	Skills Development Scotland
<b>Pivotal Enterprise Resilience Fund</b>				
Small to high value grants to businesses that play a vital role in the national and local economies.	30 April 2020	£120m <sup>4</sup>	Business	Enterprise agencies
<b>Business Ventilation Fund<sup>5</sup></b>				
Eligible businesses received grants of up to £2.5k per premises to compensate for work carried out to improve ventilation and air quality.	28 September 2020	£25m	Business	Councils
<b>Strategic Framework Business Fund</b>				
Payments to businesses who were impacted by restrictions. Grants ranged from £1.4k to £3k depending on value of business property and whether premises were closed or remained open with modifications in place.	23 October 2020	£420m	Business	Councils

## Notes:

1. This is based on the initial value of each of the funds.
2. This is the total allocation to health boards in the two budget revisions. We focused on how the allocation of additional Covid-19 funding was issued to health boards.
3. £90 million was announced in October 2020 and this increased to £200 million in January 2021.
4. £45m to this fund in April 2020, with an additional £75m provided through two funding announcements in May.
5. The Business Ventilation Fund was an adaptation fund, rather than emergency support in response to restrictions. Claimants were reimbursed for costs after work was completed.

# Scotland's financial response to Covid-19

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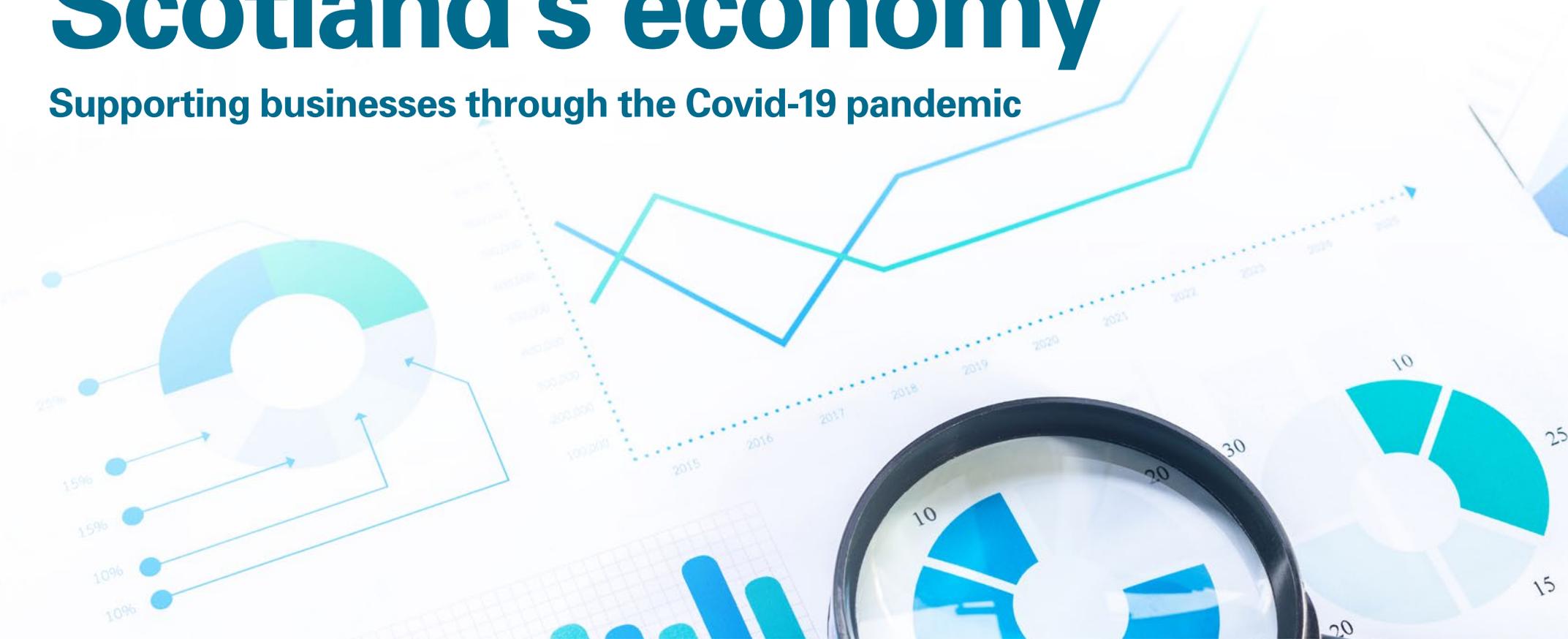
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Briefing

# Scotland's economy

Supporting businesses through the Covid-19 pandemic



ACCOUNTS COMMISSION 

AUDITOR GENERAL 

Prepared by Audit Scotland  
March 2022

# Key messages

Scotland's economic output and performance during the Covid-19 pandemic mirrored changing public health restrictions, with some sectors and industries more affected than others. This led to unequal impacts on different regions, parts of the workforce and sectors of the economy.

## **1. The Scottish Government established a range of business support funding schemes in response to Covid-19, aimed to help businesses survive, protect jobs and encourage compliance with public health restrictions.**

Between March 2020 and October 2021, it made available around £4.4 billion of grants and non-domestic rate reliefs. The majority of this funding was administered, and paid to businesses, by councils. Following the emergence of the Omicron variant of Covid-19 and in response to renewed restrictions on businesses, the Scottish Government announced a further £375 million of support funding in December 2021.

## **2. There was not enough focus on the need for good quality data, below an aggregate level, on the use of the funds when they were initially paid to businesses.**

The quality and completeness of the data held by the Scottish Government varies, preventing detailed analysis of how funding has been distributed, or the pace at which applicants received funding. It will be important for the Scottish Government to fully understand how funding was used to support specific economic sectors, geographies and groups, for future policy development and delivery.

## **3. To pay out funds and support businesses quickly, the Scottish Government placed reliance on the controls and systems that councils and others already had in place.**

It has subsequently worked to assess fraud risks across the various support funds. The Scottish Government is retrospectively assessing how business support funding addressed equalities and supported specific demographic groups. Work to detect fraudulent claims is ongoing.

# Impact of Covid-19 on Scotland's economy

**1.** Scotland's economic output during the pandemic mirrored the introduction and relaxation of public health restrictions with a sharp downturn followed by an equally sharp bounce-back ([Exhibit 1, page 4](#)).

**2.** Scotland's economy is estimated to have grown by 7.1 per cent over the year (September 2020 to September 2021, Q3-Q3). Over the same period UK Gross Domestic Product (GDP) grew by 6.6 per cent.

**3.** Scotland's employment levels at the end of November 2021 were in line with those prior to the onset of Covid-19:

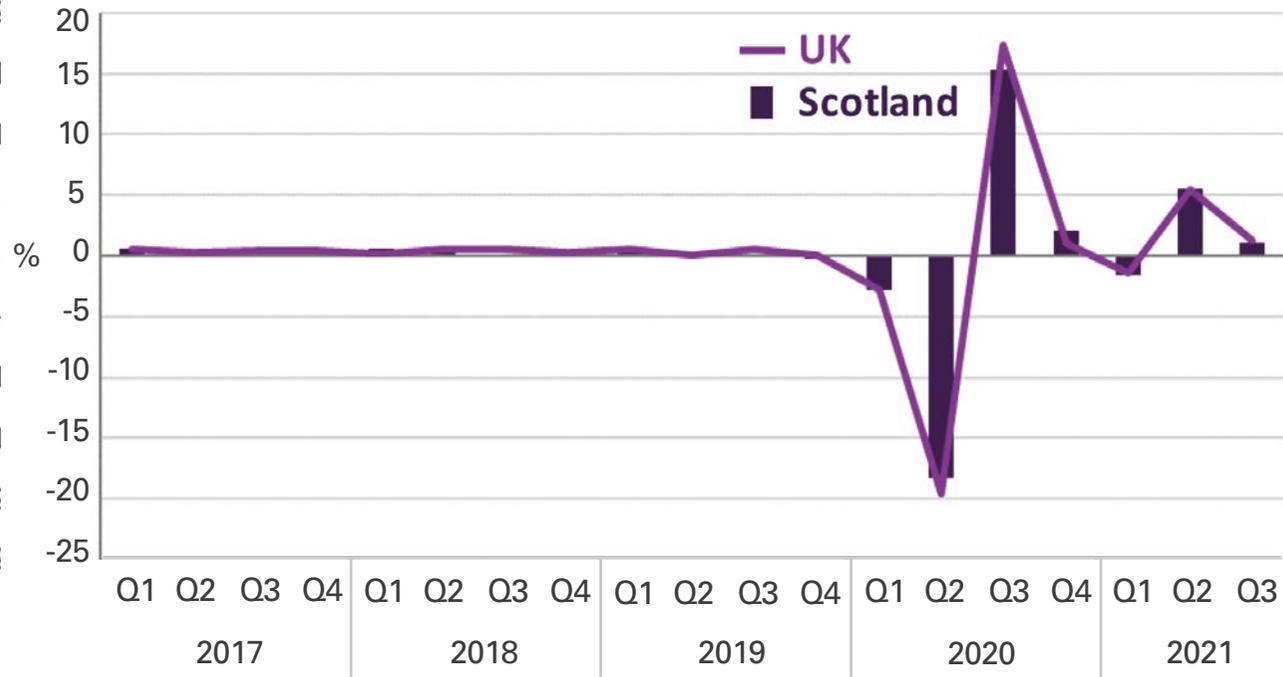
- the employment rate in Scotland was 75.1 per cent, a fall of 0.3 percentage points from pre-pandemic levels (UK 75.5 per cent)
- the unemployment rate was 3.6 per cent, an increase of 0.1 percentage points from pre-pandemic levels (UK 4.1 per cent)
- 22.1 per cent of the Scottish population was economically inactive, an increase of 0.4 percentage points from the pre-pandemic levels (UK 21.3 per cent).

**4.** As of March 2021, there were around 344,500 private sector businesses operating in Scotland (over 99 per cent small and medium-sized enterprises). This represents an annual decrease of 5.4 per cent (from the beginning of the pandemic).

**5.** The onset of Covid-19 coincided with the UK's withdrawal from the European Union, meaning it will be difficult to separate the effects of both events on Scotland's economy. As more economic data relating to 2020 and beyond becomes available, specifically in relation to export values and labour market demand, this will reflect both the impact of EU withdrawal and the introduction of Covid-19 related restrictions. Previous work Audit Scotland has done in relation to preparation for the UK withdrawal from the European Union is available [on the E-hub](#).

# Exhibit 1

## Change in GDP relative to previous quarter (2017–21)



Source: Scottish Government, December 2021

# Unequal impact

## The impact of the pandemic has not been equal across Scotland's economy

**6.** Some sectors and specific industries have been more affected by Covid-19-related restrictions and impacts than others, with specific funds subsequently introduced by the Scottish Government to provide elements of tailored support ([Exhibit 2, page 6](#)).

**7.** Regions where tourism and hospitality contribute a greater proportion of economic activity were more vulnerable to the effects of lockdown measures. This has disproportionately impacted rural and island economies, particularly those in the Highlands and Islands and South of Scotland.

**8.** Rural economies are also more reliant on smaller businesses, and seasonal and self-employment are more prevalent than in urban economies. As well as specific sectors being more important to these economies, smaller businesses are generally more vulnerable to external economic shocks and less able to withstand prolonged interruptions to their cash flow.

**9.** The restrictions to business activities have disproportionately impacted younger people. Labour market data shows that a greater proportion of younger people are employed in sectors such as hospitality, leisure and retail, all of which were subject to significant restrictions in their activities.

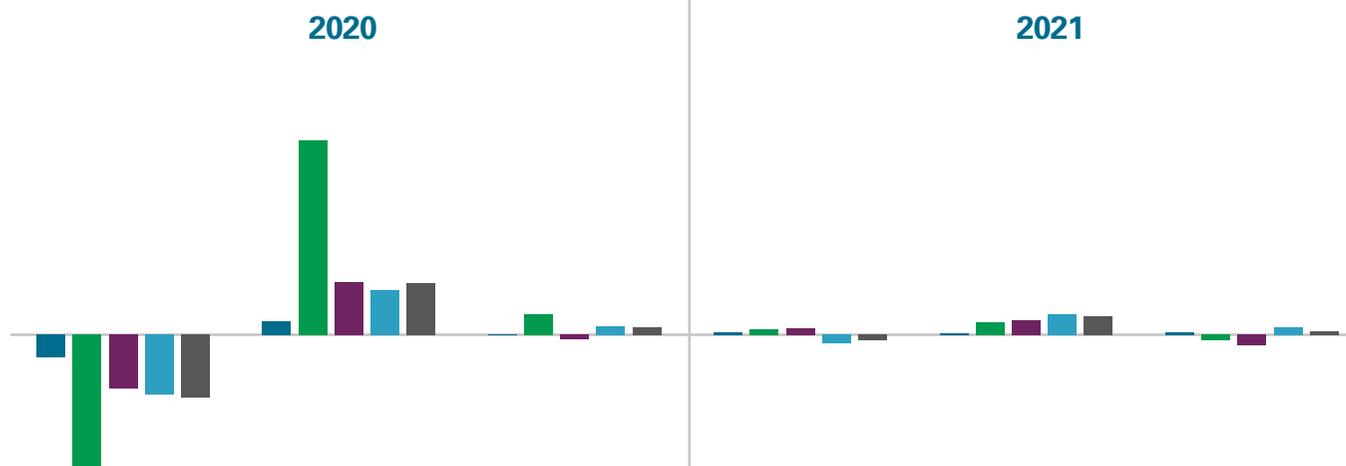
**10.** A larger proportion of female-owned businesses, particularly SMEs, also operate in sectors that were subject to trade restrictions.

**11.** The Scottish Government has now carried out Equalities Impact Assessments (EQIAs) on the business support funds introduced to support businesses and the economy during the Covid-19 pandemic ([paragraphs 22–24](#)).

## Exhibit 2

### Impact of Covid-19 on GDP growth by sector

Percentage change (real)



	2020			2021		
	Q2	Q3	Q4	Q1	Q2	Q3
Agriculture, forestry and fishing	-6.7	4.1	0.2	0.8	0.4	0.8
Construction	-39.7	57.7	6.2	1.7	3.8	-1.5
Production	-16.0	15.5	-1.4	1.9	4.2	-3.1
Services	-17.6	13.2	2.5	-2.6	6.1	2.1
Whole economy	-18.5	15.3	2.1	-1.6	5.6	1.0

Note: The changes shown represent each sector's contribution to the overall change in total economic output in Exhibit 1.

Source: Scottish Government, December 2021

# Business support funding

**12.** Between March 2020 and October 2021, the Scottish Government provided a total of £4.4 billion to businesses under a variety of different funds and partnership arrangements ([Exhibit 3](#)).

**13.** Private sector businesses were able to apply for support administered by Scotland's councils from March 2020, with initial schemes available until July 2020. Further support schemes then opened:

- **Small business grant and retail, hospitality and leisure grant schemes**, administered by councils, were in place until July 2020. During this time, Scotland's councils paid out **£1.02 billion** in over 91,000 awards.
- **Circuit breaker funding** was available from October to November 2020 under four different funds – closure, hardship, furlough and contingency funding. **Of the £27.4 million provided**, just over 40 per cent (£11.4 million) went to support businesses that were closed. Contingency, used to make one-off payments to nightclubs and soft play centres, comprised the second largest share of funding at 25 per cent (£6.9 million).

## Exhibit 3 Scottish Government business support funding

Administering body	Type of fund	Dates	Amount paid £ million
Councils	Small business grants Retail, hospitality and leisure scheme	March to July 2020	1,020.7
Councils	Circuit breaker funding – 4 funds: Closure, Hardship, Furlough, Contingency	October to November 2020	27.4
Councils	19 different funds for different purposes and types of business	November 2020 to October 2021	1,291.1
National bodies (ie, non-council)	Sector funding, covering areas like tourism, the arts and legal aid	March 2020 to October 2021	562.5
Councils	Non-domestic rates (NDR/ business rates) reliefs	Financial years 2020/21 to 2021/22	1,536.0
<b>Total</b>			<b>4,437.8</b>

Note: A full list of the individual funds detailed above is provided as part of the [Data Appendix](#).  
Source: Scottish Government Coronavirus (Covid-19) summary of Scottish business support funding, February 2022

- Between November 2020 and October 2021 councils paid out **£1.29 billion**, under a further 19 different council administered support schemes following the introduction of the Strategic Framework Business Fund (SFBF) in November 2020. Between them, the SFBF and restart grant and transitional payments schemes made up nearly two thirds of this funding (£790 million). Hospitality retail and leisure top-up funding made up 18 per cent (£234 million).
- The SFBF has been used as a basis for administering and designing subsequent support schemes as it was only open to businesses paying non-domestic rates on at least one premises. This meant recipients were considered potentially eligible for subsequent schemes where this was a prerequisite.

**14.** Around **£562.5 million of sector specific funding** was also made available in two successive periods covering March to September 2020 and then October 2020 to October 2021. These smaller funds were administered on behalf of the Scottish Government by a range of agencies, including Scottish Enterprise, Creative Scotland and Visit Scotland. Some of these schemes were specifically designed to support businesses who did not have premises and were not liable for non-domestic rates, and so were not eligible for the main relief funds.

A full list of the individual funds summarised above is provided as part of the [Data Appendix](#).

**15.** The announcement of various support funds reflects both the timing of additional Covid-19 related funding being confirmed and becoming available to the Scottish Government, and the targeting of support to specific sectors that were most impacted by restrictions. The Scottish Government's overall financial management of additional Covid-19 related funding is the focus of the upcoming joint Auditor General and Accounts Commission audit 'Scotland's financial response to Covid-19' ([paragraph 52](#)).

## As well as specific support schemes, businesses across Scotland were offered additional non-domestic rates reliefs

**16.** In addition to specific business support schemes, the Scottish Government announced a range of interventions to support businesses. This included relief on the amount of rates that businesses had to pay on their premises. The Scottish Government increased General Revenue Grant funding to councils (via the local government funding settlements) to offset the loss of non-domestic rate income.

**17.** Alongside existing support schemes, properties in the retail, hospitality, leisure and aviation sectors (RHLA) were eligible for 100 per cent relief in 2020/21. These, together with 1.6 per cent relief for all non-domestic properties, were automatically awarded. Eligible properties could also apply for 100 per cent RHLA relief in 2021/22. This effectively means that a large number of business did not have to pay any non-domestic rates on their premises over the last two years.

**18.** In December 2021, the Scottish Government announced the further continuation of Covid-19 specific rates relief for 2022/23, with a 50 per cent relief for retail, hospitality and leisure (RHL) properties for the first three months of the year (until June 2022 and capped at £27,500 per ratepayer).

**19.** In total, the Scottish Government estimates that the cost of introducing the Covid-19 specific non-domestic rates reliefs offered totalled £824 million in 2020/21, and £712 million in 2021/22. This does not mean businesses paid this much less in rates, as some would have been eligible for previously existing reliefs. The distribution of the cost of providing the Covid-19 reliefs will reflect the business base within individual councils.

## Most of the funding can be identified by council area, but further work is required to provide a complete geographical analysis

**20.** Due to missing data for some records within the non-council administered funds, total funding awarded to businesses by council area cannot be fully reconciled to the national funding awarded under specific schemes.

**21.** As at February 2022, £453.0 million of the £562.5 million awarded under the nationally administered schemes includes information on the location of the business and can be used to provide a preliminary analysis of funding by council area ([Exhibit 4, page 10](#)).

## The Scottish Government has now considered how business support funding addressed inequalities

**22.** As the pandemic progressed, the Scottish Government adopted a three-phase approach to respond to Covid-19. The 'Respond, Recover, Renew' approach adopted roughly aligns to short-, medium- and long-term actions, particularly in an economic context. The Scottish Government subsequently identified four harms against which it is reporting data and outcomes: direct health impacts; indirect health impacts; societal impacts; and economic impacts.

**23.** The Scottish Government completed an EQIA on its Strategic Framework to assess the policy impact on diverse groups and individuals, and this overarching EQIA provided the context in which the business support grants were developed. In late 2021, the Scottish Government completed a series of retrospective EQIAs on business support funds. Although primarily intended to help businesses, and administered at pace, the funding provided through the general schemes was found to support specific demographic groups, for example younger workers, due to their over-representation within certain areas of the labour market ([paragraph 9](#)).

**24.** Similarly, specific schemes supported industries where business owners and the workforce are from particular groups. For example, the Mobile and Home-Based Close Contact Services Fund provided targeted support for mobile health and beauty services which are mainly owned by, and employ, women ([paragraph 10](#)).

## The Scottish Government and councils have been working closely to minimise fraud risk

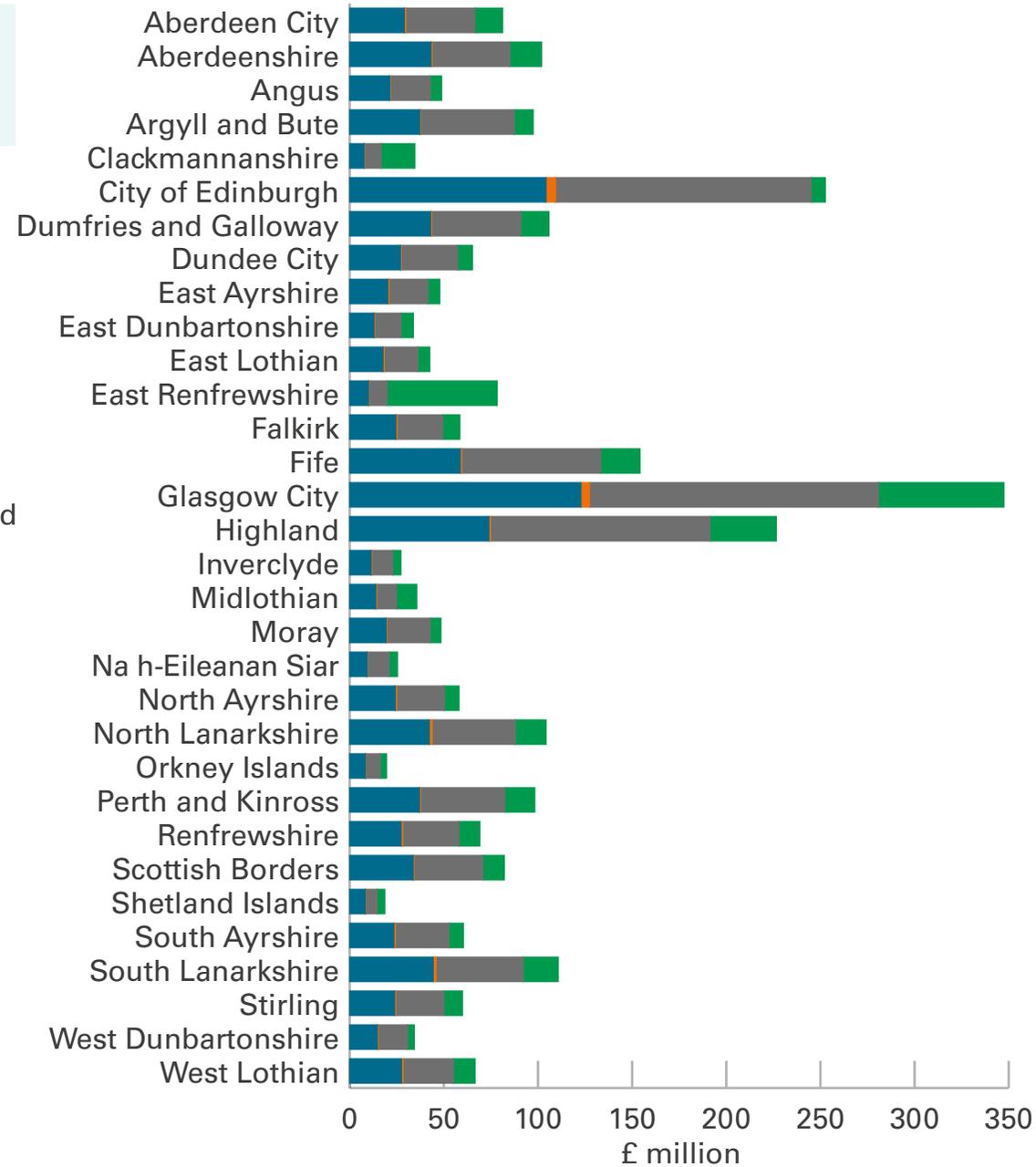
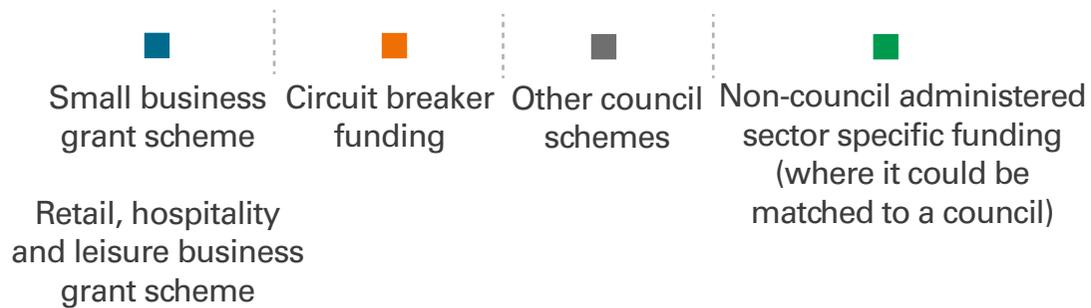
**25.** As reported in the [Auditor General's Section 22 report on the Scottish Government's Consolidated Accounts for 2020/21](#), the Scottish Government accepted a higher than normal fraud risk due to the speed at which business support schemes were set up, and the need to make payments quickly.

**26.** For council administered funds, the Scottish Government required that appropriate fraud arrangements were in place, relying on councils to ensure eligibility. This recognised that councils' existing control environments and fraud arrangements are generally robust.

**27.** For example, a number of funds were open only to businesses that were registered on councils' Non-domestic Rates systems. Additionally, support was initially open only to those businesses that were already registered in 2019/20 (as at 31 March 2020, ie before businesses could apply for support funds). This meant that eligibility was determined using a well-established, robust, existing data set and limited to businesses that were already known and identifiable.

**28.** In mid-2021, the Scottish Government undertook an assurance mapping exercise to assess the controls in place at delivery partners, including councils. Based on data compiled in an assurance template for the non-council administered schemes, the Scottish Government concluded that there were appropriate controls in place.

## Exhibit 4. Business support funding by council area



Note: A full list of the individual funds is provided as part of the [Data Appendix](#).

Source: Scottish Government Coronavirus (Covid-19) summary of Scottish business support funding, February 2022

**29.** A self-assessment checklist was agreed with and issued to councils, covering a number of funds, including the Coronavirus Business Support Fund, Restart Grants, Strategic Framework Business Fund and Discretionary Fund. Again, the Scottish Government concluded that appropriate controls were in place.

**30.** In late 2021, the Scottish Government prepared a retrospective Fraud Risk Review on 11 major business support funds, administered by both councils and other bodies. This concluded:

- There was reasonable assurance against fraud risk for business support. Controls were adequate but some improvements could be made.
- An overall assessment that two schemes were high risk, seven medium risk and two low risk (based upon an assessment of the controls in place, timing and nature of payments, and the total value of the funds).

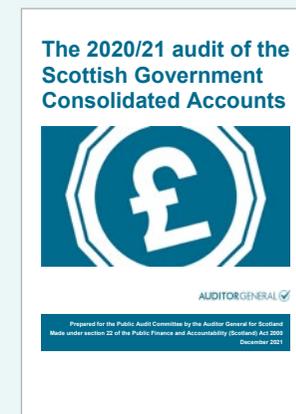
**31.** The schemes assessed as high risk were council administered schemes, specifically Business Support Fund Grants (including the Small Business Support Grant and the Retail, Hospitality and Leisure Grant) and the Strategic Framework Business Fund (including Retail, Hospitality and Leisure Top-up Grant). This partly reflected the pace at which these schemes were set up and their value (around £2.0 billion of the £2.3 billion of council administered support funding, excluding NDR reliefs).

**32.** The Scottish Government paid out £1.6 billion of these funds in 2020/21. The audit of the Scottish Government Consolidated Accounts for the year concluded that the Scottish Government's estimate of fraud and error was reasonable but recommended continued monitoring and reporting:

### Fraud and Error:

The Scottish Government estimates fraud and error in these schemes to be no more than one to two per cent of payments, approximately £16 million to £32 million. This is based on information available about the schemes being targeted, the quality and completeness of fraud controls and the evidence of fraud detected. While this estimate is not unreasonable, the Scottish Government needs to regularly assess and improve its estimates of fraud and error in Covid-19 grant schemes and assure themselves that controls to detect and prevent fraud and error are working in practice.

Source: [Auditor General's Section 22 report on the Scottish Government's Consolidated Accounts for 2020/21](#)



**33.** Business support funding payments will be included in the next National Fraud Initiative data matching exercise.

## There were also UK-wide schemes to support Scottish businesses and jobs

**34.** As well as Scottish Government business support funding, a range of UK-wide schemes were open to Scottish businesses:

- Self-Employment Income Support Scheme (SEISS)
- Recovery Loan Scheme
- VAT deferral
- Statutory Sick Pay (SSP) support
- Coronavirus Job Retention Scheme (furlough): up to September 2021, when the scheme closed, over 900,000 Scottish jobs had (cumulatively) been supported. This is equivalent to 26 out of every 100 of the working age population.
  - Furlough support varied across Scotland, from 21 out of 100 of the working age population in Inverclyde to 31 in the Highlands.
  - Proportionately, more men than women were placed on furlough, with 2.4 claims per 100 working age men compared to 2.2 for working age women when the scheme closed.
  - The highest proportion of jobs accessing furlough support were in accommodation and food services (nearly 1 in 5 of the total claims when the scheme closed).

An analysis of the number of furlough claims by council area is provided as part of the [Data Appendix](#).

## A further £375 million of business support funding was announced in December 2021

**35.** In December 2021, due to new public health measures introduced in response to the emergence of the Omicron variant of Covid-19, the Scottish Government announced further support funding would be made available to Scottish businesses.

**36.** Initially, the Scottish Government announced £100 million of funding, with £175 million of additional funding subsequently being made available from HM Treasury. The Scottish Government later supplemented this by identifying a further £100 million from within its existing budget, to bring the total funding available to £375 million.

**37.** Councils are administering most of this funding to support hospitality, leisure and associated sectors. Specific funding announcements were also made for the events, tourism and culture sectors.

**38.** Details of how we intend to cover this funding within our ongoing programme of audit work is included in the [Our work](#) section.

# Learning lessons for future economic recovery

## The Scottish Government has learned lessons as it developed different business support funding schemes

**39.** The Scottish Government has taken various steps to improve the management of business support funding since the initial funds were launched in March 2020. These include:

- Setting up a new Covid Business Resilience and Support Directorate (COBRAS) to oversee elements of its overall response to support businesses to respond to Covid-19 and to work in partnership with the wider public and private sectors to build future resilience.
- Establishing the Strategic Framework Business Fund in November 2020 as a means of designing and managing a range of different support funds going forwards (by establishing eligibility).
- Requiring administering authorities to regularly submit management information returns.
- In early 2021, establishing two business support funding oversight groups: the Business Support Governance Group, made up of senior Scottish Government staff, and the Business Support Steering Group, which includes representation from external organisations (including COSLA).

- In mid-2021, undertaking assurance mapping exercises to assess the controls in place across councils and other bodies that administered business support funds.
- In late-2021, completing retrospective Equality Impact Assessments ([paragraphs 22–24](#)) and Fraud Risk Assessments ([paragraphs 25–32](#)) of the individual funds.

## There was not enough focus on the need for good quality detailed data on the use of the funds

**40.** Despite these new governance arrangements, complete analysis of how funding has been used to support businesses remains difficult:

- For the early schemes administered by councils, only council-level aggregate information was initially supplied to the Scottish Government, partly to limit administrative demands during the initial emergency response phase. The Scottish Government is still collating information on the individual grants awarded that make up these figures, including application and payment dates.
- For sector specific funding, administered by national organisations, around 20 per cent of payments cannot currently be matched to council areas to allow analysis of funding on a purely geographical basis.

- For non-sector specific funds, the nature of the businesses supported through some of the more general support funding schemes cannot currently be analysed by economic sector/ activity.
- Similarly, information to enable wider analysis of how funding supported specific groups, such as female owned businesses, is not available from Scottish Government centrally held data.
- Due to businesses being potentially eligible for support under more than one funding stream it is not currently possible to determine the exact number of businesses that received support (as opposed to applicants under individual schemes). This is due to the absence of a unique identifier for each organisation across individual fund data sets.

**41.** The duration of schemes, timing of summary information being published, and gaps in centrally held data mean that the reported aggregates cannot currently, in all cases, be broken down into constituent individual claims.

## The Scottish Government is working to improve the data to inform future policy making

**42.** The Scottish Government is currently undertaking a large data cleansing exercise to ensure that the datasets for individual funds, including those administered by councils, are complete and contain the information required. This includes any fields that are currently incomplete on individual records.

**43.** It is expected that, upon completion of this exercise, funding will be better able to be analysed and reconciled, allowing more complete analysis of how funds have been distributed across economic sectors and geographies. It is important that there is clear data to inform longer-term planning and enable evidence-based policy making, including wider equalities considerations.

## The Scottish Government is currently refreshing its longer-term economic plans

**44.** Scotland's economic planning framework is complex, with a range of public sector bodies involved in delivering the overall objectives set out in the National Performance Framework (NPF).

**45.** The NPF measures progress towards economic targets and outcomes but it does not measure the contribution of specific policies, initiatives or bodies to delivering these outcomes. The Auditor General outlined the challenges of planning for outcomes in a 2019 [briefing paper](#).

**46.** Since the publication of the National Economic Strategy in 2015, and the Auditor General's 2016 report [Supporting Scotland's economic growth: The role of the Scottish Government and its economic development agencies](#), planning has become more complex. This added complexity includes an increase in the number of bodies now involved, including South of Scotland Enterprise and the Scottish National Investment Bank.

**47.** As well as specific intervention to support businesses in response to Covid-19 ([Business support funding](#)), the Scottish Government has also made a series of recent policy announcements that will impact the nature of Scotland's economic recovery. These include:

- the 2018 Enterprise and Skills Review, the progress of which was assessed in the Auditor General's recent report [Planning for skills](#)
- interim economic plans, including an Economic Recovery Implementation Plan in 2020
- a refreshed Infrastructure Investment Plan (2020/21-2025/26) and update to its Climate Change Action Plan (2018-2032).

**48.** A number of funding and policy commitments have already been made, by both the Scottish and UK governments, to support longer-term economic recovery. Alongside Scottish Government policy announcements, these include:

- specific initiatives such as green freeports
- direct UK Government investment in Scotland under the Shared Prosperity Fund (and its precursor the Community Renewal Fund), Community Ownership Fund and Levelling Up funding. The first round of Scottish projects supported under these specific funds was announced alongside the UK Government budget and spending review between October and December 2021.

**49.** The Scottish Government has recently published a new national economic strategy, the 10-year National Strategy for Economic Transformation, with a focus on the longer-term post Covid-19 recovery.

# Our work

## Following the Pandemic Pound

**50.** In line with [Following the Pandemic Pound: our strategy](#), we intend to continue our work in this area to provide overall conclusions on how Covid-19 related funding has been used by the Scottish Government to support public services, communities, and businesses.

**51.** Prior to, and throughout the Covid-19 pandemic, we have:

- Continued our regular counter-fraud work and highlighted and monitored the range of fraud risks emerging since the start of the Covid-19 pandemic. This includes those related to business support funding. In July 2021, we published [Fraud and Irregularity 2020/21](#).
- Produced a series of tracker papers, outlining the [impact of Covid-19 on Scotland's public finances](#) (most recently in September 2021).
- Continued our annual audit work on the Scottish Government, including the Annual Audit Report and [Auditor General's Section 22 on the Scottish Government's Consolidated Accounts for 2020/21](#).

- Continued with planned audits related to the Scottish Government's wider economic policy programme, including the national Enterprise and Skills Review (the progress of which was assessed in the Auditor General's recent report [Planning for skills](#)).
- In the Accounts Commission's [Local Government in Scotland: Financial overview 2020/21](#), we outlined the strategic financial position of Scotland's councils, including the impact of Covid-19 and how this has affected year-end outturn, balances and reserves.

## Upcoming work

**52.** In our upcoming programme of work, we will:

- In the joint Auditor General and Accounts Commission audit, 'Scotland's financial response to Covid-19': provide an update on the impact of Covid-19 on Scotland's public finances, including the sources of additional funding and the overall financial management, governance and oversight arrangements in place. This will include some consideration of business support funding arrangements.

- In the Accounts Commission's 'Local Government in Scotland Overview 2022': consider economic issues facing local government and how these have been impacted by the Covid-19 pandemic; current and new national policy and legislation and how this links to pandemic recovery.
- Continue our programme of statutory annual audit work on the Scottish Government's accounts for 2021/22, which will include the additional £375 million of funding announced in December 2021, and further consideration of business support funding governance and fraud arrangements.
- Continue to support the Scottish public sector's participation in the biennial National Fraud Initiative.
- Consider further analysis of business support funding information after the Scottish Government has completed its data cleansing exercise.
- We will consider the overall economic policy framework as part of our [forward work programme](#) following the recent publication of the Scottish Government's 'National Strategy for Economic Transformation'.

## Briefing

# Scotland's economy

## Supporting businesses through the Covid-19 pandemic

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