

REPORT TO: SCRUTINY COMMITTEE – 28 SEPTEMBER 2022
REPORT ON: SCOTLAND’S FINANCIAL RESPONSE TO COVID
REPORT BY: EXECUTIVE DIRECTOR OF CORPORATE SERVICES
REPORT ON: 260-2022

1 PURPOSE OF REPORT

To provide elected members with a summary of the above national report that has been undertaken by Audit Scotland on behalf of the Accounts Commission.

2 RECOMMENDATIONS

It is recommended that the Committee notes the key messages and recommendations arising from the Audit Scotland overview report and the council’s existing and planned efforts to address the recommendations.

3 FINANCIAL IMPLICATIONS

There are no direct financial implications arising from this report.

4 MAIN TEXT

4.1 Audit Scotland has developed its approach to overview reporting and now publishes two overview reports per year. Both of these reports were considered by Scrutiny Committee on 29 June 2022. The first report provided a financial overview (Report 175-2022) and the second report provided an overview of the wider challenges which have been facing Councils’ ongoing response to the Covid-19 pandemic and the challenges in recovering services (Report 176-2022).

4.2 Audit Scotland’s Financial Response to Covid report builds upon these overview reports. It 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. The 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.

The report also recognises that 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.

4.3 The key messages arising from the overview report are set out on pages 4 and 5 of the report. These include messages around the following areas:

- The Scottish Government worked collaboratively and at pace with local and UK 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 streamlined governance arrangements to direct funds quickly, but Audit Scotland concluded that it was difficult to see how some financial decisions were reached.
- 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 the extent to which councils shaped the overall financial response was limited. Delivering Covid-19 funding placed a considerable resource burden on councils and public bodies.
- The Scottish Government has managed its overall budget effectively but some Covid-19 funding remains unspent. Up to December 2021, the Scottish Government spent an estimated £11.8 billion on its Covid-19 response. At the end of 2020/2021 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.
- 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 and 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.
- 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. It is critical that 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.

4.4 The key recommendations arising from the overview report are set out on pages 6 and 7 of the report. These include recommendations for the Scottish Government, councils, NHS Boards, and integration authorities around the following areas:

- 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.

4.5 The Council's existing and planned actions to address these recommendations are:

- All additional Covid-19 related expenditure and funding is included within Corporate Services' regular revenue budget monitoring process which is reported to the Policy and Resources Committee. In addition, an update on the overall financial impact for financial year 2021/2022 was included in the Unaudited Annual Accounts that were reported to Scrutiny Committee on 29 June 2022 (Report 190-2022).
- Information on the purpose and level of reserve balances is included in the annual accounts which are reported to the Scrutiny Committee. The Unaudited Accounts for 2021/2022 included earmarked funds of £4.39m for specific Covid-19 related spend, £18m to cover general Covid-19-related cost pressures (including lost income streams) for the period 2022 to 2025 and £3m to fund Covid-19 recovery measures.
- To review its medium- and longer-term financial plans to reflect the ongoing impact and financial consequences of the pandemic. This will be reported to elected members in this financial year.
- In terms of the above recommendation to continue to monitor and report on fraud and error arising from Covid-19 business support payments, the council has been compliant throughout the pandemic, and will continue to do so.
- Internal Audit have conducted a recent review of the Council's Covid-19 funding which was reported to Scrutiny Committee on 29 June 2022 (Report 157-2022) into the arrangements in place within the Council to track and monitor the portfolio of different COVID-19 funding streams.
- Many of the additional Covid-19 funds included a requirement to report directly to the Scottish Government to demonstrate use of the funds for the intended purpose.
- The Council has regularly reported on the local response and risk management arrangements associated with the response to the pandemic. The Local Code of Corporate Governance report which was reported to the Policy and Resources Committee on 27 June 2022 (Report 140-2022) summarised the various reports that the Council has presented to committee in response to the pandemic including the funding and logistical consequences of delivering the local government response, the various actions implemented by the Council and the Scottish and UK Governments in response to the on-going Covid-19 emergency, and the associated financial implications. The financial position around the Council's response to the Covid-19 emergency was closely and regularly monitored and updated reports on the financial implications as well as the financial recovery plan were reported to committee throughout the first year of the pandemic. Since April 2021 the financial position around the Council's response to the Covid-19 emergency has been embedded in monthly revenue monitoring reports to the Policy and Resources Committee.
- As part of the updated service planning processes Services were requested to review those items included within the Covid-19 Recovery Plan that were considered to have an ongoing impact and ensure that actions to address these priorities were reflected in these plans. These plans, together with any subsequent progress updates, have been considered by various committees throughout the past year.
- Assessing the longer-term disruption and consequences arising from the coronavirus pandemic, e.g. some existing projects and programmes may have been put on hold, new priorities and objectives introduced, new risks identified or existing risks escalated. The Council formulated a Covid-19 Recovery Risk Register ([Report 193-2020](#)) and a Recovery Plan in August 2020 ([Report 185-2020](#)) with a subsequent progress update reported in May 2021 ([Report 157-2021](#)) and will continue to review and update these regularly in response to changing circumstances.
- A report detailing the Council's response to the Covid 19 emergency was also reported to the Policy and Resources Committee in August 2020 ([Report 189-2020](#)). This report provided an overview of the Council's response to date, demonstrating both the scale and breadth of the work undertaken by staff in collaboration with partners and local communities.

5 POLICY IMPLICATIONS

This report has been subject to the Pre-IIA Screening Tool and does not make any recommendations for change to strategy, policy, procedures, services or funding and so has not been subject to an Integrated Impact Assessment. An appropriate senior manager has reviewed and agreed with this assessment.

6 CONSULTATIONS

The Council Leadership Team were consulted in the preparation of this report and agreed with its contents.

7 BACKGROUND PAPERS

None.

**ROBERT EMMOTT
EXECUTIVE DIRECTOR OF CORPORATE SERVICES**

12 SEPTEMBER 2022

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,
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Garry Quigley and
Thomas Charman
under the direction of
Mark Taylor.

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Key facts

	The amount of Covid-19 Barnett consequentials provided to the Scottish Government by the UK Government since March 2020	£14.4 billion
	The amount the Scottish Government has allocated to its Covid-19 response in 2020/21 and 2021/22	£15.5 billion¹
	The estimated amount spent by the Scottish Government on its response to Covid-19, between March 2020 and December 2021	£11.8 billion
	The number of Covid-19 spending announcements made by the Scottish Government, between March 2020 and March 2022	300+
	Total Covid-19 funding allocated to health and social care in 2020/21 and 2021/22	£5.7 billion
	Total Covid-19 funding allocated to business support in 2020/21 and 2021/22	£5.2 billion
	Total Covid-19 funding allocated to councils by the Scottish Government in 2020/21 and 2021/22	£1.8 billion

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.

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.¹ 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.² 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.³ 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

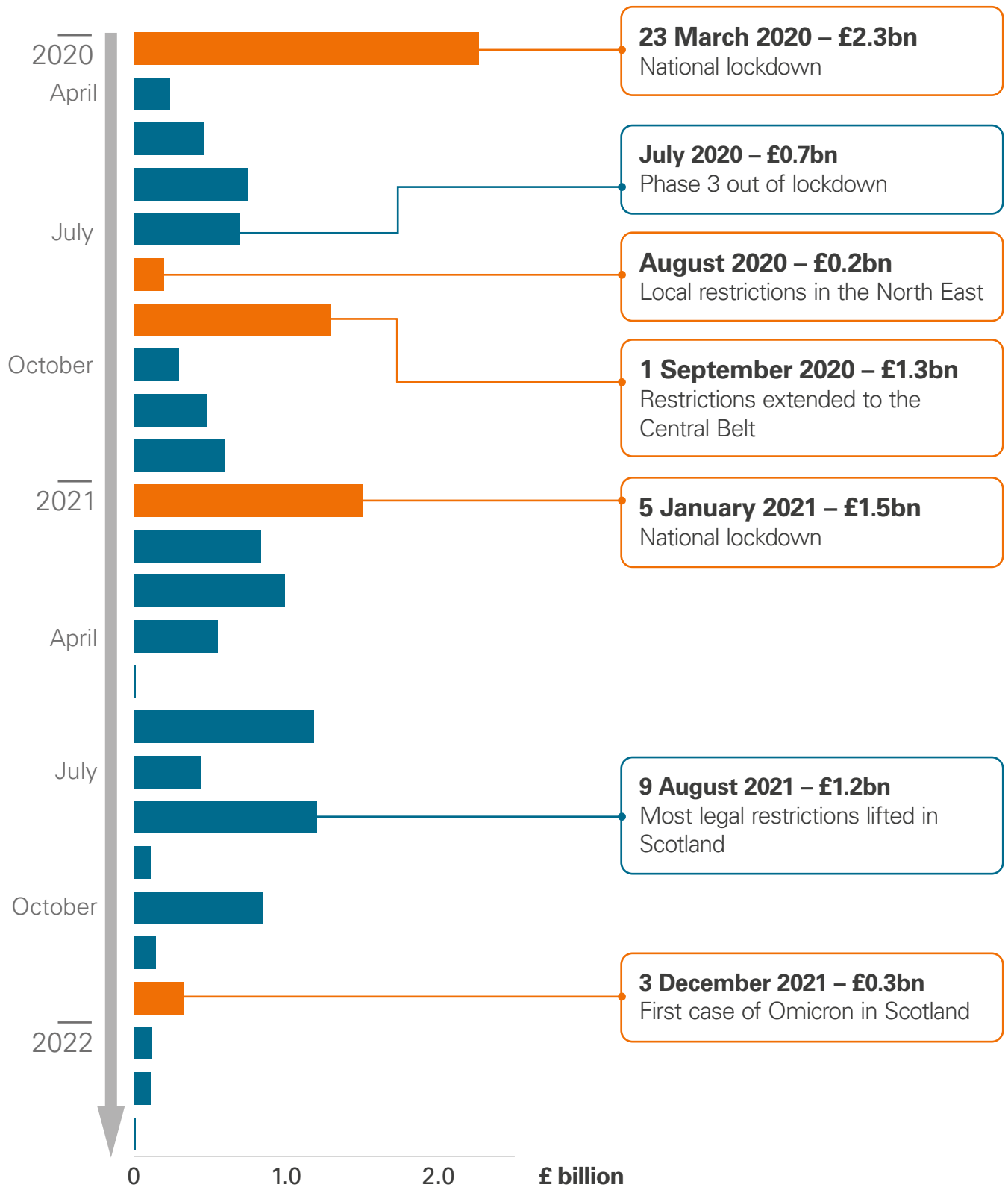
Additional funding comes to Scotland when the UK Government spends money in England in a devolved policy area. The Scottish Government receives this funding in the form of Barnett consequentials and has flexibility in deciding how to allocate this funding.

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.

 The Four Harms	Examples of funding	Actual spending 2020/21, £m
Direct health		
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
Indirect health		
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
Societal		
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
Economic		
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 2020/21.⁴

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.

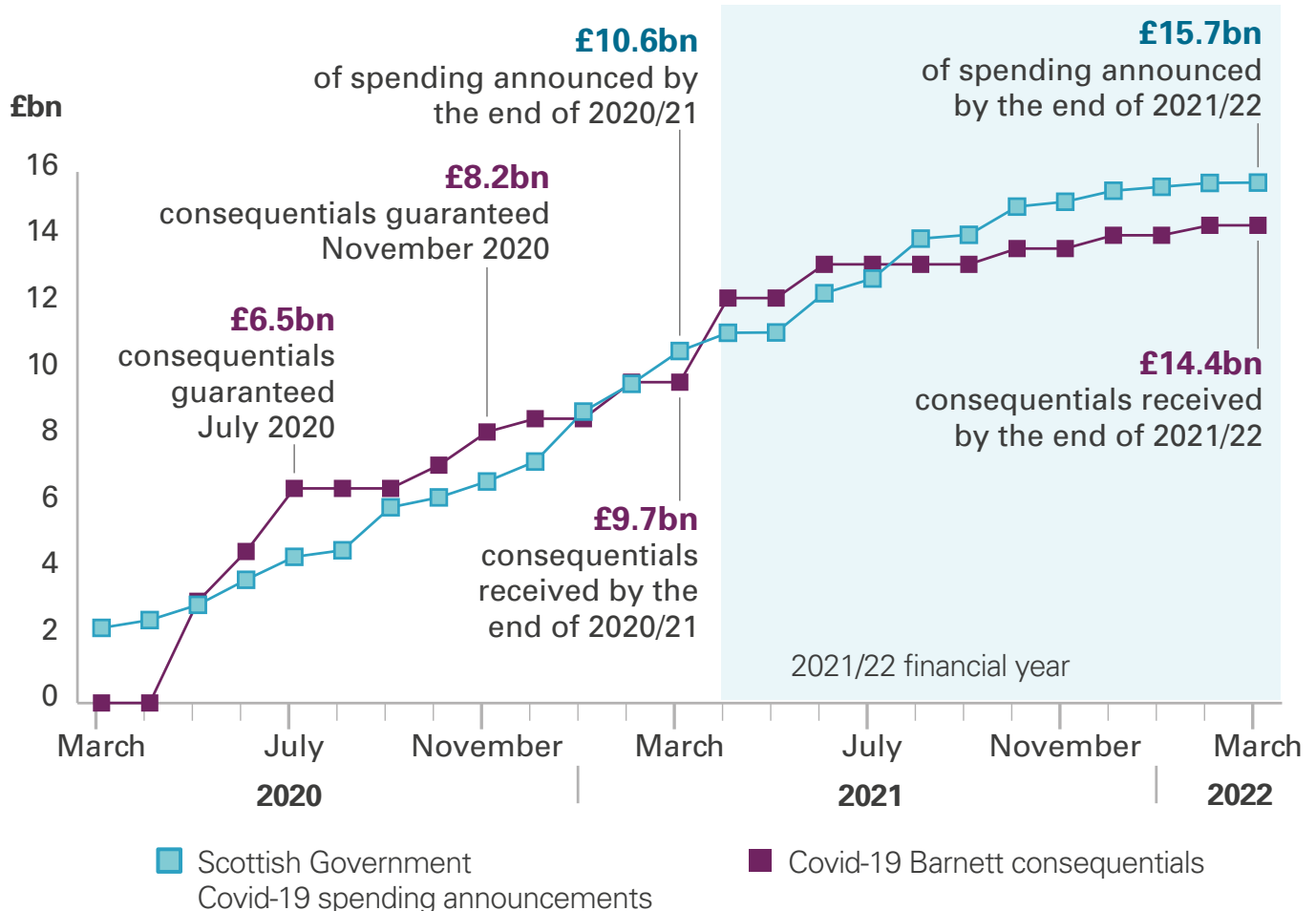
The Scottish Government has announced more spending than it has received in funding

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.¹



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

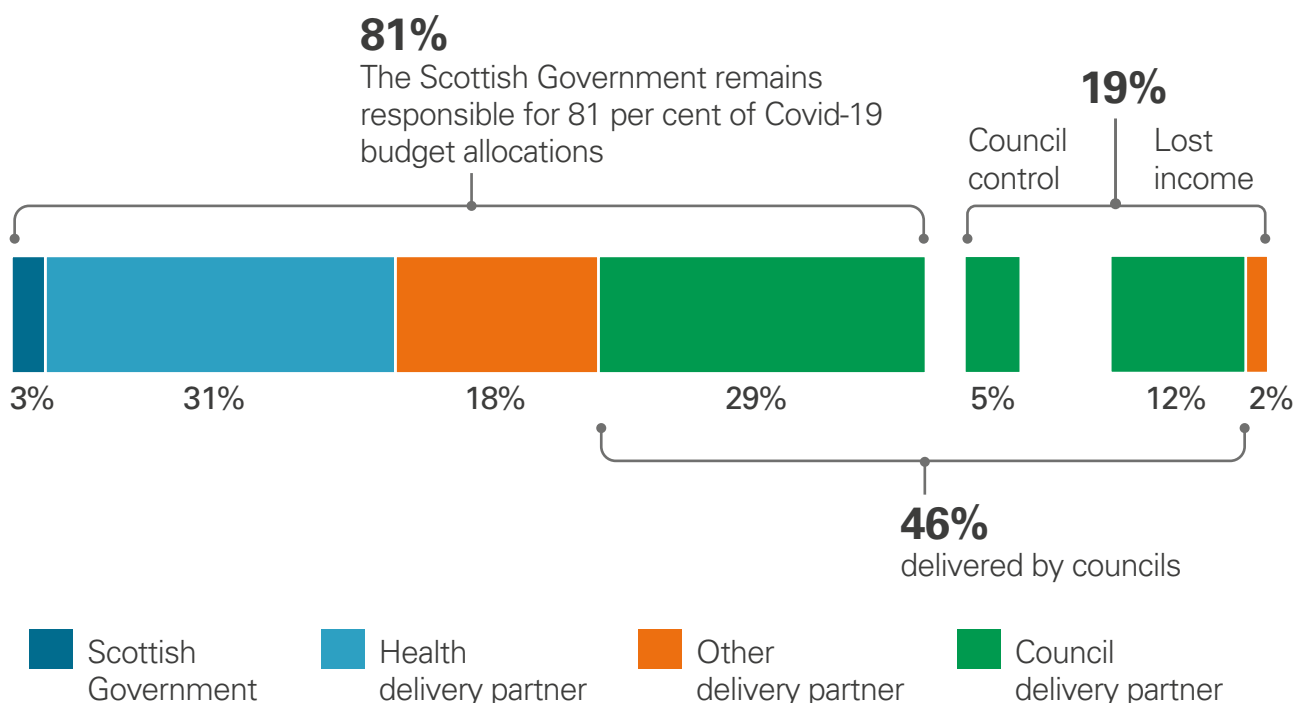
56. Councils agreed to administer a wide range of funds announced by the Scottish Government, resulting in significant resourcing challenges. Although the Scottish Government provided support to help cover the cost of administering the funds, the large volume of work required during some stages of the 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 ¹	6.0	3.0 (to December 2021) ²
Total	14.4	15.5	11.8

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.⁵ 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	Initial lockdown March – June 2020 The start of the national lockdown in March 2020 through to the first steps out of lockdown.	£3.7 billion 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.
	Summer easing July – August 2020 The summer easing of restrictions across the country.	£0.9 billion There were fewer spending announcements over this period, with over 80 per cent of measures announced targeted towards helping businesses.
	Second wave September 2020 – March 2021 Regional restrictions reintroduced at different points culminating in a second national lockdown in January 2021.	£6.0 billion 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	Emerging from the pandemic April – November 2021 Restrictions were gradually relaxed across Scotland with different council areas progressing through the level systems.	£4.5 billion 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.
	Omicron December 2021 – March 2022 Some restrictions reintroduced over Christmas then gradually eased.	£0.6 billion 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.

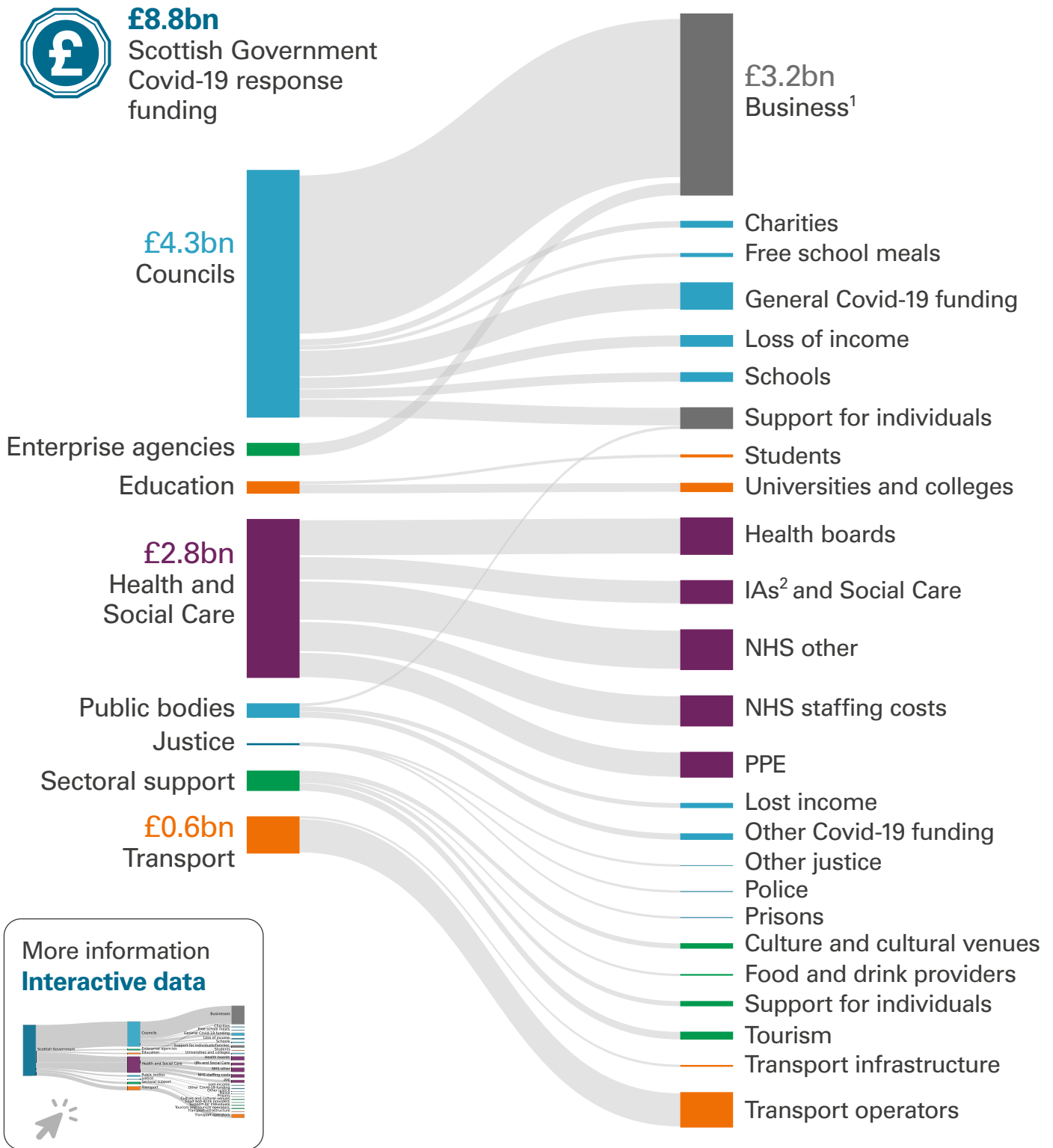
67. These timing and classification differences mean that it is not straightforward for the Scottish Government to track how much of the funding provided has ultimately been spent by the public bodies administering it. The Scottish Government's budget management focuses on the funding it has provided. 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.

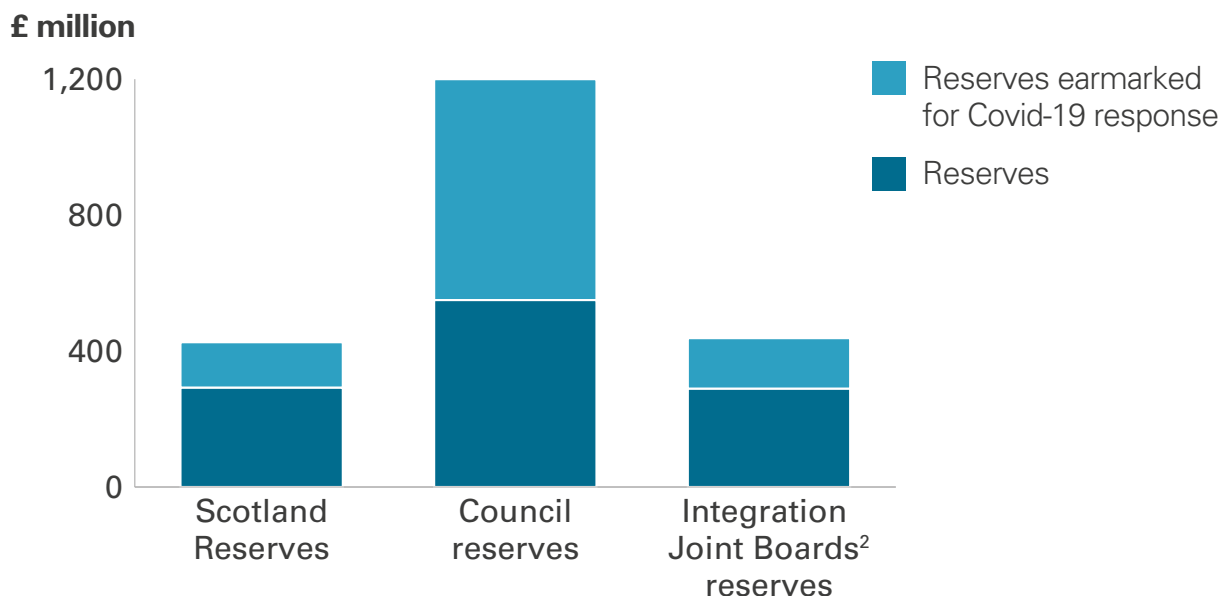
held back to 2021/22 will be used to support the overall capital budget rather than specific Covid-19 spending.

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.¹



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.⁶

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.⁷ 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.

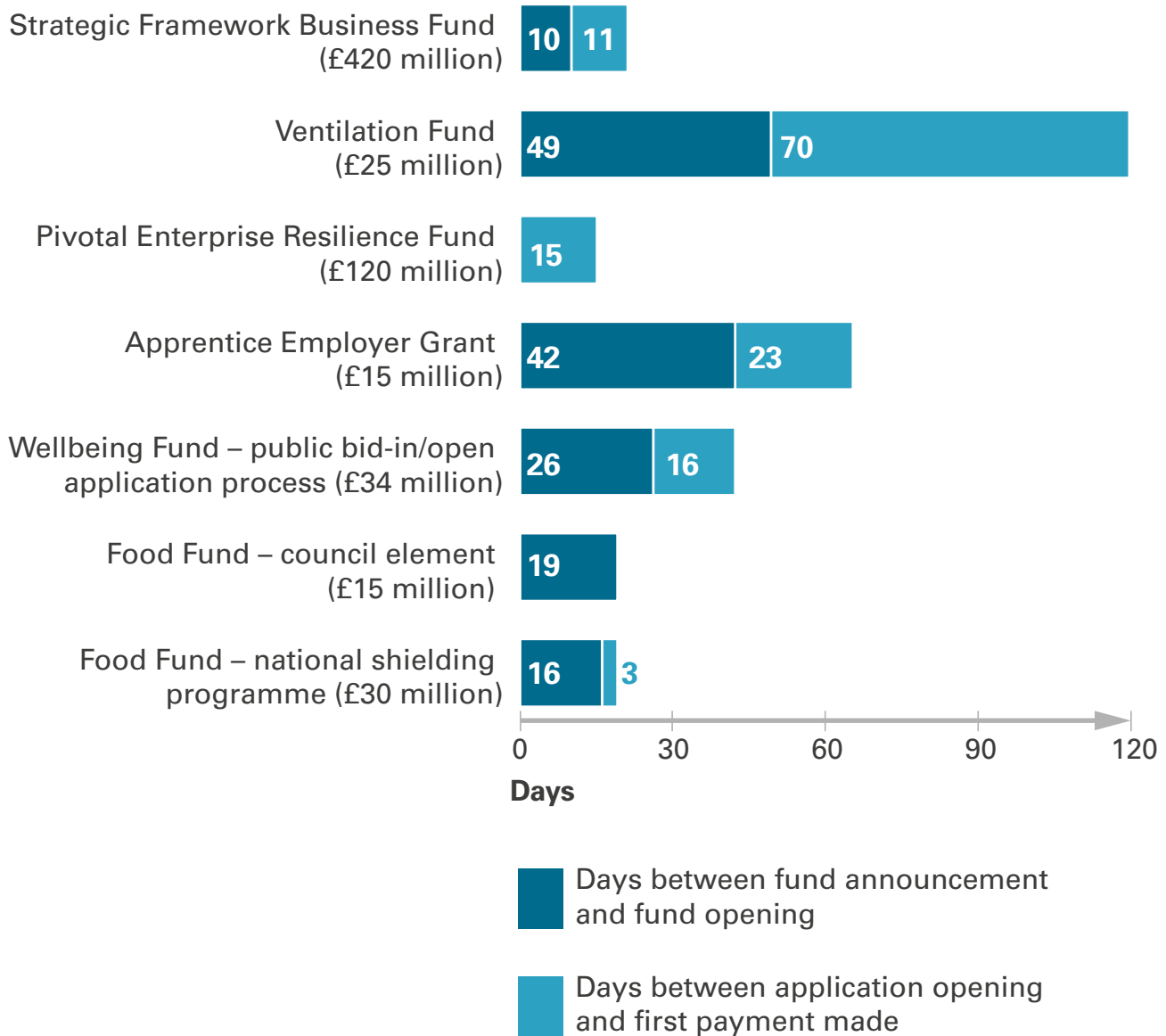
102. In December 2020, the Scottish Government reported on the impact of Covid-19 on the long-term trends in the National Performance Framework. The pandemic has slowed and, in some cases, reversed progress across many of Scotland's National Outcomes. The impact on National Outcomes is likely to be long 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 ¹	Spending area	Partners
Additional funding for health				
Additional funding to NHS boards to help deal with the health impact of Covid-19.	2020/21 Autumn and Spring budget revision	£1.6bn ²	Health	NHS boards
Additional funding for Lost Income Fund				
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 ³	£200m	Communities and local government	Councils
Food Fund (national programme)				
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
Food Fund (councils)				
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
				Contd.

Fund	Date announced	Value ¹	Spending area	Partners
Wellbeing Fund (public bid-in)				
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
Additional funding for rail services				
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
Apprenticeship Employer Grant				
Grants of between £3.5k and £5k to encourage employers to recruit young apprentices.	1 December 2020	£15m	Business	Skills Development Scotland
Pivotal Enterprise Resilience Fund				
Small to high value grants to businesses that play a vital role in the national and local economies.	30 April 2020	£120m ⁴	Business	Enterprise agencies
Business Ventilation Fund⁵				
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
Strategic Framework Business Fund				
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.

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Scotland's financial response to Covid-19

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